FrieslandCampina
nourishing by nature
150 years

150 years: a nourishing company

2021 Annual Report

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Dairy from grass to glass

FrieslandCampina is one of the largest dairy companies in the world with a cooperative tradition going back to 1871. For 150 years, the company has processed the milk from dairy farms into a wide range of dairy products and ingredients. This way FrieslandCampina provides hundreds of millions of people throughout the world with valuable nutrients from milk.

Royal FrieslandCampina N.V. is fully owned by Zuivelcoöperatie FrieslandCampina U.A., with 15,703 dairy farmers in the Netherlands, Belgium and Germany as members. Through the cooperative, these member dairy farmers own the company. Together with member dairy farmers, FrieslandCampina manages the entire production chain: from grass to glass.

FrieslandCampina provides consumers with dairy products, such as milk, yoghurt, condensed milk, dairy-based beverages, cheese, butter, quark and cream. The dairy company supplies specific nutrition geared to meet the needs of specific consumer groups, such as children, the elderly and sportspeople. Professional customers, such as bakers, pastry chefs, chocolate confectioners, chefs and caterers can also rely on FrieslandCampina for a broad product range, including creams, butter, desserts and fillings. In addition, the company supplies high-quality ingredients to international food producers and pharmaceutical companies.

In 2021, 10,564 member dairy farms in the Netherlands, Germany and Belgium supplied almost 10 billion kilos of milk for processing into dairy products and ingredients. FrieslandCampina has branches in 32 countries and exports to more than 100 countries worldwide. In 2021, FrieslandCampina employed an average of 22,961 employees (FTEs).

15,703
Member dairy farmers

22,961
Employees (FTEs)

Our cooperative heritage inspires us to continuously improve

We are proud of our history, which dates back to 1871, when a few Dutch farmers decided to combine forces to start up a cheesemaking factory. This small enterprise has grown into one of the world's leading players in the global dairy industry: FrieslandCampina.

We aim to contribute to a better planet

Our member dairy farmers and employees devote their full attention to nature, the environment and society with the objective of staying relevant for the next generations. We are on our way towards a climate-neutral future and aim to make the entire value chain sustainable: from grass to glass.

Through continuous innovation we nourish growth for all of us

We are committed to providing people with affordable dairy products with valuable nutrients from milk. We do this in many markets throughout the world. We are constantly innovating and researching the current and future trends. We look forward to the future with confidence.

The FrieslandCampina brands

FrieslandCampina has brands with an established reputation throughout the world for consumers, as well as the professional user. In addition, the company supplies ingredients derived from milk, cheese, whey and plant-based raw materials for specific business-to-business market segments.

Top 10 consumer brands

by revenue in euros

Friso
Worldwide

Frisian Flag
Indonesia

Peak
Nigeria

Dutch Lady
Asia

Debic
Worldwide

Campina
Netherlands, Belgium and France

Alaska
Philippines

Foremost
Thailand

Landliebe
Germany and Eastern Europe

Olper's
Pakistan

Top 5 ingredients

by revenue in euros

FrieslandCampina Ingredients

Excellion
Caseinate

Vivinal GOS
Galacto-oligosaccharides

Pharmatose
DFE

Infant nutrition base powders
IFT

Hyvital
Hydrolysate

FrieslandCampina worldwide

32
Countries of operation

>100 countries
Products on the market

22,961
Employees* worldwide

FrieslandCampina has branches in 32 countries. Its products find their way to more than a 100 countries through marketing and sales offices, partners and distributors.

Europe

6,134
Revenue*

13,028
Employees*

Asia and Oceania

3,643
Revenue

8,693
Employees

Africa and Middle East

1,255
Revenue

1,070
Employees

North and South America

469
Revenue

170
Employees

* Millions of euros and average number of FTEs

Dashboard 2021

Financial results

11,501 ▲ 3.2%
Revenue[1]
2020: 11,140

355 ▲ 32.5%
Operating profit[1]
2020: 268

172 ▲ 117.7%
Profit[1]
2020: 79

3.1
Operating profit
(as a percentage of revenue)
2020: 2.4

37.84 ▲ 9.8%
Guaranteed price[2]
2020: 34.46

39.23 ▲ 9.8%
Milk price[2]
2020: 35.72

39.88 ▲ 11.6%
Performance price[2]
2020: 35.72

9,745 ▼ -3.2%
Milk supplied by member dairy farmers[3]
2020: 10.064

Nourishing a better planet

691 ▼ -7.0%
Greenhouse gas emissions[4]
from production and transport
2020: 743[5]
(kt CO_2 equivalent)

12,063 ▼ -3.8%
Greenhouse gas emissions
on member dairy farms
2020: 12,540[6]
(kt CO_2 equivalent)

71%
Product composition[7]
2020: 70%[8]

90%
Recyclable packaging
2020: 87%

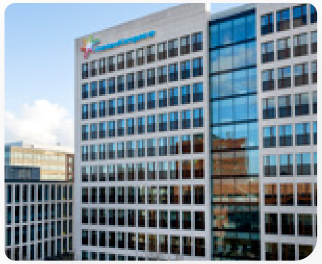
50%
Green electricity consumption from own chain
2020: 44%

94%
Sustainable raw materials traceable to source
2020: 91%

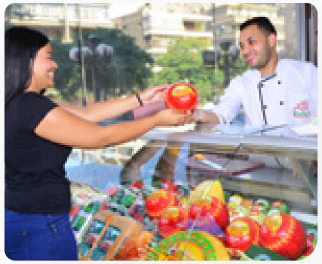
1 Millions of euros.
2 Euros per 100 kilos of milk (excluding VAT, at 3.57% protein, 4.42% fat and 4.53% lactose).
3 (Millions of kilos).
4 Greenhouse gas emissions, excluding purchase of green energy were: 1,131 kt CO_2 equivalent (2021), 1,172 kt CO_2 equivalent (2020) respectively.
5 The basis for calculating the 2020 figure has been updated to be consistent with the Science Based Target initiative's methodology and in accordance with FrieslandCampina's greenhouse emission target for 2030.
6 The greenhouse gas emissions for the production of milk at member dairy farms is partly based on the emission factor per kilo milk contained in the Wageningen Economic Research (WEcR) sector report. The greenhouse gas emission for 2020 has been updated on the basis of the latest scientific insights.
7 Percentage of the total volume of consumer products sold that complies with the FrieslandCampina Global Nutritional Standards Next Level.
8 2020 figure has been adjusted in accordance with new Next Level Standards.

The year 2021 in review

Migration to **100% recycled PET bottles**



New top management structure



FrieslandCampina and Arabian Food Industries establish a joint venture for cheese export from Egypt

Announcement of new **ultramodern production facility to be constructed in Malaysia**

Renewed **future-proof member financing** approved

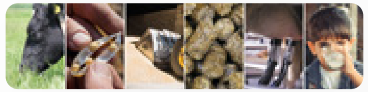
first **hydrogen-powered milk truck** put into use

Sale of Nutrifeed to Denkavit completed

Sale of **Russian subsidiary Campina LLC** completed

Dairy cooperative FrieslandCampina celebrates **150 years from ‘grass to glass’**

Construction of **mobile yoghurt plant for Nigeria**



Together on the road towards **guaranteed deforestation-free** soy in livestock feed

“Nutritional value is at the heart of everything we do

FrieslandCampina’s 150-year history reads like an exciting book with stories of solidarity, courage and entrepreneurship. CEO Hein Schumacher, together with over 22,000 colleagues, has the honourable task of preparing the company for the next era. He had to do this after a year in which the pandemic once again had a high impact. The transformation was accelerated by streamlining the organisation, a new market approach for infant nutrition in China, and successfully starting up and growing Professional activities throughout the world. Excellent developments, but we must stay alert, Schumacher argues. ‘It is all about investing and restructuring. The company is in good shape, but recent years have shown that we must be prepared for surprises.’

Watch the video interview

In 1871, nine dairy farmers in the northern Netherlands joined forces to start a cheesemaking factory. They bought a building, two cheese tubs, a weigh scale and appointed a cheesemaker. They partnered with other parties for processing and selling their products. Around the same time, a number of farmers in the Province of Friesland, some hundred kilometres away, started up a similar initiative.
'I have deep respect for these pioneers. They were innovative dairy farmers who laid the foundation for our company by introducing a modern form of governance. A form of shared enterprise that turned out to be robust and that in many respects is more current than ever. Founded on courage, business insight and ambition.'
'As company owner, you bear the risk and are prepared to share that with other owners while placing execution in the hands of a company management team. It is a special form of shareholdership. Recently I read that investors, on average, do not retain ownership of their shares in a company longer than nine months. We have dairy farmers whose membership in a direct family line dates back a century and a half. For me, that says everything.'

150 years of existence would suggest uniformity over time, but if you were to look through a magnifying glass, you will see a rich, varied history.
'It is a succession of adjusting to events, transformations and consolidations that dairy farmers were confronted with over a period of a century and a half. From the post-war 'no more hunger ever again' to consumers that especially crave better nutritional value, from a milk quota in 1984 to its elimination in 2015 and from local to global sales markets. Gradual changes and sudden shocks were absorbed through means of the cooperative's connecting and absorbing capacity. In the meantime, member dairy farmers and employees jointly kept FrieslandCampina on course.'

From the past back to the present. In 2021, FrieslandCampina, with its *Our Plan on a Can*, simplified its plans in which supplying excellent nutrition is a key theme.
'Nutrition or nutritional value is at the heart of everything we do' Naturally with dairy as the core, supplemented with other nutritional ingredients. The current health crisis reinforces the demand for high-quality, healthy nutrition and there is a need to protect against diseases. People want to build up their immune system, in part through excellent nutrition. All of this aligns with what we were already doing: our purpose stood and still stands for supplying better nutrition to the world and, as such, ensuring a good living for our members. Consumers are changing, and we,

Our Plan on a Can
'Nutrition is our mission'

the dairy farmer and the company, are responding to this by supplying excellent nutrition, with dairy as the basis.'

On 1 January 2021, no one foresaw that this would become a second corona year. However conditions were far from ideal for a globally operating company.
'This is definitely true, but in part we managed to make a virtue of necessity by making well-thought-out decisions and by consistently acting on them together. Let me highlight three important developments from this.
Following the merger in 2010, FrieslandCampina successfully managed to conquer the Chinese infant nutrition market from Hong Kong. At the high point, in 2017, this represented a significant part of our operating profit. After this, revenue dropped for various reasons and the corona pandemic subsequently caused trade with China from Hong Kong to come to a virtual standstill. We have since managed to retain the Chinese consumer through focused investments in marketing and e-commerce, and by developing a finely branched, stable network in regions and cities. Despite the difficult circumstances and uncertainties caused by the corona measures, profit in China stayed up to par and we gained market share in the strongly growing ultra-premium infant nutrition segment in 2021. It was a tense and decisive year in which we had to demonstrate that the transition was successful. This business is important for us, but it is also volatile. We have to stay alert; there is a great deal of local competition and the birth rate in China is dropping. This is why we announced a strategic review of these activities in 2022, to ensure Friso will continue to be successful over the long-term as well.'

> “We have dairy farmers whose membership in a direct family line dates back a century and a half. For me that says everything

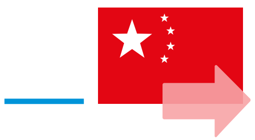
'The development of our Professional activities also shows that we did not sit still during the corona period. Here we are talking about a wide range of dairy products used on a daily basis by chefs, bakers, restaurateurs or baristas. We were already well represented in this segment, particularly in the Benelux and Southern Europe, but in 2021 we developed this branch into a global activity. We experienced healthy growth rates between April and October that, in fact exceeded 2019 levels. Due to the new lockdowns, the figures in the fourth quarter of 2021 were under some pressure, but fundamentally, Professional is in good shape and constitutes a platform for growth that will greatly benefit us, particularly once the hospitality sector is allowed to permanently open its doors again.'

'Third, I would like to mention the announcement of the restructuring with the objective of improving the company's condition and saving at least one hundred million euros annually starting in 2022. In 2020, we were forced to conclude that due to the pandemic and the above-referenced developments, particularly trade through Hong Kong, making adjustments to the company had become unavoidable. We took the difficult decision of eliminating a thousand jobs and closing a few production facilities in order to make the company more vital and efficient. In addition, in 2021 we sold our dairy company in Russia and our animal feed operation Nutrifeed, with the aim of giving our activities better focus. The restructuring directly led to better results in the second half of 2021. We can certainly be satisfied with this. But we must not rest on our laurels too long, because the new reality, including the unprecedented inflation in the last quarter of 2021, means that we need to remain vigilant. Furthermore, last year the milk price increased by approximately one quarter, which is good news for members. In spite of all this, we have been able to keep margins roughly up to par up until now.'

> "Gradual changes and sudden shocks were absorbed through means of the cooperative's connecting and absorbing capacity

So now that the restructuring is complete, will we only be talking about investing?
'It will continue to be both. The portfolio has been rearranged, the organisation has been restructured, clear decisions have been made, and the long-term strategy is paying off. This must go hand-in-hand with growth targets. In 2022, we will be investing more in research and development, sustainability and our brands. But that is not the whole story, it will continue to be both: investing and restructuring. Recent years have once again demonstrated that the company must prepare itself for sudden setbacks. And not only that, we are faced with structural challenges as well. For example, it is virtually certain that the milk supply in the Netherlands will not be growing over the coming years and may in fact decrease. We must adjust our processing capacity and organisation accordingly.'

Naturally, a dairy company benefits from a stable milk supply. Does the company require a certain scale to be able to maintain or strengthen its position as a global food company?
'A shrinking scenario is not desirable for us. In general companies with prospects flourish. This applies to dairy farmers on their farm, as well as to the FrieslandCampina company as a whole. Cooperative and company above all have a need for clarity. We want to know where we are at, so that we can align our future plans accordingly. Uncertainty about the milk supply and opportunities for growth, or, for some member dairy farmers about their continued existence, is not beneficial


China
Stable profit and market share


Restructuring
Improved condition, 100 million euros in savings as of 2022


Professional
Global growth

for companies and the wellbeing of the people involved. This clarity is not there yet. In the Netherlands, a new Cabinet, with the nitrogen and CO2 emissions themes as high priorities, took office. We are happy to work together with the political establishment and governments on sustainable solutions, because I believe that to a large extent these are to be found in our chain.'

Themes that undoubtedly will require more of FrieslandCampina's attention now and in the near future are climate and environment.
'We are very much aware of that. In 2021, we once again invested considerably in more sustainable production through our programme *Nourishing a better planet.* From grass to glass will remain a priority given the task we are all facing in the food chain. This translates into increased cooperation with members, facilitating them in measuring their footprint, implementing measures and providing them with additional remuneration when they take their impact on nature, climate and animals into account in their farming operations. In addition, the company will also make a contribution to further reduction measures. In December 2020, we affiliated ourselves with the Science Based Targets initiative (SBTi), and are following a science-based path for reducing emissions in line with the Paris Agreement.'

'In November, I read the results of the latest climate conference in Glasgow with interest. For us as a food company, COP26 had a hopeful message. Here I am specifically talking about the plea for organising food systems as efficiently as possible on a global scale. It is among other things a call for strengthening local dairy farms so as to better align supply and demand. This is consistent with our vision and our dairy development activities with which we supported over 70,000 local farmers in 2021.'

When a country goes into lockdown, things do not change all that much for FrieslandCampina employees. This is a consequence of working in a crucial sector. How does that affect the company?
'If two years corona has proven anything, it is that our people are loyal to their profession. In all countries, colleagues assume their responsibility for dairy production as an important link in an irreplaceable food chain. Sometimes under very difficult conditions, such as colleagues who after high corona infections abruptly saw their region go into lockdown and for many nights in a row slept in the plant, because the milk supply and production never stop. Other colleagues for months in a row worked from home as if this was their new normal, while this new normal blurred the lines between personal and work life. Day after day there are no colleagues present with whom you can chat at the coffeemaker. Our collegiality and togetherness was frequently called upon via computer screens. Many employees took risks and made personal sacrifices to continue to supply the world with food. I am unbelievably grateful to everyone for their efforts and dedication in this respect.'

> “ Our collegiality and togetherness was frequently called on via computer screens

Corona is still creating a lot of uncertainty in 2022. Political leaders and medical experts indicate that we must learn to live with the virus, while it is not clear what this exactly means. What is the outlook for FrieslandCampina?
'What the pandemic has in store for us is impossible to predict. We will act as necessary and in the meantime stick to our strategy. With offering high nutritional values as our most important motivation, FrieslandCampina will strengthen its brands and Professional activities in 2022. We will do this in part by investing in our innovative capacity, marketing and people. We are going to further develop our digital sales channel for this purpose and will continue to build on the exceptional growth in this segment in past years. We will continue improving the valorisation of member milk and win with healthy nutrition by letting people throughout the world enjoy a healthy start to their day. In countries with high population growth rates and low purchasing power we are there for everyone by offering them affordable nutrition. Globally, more seniors will be able to benefit from our specific adult nutrition and ingredients.
Apart from this clear strategy there are global, European and national political developments on which we have no or only very limited influence, but whose scope potentially directly affects the dairy famer's farm and the company's results. Effective cooperation within the chain is the best answer to these challenges.'

Hein Schumacher
CEO Royal FrieslandCampina N.V.

Our Plan on a Can

FrieslandCampina provides millions of people all over the world with dairy products that are rich in valuable nutrients from milk. Our strategic framework *Our Plan on a Can* shows what FrieslandCampina stands for, what we do and how we work together on this. On the basis of this common starting point, the business groups and operating companies develop their own action plans, while our employees subsequently formulate their personal objectives. This way all elements effectively fit together: *Our Plan on a Can.*

Personal Objectives

Action Plans

Our Purpose, Our Plan

- Win with nutrition
- Serve the 24/7 consumer and customer
- Nourishing a better planet
- Elevate our essentials

WIN-WIN

- Purpose driven
- Commercially obsessed
- Owners' mindset

FrieslandCampina: a nourishing company

FrieslandCampina is a leading, future-proof nutrition company with a strong core in dairy, that nourishes our planet and pays a stable farmer income.

nourishing by nature

- Better nutrition for the world
- A good living for our farmers
- Now and for generations to come

Compass, Safety, Quality & Cybersecurity

Nourishing by nature

FrieslandCampina operates based on its purpose, *Nourishing by nature*. This stands for better nutrition for the world, a good living for our farmers, now and for generations to come.

Better nutrition for the world
We contribute to food security and food quality for millions of people all over the world by providing them with access to dairy.

A good living for our farmers
We pay a leading milk price and thus contribute to enabling member dairy farmers to maintain healthy farming operations. We support local dairy farms in Asia, Africa and Eastern Europe.

Now and for generations to come
We assume responsibility for people and nature. We produce with care for climate, nature and society and encourage member dairy farmers to operate their farms in harmony with animals, nature and climate.

FrieslandCampina: a nourishing company

Vision

FrieslandCampina is a leading, future-proof nutrition company with a strong core in dairy, that nourishes the world and ensures a good living for farmers.

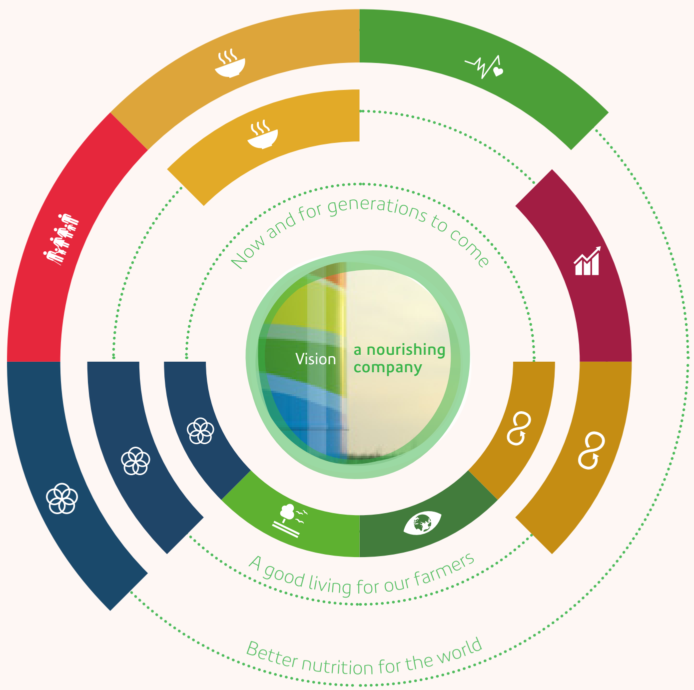
FrieslandCampina: a nourishing company

In 1871, a few Dutch farmers took a courageous decision: they joined hands and established a cheesemaking factory. This enabled them to strengthen their market position and secure the sale of their product. What induced them to do 150 years ago still applies today: together you can achieve much more than on your own. FrieslandCampina has since become one of the leading dairy companies in the world.

Today, conditions are completely different from 150 years ago. The world population is growing rapidly, and hence there is an increased need for nutritious and affordable foods, including dairy products. Digitalisation is rapidly changing our way of living and working. Furthermore, dealing with climate change is one of the biggest challenges the world has ever faced.

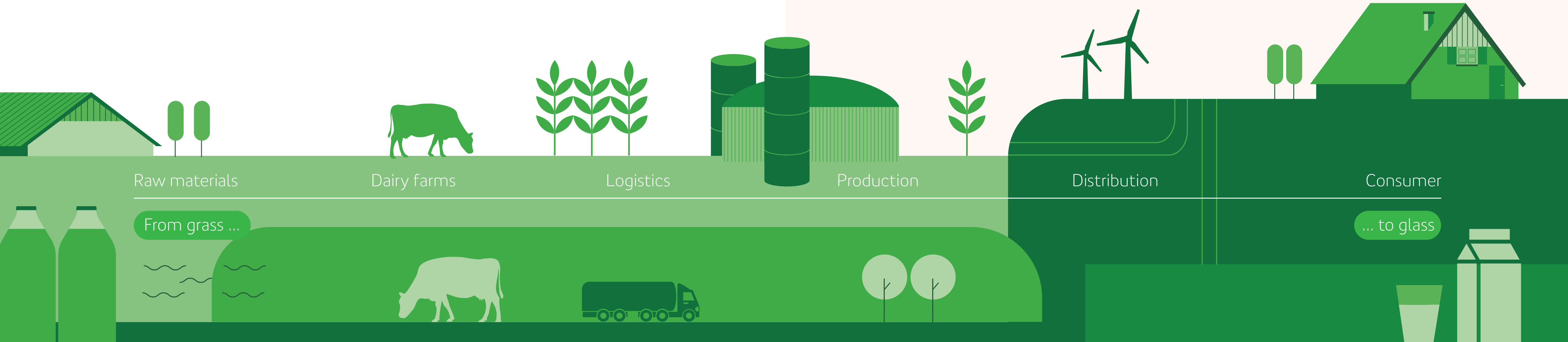
FrieslandCampina is a leading, future-proof nutrition company with a strong core in dairy that nourishes the world and ensures a good living for farmers.

- We provide millions of people throughout the world with nutritious and affordable dairy products. We innovate and aim to have our brands grow in both consumer and professional markets.
- We aim to reduce our greenhouse gas emissions and offset it to 'net zero' by 2050.
- We take good care of our animals, nature and the environment throughout the entire value chain: from grass to glass.
- We encourage growth and change. We are curious and persevering, facilitate debate, and act fast and decisively. Everything we do is focused on creating a better, future-proof and successful FrieslandCampina.
- We encourage cooperation and ownership. We take the initiative and assume responsibility and keep things simple. In the true spirit of the founders of our cooperative, we believe that working together makes very many things possible.



Sustainable Development Goals

Since 2015, the 17 Sustainable Development Goals (SDGs) of the United Nations have made up the global agenda that is to put an end to poverty, inequality and climate change. In 2018, FrieslandCampina linked its policy and business operations to these SDGs. We consider it important to focus on those aspects on which we have a real impact. This is why we have selected eight SDGs to which we demonstrably contribute.



150 years of FrieslandCampina

We have been producing dairy for 150 years and are more and more doing this in harmony with climate, nature and animal welfare. This way we give our member dairy farmers a sustainable basis for making a good living and work on a better planet for future generations.

Nourishing a better planet

input

Network and business relations
Member dairy farmers, customers, NGOs, suppliers, and others

Employees
Committed colleagues, quality, integrity, training and education

Knowledge
Research and development, brands, patents

Financing
Member bonds, invested (external) capital

Raw materials, energy and resources produced
Milk, land, water, energy, basic materials and transport

nourishing by nature

Our purpose, *Nourishing by nature* forms the basis of our culture, structure and strategy. We aim to be a leading food company with dairy as its strong core. The company's strategy is set out in *Our Purpose, Our Plan,* and is based on the following four pillars:

Strategy

- Win with nutrition
- Serve the 24/7 consumer and customer, anytime and anywhere
- Nourishing a better planet
- Elevate our essentials

output

Network and business relations

3rd	place on Access to Nutrition Index
78.1	score 2020 RepTrak (reputation)
70,385	local dairy farmers trained[1]

Employees

25.6%	women in management positions
77/100	employee engagement score
122	recorded accidents
0.39	accident ratio[2]

Knowledge

85	million euros invested in R&D
22	new patents

Financing

€ 39.23	milk price (per 100 kilos of milk)
€ 11.5	billion revenue
€ 172	million profit

Raw materials, energy and resources produced

12.063	greenhouse gas emissions[3] at member dairy farms
691	greenhouse gas emissions[4] from transport and production
4,85	water consumption[5]
90%	recyclable packaging
94%	traceability to source
50%	green energy consumption from own chain[6]

1. In countries where we collect and process local milk (Dairy Development).
2. Per 200,000 hours worked.
3. Kt CO_2 equivalent.
4. Kt CO_2 equivalent, per tonne of produced product.
5. m^3 per tonne product
6. Produced by member dairy farmers.

impact

Better nutrition for the world

We promote food security and quality for millions of people all over the world by providing them with access to affordable dairy.

A good living for our farmers

We pay a leading milk price and this way contribute to enabling member dairy farmers maintain healthy farming operations. In Asia, Africa and Eastern Europe, we support local dairy farmers with knowledge and advice.

Now and for generations to come

We assume responsibility for people and nature. This is the basis and the future of the company and the planet at large. We encourage member dairy farmers to operate their farms in harmony with animals, nature and climate in this respect. Our unique Foqus planet programme safeguards harmony and these farming practices.

From grass ... ... to glass

In dialogue with stakeholders

As a cooperative, FrieslandCampina knows that success begins with cooperation. FrieslandCampina is in active contact with its many business associates (see Appendix Stakeholder Dialogue). We believe in listening, informing and meeting each other. This enables us to identify the expectations of stakeholders regarding FrieslandCampina's actions and to stay abreast of relevant, current developments. Whenever possible, we involve our stakeholders in the development of policies, for example, on sustainability, biodiversity and healthy nutrition. We also consult our stakeholders on the topics we need to report on annually (see Material Themes). These stakeholders are identified on the basis of their influence on FrieslandCampina and, in reverse, the degree to which FrieslandCampina influences them.

FrieslandCampina's stakeholders

- Member dairy farmers and the cooperative
- Employees
- Buyers (consumers and customers)
- Non-governmental organisations and interest groups
- Government bodies and local authorities
- Suppliers
- Nutrition and health experts
- Financiers

The specific organisations, the topics that were discussed, and the actions arising from these contacts are listed in the Stakeholder Dialogue Table on page 238.

Material themes

To give direction to our strategy and areas of focus, FrieslandCampina conducts an assessment every two years to determine the relevant themes for action. These are referred to as 'material themes'.

The 2021 materiality analysis shows that greenhouse gas emissions at farms are the most important topic, followed by nature and biodiversity, nutritional and healthy products, sustainable innovation and animal health and animal welfare (see page 245 for the complete set of priorities). These material themes form the basis of FrieslandCampina's integrated strategy and the topics addressed in this report.

Top 5 material topics

Greenhouse gas emissions at farms
Nature and biodiversity
Healthy products with nutritional value
Sustainable innovation
Animal health and welfare

Mindset & Behaviours

To be able to achieve our goals and win in the market, we aim for a culture in which employees are driven by our purpose, are commercially obsessed and operate with an owner's mindset. Our WIN-WIN mindset and the associated behaviours form the basis for implementing the strategy, as well as for our day-to-day actions.

Purpose-driven

- Providing better nutrition for the world
- A good living for our farmers
- Now and for generations to come

Commercially obsessed

- Putting consumers and customers first
- Making our fighting units leading
- Moving with speed and decisiveness

Working with an owner's mindset

- Spending on big rocks
- Being prudent on cost
- Using kitchen table pragmatism

Our Purpose, Our Plan

Strategic themes

Win with nutrition

Producing good and healthy dairy products is at the core of who we are and what we do. With our 'from grass to glass' concept we have a unique proposition for our customers and consumers.

Serve the 24/7 consumer and customer, anytime and anywhere

We are committed to serving customers and consumers, anywhere and anytime. This means having the right product available at the right time, in the right location at the right price.

Nourishing a better planet

We aim to provide the growing world population with high quality and affordable nutrition, produced in balance with nature. A good living for farmers is an important underlying principle.

Elevate our essentials

We will make a step change in our approach towards essential dairy products. We do this by processing and selling milk at the best possible value and by being a reliable internal and external dairy partner.

Focus areas

- Claiming nutritious breakfast for a strong start of the day
- Affordable food for 1 billion new consumers
- Ingredients and end products for the health of babies, children, adults, elderly people and patients

- Accelerate with Professional, connect more chefs, bakers and other food professionals
- Expand into new occasions and pack sizes
- Expand digital, obtain #1 or #2 market position
- Expand distribution in Africa and Asia

- Better nutrition, affordable for everyone
- Better living for farmers
- Better climate, carbon-neutral future
- Better nature, improving biodiversity
- Better packaging, 100% circular
- Better sourcing, 100% responsible

- Agile Trading business group that beats the market
- Only value-added costs
- De-emphasise private label

Report by the Executive Board

Developments and results 2021

FrieslandCampina realises revenue growth, accelerated implementation of strategy on track

Revenue increased by 3.2 percent to 11.5 billion euros. Adjusted for currency translation effects, revenue rose by 4.3 percent primarily due to price increases, higher commodity dairy prices, and the cautious recovery of out-of-home markets in Europe.

Operating profit increased by 32.5 percent to 355 million euros. The operating profit before currency translation effects, adjusted for other income and expenses declined by 1.6 percent to 380 million euros.

Profit increased by 117.7 percent to 172 million euros due to lower restructuring costs and improved results of both the Professional activities and the Trading business group.

Operating cash flow remained at a satisfactory level of 594 million euros, decrease compared to 2020 was primarily due to a one-off, 88 million euros defined contribution to a pension plan dating back to 2005.

Sharply increased raw material costs necessitate price increases. Business group Trading benefited from increased commodity dairy prices.

Business groups Specialised Nutrition and Ingredients affected by declining birth rates in Asian market.

The milk price for member dairy farmers increased by 9.8 percent to 39.23 euros per 100 kilos of milk. The performance price increased by 11.6 percent to 39.88 euros per 100 kilos of milk.

The accelerated implementation of *Our Purpose, Our Plan* strategy is on track. The reduction target of 1,000 jobs was amply achieved with a reduction of 1,745 employees (FTEs) at year-end 2021.

The sustainability programme *Nourishing a better planet* in 2021 resulted in improvements on all six priorities. Greenhouse gas emissions decreased by 4.0 percent, the percentage of recyclable packaging rose to 90 percent, and FrieslandCampina used 100 percent green electricity worldwide of which 50 percent was produced by its own member dairy farmers.

Corona Pandemic

The corona pandemic also created a lot of uncertainty for FrieslandCampina. In the summer of 2021, it appeared as if many corona measures on European markets could be relaxed, which meant that various segments, such as out-of-home activities, would be able to recover. It is now clear that we will have to live with corona. Owing to the efforts of our member dairy farmers and employees and the focus on production and logistics processes, the supply chain was able to continue to process all milk, even under difficult working conditions.

Sustainability

FrieslandCampina's greenhouse gas emissions, in part due to measures implemented at member dairy farms, decreased by 4.0 percent to 12,754 kt CO_2 equivalent in comparison to 2020. Further sustainability measures are continuously being implemented in our global production and logistics chain. Not only did we implement programmes designed to optimise production allocation, but, for example, the first hydrogen-powered milk truck was also introduced in 2021.

We continue to reduce the emission of greenhouse gases to retain a healthy living environment for now and future generations. Accordingly, by 2030, we aim to reduce greenhouse gas emissions by 40 percent for transport and production facilities, and by 33 percent for milk production at member dairy farms, in comparison to 2015. A roadmap has been prepared with potential measures at farms with respect to green energy, manure processing and livestock feed. The majority of livestock feed comes from own farms or nearby, and a small percentage, such as soy, comes from further away. In terms of soy, FrieslandCampina took the initiative of working together with Agrifirm to improve the guarantee that livestock feed is deforestation-free. The companies are working together to create a physically segregated supply stream of guaranteed deforestation-free soy for livestock feed. Both cooperatives are working together on this, because they believe it should and can go faster. Furthermore, we are continuously working on improving the sustainability of our products. In 2021, we introduced several new products, including a climate-neutral powder base for infant nutrition, and intensified partnerships with key customers in the area of sustainability.

Transformation on track

The acceleration of the transformation of FrieslandCampina announced on 10 November 2020 is on track. The focus is on growth, structurally lower costs and optimisation of the organisation structure. The number of FTEs at year-end 2021 decreased by 1,745 to 22,038 (2020: 23,783 FTEs). The reduction target of 1,000 FTEs was thus amply achieved. Starting in 2022, costs are expected to be structurally lower by at least 100 million euros per year. The total restructuring costs of the transformation were 115 million euros, of which 9 million euros were charged to the 2021 result.

In 2021 we successfully completed our three-year Supply Chain Unlock optimisation programme. With this programme FrieslandCampina focuses on improving its supply chain, resulting in cost savings, cash flow improvements (for example, through improved working capital) and optimisation of the production network. In total, Supply Chain Unlock produced over 400 million euros in cost savings over a three-year period. To be able to respond effectively to developments in the market, in 2022 steps will also be taken to further optimise the organisation.

The business portfolio was also evaluated in the context of the company's accelerated transformation. The focus hereby was on investing in strategic priority markets and disposing of non-core activities. A strategic partner was found for our animal feed activities, Nutrifeed. The Russian consumer activities were sold to Ehrmann.

New business units

To further increase the company's agility and to structurally reduce costs, FrieslandCampina introduced four market-oriented business groups in 2021:
- FrieslandCampina Food & Beverage
- FrieslandCampina Specialised Nutrition
- FrieslandCampina Ingredients
- FrieslandCampina Trading

See pages 33 to 40 for more information about these business groups.

Nourishing a better planet

	2021	2020	Δ%
Better nutrition, affordable for everyone			
Product composition[1]	71	70[2]	
Balanced product range[3]	73	75[4]	
Product composition Affordable Nutrition[5]	5		
Share of Affordable Nutrition[6]	12		
Better living for farmers			
Dairy Development Number of local farmers who participated in a training programme[7]	70,385	57,534	22.3
Better climate, climate-neutral future			
Greenhouse gas emissions on member dairy farms (kt CO_2 equivalent)**	12,063	12,540[8]	-3.8
Greenhouse gas emissions from production and transport (kt CO_2 equivalent)[9]	691	743[10]	-7,0
Use of 'green electricity' (percentage of total electricity consumed at production facilities)	100	95.8[10]	
Green electricity consumption from own chain (percentage produced by member dairy farmers)	50	44	
Energy consumption (GJ/tonne product)	2.79	2.83	-1.4

	2021	2020	Δ%
Better nature, improving biodiversity			
Water consumption[11] (m^3/tonne end product)	4.85	4.89	-0.8
Pasture grazing (percentage of total number of member dairy farms in the Netherlands applying a form of pasture grazing)	83.9	83.6	
Better packaging, 100% circular			
Recyclable packaging (percentage)	90	87	
Better sourcing, 100% responsible			
Sustainably sourced agricultural raw materials (percentage of total volume of raw materials)[12]	100	100	
Traceability to source (palm oil, soy, pulp and paper, and cocoa purchased by the company)	94	91	

1 Percentage of the total volume of consumer products sold that complies with the FrieslandCampina Global Nutritional Standards Next Level.
2 2020 figure has been adjusted in accordance with new Next Level Standards.
3 Basic food products sold as a percentage of the total volume of consumer products sold.
4 The 2020 figure has been adjusted as a result of a refinement of the product classification.
5 Percentage of the total volume of Affordable Nutrition consumer products sold in Indonesia, Vietnam, the Philippines, Pakistan, Nigeria and the Ivory Coast that complies with the FrieslandCampina Affordable Nutritional Standards, part of the FrieslandCampina Global Nutritional Standards Next Level.
6 Total volume of Affordable Nutrition consumer products sold foods as a percentage of the total volume of consumer products sold in Indonesia, Vietnam, the Philippines, Pakistan, Nigeria and the Ivory Coast.
7 In countries where we collect and process local milk (Dairy Development).
8 The greenhouse gas emissions for the production of milk at member dairy farms is partly based on the emission factor per kilo milk contained in the Wageningen Economic Research (WEcR) sector report. The greenhouse gas emission for 2020 has been updated on the basis of the latest scientific insights.
9 Greenhouse gas emissions, excluding the purchase of green energy were: 1,131 kt CO_2 equivalent (2021), 1,172 kt CO_2 equivalent (2020), respectively.
10 The basis for calculating the 2020 figure has been updated to be consistent with the methodology of the Science Based Targets initiative and in accordance with FrieslandCampina's greenhouse emission target for 2030.
11 In connection with a correction resulting in a reduction in production volume due to double counting, the water intensity of the 2018 base year was adjusted from 5.10 to 5.17 m^3 per tonne product. The water intensity and the associated target figures have been updated accordingly and are included in the reporting for 2021.
12 The classification of sustainably procured agricultural raw materials is derived from international standards for raw materials, such as paper, palm oil, sugar, cocoa, etc.
13 Buffer capital is the equity and non-controlling interests attributable to the shareholder.
14 The net debt shown here is in accordance with the covenant's guidelines and concerns current and non-current interest-bearing borrowings (excluding lease commitments), receivables from and payables to Zuivelcoöperatie FrieslandCampina U.A. less the cash and cash equivalents at the company's free disposal.
15 Euros per 100 kilos of milk (excluding VAT, at 3.57% protein, 4.42% fat and 4.53% lactose).
16 Dairy farmers applying pasture grazing receive a 1.50-euro meadow milk premium per 100 kilos of milk for 2021. An amount of 1.00 euro per 100 kilos of meadow milk is paid from the company's operating profit. On average, on all FrieslandCampina member milk, this amounts to 0.66 euro per 100 kilos of milk.

Financial

Millions of euros, unless stated otherwise	2021	2020	Δ%
Results			
Revenue	11,501	11,140	3.2
Revenue before currency translation effects	11,615	11,140	4.3
Operating profit	355	268	32.5
Operating profit before currency translation effects	369	268	37.7
Net profit	172	79	117.7
Profit before currency translation effects	181	79	129.1
Operating profit as a percentage of revenue	3,1	2,4	
Balance sheet			
Balance sheet total	9,056	8,716	3.9
Equity directly attributable to capital providers	3,635	3,517	3.4
Equity as a percentage of balance sheet total	40.1	40.4	
Buffer capital as a percentage of balance sheet total[13]	17.0	15.6	
Net debt[14]	700	876	20.1
Cash flow			
Net cash flow from operating activities	594	737	-19.4
Net cash flow from investment activities	-302	-443	31.8
Net cash flow from financing activities	-152	-175	13.1
Investments	376	377	-0.3

By and for people

	2021	2020
Inclusive diversity		
Percentage of women in management positions	25.6	27.0
Safety		
Accident ratio (number of accidents per 200,000 hours worked)	0.39	0.32

Member dairy farmers

	2021	2020	Δ%
Number of member dairy farms at year-end	10,564	11,100	-4.8
Number of member dairy farmers at year-end	15,703	16,995	-7.6
Milk supplied by member dairy farmers (millions of kilos)	9,745	10,064	-3.2
Total compensation of member dairy farmers	3,835	3,610	6.2
Value creation for member dairy farmers			
Guaranteed price[15]	37.84	34.46	9.8
Supplementary cash payment	0.14	0.00	
Meadow milk premium and Foqus planet premium[16]	0.91	0.90	
Special supplements[17]	0.34	0.36	
Milk price	39.23	35.72	9.8
Interest on member bonds	0.44	0.46	
Retained earnings	0.21	-0.46	
Performance price	39.88	35.72	11.6

Furthermore, another 0.50 euro per 100 kilos of meadow milk is paid out pursuant to cooperative schemes. To finance this amount, 0.35 euro per 100 kilos of milk is withheld from all milk. This also pays for the partial pasture grazing premium. On average, on all FrieslandCampina member milk, the Foqus planet contribution amounted to 0.25 euro per 100 kilos of milk.

17 Special supplements concern the total amount of payments per 100 kilos of milk of Landliebe milk, VLOG [non-GMO] and the 'On the way to PlanetProof' premium of 1.00 euro per 100 kilos of milk, and the difference between the guaranteed price paid for organic milk (49.17 euros) and the guaranteed price paid (37.84 euros). On average, on all FrieslandCampina member milk, this amounts to 0.34 euro per 100 kilos of milk.

"It all starts with putting our main focus on the consumer. We offer them the best dairy-based products

Roel van Neerbos,
President Food & Beverage

Watch the video interview

FrieslandCampina

Food & Beverage

FrieslandCampina Food & Beverage provides consumers throughout the world with dairy products, such as milk, yoghurt, condensed milk, dairy-based beverages, cheese, quark, butter and cream. This business group focuses on the consumer and professional channels.

Results[1]

7,891
Third-party revenue
2020: 7,565

8,005
Revenue before currency translation effects

296
Operating profit
2020: 319

3.8%
Operating profit as a percentage of third-party revenue

[1] Millions of euros, unless stated otherwise

Results and developments in 2021

- Strong revenue trend with 4.3 percent growth – 5.8 percent growth before currency translation effects – driven by price increases and the growth of out-of-home activities.
- Cautious recovery of out-of-home activities and e-commerce growth.
- Professional benefited from sharply rising commodity prices.
- Strong increase in prices due to the impact of the corona pandemic, high inflation and currency translation setbacks.
- Positive sales price trends and lower advertising and promotional costs offset these higher costs.
- The result was significantly impacted by a 58-million-euro provision relating to a court ruling in Thailand covering the period from 2008-2018.
- The sale of consumer activities in Russia was completed as part of the accelerated implementation of the strategy.

Broad range of innovative Food & Beverage products

Lattiz milk foam offers baristas the possibility of making the perfect cappuccino and latte macchiato. The focus in 2021 was on digital acceleration. In addition, the business group increased the Lattiz market share in its most important markets (Netherlands. Belgium, France and Denmark), entered new markets (Cyprus, Poland and the Czech Republic) and prepared itself for entering new European markets in 2022.

In September 2021, Debic Cream Plus Mascarpone was successfully launched in the hospitality and baking sector in five countries (Netherlands. Belgium, France, Italy and Poland). Debic Cream Plus Mascarpone is a product that combines two essential baking ingredients, cream and mascarpone, in a perfect balance. This enables pastry chefs and bakers to give their creations extra richness. Consumers are increasingly showing interest in plant-based alternatives. In May 2021, a new vegan innovation was introduced in our whipping cream product range: Kievit Vana-Monte V98.

Valess: a brand with potential

2021 was a successful year for Valess: over 30 percent increase in revenue with a significantly improved profit margin. This was the result of successful innovations, such as Valess Nuggets, Beef Style Burger and Family Packs, and significant growth in distribution in the Netherlands and Germany. The brand's success was accelerated by effective market support through focused campaigns on television, digital channels and in retail outlets. Its inclusion in the product range of the first retailer (Carrefour) in Belgium is another promising step with high potential.

In the fast-food segment, MacDonald's expansion with Valess Nuggets, which offers the consumers a tasty vegetarian alternative, has contributed to further profitable growth.

Recent innovations

- **Valess Burgers – Netherlands**
- **Rainbow evaporated milk in recyclable PET bottles – Middle East**
- **Kievit Vana-Cappa X01 for the perfect instant cappuccino mix**
- **Debic Shapes, as a basis for frozen desserts**
- **Debic Cream Plus Mascarpone in one-litre PET bottles**

FrieslandCampina
Specialised Nutrition

FrieslandCampina Specialised Nutrition provides dairy products for specific consumer groups. These vary from infant nutrition to adult nutrition with specific requirements during different stages of life. This business group operates in various countries in Asia, Europe, Africa and the Middle East.

Results[1]

1,086 Third-party revenue — 2020: 1,125	**1,082** Revenue before currency translation effects
111 Operating profit — 2020: 134	**10.2%** Operating profit as a percentage of third-party revenue

[1] Millions of euros, unless stated otherwise

Results and developments in 2021

- The declining birth rate trend has accelerated as a result of the persistent corona pandemic. This was clearly visible in the countries in which FrieslandCampina operates.
- The persistent closure of the border between Hong Kong and China and increased raw material prices resulted in a strong decrease in operating profit.
- Revenue on the Chinese mainland showed significant growth in spite of increased (local) competition, primarily due to the expansion of distribution to smaller cities in China and the growth of Friso Prestige. Profit and market share remained stable. Friso Prestige improved considerably in terms of revenue and market share in the growing ultra-premium segment, while Friso Gold in the premium segment decreased significantly.
- The new market approach initiated at the end of 2020 in China and Hong Kong with a greater focus on e-commerce resulted in an absolute improvement of margins in China.
- Land and buildings were sold in Malaysia that were subsequently leased back for a period of 27 months. A new production facility is expected to be ready by that time. Income in the amount of 31 million euros was recognised as a result of this sale.
- A large number of innovations were launched in Southeast Asia, Greece and Mexico, for brands such as Friso Gold, Frisian Flag and Dutch Lady.

Successful launch of Friso Prestige Bio in Hong Kong

In July 2020, we launched our first assortment of organic products in Hong Kong and in China's international e-commerce sector, in order to conquer the fast growing organic market. With FrieslandCampina's unique 'from grass-to-glass concept', Friso Prestige Bio responds to health-conscious parents looking for a reliable and safe product in the corona's aftermath. The product is positioned as an ultra-premium organic product with high nutritional value that meets organic agricultural standards. This step proved to be a tremendous success: in just six months' time we became a key player in the organic segment. The team also developed strong Friso Prestige Bio brand recognition among local mothers and was pronounced the favourite organic infant nutrition brand by Baby Kingdom, a leading baby nursery retailer.

Greater reach with FrisoGo

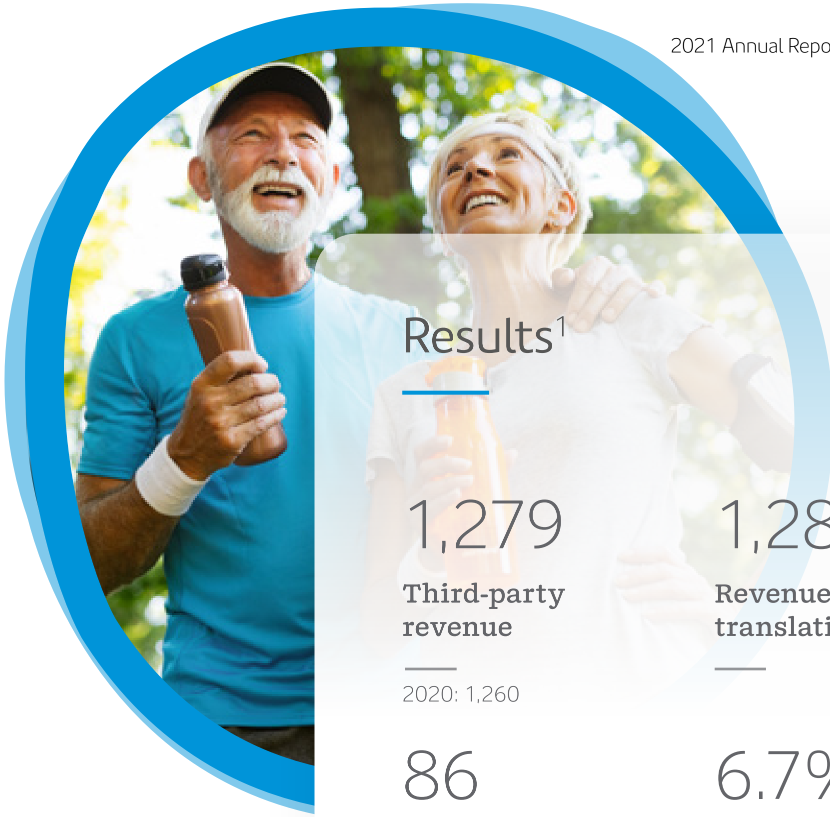
China is a country with tremendous growth potential, especially in smaller cities, which represent more than 55 percent of the total infant nutrition market. With our innovative 'route-to-market' model, FrisoGo, the Specialised Nutrition team is making rapid progress in reaching these smaller markets. FrisoGo is an in-house developed app that connects Mom & Baby shops in smaller markets, local service suppliers and Friso with each other. Through these direct links it is not necessary to hire own sales staff. In combination with the strong brand development of Friso Prestige, the response was high and FrisoGo expanded its reach to 162 cities over a period of four months. On average, in the fourth quarter of 2021 we sold about 10 percent of the total revenue via FrisoGo.

Recent innovations

- **Friso Comfort Multio – Mexico**
- **Friso Gold Homecoming – Netherlands**
- **Dutch Lady MaxGro – Malaysia**
- **Frisian Flag PRIMAGRO – Indonesia**

FrieslandCampina
Ingredients

FrieslandCampina Ingredients is a partner for brands and producers wishing to differentiate themselves on the basis of nutrition, health and wellbeing for consumers in all stages of life. This business group focuses on ingredients for infant nutrition and offers specific innovations and applications for adults relating to medical and sports nutrition.



Results[1]

1,279
Third-party revenue
2020: 1,260

1,283
Revenue before currency translation effects

86
Operating profit
2020: 116

6.7%
Operating profit as a percentage of third-party revenue

[1] Millions of euros, unless stated otherwise

Results and developments in 2021

- In 2021, the infant nutrition segment was under strong pressure due to declining birth rates and difficult market conditions in Asia. This put pressure on revenue and result.
- Despite challenging condition caused by the corona pandemic, various new product innovations were brought to market with a focus on vitality and mobility. Examples include the launch of plant-based protein-rich sports products under the brand name Plantaris™ in partnership with AGT Foods, and a climate-neutral powder base for infant nutrition.
- Strong growth in revenue and profit in part due to price increases for medical, adult and sports nutrition.
- The animal feed business Nutrifeed was sold to Denkavit, coupled to a long-term partnership for residual flows.
- The supply chain's performance was stable despite declining utilisation due to lagging volumes. The closure of Dronrijp (NL) in the fourth quarter of 2021 was part of structurally lowering costs and reducing underutilisation in the supply chain.
- The costs of raw materials and energy rose considerably in the second half of the year. Whenever possible these were passed on to the market by means of price increases.

Deminal® 90 Organic for organic infant nutrition

In June 2021, FrieslandCampina Ingredients introduced Deminal® 90 Organic – a high-quality demineralised whey ingredient for the fast growing organic infant nutrition market. The organic trend has been steadily growing for years because consumers more than ever are aware of their food choices. Today, almost half of consumers considers organic options in making their purchasing decisions.

What makes Deminal® 90 Organic special is the care devoted to the entire process: from farm to production facility. This not only provides for maximum traceability, it also makes FrieslandCampina Ingredients stand out in terms of organic standards. Due to unique monitoring instruments, biodiversity and animal welfare are measured and protected on our organic dairy farms. Furthermore, on a technical level, the ingredient offers a low and stable mineral concentration and high microbiological standards. Deminal® 90 Organic enables our customers to strengthen their organic product portfolio.

Climate-neutral base powder for infant nutrition

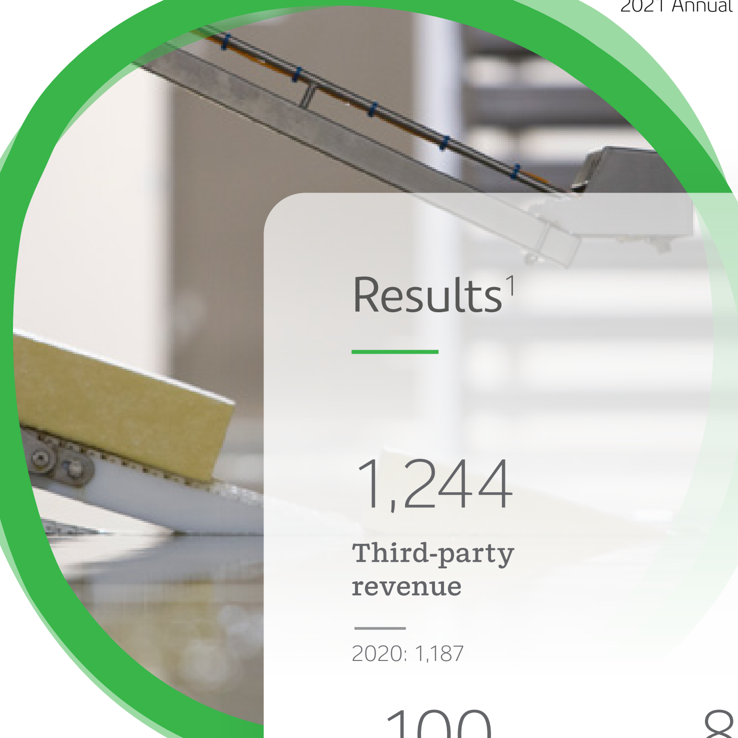
Almost 80 percent of parents indicate that a product's environmental impact plays an important role in their choice of infant nutrition. In line with this consumer insight and the *Nourishing a better planet* sustainability programme, the Early Life Nutrition team launched the very first climate-neutral product: climate-neutral base powder. A mix of ingredients that together contain the majority of the essential nutrients in infant nutrition products. This allows our business customers to meet their climate agreements. ClimatePartner supported us during this launch.

Our approach to developing climate-neutral ingredients is threefold: measuring, reducing and compensating for the emission of greenhouse gases.

Recent innovations

- **Plantaris: plant-based protein powders for performance and active nutrition**
- **Deminal® 90 Organic: whey ingredient for the growing organic infant nutrition market**
- **Climate-neutral base powder: mix of ingredients with essential nutrients for infant nutrition**

FrieslandCampina
Trading



FrieslandCampina Trading is involved in procuring and selling commodity dairy products for internal customers and external business-to-business customers. Its product portfolio comprises cheese, butter, milk powder and liquid products, such as raw milk, cream, skimmed milk and milk concentrate. FrieslandCampina Trading also limits the risk of rising or declining raw material prices for dairy by hedging the company's fat and protein positions.

Results[1]

1,244
Third-party revenue
2020: 1,187

-100
Operating profit
2020: -210

-8.0%
Operating profit as a percentage of third-party revenue

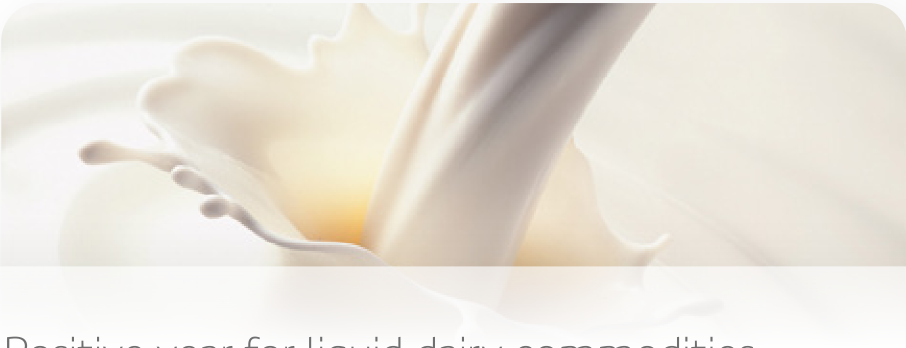
[1] Millions of euros, unless stated otherwise

Results and developments in 2021

- The start-up of the Trading business group in 2021 and the restructuring of the supply chain has resulted in an agile and efficient organisation with a strong focus on cost optimisation.
- The constant increase in prices on the commodity dairy market between March and the end of 2021 resulted in historically high price levels and considerably improved financial results.
- Growing cheese sales, in part due to the expansion of the mozzarella customer portfolio, have improved the product mix, and contributed to structurally improved valorisation. In addition, the partnership with a number of key partners was extended and further intensified.
- With the closure of the Rijkevoort (NL) and Genk (BE) facilities and the whey and milk powder silo in Gerkesklooster (NL), the milk processing network was further optimised, and the milk powder facilities in Aalter (BE) consequently were sold.

Profitable growth in mozzarella

In 2021, FrieslandCampina Trading successfully worked in accelerating volume growth of mozzarella cheese. The customer portfolio in different segments and regions has grown and a volume of approximately 60 kt mozzarella cheese was sold. This has placed FrieslandCampina among the top five players since entering the European mozzarella market. More than five percent of the milk supplied by our member dairy farmers is now used for the production of high-quality mozzarella. Our rind-free mozzarella is free of E numbers, and is vegetarian and Halal. The mozzarella is produced externally in two ultramodern production facilities in the Netherlands and Germany, and is sold throughout Europe and Asia to business-to-consumer and business-to-business customers. The product mix was further optimised in 2021 and consists of various recipes that match market needs and customer application needs.



Positive year for liquid dairy commodities

In 2021, the overall market trends for trade in liquid dairy products, such as cream, skimmed milk or milk concentrate, reflected a tight market with stable to strong prices. Dairy farmers throughout North-west Europe produced less milk. In spite of a lower milk supply, FrieslandCampina Trading intensified its activities in the trade of liquid dairy products. Through means of actively procuring and selling raw milk, skimmed milk concentrate and cream, FrieslandCampina Trading was able to make a contribution to using the capacity of the entire FrieslandCampina network and at the same time create commercial value. Cream from various FrieslandCampina locations was sold on the spot market at specially selected times at peak prices. In addition, cream was bought at times at which FrieslandCampina Trading was able to command a favourable price in order to safeguard the business-to-business sale of butter. Furthermore, at favourable times in the season, milk and thick milk were purchased on short notice to produce milk powder and cheese for existing customers.

Opportunities and growth

- **Expansion of mozzarella through growth of the customer portfolio in various sectors and regions. Mozzarella accounts for the valorisation of more than five percent of FrieslandCampina's member milk in 2021.**
- **Trade in liquid dairy products through the active procurement and sale of raw milk, skimmed milk concentrate and cream.**

150 years of FrieslandCampina

At FrieslandCampina we produce delicious and responsible dairy products from milk, for young and old. We have been doing that for 150 years together with our member dairy farmers. As such, milk is much more than just milk.

Win with nutrition

Nourishing a better planet

For FrieslandCampina, a sustainable future revolves around having a positive impact on farmers, society and the planet. We provide the growing world population with high quality and affordable nutrition, produced in balance with nature, with a good living for our farmers. The priorities and goals within our sustainability programme *Nourishing a better planet* respond to this.

Value through sustainability creates added value

In 2021, FrieslandCampina continued to build a robust, measurable foundation for quality and sustainability. The impact we have with this revolves around adding value for farmers, society and the planet by offering products that are more sustainable and can also generate additional income. This way, we strengthen the earning capacity of member dairy farmers. This also enables them to continue to produce valuable foods and invest in making their farm more sustainable. This is how we stay relevant for future generations as a company and cooperative.

Six themes: Nourishing a better planet

Better nutrition, affordable for everyone

The objective is to comply with the FrieslandCampina Global Nutritional Standards Next Level and to expand access to nutrition for lower income groups throughout the world.

Better living for farmers

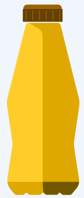
The objective is to always have the highest possible performance price for member dairy farmers and to train 75,000 local dairy farmers in 2025 through our Dairy Development activities.

Better climate, carbon-neutral future

We aim to be net carbon-neutral by no later than 2050. Accordingly, by 2030, we aim to reduce emissions by 40 percent CO_2 equivalent for transport and production facilities, and by 33 percent at member dairy farms, in comparison to 2015. This reduces total emissions by member dairy farms to approximately 9 Mt.

Better nature, improving biodiversity

By 2050, we aim to have a net positive biodiversity impact at member dairy farms within the cooperative.



Better packaging, 100% circular

By 2025 we aim to have 100 percent of our packaging recyclable and/or reusable. This brings us a step closer to our ultimate goal of making all of our packaging fully circular and climate-neutral.

Better sourcing, 100% responsible

Our aim is for the procurement of agricultural raw materials to be 100 percent responsible by 2025 and for 95 percent of (selected) raw materials to be traceable back to source.

Partnerships with customers
Cooperating to create a positive impact forms part of our culture. We refer to this as cooperative sustainability. For us, this means close cooperation with stakeholders, including customers, to achieve sustainable developments at farms and make products sustainable. In 2021, we invested with customers in accelerating the reduction of greenhouse gases and promoting sustainable developments at the farms of our member dairy farmers. Supplying ingredients and products with a lower carbon footprint to our customers is an example of this. With these partnerships, we not only contribute to lowering own carbon footprint, but we also support our customers by enabling them to offer products with a lower footprint under their brands.
In addition, we also carried out pilot projects for feed additives to reduce the emission of greenhouse gases, including the partnership with Barry Callebaut, Agolin and Agrifirm.

'On the way to PlanetProof'
The independent 'On the way to PlanetProof' sustainability quality label for dairy products of the Stichting Milieukeur [Environmental Quality Mark Foundation] became one of the fastest-growing sustainability quality labels in the Netherlands in 2021.

267 FrieslandCampina fresh dairy and cheese products with the 'On the way to PlanetProof' quality label were available in 2021. This represents a growth of 9 percent in comparison to 2020 and more than 25.6 percent in comparison to 2019. In 2021, Campina Quark also became available under this quality label. The milk comes from member dairy farmers who perform well on multiple themes simultaneously: animal welfare, biodiversity and climate.

Six sustainable priorities

The FrieslandCampina sustainability programme presented at the end of 2020, *Nourishing a better planet*, includes six priorities. This provides a greater focus to our efforts of accelerating global sustainability themes. We will also continue to devote full attention to themes such as human rights and animal welfare. In 2021, we saw that this refined focus was bearing fruit in terms of the business group and brand-related developments.

Better nutrition, affordable for everyone

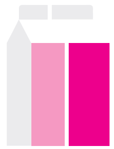
Our aim is to comply with the FrieslandCampina Global Nutritional Standards Next Level and to expand access to nutrition for lower income groups throughout the world.

Milk naturally contains valuable nutrients, such as high-quality proteins, vitamins B2 and B12, calcium, potassium, phosphorous and magnesium. That makes milk products unique foods that are recommended in nutritional guidelines throughout the world.

Balance and composition of the product range

In 2021, 71 percent of FrieslandCampina's products, on the basis of sales volume, complied with the FrieslandCampina Global Nutritional Standards Next Level (2025 target: minimum 74 percent). The FrieslandCampina Global Nutritional Standards are scientific nutritional criteria that our own consumer products are expected to comply with. The criteria for trans-fat, saturated fat, added sugar and salt are derived from Choices International, and were developed by independent scientists. The standards were evaluated in 2021 and were refined on the basis of the update provided by

12%
Affordable nutrition in emerging markets



73/27%
Ratio product supply 'basic nutritional products' versus 'self-indulgent'

Choices International 2019 to create the new FrieslandCampina Global Nutritional Standards Next Level.

73 percent of the product supply consists of 'basic nutritional products for daily consumption' and 27 percent consists of 'self-indulgent products for occasional consumption' (on the basis of sales volume). The objective is a proportion of at least 70 percent basic nutrition and a maximum of 30 percent self-indulgent products.

Access to nutrition

FrieslandCampina aims to increase access to healthy food, in particular dairy products, specifically for less privileged consumers for whom this is not self-evident, for example due to lower income. Shortages of nutrients, such as iodine, vitamin A and iron, are a threat to the health of individuals, especially in these groups. We do this by offering products in our lower disposable income markets (such as Indonesia, Vietnam, the Philippines, Pakistan, Nigeria and the Ivory Coast) with a tailored price and packaging proposition through channels that are specific to reaching these target groups. FrieslandCampina has evaluated the 'Affordable Nutritional Standards' and has incorporated them into the Global Nutritional Standards Next Level. These are scientific nutritional criteria that ensure such products contain the right nutrients needed to counter malnutrition. FrieslandCampina aims to increase the share of these affordable nutritional products to at least 15 percent in our low income markets. In 2021 this was **12 percent.** In these countries approximately 30 percent of the population has a low income. To counter malnutrition, we optimise protein quality and quantity, in addition to adding the right mix of vitamins and minerals, of all affordable nutrition products. FrieslandCampina aims to have 50 percent of the volume of affordable nutrition products sold in low income countries comply with the Affordable Nutritional Standards by 2025. In 2021 this was **5 percent**. For more information about this programme visit our website.
In addition to making nutrition and milk accessible and affordable, FrieslandCampina in 2021 provided food aid by supplying products to food banks in the Netherlands and through school milk programmes in countries in Europe, Asia and Africa.

Largescale nutrition and health survey in Southeast Asia

In 2021, FrieslandCampina finished collecting data for the South East Asian Nutrition Survey II (SEANUTS II); one of the largest nutrition research projects in Southeast Asia. Data was collected about nutrition, health and lifestyle for more than 13,000 children in Thailand, Malaysia, Indonesia and Vietnam, ranging in age from six months up to and including twelve years. FrieslandCampina works together with leading universities and knowledge institutes in the region for this purpose.
On the basis of new scientific insights we will develop education and better nutritional products that meet local needs. This is consistent with FrieslandCampina's goal of providing nutrition to the world population.
The results will be announced in June 2022.

Continuity during the corona pandemic

The corona pandemic undermines food security and underlines the crucial role of the food industry in safeguarding the production, supply and affordability of food for consumers throughout the world. FrieslandCampina created a Corporate Crisis Team for the corona pandemic that provides for the safety of employees and supports the continuity of business operations to guarantee access to nutritious, enriched and affordable nutrition.

FrieslandCampina rises on global Access to Nutrition Index

In 2021, FrieslandCampina rose from fourth to third place on the Global Access to Nutrition Index. This index is prepared every two years by the independent, non-profit organisation Access to Nutrition Foundation. The organisation evaluates the performance of the world's 25 largest food and beverage producers in terms of facilitating access to healthy, affordable nutrition worldwide.

Responsible marketing

FrieslandCampina supports consumers in making well-considered choices for a healthy and balanced diet. We apply rules for providing clear, honest and transparent marketing and product information.
FrieslandCampina is a member of the World Federation of Advertisers (WFA) and is committed to the EU Pledge, a code of conduct for European food companies formulating voluntary agreements about responsible marketing focused on children. Compliance with these agreements is monitored on a yearly basis. The results of the EU Pledge monitoring are available on our website.

Education about a healthy diet and sufficient exercise

In 2021, FrieslandCampina invested in creating awareness of a healthy lifestyle among consumers by making knowledge and resources available. The company, in cooperation with other stakeholders, initiated and supported various educational programmes. The FrieslandCampina Institute provided nutrition and health care professionals with information on dairy, nutrition and health on the basis of scientific insights.

Innovation for affordable nutrition

Family breakfast porridge

Nigeria

Combines the nutritional value of milk with cereals. Affordable and nutritious by combining dairy and plant-based proteins.

Breakfast beverage

(Thailand, Vietnam and Hong Kong)

Links the nutritional value of milk to that of cereals. Available in powder form in Vietnam and Hong Kong and ready-to-drink in Thailand.

Farm-driven or market-driven enterprise

The 150-year-old dairy cooperative FrieslandCampina with almost 16,000 member dairy farmers, is like a miniature enterprise. Each dairy farmer is an independent entrepreneur and has his/her own vision, approach, expertise and history. Furthermore, the farm's characteristics, in part determined by its geographical location, soil type, land surface area, number of heads of livestock and financial flexibility, are of major importance. The cooperative's strength comes from bundling this experience and diversity.

However, this diversity is partly under pressure, because despite the fact that precise requirements and expectations may differ, it would appear that the cooperative's environment is increasingly imposing more and stricter requirements on how animals, nature and climate are dealt with. The objective of constantly improving on many fronts can be quite a challenge in and of itself. However, the increasing pressure can also increase the demand for a 'standard' approach. This restricts the own, personal approach that members may want to use to achieve the goals, while room for an individual approach enhances the satisfaction derived from the farming profession.

How do we deal with this? How do we safeguard diversity and leave room for independent entrepreneurship within the cooperative, and how do we retain our license to operate and our license to grow as a company?

As a cooperative company, we believe in the power and value of diversity, and in this respect, we also consider it our role to support our members. This not only concerns marketing their products and contributing to their earning capacity. We aim to and must also respond to the call for certainty and clarity about members' increasingly more sustainable farming practices. This requires the company and the cooperative in mutual consultation to constantly agree on new goals. However, this uniformity in achieving higher goals also appears to infringe on members' individual entrepreneurship.

How do we resolve this?

First, this means that we must go back to the essence of the cooperative model: cooperating while retaining everyone's identity; however, this must be based on a clear vision.
As a company, we try to match this vision to the strategy, which logically is market-oriented. Furthermore, it is important for us to facilitate, inspire and support members with knowledge and instruments, so that on the basis of their personal approach and situation they can achieve the goals with the resources we put at their disposal, from which they can choose those that are suitable for their business operations.

Examples of this are:
- Support for a sustainable energy transition through programmes relating to solar energy, wind energy and manure digestion.
- Knowledge sharing through means of the Winning with Climate and Nature workshops.
- Providing insight into the impact of adjustments made at the farm relating to biodiversity and climate. We do this through the world's first custom sustainability tool for the dairy farming sector (Measures Tool). This tool is available to every member dairy farmer and shows the impact at the farm level.
- Conducting research, entering into partnerships that, for example, result in (measurable) lower methane emissions (*smart breeding*) or higher carbon storage.
- Making performance-linked compensation available for individual components.
- Contributing to developing earnings models so that third parties also pay for 'products' aside from milk, such as nature management.

These resources are developed in cooperation with knowledge institutes, trainers, NGOs and/or government organisations.

This way we increasingly work with the same vision but leave room for an individual approach. This is how we retain the strength of diversity among our members and the landscape managed by farmers, while we strengthen the link with the market.

Better living for farmers

The objective is always to have the highest possible performance price for member dairy farmers and to train 75,000 local dairy farmers by 2025 through our Dairy Development activities.

FrieslandCampina aims to achieve a leading performance price for the Dairy Cooperative's member dairy farmers in the Netherlands, Belgium and Germany. Members receive a market-based guaranteed price that is always paid, topped up with the meadow milk premium, the Foqus planet premium, the special supplements premium and a supplementary cash payment depending on the company's available profit. Furthermore, the interest on member bonds is paid, and the remaining part of the available profit is added to the company's retained earnings. See financial notes on page 67.

Dairy Development

Based on its Dairy Development activities, FrieslandCampina is building sustainable dairy chains in ten countries in Asia, Africa and Eastern Europe. We support local dairy farmers in improving the quality of their milk, efficient and sustainable production methods, increasing productivity per cow, obtaining access to markets and developing markets for locally produced milk. This enables local dairy farmers to receive more money for their milk and thus improve their living standards. In addition to a constant local higher-quality milk supply for the production of dairy products in our local production facilities, Dairy Development contributes to maintaining and improving relationships with local governments and other stakeholders.

In 2021, FrieslandCampina collected and processed approximately 600 million kilos of milk from more than 100,000 dairy farmers in Eastern Europe, Asia and Africa and **70,385 local dairy farmers** (2020: 57,534) in Nigeria, Vietnam, Thailand, Malaysia, Indonesia, Pakistan, and Romania took part in Dairy Development training programmes. Employees and member dairy farmers from the Netherlands provided training and/or (online) advice to dairy farmers in the above-referenced countries. Women farmers constitute a special target group. We are increasingly attempting to include them in training programmes because they often carry out a large part of the activities on dairy farms. The impact of this initiative is high, particularly in Pakistan and Indonesia. In the above-references countries, FrieslandCampina collects the local milk and processes it into products destined for local markets. A total of over 250,000 local dairy farmers are reached directly and indirectly each year.

Other Dairy Development successes in 2021

- Development and construction of a mobile yoghurt beverage plant. This plant was built and tested in the Netherlands and shipped to Nigeria and will be up and running in the first quarter of 2022 using milk produced entirely in Nigeria. The mobile production facility is capable of processing 4,000 to 5,000 litres of milk per day and provides local dairy farmers with direct access to a sales market and subsequently extra income because we process their milk into yoghurt.
- Completion of the Dairy4Growth-programmes in Nigeria and Vietnam. In close cooperation with the Dutch Government and parties such as 2Scale, IDFC, Bles Dairies, De Heus and FrieslandCampina, a tremendous step forward was taken over the past five years in upscaling and improving local dairy farms. For example, in Nigeria, 2,990 livestock farmers were trained and 20 new milk collection centres were set up. In Vietnam, the income of participating livestock farmers demonstrably improved due to higher milk production after they completed various training courses, including training held at two newly-built demonstration dairy farms.
- Creation of the Value4Dairy consortium in Nigeria together with Agrifirm, Barenbrug and Urus Genetics. The objective of this consortium is to collectively build a local sustainable dairy sector with feed, grassland management and breeding. Pilots were initiated for the purpose of selecting and introducing the most suitable grass seeds and cow breeds in Nigeria.

- Organisation of three-day master classes on breeding, milk extraction and feeds for Dairy Development employees in eight countries. They immediately applied this knowledge by training and supporting local dairy farmers.
- Development of 15 vlogs for dairy farmers and Dairy Development teams in eight countries for the purpose of training dairy farmers online.
- Four webinars were organised in China during which the 15 vlogs were covered. A total of 12,000 participants attended these webinars.
- Initiation of a women empowerment programme in Indonesia. Four female member dairy farmers provided training courses from the Netherlands to colleague dairy farmers. This way an often neglected but important target group gained access to knowledge that they can directly apply on their farms. These women will also receive support in 2022.
- Addition of the Philippines and Ivory Coast to the list of countries where we support the local dairy chain with Dairy Development activities. In the Philippines, an agreement was signed with the local university of agriculture to develop a training programme for local dairy farmers focused on cow management and entrepreneurship. The training started in November. In the Ivory Coast, an agreement was signed with the government for the purpose of creating a knowledge and expertise centre based on the models used in China and Nigeria.
- A total of 52 online training sessions were held on the basis of the Understanding Our Dairy Value Chain concept. More than 200 participants per session throughout the world took part.
- In China, as part of the Sino-Dutch Dairy Development Centre (SDDDC), five online workshops were held in which more than 40,000 people participated. The workshops addressed themes such as corona, biodiversity, sustainable packaging and climate.

Better climate, carbon-neutral future

We aim to produce climate-neutral dairy by 2050. On our way towards this goal, we aim to reduce emissions by 40 percent CO_2 equivalent for production facilities and transport and by 33 percent at member dairy farms, by 2030 in comparison to 2015. This is to result in a maximum total emission of 9 Mt at member dairy farms and 490 kt for production facilities and transport.

A roadmap has been prepared with potential measures at farms with respect to green energy, manure processing and livestock feed. Specific objectives to be achieved have been prepared for each year. In 2021, CO_2 equivalent emissions at member dairy farms declined by 12.5 percent and by 28 percent for production facilities and transport, in comparison to 2015. As such we are on track towards our 2030 target.

Towards a net climate-neutral chain

Our route towards a climate-neutral chain consists of a permanent reduction of greenhouse gas emissions and preventing the avoidable emission of all greenhouse gases over the longer term. This also means that in the future we will no longer be using fossil fuels and will be increasing our focus on carbon sequestration. In part for this reason, we have been supporting members for years in generating renewable energy. This requires support by means of innovations, knowledge and improving earning capacity. In addition we contribute to assessing the impact of measures. For example, we have developed the basis for a carbon sequestration measurement model (C-Sequ). This model is expected to be incorporated into the KringloopWijzer [livestock life cycle management guide] over time so that demonstrable results can be compensated.

We also assess how to close lifecycles. Aside from our climate programmes, we are also focusing our efforts on improving and measuring biodiversity. Regenerative agriculture is one of the ways of closing lifecycles and stimulating nature-inclusive agriculture. For this purpose we work together in various research and other associations, such as Fascinating.

Pricing

To stimulate CO_2 reduction at production facilities, FrieslandCampina has been using a system of shadow pricing since 2019. In making investment decisions, we take the annual current CO_2 costs (ETS costs, about 80 euros) per tonne of avoided greenhouse gas emissions into account for CO_2-regulated and non-regulated companies. This has, for example, resulted in the inclusion of CO_2-reducing measures in investment decisions for new development projects in Malaysia, the Netherlands and Indonesia.

2021 Results

In 2021, emissions from production facilities and transport decreased by 7.0 percent to **691 kt CO_2 equivalent** (2020: 743 kt). Emissions by member dairy farmers decreased by 3.8 percent to **12,063 kt CO_2 equivalent** (2020: 12,540 kt). The use of green electricity rose to 100 percent worldwide.

The reduced emission of greenhouse gases by production and transport is the result of closing the Rijkevoort (2020) and Dronrijp (2021) locations and a Gerkesklooster (2020) section in the Netherlands, the sale of the location in Russia (Stupino 2021) and the milk powder production facility in Aalter (2021) in Belgium, and finally also is the result of lower production volumes. Maintaining our own (energy-efficient) cogeneration plants for the production of electricity had a heightened effect on the emission of greenhouse gases.
In the transport of milk, emissions were lower due to the deployment of more milk trucks fuelled by liquid natural gas. In 2021, the first hydrogen-powered milk truck was put into use to further reduce CO_2 emissions from transport.

93 percent of the electricity consumption of our production facilities in the Netherlands is covered by electricity produced by our own members; globally this is 50 percent. In 2021, another step forward was taken in valorising green energy from our own chain. For example, almost 475,000 MWh in green electricity certificates were purchased from member dairy farmers by the company and electricity is purchased from more than 100 member dairy farms. In addition, almost two million cubic metres of green gas was produced by the Jumpstart mono-manure digester project (see below). This way we are 'greening' our own energy use.

Climate objectives

FrieslandCampina endorses the targets of the Paris Climate Agreement. In the context of the Climate Agreement, the Dutch dairy sector has agreed to make a significant contribution to reducing greenhouse gases, such as carbon dioxide (CO_2), methane (CH_4) and nitrogen oxide (N_2O).
FrieslandCampina operates globally. This is why we review the entire production chain and work on reducing emissions in this chain. For member dairy farms, the objective is to emit no more than 9Mt by 2030. This represents a reduction of approximately 33 percent in comparison to 2015. In addition, we aim to reduce emissions by 40 percent CO_2 equivalent for transport and production facilities. These are two of the six priorities of the sustainability programme Nourishing a better planet. We are on track towards achieving this target. The potential impact of the Dutch Government's Coalition Agreement should become clear at the beginning of 2022.
At the end of 2020, FrieslandCampina committed itself to the Science Based Target initiative (SBTi). In 2021, as part of the process of submitting specific objectives, we determined which sources of emissions are found elsewhere in the dairy chain.
At the end of 2021, we submitted our specific objectives for our SBTi commitment 'well below 2 degrees'. For example, in the coming year, we will be expanding our objectives for 2030 to include a reduction in emissions from the products and raw materials we procure or acquire, as a means of lowering emissions throughout the entire value chain. In 2022, these objectives will be validated by the SBTi and checked for their contribution to the Climate Agreement (UNFCCC). In 2022, we will consider committing to the 'below 1.5 degrees' scenario for scope 1 and 2 emissions and we will identify the impact this will have on our objectives.

At the beginning of 2022, FrieslandCampina, together with several other Dutch multinationals, received a request from the Dutch NGO Environmental Defence [Milieudefensie] to inform it about the steps FrieslandCampina is taking to reduce greenhouse gas emissions over the coming ten years. FrieslandCampina is an active participant in this dialogue and is of the opinion that a sector-wide approach is needed to set and achieve targets. A constructive dialogue with customers, suppliers, governments and NGOs is an integral part of our cooperative sustainability approach.

Approximately **3,400 member dairy farmers** generated green electricity, enough to supply more than 170,000 households with electricity. Visit www.frieslandcampinaopwek.nl to check out current electricity generation by member dairy farmers.

- **260 member dairy** farms with large solar roofs at year-end 2021 supplied green solar power under the Solar Programme. This was supplemented by eight smaller solar roofs in the last quarter.
- At year-end 2021, **34 dairy farmers** were operating a mono-manure digester acquired through Jumpstart. A mono-manure digester supplies green energy and reduces methane emissions from manure by approximately 80 percent and nitrogen emissions by about 50 percent.
- **63 member dairy farms** had acquired a small-scale windmill through the Wind Programme by the end of 2021. This is 15 windmills more than at the end of 2020.

The energy consumed per tonne product was **2.79 GJ** in 2021. As a result relative energy consumption dropped in comparison to 2020 (2.83 GJ). This drop in part is explained by lower production volumes and a change in the product mix. Both are a consequence of the global economic stagnation caused by the corona pandemic and the phase-out of energy-intensive powder production in the last half of 2021. Total energy consumption in 2021 amounted to 15,118 GJ. The decline in comparison to 2020 (15,752 GJ) is due to the sale of the powder activities in Aalter, Belgium, and the production facility in Russia, as well as the shutdown of the locations in Rijkevoort and Dronrijp and the sections in Gerkesklooster and Beilen in the Netherlands.

424 member dairy farmers participated in Winning with Climate and Nature activities to gain insight into which sustainability measures are the most effective at the dairy farm.

The online measures tool, which can be used by member dairy farmers to simulate the effect of sustainability efforts on their farm, was further optimised on the basis of the user experience of dairy farmers and advisors.

In 2021, water consumption decreased to **4.85 m^3** per tonne product (2020: 4.89 m^3). This is in line with our reduction target of 25 percent over the period 2018-2030. In 2021, a reduction of 6.4 percent in comparison to 2018 was realised. In connection with a correction resulting in a reduction in production volume due to double counting, the water intensity of the 2018 base year was adjusted from 5.10 to 5.17 m^3 per tonne product. The water intensity and the associated target figures have been updated accordingly and are included in the reporting for 2020 and 2021. The decrease was primarily due to efficiency improvements, but was partially negated by a decrease in the production volume for consumer products and a change in product and volume mix at Ingredients. Total water consumption in 2021 amounted to 26,276 m^3. This decrease in comparison to 2020 (27,216 m^3) was due to the same underlying causes as the decrease in energy consumption as described above.
The increased periods of drought, salinisation and the impact of water consumption on energy management, make reducing water consumption a priority for FrieslandCampina. Circular water use at our production facilities is a possible option for achieving a significant reduction in water consumption. Plans are being developed for this purpose that will primarily be rolled out in areas with a risk of water scarcity.

-3.8%
Greenhouse gas emissions on member dairy farms

-7.0%
Greenhouse gas emissions from transport and production

63
Member dairy farmers participated Wind Programme with small-scale windmill

424
Member dairy farmers participated in Winning with Climate and Nature workshops

The cost of being sustainable

Cost precedes benefit, or vice versa?

Milk provides valuable nutrients, has excellent product properties and has many applications throughout the world. This is why dairy is well-represented on retail shelves and also has broad application in the hospitality sector. It is a popular product among customers and consumers alike.

Continuous investment is required to produce high-quality dairy with extra attention for animals, nature and climate. It is our duty to society, member dairy farmers and the planet to continue to improve in these areas. This demands additional and larger investments. This also applies to making our packaging circular and climate-neutral and to further greening our entire supply chain.

But who pays the bill for all this?

This cost cannot be entirely borne by the consumer, but neither can it be entirely at the expense of the farmer. Creating a sustainable chain is a shared responsibility. FrieslandCampina, supermarkets, business customers, local and other government bodies, suppliers of raw materials, producers of packing materials, consumers and other parties in the chain must therefore share the costs and benefits associated with sustainability.

But who takes the first step?

FrieslandCampina aims to be leading in the area of sustainability and consequently often takes the first step; this yields benefits on the market, and sustainability is an important condition for remaining relevant as a sector. At the same time expectations pertaining to sustainability efforts and performance are increasing, as are the associated costs. This makes taking the first step increasingly more difficult.

How do we resolve this?

As a company we work on additional earnings models for our members:

- Many members operate as nature managers in their immediate environment, but are not yet financially compensated for this. By making this more explicit and tangible, we facilitate them in obtaining compensation, discounts or grants from local governments.
- Increasingly more chain parties are prepared to contribute to the same sustainability efforts. The municipality of Midden-Delfland recently further aligned its financial measurement criteria with the 'On the way to PlanetProof' quality label of the Environmental Quality Mark Foundation (SMK), and as a result 'On the way to PlanetProof' participants do not need to develop extra activities and receive increased value for their efforts and results.

In addition to such earnings models, this also involves providing insight to provincial, national and international governments about the sustainability issues we are faced with, our objectives in this regard, the results that are being achieved and the associated costs. This requires long-term investments and plans, to provide room for our members to be able to keep up their sustainability efforts over the long-term as well.

For the company it is important that our customers, suppliers and partners have a good grip on the value of our products and efforts. This way increasingly more customers are seeing that contributing to continuously making our chain sustainable and improving quality also represents a contribution to making their own chain sustainable. These could be international dairy processors, as well as retailers who are prepared to pay more as long as it demonstrably benefits sustainable farming and production.

Sustainability is slowly increasingly being approached chain-wide. This development must be accelerated, however. This is only possible with realistic prices, and no longer at the lowest price. There is a role to play in the chain for all parties, for example by appraising sustainable products at their true value. Our 'On the way to PlanetProof' products are a good example of this. Because the lower the price, the heavier the future burden.

Better nature, improving biodiversity

By 2050, we aim to have a net positive impact on biodiversity on and around member dairy farms.

We continue to build on the foundation we have created with the Dairy Farm Biodiversity Monitor (see below) and with members who generally manage nature on and around their own dairy farm. This demands the development of an integrated biodiversity score. This score does not yet exist anywhere in the world and it is our goal to develop it with many external experts in 2022. In 2023, we aim to establish interim and long-term goals for making a positive contribution to nature on the basis of this integrated score.

81,1 percent of dairy farms registered active nature and landscape management with FrieslandCampina. This percentage is higher than in 2020. FrieslandCampina is working together with BoerenNatuur, an organisation of Dutch national farmer collectives, on a country-wide system for recording and safeguarding nature and landscape management areas on dairy farms.

Many of our members manage nature on and surrounding their own land. We are proud of this. In addition, we also try to encourage more members to do even more in terms of nature management. Our goal is to make an active contribution to an even higher positive biodiversity impact. These efforts and the results should be seen and need to be rewarded. This is why we initiated a new ambassador programme in 2021: 'Best countryside managers'. We tell stories about the efforts of member dairy farmers relating to nature and landscape management and the importance of this for preserving biodiversity. We pass on these stories to other members, the agricultural sector, consumers and farms. This way we clearly convey the value added by dairy farmers to preserving nature in the countryside.

In 2021, **49 members** registered as ambassadors. Many of these ambassadors (33) received a landscape panel with the dairy farmer's story illustrated with photos. Passing pedestrians and cyclists can read about the efforts shown by member dairy farmers on nature and landscape management. Attention was devoted to the ambassador's programme and nature and landscape management in various communication channels, including 25 regional and national newspapers.

Dairy Farm Biodiversity Monitor

Rabobank FrieslandCampina nourishing by nature WWF

Measuring biodiversity

Nature is the engine of every dairy farm. The growth of crops and milk production are dependent on the natural ecosystem, and consequently on biodiversity. FrieslandCampina, the World Wide Fund for Nature (WWF) and the Rabobank have developed a methodology to measure the impact of dairy farms on biodiversity: the Dairy Farm Biodiversity Monitor.

FrieslandCampina rewards members on the basis of the results of the Dairy Farm Biodiversity Monitor. The goal is to have a net positive impact on biodiversity within the cooperative by 2050. In 2022, FrieslandCampina aims to develop an integrated score for biodiversity that will enable us to make this goal measurable.

Nitrogen

Too much nitrogen has a negative effect on biodiversity. In 2019, the Dutch Council of State decided that the Dutch government had to increase its nitrogen emission reduction efforts. The emission of nitrogen thus became a theme that has evolved into a dossier that affects the overall Dutch economy. The Nitrogen Act stipulates that by 2030, the nitrogen deposition in 74 percent of all nitrogen-sensitive 'Natura 2000' areas must be below the Critical Deposition Value. The necessity of meeting the legislated targets is putting developments in various economic sectors under pressure, because there are many economic activities that emit nitrogen to a greater or lesser extent. The target set in the Nitrogen Act means that nitrogen may only be reduced and that no extra nitrogen may be emitted. In the near future, the policy proposed to date will have to be supplemented with specific measures together with the applicable timeframe.

Nitrogen is indispensable in nature. But too much nitrogen in soil is a problem. This accelerates the growth of plants that thrive on nitrogen, (such as nettles, blackberries and gras), which then overrun plants that require less nitrogen (such as heather, as well as rare plants in nature preserves). This not only causes these plants to disappear, but the insects and animals that live off these plants as well. In other words, too much nitrogen reduces the number of plant and animal species and biodiversity consequently decreases.

Two types of nitrogen are being emitted; nitrogen oxides (NOx) and ammonia (NH3). The overall agricultural sector is responsible for approximately 60 percent of nitrogen emissions in the Netherlands. The largest part of these emissions consists of ammonia (NH_3). The larger part of ammonia emissions comes from the production of manure whereby cattle, at 49 percent, accounts for the largest share of these emissions. As such the dairy sector is one of the biggest emitters of nitrogen. It is for this reason that many other economic sectors would like to make use of the emission room the dairy farming sector has today. Between 1990 and today, the agricultural sector reduced its nitrogen emissions, but by contrast other sectors have increased their emissions (see adjacent figure).

The impact of the nitrogen dossier on FrieslandCampina is potentially high. Reductions can be achieved in various ways, but many of the measures cause milk production of dairy farms to decline or to contain less protein. This means there would be less milk available for processing and less protein for valorisation. When

Pollutant Release and Transfer Register emissions of nitrogen by NEC Sector in ktonnes

Substance by NEC sector	1990	2000	2010	2020*	Ceiling (EU) 2020**
Ammonia (NH_3)					
Industry, Energy and Refineries	4.6	3.1	2.2	2.0	
Traffic	1.0	4.4	4.6	3.6	
Consumers***	3.9	4.1	4.2	4.3	
Trade/services/government and Construction***	0.6	0.5	0.6	0.6	
Agriculture***	335.8	161.2	122.4	113.7	
Total	**345.9**	**173.3**	**133.9**	**124.1**	**132.7**
Nitrogen oxides (NO_x)					
Industry, Energy and Refineries	188.4	101.6	65.9	41.7	
Traffic	379.8	287.7	213.6	130.0	
Consumers	21.8	19.7	14.0	5.9	
Trade/services/government and Construction	12.2	11.8	9.4	5.2	
Agriculture	8.7	9.5	14.2	6.3	
Total	**610.9**	**430.4**	**317.0**	**189.1**	**208.9**

NEC emission substances in kilotonnes, from 1990 through to 2020, adopted in July 2021, (see Explanation of Emission Trends).
* 2020 concerns the preliminary emission estimate.
** These maximum emissions permitted by the EU (NECD) are an elaboration of the EU reduction target for the Netherlands (compared to 2005) and therefore only apply for 2020.
*** By shifting emission causes between sectors, following advice from the EU NEC Review 2021, differences can be seen at sector level between the previously published table with the series of definitive figures for 1990-2019. The emissions from 'private horses and ponies' from the Trade/services/government and Construction sector and the emissions from 'Manure sales for nature areas and private individuals' from the Consumer sector have both been moved to the agriculture sector.

Source: Central government - Pollutant Release and Transfer Register

farmers are forced to stop farming, the number of FrieslandCampina members also decreases. This could have a potential impact on the total volume of of milk supplied by members to the company.

FrieslandCampina is of the view that investing in sustainable innovations in the dairy farming sector structurally yields better results than shrinking the sector. A key principle in this regard is that dairy farmers who wish to continue farming must be given room and opportunities to do so. Innovative solutions include reducing the emission of nitrogen in stables by adjusting floors and farm management, for example, by reducing protein in livestock feed. As far as FrieslandCampina is concerned, making more land available for dairy farming, thus enabling further extensification, together with sustainable innovations should be a central focus of the approach to the nitrogen problem. In association with the Dutch Dairy Association (NZO), FrieslandCampina is devoting its efforts to this issue as a participant in the Coalition for Future-Proof Dairy Farming. This coalition has presented a plan which would make it possible to realise a 28 percent reduction in nitrogen emissions by 2030. An amount of 1.3 billion euros has been requested for the sector for this purpose in order to be able to carry non-productive investments.

Better packaging, 100% circular

By 2025 we aim to have 100 percent of our packaging recyclable and/or reusable. This brings us a step closer to our ultimate goal of making all of our packaging fully circular and climate-neutral.

Of all packaging, **90 percent** was designed to be recyclable in 2021 (2020: 87 percent). FrieslandCampina invested in the design and introduction of recyclable cups and bottles, for example. Different wrapping was introduced for bottles and plastic yoghurt and quark cups, thus making it possible for them to be better sorted and recycled.

Steps were also taken to reduce CO_2 emissions. A cardboard cup was introduced for oatmeal porridge, among other things, and coffee creamers are now available in recycled PET bottles, instead of one-time-use glass bottles.

Of all plastic packaging, **50.5 percent** was designed to be recyclable. In 2021, 26.1 percent of all plastic packaging was recycled on a large scale in various countries (2020: 28.2 percent). Since last year we have distinguished a second level: plastic designed to be recyclable now or in the future. This distinction ensures that we can give priority to redesigning packaging to make it more suitable for recycling. We continue to work with partners to make recycling possible in actual practice.

Better sourcing, 100% responsible

Our aim is for 100 percent sustainably sourced of agricultural raw materials and for 95% of the selected raw materials* to be traceable back to source by 2025.

In 2021, **100 percent** of the purchase of raw materials came from sustainably managed sources. This means that raw materials are sustainably and responsibly managed. As such the target was met. This concerns products such as cocoa, palm oil, cane sugar and beet sugar, with globally recognised certificates, that comply with sustainability standards or for which a plan for sustainable development has been developed in cooperation with suppliers.

* This concerns palm oil, soy, pulp and paper, and cocoa purchased by the company.

90%
Recyclable packaging

50.5%
Recyclable plastic packaging

94%
Palm oil, soy, pulp and paper and cocoa traceable to source

A study on Soy

In promoting biodiversity, FrieslandCampina not only looks at the impact on the farm's surroundings, but also at international developments. For example, this applies to the ingredients that member dairy farmers purchase to feed their cows.

The average daily diet for cows almost entirely comes from the farmer's own land or from nearby land, although a small portion is supplied from elsewhere.

The larger part of the feed consists of roughage (92%), such as grass and corn. A minor portion of the diet consists of concentrates (8%). The concentrates contain various products, such as wheat, beets and residuals from the food industry, as well as soy (around 1% of the diet). FrieslandCampina members have been purchasing this soy from 100 percent sustainable sources in accordance with Round Table for Responsible Soy (RTRS) certification since 2015.

Pilot for physically segregated deforestation-free soy for livestock feed

RTRS certification and the control thereof is important for the procurement of soy for livestock feed due to multiple sustainability factors, such as a good price for local farmers. Because FrieslandCampina considers it important that member dairy farmers can be 100 percent certain that their sustainably procured soy has been produced deforestation-free, we are taking a next step. In 2021, we initiated a pilot with agricultural cooperative and supplier Agrifirm to start up a guaranteed deforestation-free soy stream. Approximately one third of our members will be able to switch over to this sustainable soy in 2022.

Countering deforestation in areas in which we are not active – partnership with IUCN

FrieslandCampina considers it important to reduce the risk of deforestation everywhere, including in areas that do not supply soy for use in feed for Dutch dairy cows.
In addition to the existing RTRS soy and aside from starting up a segregated physical flow in partnership with Agrifirm, FrieslandCampina is also working with Sustainable Dairy Chain and IUCN to ensure that areas that do not supply soy for dairy feed are also properly certified so as mitigate any risks this way. In addition, this project also devotes effort to promoting nature preservation and recovery in these areas. This concerns areas around Chaco (Argentina).

94 percent of the palm oil, soy, pulp and paper, and cocoa was traceable to source (2020: 91 percent). Because the supply chains in the agricultural sector are dynamic, we aim to acquire better insight into the origin of these raw materials to be able to tackle deforestation and forced labour. In 2020, we started working on tracing materials back to source.

FrieslandCampina was one of the top three companies in the Netherlands on the WWF Palm Oil Buyers Scorecard. Together with the World Wide Fund for Nature we published a case study about the most important results, challenges and future plans relating to sustainable palm oil.

Sustainability in dialogue

FrieslandCampina understands that many sustainable development goals can only be achieved by working together with partners. This is why it is working together with parties at home and abroad. This is an important aspect of what we refer to as 'cooperative sustainability'.

International sustainable dairy sector

Dairy producers, including FrieslandCampina, and their customers have joined forces for the purpose of developing a global Sustainable Dairy Partnership standard for business-to-business relationships. This standard provides a common basis for assessing company sustainability efforts, involving stakeholders and making use of unambiguous definitions, among other things.

Sustainable Dairy Chain

Within the Sustainable Dairy Chain, FrieslandCampina works together with other dairy companies and dairy farmers on making the Dutch dairy sector sustainable. The Sustainable Dairy Chain has formulated a number of themes for 2030 for this purpose: earnings models, climate and energy, animal health and welfare, pasture grazing, biodiversity, dairy farming tied to available land and safety at the farm. The targets within these themes were established in consultation with an advisory council with representation from social and government organisations, and other parties that frequently work together with the dairy sector. The Sustainable Dairy

Chain undertakes proactive initiatives to respond to different sustainability themes, in which a balanced and integrated approach to goals and measures is key. This way the involved parties work together on a future-proof dairy chain that produces high-quality nutrition with respect for humans, animals and the environment thus creating a valued sector.

Foqus planet

The Foqus planet programme translates FrieslandCampina's sustainability strategy to the farm level. It safeguards a high basic level of quality and sustainability, stimulates dairy farmers to increase the sustainability of their dairy farms and makes the performance of member dairy farmers visible in terms of quality and sustainability. Foqus planet is a key programme that we explain to our customers when it concerns the valorisation of our sustainability efforts at member dairy farms. Dairy farms that score high on sustainability receive a bonus that is funded from a cooperative scheme and a contribution by the company.

Animal health and welfare

Member dairy farmers monitor the welfare and health of their cows on a daily basis. Healthy animals form the basis for a healthy farm. Animals that are well taken care of live longer and require less medicine. Elaborate monitoring systems are used to continuously improve the health and welfare of cows and are consistent with Welfare Quality®, the EU standard for animal health and welfare. We constantly invest, share experiences and learn to improve animal welfare in the entire dairy sector. The CowMonitor is of help in this respect. This monitor comprises various components, such as CowAlert, CowCompass and CowData, as a result of which member dairy farmers and certified veterinarians are able to acquire greater insight into the cow's welfare on the basis of various indicators. All member dairy farmers, together with certified veterinarians, develop a plan each year designed to further improve animal health and welfare at their dairy farms. CowCompass enables the veterinarian to identify potential risks to the health and welfare of cows. CowCompass shows what is going well and what can be improved upon in relation to milking, nutrition and water, accommodation, animal welfare, working routines, animal diseases and raising young livestock. This way member dairy farmers preventively work together with their veterinarians on animal health and welfare on their farms.

Monitoring and safeguarding animal welfare is based on tens of requirements embedded in Foqus planet, the quality and sustainability programme for member dairy farmers. Antibiotics are only used when absolutely necessary. The independent Netherlands Veterinary Medicines Authority (SDa) for years has observed a strong decrease in the use of antibiotics and a stable, low and acceptable level of use.

The cows of our member dairy farmers on average lived 55 days longer in 2021 in comparison to 2020, namely: 6 years and 16 days In 2021, cows had an average lifespan in excess of the 2018 average at 77 percent of member dairy farms.

In 2021 99 percent (2020: 99 percent) of member dairy farmers participated in KalfOK. This provides them with insight into the quality of the rearing process of their young livestock. Dairy farms with a high KalfOK score receive a premium.

FrieslandCampina makes virtually no use of animal products other than milk. We make use of eggs in two of our brands: Valess and Mona. The eggs come from 100 percent free range chickens. These chickens have a minimum of 4 m^2 space per animal and during the day have access to an exterior space with vegetation, unless there is a mandatory outdoor ban on poultry. The chickens are not kept in cages and their beaks are not cut, unless there is a medical necessity.

Pasture grazing rose again

83.9 percent of member dairy farms in the Netherlands practised pasture grazing (2020: 83.6 percent). To encourage dairy farmers to allow their cows to graze outdoors more frequently, they receive a premium on their milk price.

Preparing for CSRD

The European Commission aims to align company Environmental, Social and Corporate Governance (ESG) reporting with the company's financial reporting. This enables stakeholders, such as investors, to assess the economic activities of companies on an equal basis and to better assess the extent to which they create financial and non-financial value.

The increasing need of stakeholders for relevant, reliable, comparable and available ESG information currently is resulting in the accelerated introduction of laws and regulations. In April 2021, the European Commission adopted a proposed Corporate Sustainability Reporting Directive (CSRD), which requires all large companies to include elaborate ESG information in their management reporting, starting with the year 2023. An external auditor will issue an assurance report on this basis with a 'limited degree of certainty'. The reporting includes sustainability targets, the risks and opportunities flowing from the ESG factors, the business model's resilience in this area and the company's strategy, for example for combatting climate change in the short, medium and long term.

FrieslandCampina

FrieslandCampina produces an integrated annual report in which it reports on strategy, policy, objectives and performance relating to sustainability. Transparency about efforts and progress relating to sustainability is currently voluntary.

Changes

Although CSRD will only become mandatory for the 2023 reporting year, FrieslandCampina is already improving its annual reporting on environment, society and management. For example, over the course of 2021, several structural changes were introduced in terms of policy, implementation and managing sustainability goals. The *Sustainability Review* was instituted to prepare important initiatives for decision-making by the Sustainability Council. The Sustainability Council is the decision-making body for sustainability-related matters. The council comprises the company's senior management and representatives of the Cooperative Board.
A cluster 'care for animal and nature' has been created within the Cooperative's Members' Council and sustainability project teams for member dairy farms and the company also have been established. This strengthens the bond between the cooperative and the company in the area of sustainability. Furthermore, a new Director Sustainability has been appointed. With this organisation structure FrieslandCampina has created the necessary conditions for expeditiously addressing policy and implementation, and responsibilities are more firmly embedded within the company.

> “It is my constant endeavour to give people a sense of purpose and make them realise that every day brings opportunities and promise

Geraldine Fraser,
Chief People Officer

Watch the video interview

By and for people

FrieslandCampina aims for a company culture in which sustainable success is key. Our employees contribute to *Our Purpose, Our Plan* with the objective of winning in the market. Key themes in this respect include a continuous dialogue, mobilising talent and inspiring employees.

In the annual employee survey, Over2You, employees were asked to let their voice be heard about themes, such as company culture, WIN-WIN thinking and doing, leadership and commitment. Employees were asked to share what they consider good and what could be improved upon. This year is characterised by a large number of internally and externally-driven changes, such as the corona pandemic, inflation and restructuring, which affect our employees' sentiments, but which also shows the commitment people feel towards the company in spite of these changes. 77 percent of employees participated in the survey (2020: 84 percent). A number of striking points highlighted by employees:

- 81 percent of employees feel committed to the company;
- 77 percent of employees feel free to take decisions with respect to their work and to express themselves when something can be improved upon;
- 38 percent of employees indicates that communication could be improved, particularly about the company's strategic direction.

The results are an important source of information and will be used to enter into discussion about what needs to be done to realise further improvements in the working climate for all employees.

Number of employees[1]

12,813
Food & Beverage
2020: 13,783

2,776
Specialised Nutrition
2020: 2,900

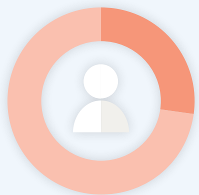
2,463
Ingredients
2020: 2,747

2,013
Trading
2020: 2,332

1,973
Corporate, Shared Services and other
2020: 2,021

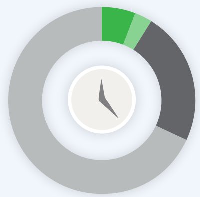
22,038
Total
2020: 23,783

Senior management diversity



Female 25.6%
Male 74.4%

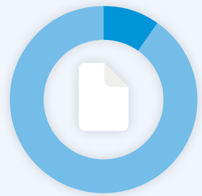
Employment



Part-time 9.0%
5.7% female
3.3% male

Fulltime 91.0%
22.9% female
68.1% male

Type of contract



Temporary 10.3%
Permanent 89.7%

[1] Number of FTEs as at year-end

Number of employees

Average number of FTEs	2021	2020
Food & Beverage	13,324	13,845
Specialised Nutrition	2,829	2,910
Ingredients	2,567	2,731
Trading	2,218	2,354
Corporate, Shared Services and other	2,023	2,037
Total	**22,961**	**23,877**

As at 31 December 2021, the number of FTEs decreased in comparison to 2020. As at 31 December 2021, 1,745 FTEs no longer had a permanent employment contract, of which 700 FTEs due to the disposal of business operations. Because the reduction took place during the year, the decrease in the average number of FTEs is lower. There was a decrease of 916 in the average number of FTEs, of which 270 FTEs are related to the sale of business operations. In 2021, the number of temporary employment contracts decreased by approximately 350 FTEs in comparison to 2020.

Corona pandemic

The corona pandemic also had major consequences for FrieslandCampina's employees in 2021. Throughout the world, employees with an office function worked from home for large parts of the year. The company supported colleagues and teams in various ways to help them retain their mutual connections and their connection with the company. For example through means of:

- various forms of communications;
- various learning interventions and the use of IT applications.

For employees working at production facilities, the emphasis was and is on measures to protect against the virus, thus enabling them to work safely and to keep the production process and deliveries to customers going. Under the 'Our Way of Working' banner we continued making preparations in 2021 for the introduction of the hybrid way of working that we are advocating. A pilot provided better insight into employee behaviour and the effect of various measures.

Inclusion, equality and diversity

FrieslandCampina believes in the value of a diverse workforce and a working environment that allows all employees to bring their best and authentic selves to work in order to drive improved and more sustainable performance as a result. When you grow, we grow.

Inclusive diversity (ID) is essential, because it helps negate negative stereotypes and personal judgements about groups, and recognises and respects different 'ways of being'. Diversity among our workforce provides for new skills, ways of thinking, knowledge and perspectives. Combined, this results in sustainable growth by:

- building better performing teams;
- promoting creativity;
- helping attract and retain top talent;
- making better informed decisions.

Our inclusive diversity strategy is based on four pillars that are linked to our People & Organisation strategy:
- embracing gender equality;
- honouring different cultures and religions;
- paying attention to mental health and physical limitations;
- supporting our LGBTQI+ community.

The progress of our goals pertaining to inclusive diversity is tracked as follows:
- Gender: 25.6 percent of FrieslandCampina's senior management team is female in 2021 (2020: 27.0 percent; 2019: 25.9 percent). The objective is to increase this figure to > 27 percent by the end of 2022. The number of women in senior management positions decreased in 2021 due to the impact of the business transformation. We initiated a three-year plan to promote gender equality with the following initial objectives:
  - 2022: > 27 percent of senior management is female;
  - 2023: > 28 percent of senior management is female;
  - 2024: > 30 percent of senior management is female.

  The plan includes requirements for greater diversity in our recruiting and internal mobility processes.
  In 2021, the ratio of men and women worldwide was 28.6 percent women and 71.4 percent men (2020: 28.7 and 71.3 percent). On average 23.1 percent of the Executive Leadership Team was female (2020: 33 percent).
- Cultural diversity:in 2021, FrieslandCampina's workforce comprised 129 different nationalities, 66.9 percent of which is non-Dutch. The Executive Leadership Team consisted of thirteen members (2020: nine) representing four (2020: three) different nationalities.

The Diversity and Inclusion Committee created in 2020 is responsible for implementing the strategy. The committee currently consists of 25 members, representing 11 different nationalities, and comprises 80 percent women and 20 percent men. The committee is subdivided into teams that each focus on one of the four pillars. Alongside hard objectives set for the gender and culture pillars, in 2021 effort was devoted to creating awareness about unconscious bias, mental health and well-being, invisible disabilities and in creating an LGBTQI+ support community.

In addition, several partners support us:
- Tent (worldwide) and Refugee Talent Hub (in the Netherlands) for supporting refugees;
- LEAD Network (within Europe) to stimulate best practices relating to female empowerment;
- Workplace Pride (worldwide) to support our LGBTQI+ community.

Talent management

In 2021 we took additional steps in strengthening our culture and improving the learning infrastructure. We are moving from a more traditional learning culture based on training courses to an inclusive learning environment in which employees together with their supervisor can design their own development path. The supply as well as accessibility were significantly improved:

- by offering and promoting on-demand online training courses linked to all competences in our new global competence framework. In addition, we continued offering a large part of our global training and development programmes in a blended format (a mixture of face-to-face and ICT-based education, teaching materials and tools).
- We launched a new global FrieslandCampina Learning site that provides all employees with an overview of all available learning interventions, behavioural, as well as substantive/functional. In addition, we launched a global Well-Being Academy and a High-Performing Teams Academy to support employees and teams in improving their individual and team efforts.

In the area of recruitment, we launched a new Employer Value Proposition – *Unleash your nature* – with which FrieslandCampina clearly positions itself as a global Employer brand. This concept was well received within and external to FrieslandCampina and is an important tool for becoming Employer of Choice for relevant target groups. With this concept, FrieslandCampina won the LinkedIn Talent Award 'Best Employer Brand' for companies domiciled in the Netherlands.

In addition, we introduced a new way of evaluating potential: our Potential Diamond. This forms part of the annual Talent Review and Succession Planning phase. A characteristic of the Potential Diamond is the acknowledgement and recognition of various types of talent (management and expert roles) and the more inclusive and positive approach to talent (everyone has a talent). The Potential Diamond was introduced with the help of training sessions, webinars and an implementation toolkit.

Finally, we launched a new global assessment framework that offers support for recruiting and developing current and future employees as objectively as possible. This assessment framework, based on our own competence framework, aims to improve the quality of work performed by employees by giving them clear insight into their qualities and areas for development.

150 years of FrieslandCampina

Packed, bottled or in a snackable size; FrieslandCampina's products are available to the modern, on-the-go consumer anytime and anywhere. FrieslandCampina has been there where the customer is for a century and a half. FrieslandCampina always manages to reach the customer, be it through the retail, out-of-home or, more recently, the e-commerce channel.

Serve the 24/7 consumer and customer, anytime and anywhere

The dairy market in 2021

The consequences of the corona pandemic, unfavourable weather conditions, the strong demand for dairy products in China and global transportation problems had a high impact on the global dairy market and FrieslandCampina's guaranteed price in 2021.

Impact of the corona pandemic

The persisting corona pandemic also had a major impact on the dairy market in 2021. In western countries the first vaccines were introduced at the end of 2020 and in the first quarter of 2021. As a result, infections started dropping and society was able to somewhat open up again. Lockdowns were lifted in the first half of the year. The demand for dairy products in the retail sector was and continued to be high, while the food service sector purchased extra products to be able to meet the pent-up demand from consumers and to restock inventories.
In the second half of the year, new coronavirus variants spread across Europe and the rest of the world. Countries announced new lockdowns and other restraining measures to prevent the virus from spreading. As a result, the demand for dairy products once again shifted from the food service sector to the retail sector.

Lower milk production due to weather conditions

All dairy regions throughout the world were adversely affected by weather conditions in 2021. In Europe it was wet and cold, which impeded the effective growth of grass and forage crops. As a result, and due to lower margins resulting from higher costs for concentrates, fertilisers and labour, milk production in Europe barely increased.

In the first half of the year, milk production in New Zealand rose considerably by 5.8 percent in comparison to 2020. But in the second half of the year it dropped by 2.5 percent. In 2020, milk production in the United States rose by 2.2 percent, but this growth dropped back down to 1.3 percent in 2021. Particularly in the second half of 2021, the increase in milk production was lower and amounted to only 0.3 percent. Australia experienced a decrease in milk production by about 1 percent. The bottom line is that milk production in these most important dairy-exporting regions barely rose in 2021 in comparison to the previous year (+0.3 percent). Starting in September, the milk supply in fact declined by 1.1 percent.

Strong demand from China

China once again played a crucial role on the global market for dairy products this year. The country's aim to establish higher safety stocks and a major economic recovery resulted in significantly higher imports of dairy products by approximately 27 percent in comparison to 2020. The share of Chinese imports on the global market currently is more than 25 percent (2020: 22 percent).

Global transportation problems

Due to the lockdowns and the sudden strong demand for products, containers were located in the wrong place throughout the world. There is a shortage of drivers and stevedoring firms are barely finding any personnel. In short, there is a global transportation problem. This caused goods to be stuck in ports, particularly in the United States, and products, including dairy products, did not reach their destinations on time. This resulted in a forced shift in the demand for commodity dairy products from Europe and New Zealand, since the United States – despite lower prices – was unable to deliver. This in turn resulted in considerable price increases.

Dairy market: strong price increases

Due to a lower supply combined with a higher demand for dairy products, resulting from reopening markets after the lockdowns, prices worldwide rose tremendously. This applied throughout the year to milk and product prices. There was a steady increase in prices in the first half of the year. During the summer holidays, prices stayed stable, but starting in September, all prices rose considerably, reaching levels that, with the exception of the price for butter, we had not seen in the past decade.

Milk prices

At the beginning of 2021, average milk prices in the European Union stood at 34.87 euros per 100 kilos of milk. By June they had risen to 35.77 euros, and in September the average milk price further rose to 37.29 euros, finally closing off the year at 41.13 euros per 100 kilos of milk, according to European Commission estimates.

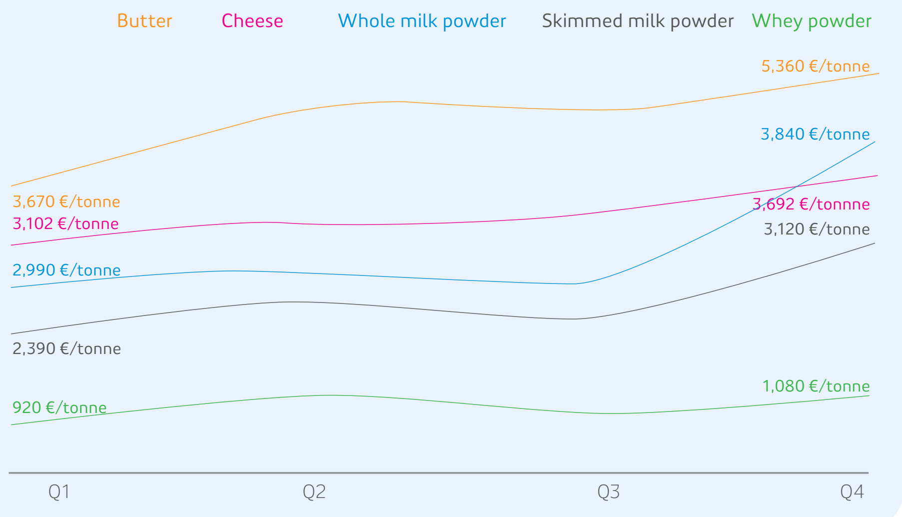
FrieslandCampina guaranteed price

In January, the FrieslandCampina guaranteed price was 34.25 euros per 100 kilos of milk and in the following months rose to 38.00 euros in June. The guaranteed price stayed fairly stable in the summer months, after which it continued to increase to 43.72 euros in December 2021. The average guaranteed price over the year as a whole was 37.84 euros per 100 kilos of milk.

Butter

At the beginning of 2021, the Dutch butter quotation was 3,250 euros per tonne. Due to a strong demand for milkfat on the world market, as well as in the European Union, and lagging milk production, prices rose to 4,150 euros per tonne in mid-March. After this the market calmed down and prices remained at this level until after the summer holidays. When it became clear that milk production in the European Union was not going to increase and that market inventories were limited, prices continued to increase to around 6,070 euros per tonne at the end of 2021.

Average dairy prices in 2021 (euros per tonne product)



Cheese

Approximately half of the milk produced in the Netherlands is used for cheese production. At the beginning of this year the Hannover cheese quotation was stable at 3,075 euros per tonne. The Hannover quotation for cheese gradually rose throughout the year due to the high demand for cheese. Butter and skimmed milk powder prices followed this same trend. At 3,950 euros per tonne, the Hannover quotation was just below 4,000 euros per tonne at year-end 2021.

Skimmed milk powder

Expectations for the skimmed milk powder market were high at the beginning of 2021. Prices were at a level of 2,220 euros per tonne (Netherlands quotation). As a result of strong demand on the world market, particularly from China, and limited supply, the quotation continued to rise to 2,600 euros in June. Prices remained stable during the summer holidays, but continued their rise to reach 2,710 euros per tonne in October. In the fourth quarter, the price for skimmed milk powder rose to a level it had not reached in 10 years: 3,450 euros per tonne at the end of December 2021.

Whole milk powder

In Europe, whole milk powder is primarily produced on request. On the world market the product is generally offered at lower prices by producers from New Zealand and Latin America. Up until June, the price for whole milk powder slowly rose to 3,180 euros per tonne. This price, too, remained more or less stable during the summer holidays. Effective from September, there was a continued increase in whole milk powder prices due to higher butter and skimmed milk powder prices, reaching 4,270 euros per tonne by year-end 2021.

Whey powder

At the beginning of 2021, the price for whey powder was 810 euros per tonne. Due to a high demand from China and a limited supply due to the elevated production of whey protein concentrates, Dutch prices for whey powder in the first half of the year rose to exceed 1,000 euros per tonne. Whey powder prices remained stable in the third quarter after which they continued to rise to around 1,190 euros per tonne by year-end 2021. This, too, was an unprecedented price level for the past 10 years.

Financial notes

FrieslandCampina creates income for member dairy farmers by making dairy products and ingredients from milk. As such it makes an important contribution to the continuity of member dairy farms.

Revenue

In spite of the impact of the corona pandemic, revenue increased by 4.3 percent before currency translation effects, primarily driven by higher dairy commodity prices, price increases and the cautious recovery of out-of-home activities in Europe. Currency translation effects had a negative impact of -1.1 percent on revenue due to the devaluation of the Nigerian naira and dollar-related currencies in Asia. Reported revenue rose by 3.2 percent to 11.5 billion euros in 2021 (2020: 11.1 billion euros). Revenue in the e-commerce channel grew by 18 percent.

Taken over the year as a whole, the Food & Beverage business group performed well. The Professional activities evolved into a global business over 2021. Between April and October, Professional's volumes and revenue, in part due to higher dairy commodity prices, were back to 2019 or pre-pandemic levels. Revenue of the Food & Beverage business group rose by 4.3 percent to 7,891 million euros (2020: 7,565 million euros), driven by price increases and the growth of out-of-home activities, primarily in Europe. Before currency translation effects, growth was 5.8 percent.

The declining birth rate trend in Asia accelerated as a result of the persistent corona pandemic and the revenue of the Specialised Nutrition business group consequently decreased by 3.5 percent to 1,086 million euros (2020: 1,125 million euros). In China, Friso Prestige showed strong growth in spite of increased (local) competition. Revenue, before currency translation effects, decreased by 3.8 percent. Friso's market share in China remained stable compared to 2020.

At 1,279 million euros, the revenue of the Ingredients business group remained relatively stable (+1.5 percent). In 2021, the infant nutrition segment was under strong pressure due to declining birth rates and difficult market conditions in Asia. However, this was offset by growth in high-quality ingredients and the positive performance of the medical, seniors and sports nutrition segment. Revenue, before currency translation effects, increased by 1.8 percent.

The constant increase in prices on the commodity dairy market between March and the end of 2021 resulted in historically high price levels and a 4.8 percent increase in revenue to 1,244 million euros for the Trading business group (2020: 1,187 million euros)

Operating profit and profit

The corona pandemic in 2021 still had a significant impact on the operating profit and profit. However, lower restructuring costs, the initial recovery of out-of-home markets in Europe and improved results of the Trading business group, resulted in a 32.5 percent improvement of the operating profit to 355 million euros (2020: 268 million euros). A provision of 58 million euros has been made for a court ruling in Thailand. In addition, there was a release of a pension commitment (51 million euros). The operating profit before currency translation effects, adjusted for other income and expenses declined by 1.6 percent to 380 million euros.

Due to the higher operating profit combined with a lower effective tax burden, FrieslandCampina's profit in 2021 rose by 117.7 percent to 172 million euros (2020: 79 million euros).

FrieslandCampina invested 504 million euros in advertising and promotions (2020: 503 million euros).

Sales and general administrative costs increased by 29 million euros to 851 million euros (2020: 822 million euros). Cost savings resulting from the transformation and lower travel expenses due to the persistent corona measures were erased by the increased provision for variable remuneration and the significantly increasing inflation, which results in higher personnel and other costs. Other income and expenses amounted to -11 million euros (2020: -118 million euros) and in particular comprises transformation costs, the above-referenced provision for a court ruling in Thailand, the release of the pension commitment and transaction results on the sale of business units, and land, buildings and equipment.

Operating cash flow

The cash from operating activities decreased by 143 million euros to 594 million euros (2020: 737 million euros). This decrease was primarily caused by a one-off 88-million-euro defined contribution to a pension plan dating back to 2005 and the use of the restructuring provisions made in 2020.
In 2021, the outbound cash flow for investments and acquisitions amounted to -302 million euros (2020: -443 million euros), including proceeds received from the disposal of business units and land, buildings and equipment.

The cash flow from financing activities amounted to -152 million euros (2020: -175 million euros). This is the balance of dividends paid to non-controlling interests, interest for and the purchase of member bonds, the lease payments made and the repayment of interest-bearing borrowings. In December 2021, the Executive Board of Royal FrieslandCampina N.V. decided to repay 54 million euros of member bonds-free. This way the company has made a smooth transition to FrieslandCampina's new member financing system possible. The new system went into effect on 1 January 2022. The balance of cash and cash equivalents and bank current accounts increased from 339 million euros (year-end 2020) to 505 million euros (year-end 2021).

Financial position

The net debt amounted to 700 million euros as at 31 December 2021.
This represents a 176-million-euro decrease in comparison to year-end 2020.
Buffer capital (equity and non-controlling interests attributable to the shareholder) increased primarily due to the addition of profit to the retained earnings, the positive currency conversions of foreign operating companies and a remeasurement of pension commitments. The buffer capital amounted to 1,537 million euros and, as a percentage of the balance sheet total, increased from 15.6 percent to 17.0 percent.

The equity directly attributable to capital providers increased to 3.6 billion euros (2020: 3.5 billion euros). This was primarily due to the above-referenced increase in buffer capital.

Solvency, defined as the equity directly attributable to capital providers as a percentage of the balance sheet total, decreased to 40.1 percent (2020: 40.4 percent) due to the higher balance sheet total.

As at 31 December 2021, the total equity, including non-controlling interests, amounted to 4.0 billion euros (year-end 2020: 3.8 billion euros).
The return on invested capital (operating profit divided by the average invested capital, including goodwill), amounted to 6.7 percent (2020: 4.8 percent).

Financing

FrieslandCampina made use of the debenture loans of member dairy farmers, and loans from banks, investors and development banks. In March 2021, Royal FrieslandCampina N.V. signed an agreement with ING Bank N.V. for a 300-million-euro loan linked to sustainability with a maximum term of 3 years.
In December 2021, Royal FrieslandCampina N.V. signed an agreement with ABN Amro for a 100-million-euro loan linked to sustainability with a maximum term of 2.5 years. Both loans are subject to a Euribor-based variable interest rate and FrieslandCampina will receive a discounted interest rate if it achieves the agreed upon sustainability targets.
In December 2021, the European Investment Bank granted Royal FrieslandCampina N.V. a 150 million euro credit facility to finance FrieslandCampina's R&D activities in Europe.

On 16 June 2021, FrieslandCampina's Members' Council approved the new member financing system. The core of the renewed member financing consists of coupling an important part of members' capital to the milk supplied by members and of a cooperative solution for the future tradability of member bonds-free. This reduces the skewed growth of contributed capital – in part caused by the greying population – and strengthens the company's equity. On 1 January 2022 the renewed member financing went into effect through means of the issue of milk certificates by Zuivelcoöperatie FrieslandCampina U.A.

Milk price and performance price

In euros per 100 kilos of milk for 800.000 kilos of milk per year (exclusive of VAT, at 3,57% protein, 4.4% fat and 4,53% lactose), vs. 2020.

39.88
Performance price
2020: 35.72

- 0.21 **Retained earnings** — 2020: -0.46
- 0.44 **Interest on member bonds** — 2020: 0.46

39.23
Milk price
2020: 35.72

- 0.14 **Supplementary cash payment** — 2020: 0.00
- 0.91 **Meadow milk premium and Foqus planet premium** — 2020: 0.90
- 0.34 **Special supplements** — 2020: 0.36
- 37.84 **Guaranteed price** — 2020: 34.46

'Towards 2030'

During the Members' Council meeting of 14 December 2021, the Board of Zuivelcoöperatie FrieslandCampina U.A presented the Cooperatives 2030 goals. In 'Towards 2030', the Board indicates that the Cooperative is and will remain the company's only shareholder. The Board aims to retain the size of the milk volume processed so as to be a cooperative with a leading milk price and to continue to be of value to members, in the market and in society in 2030. This means that existing member dairy farms can grow in volume and that new members can join the dairy cooperative. All this will be further worked out in 2022 together with the company, members and the cooperative's Members' Council as part of the three-year evaluation of the member acceptance policy.
In addition, the Cooperative aims to continuously improve in relation to sustainability themes that are of value to the market and society. The Board has indicated that additional market income will be divided by the Cooperative.
To implement this policy, Foqus planet, the quality management and sustainability programme for member dairy farmers, will be renovated.

Profit appropriation

The 172 million euro consolidated profit in 2021 will be appropriated as follows: 42 million euros for the interest payment to holders of member bonds (2020: 46 million euros), 78 million euros to non-controlling interests (2020: 67 million euros), 9 million euros for the holders of perpetual bonds (2020: 3 million euros) and 8 million euros for the provider of the cooperative loan (2020: 9 million euros). The Executive Board proposes to pay out 14 million euros in the form of a supplementary cash payment and to add the remaining profit in the amount of 21 million euros (including the non-controlling interest directly attributable to the shareholder, Zuivelcoöperatie FrieslandCampina U.A.) to the retained earnings (2020: withdrawal of 46 million euros).

Value creation for members

The increased result makes it possible to issue a supplementary cash payment to member dairy farmers over 2021 (0.14 euro per 100 kilos of milk). In addition to the FrieslandCampina guaranteed price, a total of 14 million euros will be paid to member dairy farmers in 2022 over the year 2021 (2020: 0 euro).

The FrieslandCampina milk price for member dairy farmers increased by 9.8 percent to 39.23 euros per 100 kilos of milk exclusive of VAT in 2021 (2020: 35.72 euros). The FrieslandCampina guaranteed price over 2021 amounted to 37.84 euros per 100 kilos of milk, an increase of 9.8 percent in comparison to 2020 (34.46 euros). This increase was the result of higher commodity dairy prices due to increased market demand.

The premium for special supplements was 0.34 euro (2020: 0.36 euro). Distributed across all types of milk streams, the meadow milk premium amounted to 0.66 euro per 100 kilos of milk (2020: 0.66 euro) and the Foqus planet premium amounted to 0.25 euro per 100 kilos of milk (2020: 0.24 euro).

FrieslandCampina's organic milk price over 2021 was 50.56 euros per 100 kilos of milk (2020: 48.00 euros). FrieslandCampina's organic milk guaranteed price was 49.17 euros per 100 kilos of milk (2020: 46.76 euros).

The total compensation paid to member dairy farmers for their supplied milk increased by 6.2 percent to 3,835 million euros in 2021 (2020: 3,610 million euros). This increase is due to the higher milk price.

The total allocated interest on member bonds in 2021 decreased to 42 million euros (2020: 46 million euros). The interest rate over the period 1 January to 31 May 2021, was 2.743 percent. The interest rate over the period 1 June to 30 November 2021 was 2.738 percent, while the interest rate in the month of December 2021 was 2.714 percent (the interest rate on the six-month Euribor for December 2021 was -0.536 percent). The average interest paid per 100 kilos of member milk was 0.44 euro (2020: 0.46 euro).

Decrease in the milk supply

The milk supplied by member dairy farms decreased by 3.2 percent to 9,745 million kilos (2020: 10,064 million kilos). This decrease is primarily explainable by the cold weather in the first months of 2021 and increased feed costs.

150 years of FrieslandCampina

From the very beginning of our cooperative in 1871, we focused on producing high-quality, nutritious dairy products, such as milk and cheese. Today, 150 years later, these basics still represent an important part of our portfolio and we constantly elevate our essentials to higher levels.

Elevate our essentials

Foundations

Innovation

Innovation is our driving force. Because of innovation we are able to optimally exploit the nutritional value of milk, continuously anticipate the needs of customers and consumers, keep improving our products and making them more sustainable. This is why innovation is an important condition for the success of *Our Purpose, Our Plan* strategy.

In 2021, to continue to be able to innovate, FrieslandCampina invested approximately 85 million euros in research and development. 616 experts (FTEs) with 33 nationalities are working together at FrieslandCampina in the area of nutrition, milk composition, process technology, products, packaging, sustainability and dairy farming.

22 international patent applications were submitted in FrieslandCampina's name in 2021. These patents pertained to various domains, such as infant nutrition, ingredients, cheese preparation, foaming appliances and various milk products for consumers, varying from high-protein bars to milk powders used to produce milk foam. In 2021, FrieslandCampina published 71 scientific publications.

R&D in 2021
- > 250 innovations (product launches, adjustments, process improvements and sustainability solutions);
- Opening of Shanghai Innovation Experience Centre;
- 22 new patent applications were submitted;
- Investing in digital R&D

Sustainable growth

Milk contains high-quality proteins, minerals, such as calcium, and vitamins, such as B2 and B12. By acquiring better insight into the nutritional needs of babies, children, adults, active sports people and the elderly in different countries and cultures, FrieslandCampina makes a contribution to people's health. This translates into new products and better processing processes.
At FrieslandCampina innovation is driven and managed on the basis of the basic principles underlying the purpose *Nourishing by nature*. Insights into the needs of consumers and industrial buyers, as well as into the area of nutrition, social trends and sustainability are key in this respect. The proficiency of FrieslandCampina's experts lies in the area of nutritional science relating to nutrients, milk components and their applications, milk processing, production processes, products, packaging, dairy farming and sustainability. FrieslandCampina focuses its innovations on realising sustainable growth and on the health and wellbeing of consumers.

Research

Data analysis tools are increasingly used to design more efficient and effective innovation processes. Increasingly more data about our milk, production facilities, recipes and our many years of knowledge is linked together and modelled in smart databases. This creates faster insights that can be used to optimise production processes, accelerate product introductions and support client applications.

It is important to examine the role dairy products can play in the nutritional needs of the local population. Knowledge about the effect of different proteins, minerals, vitamins, sugars and fats that play an important role in the growth, protection and promotion of health in children, adults, sportspeople and seniors is essential in this respect.

Process technologists are focused on the development of new production processes, as well as the optimisation of existing ones, relating to product quality and safety, cost effectiveness and sustainability.

Process
- Aequival 2'FL process for optimising yield improvement;
- Data-driven cheese quality control.

In the purchase of foodstuffs, taste is almost always a decisive and distinctive factor. The product's structure also is a determining factor in 'mouth sensation'. Understanding and the ability to properly measure the sensory properties of a product is consequently a significant step in developing new products or improving existing ones. Sensory and functional properties are optimally used in adjusting recipes or developing new products and applications.

Products
- Kievit Vana-Cappa X01 for the perfect instant cappuccino mix; foam enhancer with high density for excellent foam thickness;
- Kievit Vegan Vana-Monte V98; cream product for bakeries, desserts and ice cream applications;
- Debic Cream Plus Mascarpone; premixed cream with mascarpone with a rich taste and constant quality, suitable for sweet and hearty creations.

Packaging protects products against external influences during transport and storage. The process of developing packaging takes the direct needs of all steps in the logistics process into account, and most definitely those of the end-user, the consumer or customer, as well. Areas for attention also include reducing any food residues left behind in packaging, reuse, minimising the use of materials, optimising logistics and reducing the emission of greenhouse gases.

Working together on a circular food system

In the Fascinating Programme, FrieslandCampina works with three other agricultural cooperatives and the Province of Groningen on the future of our food production: the realisation of a circular food system. Healthy nutrition, produced in balance with nature. Closing the nutrients cycle over time is crucial. In addition, we are working towards a net-positive biodiversity impact and we aim to produce net climate-neutral, so that our members can retain an attractive profession and can pass on their farms to following generations. We combine the strengths of the cooperatives, innovations and agricultural knowledge in order to shape the agricultural sector of the future.

Packaging

- Rainbow evaporated milk in recyclable PET bottles (100 percent RPET and new zipper sleeve) in the Middle East. Also for Halvamel, Gold Band coffee milk;
- Olper's milk in pouches (Pakistan);
- Realisation of recyclability target supported by a new packaging database'

Sustainability is a key motivating factor in many innovation projects. Reducing energy and water consumption in production processes and making more effective use of raw materials contribute to the realisation of sustainability objectives. Combined with knowledge of milk components and technology, this contributes to improving returns, while at the same time reducing the impact on the environment. We not only research sustainability aspects in developing and optimising our products, packaging and production facilities, we also work with our members on making their farms sustainable.

Collaboration in the area of research through open innovation with universities, suppliers and start-ups is important to FrieslandCampina. This makes it possible to acquire expertise that is not available within the company and this also makes it possible to more quickly anticipate developments.

Good Business Conduct

In 2021, Compass, the Code of Conduct for good business behaviour, and the Speak Up procedure were brought to the attention of managers and employees.

- In 2021, 8,341 employees worldwide completed the mandatory Compass e-learning and 7,796 employees completed the mandatory Speak Up e-learning. A new Compass e-learning has been added to the mandatory training plan for all employees.
- Employees completed mandatory e-learnings and online training modules about various Compass topics, such as honest business practices, fair competition practices, protecting personal information and trade sanctions.
- An investigation into integrity risks within the organisation was initiated by applying specific risk assessments to each operating company. This will be continued in 2022.
- The Speak Up procedure was revised on 1 December 2021:
  - Employees are encouraged to discuss questions or concerns relating to Compass directly with the involved person(s) or possibly with an HR or other manager;
  - If the issue cannot be resolved this way, then the employees and other concerned parties – anonymously, if necessary – can report the issue through various channels: relevant member of the management team, Director Business Conduct or the Speak Up call number and web service;
  - Questions or concerns can always be shared confidentially with the local confidential advisor at any time. Under the revised Speak Up procedure the local confidential advisor is not a formal channel to which a Speak Up issue can be reported.
  - The number of Speak Up reports stayed virtually the same and totalled 151 in 2021 (2020: 155).

Compass covers 14 topics, such as sustainability, food and people safety, employee rights (including respectful interaction on the work floor) and human rights, honest business practices and the protection of personal information. The last two themes are set out below.

Honest business practices

FrieslandCampina adheres to honest business practices and distinctly rejects any form of bribery, fraud or corruption. In 2021, the company earned a significant part of its revenue in countries where 'doing honest business' is a potential risk. We identify these countries on the basis of their low score in the independent Corruption Perceptions Index of Transparency International. Various measures implemented by FrieslandCampina to limit this risk included:

- The use of an automated system that screens parties with which FrieslandCampina does business and following up on any risk signals produced by these systems;
- Providing training to employees. For example, 1,363 employees successfully completed the Doing Honest Business e-learning and a new interactive online training module about doing honest business was developed for specific employee groups;
- Limiting the 'risk' of working with local agents by identifying them in our systems, setting up an acceptance process and if necessary conducting further investigation into the ultimately interested parties.

Protection of personal information

FrieslandCampina respects the privacy rights of employees, member dairy farmers, consumers, customers, suppliers and other business partners. Personal information is only collected, processed, used and transferred when this is deemed to be reasonably necessary for business purposes and is treated confidentially.
To effectively do this:

- Procedures and instructions were provided to all employees working with personal information;
- These employees were trained using two privacy e-learnings, as well as position-oriented online training courses;
- There was a network of local privacy officers who played an important role in implementing the privacy policy and supporting these employees;
- Privacy risks associated with key suppliers were limited and procedures for reporting data leaks were refined.

Human Rights

FrieslandCampina respects and supports internationally recognised human rights. The basic principles are set out in the OECD Guidelines for Multinational Enterprises, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Universal Human Rights Declaration.

FrieslandCampina makes an active contribution to banning human rights violations, including child labour and forced labour. FrieslandCampina contributes to banning such practices. We expect every employee to immediately bring up any form of human rights violation for discussion. This also applies to our business partners. FrieslandCampina has a Human Rights Committee with representatives from operating companies and corporate departments. The Committee works closely together with Corporate Sustainability and the Business Conduct Team.

The Human Rights Policy sets out FrieslandCampina's policy in the area of, for example, preventing child labour and forced labour, and promoting freedom of association, and access to water and sanitary facilities. To further identify human rights risks, FrieslandCampina completed various risk assessments in 2020. In 2021 we focused on following up on the findings of these assessments. For example, FrieslandCampina developed a human rights training module and started training employees who primarily come into contact with this topic. In 2021 a total of 345 employees were trained in recognising the risk of human rights violations. Aside from training, all operating companies were provided with additional guidelines with specific points of reference for implementing the policy.

In addition, a further investigation was initiated into preventing child labour in the dairy chain in Nigeria. We also started to develop a policy that sets out the position on and the use of contract workers. In 2021 FrieslandCampina received one Speak Up report about potentially serious human rights violations, particularly about working hours and labour discrimination.

In 2022 we will expand the guidelines for our operating companies to give them further points of reference for implementing the Human Rights Policy. We will continue to train employees and managers to enable them to recognise human rights risks. In addition, we will be taking a next step in identifying and mitigating these risks by carrying out a second risk assessment. The findings from this analysis will be transformed into measures designed to further reduce the violation of human rights.

Safety

An ounce of prevention is worth a pound of cure. This is why FrieslandCampina has developed Vision Zero, a long-term plan designed to reduce the number of incidents.

The plan includes three key priorities:

- Reducing risks to the lowest possible acceptable level;
- Complying with all legislation pertaining to health, safety and the environment;
- Improving safe behaviour in all areas of our organisation.

From mid-2020 onwards, we observed an increase in the number of accidents. This trend persisted in 2021 and the total number of accidents[1] rose to 122 (2020: 119). The number of accidents per 200,000 hours worked is 0.39. As a result the 0.28 target was not achieved. Most accidents were related to working on machines, colliding and jamming, or resulted from falling or tripping. See glossary in the annex for a description of both definitions.

Safety and promoting safe behaviour received constant attention in 2021. Based on an accident analysis and pursuant to the assessment of our safety culture, the Safety Policy was adjusted. The changes support FrieslandCampina's locations in making their safety policy specific through personal leadership and taking care of one another. In 2021, over 100 employees, including 20 managers, completed a basic training course about positive behavioural change on the shopfloor. Such master classes were held at eight locations for location management.

1 Total number of accidents = 'number of accidents resulting in sick leave' + 'number of accidents resulting in work adjustment' + 'number of accidents requiring medical treatment'.

Quality

Foqus: quality and food safety

FrieslandCampina uses a standard quality system (Foqus) to safeguard safety and quality throughout the entire chain, from livestock farming to distribution. Foqus offers consumers, customers and governments the guarantee that products and production processes comply with strict quality and safety criteria.
FrieslandCampina has its own quality inspection teams and also makes use of independent external bodies. Thanks to Foqus, FrieslandCampina complies with all relevant national and international regulations and standards for food quality and safety, such as HACCP, ISO 9001 and FSSC 22000.
The ONE programme was initiated in 2021. This programme jointly organises all corporate audits in the area of Food Safety and Quality, Safety, Maintenance and Continuous Improvement. This way we improve the quality of the supply chain.

Cybersecurity

Cybersecurity is an important theme and a foundation within FrieslandCampina for safeguarding the continuity of our company. A cyber incident can result in a loss of confidence by our customers, fines and reputational damage. We are increasingly seeing news reports that companies near and far have become victim of cyber criminality and this is only expected to increase.

Research shows that the majority of cyber-related incidents involves a human action. This means that well-informed employees are a solid defence against cyber attacks and threats.
This is why FrieslandCampina has been devoting attention to this topic for several years and in view of current trends, the focus on cybersecurity will be even further increased this year.

Our cybersecurity programme focuses on the following, among other things:
- Creating employee awareness and training;
- Securing our digital infrastructure;
- Protecting the reputation of our brands;
- Developing security guidelines;
- Cooperating with partners in the area of cybersecurity.

It is our goal at FrieslandCampina to solidly embed cybersecurity in the company's DNA.

Outlook for 2022

A solid base for 2022

Last year, FrieslandCampina, prompted by the direct and indirect consequences of the corona pandemic, accelerated the implementation of its *Our Purpose, Our Plan* strategy. The optimisation of the organisation has had a number of consequences, including the elimination of approximately 1,745 jobs (FTEs), largely in the Netherlands, Belgium and Germany, and establishing a basis for at least 100 million euros in structural cost savings (before inflation) effective from 2022. Since the end of 2020, in part due to the consequences of the corona pandemic, we are globally confronted with an imbalance between supply and demand, which in turn is causing other problems, such as high inflation. Therefore lowering the cost basis and implementing significant price increases, together with securing the necessary raw materials in the event of scarcity, will remain important in 2022.

Clear priorities have been established for 2022. Our plans for 2022 provide for significant investments in research and development amounting to more than 100 million euros, primarily focused on better nutrition and more sustainable production and packaging. We will also be investing significantly more in marketing our nutritional brands. In addition, we will invest in the Professional business in order to continue growth.

It is not realistic to expect a full recovery of the cross-border trade between Hong Kong and China. The strategic options for the infant nutrition activities under the Friso brand are currently being investigated. Since large, key markets for infant nutrition – in particular China – are currently rapidly developing, the objective of the strategic evaluation process is to ensure that the Friso business can continue to optimally grow in the future.

Sustainability will continue to be one of the pillars of our strategy and business operations, with a primary focus on CO_2 reduction and packaging in 2022 to ensure our packaging is fully recyclable by 2025. We will also continue to invest in our production network, for example, in new plants in Indonesia and Malaysia, as well as in the production of lactoferrin in Veghel in the Netherlands. In addition, it will continue to be important to process the milk as efficiently as possible. This is why optimising the production network is high on the agenda in 2022.

FrieslandCampina's financial foundation is solid and provides an excellent starting position for the realisation of our plans in the context of the *Our Purpose, Our Plan* company strategy. FrieslandCampina has a healthy balance sheet, and the new member financing system will make a positive contribution to the company's equity.

The dairy sector

The United Nations forecasts that the world population will grow to almost 10 billion people by 2050 and that the global demand for dairy will increase by two percent per year. FrieslandCampina aims to contribute to feeding the world population, but is aware that the dairy sector also has a role to play in solving the climate challenge. Generic measures such as halving the dairy herd in the Netherlands are not helpful in achieving global climate targets and furthermore create a lot of unrest among farmers. This is why FrieslandCampina is focusing on more research, programmes and innovation to accelerate the development of a sustainable dairy farming sector. We are doing this together with dairy farmers, producers, suppliers, scientists, government and NGOs.

Milk production

Global milk production is expected to slightly increase in 2022. In the Netherlands production is expected to stay virtually stable in 2022 as a result of the climate and nitrogen policy. As a result of the farm buy-out scheme, the livestock herd is expected to contract somewhat. A higher production per animal compensates for this contraction. The present trend of declining numbers of dairy farms in the Netherlands, is expected to continue in the coming year as well.

Dairy consumption

The global demand for dairy products is expected to increase slightly in 2022. The increase depends on how the corona pandemic will evolve, as well as the effects of inflation on disposable income, particularly in emerging economies. The expectation is that the corona pandemic will force us to introduce measures to a greater or lesser extent for many years to come. Sales through the food service channel are recovering, but due to lockdowns, shops and catering establishments in some countries may be closed or only allowed to be open with limited business hours. The sale of convenience products in kiosks, company and school canteens, petrol stations and by the hospitality sector consequently continues to be significantly affected. This drop in demand will only pass once the corona pandemic is under control: from pandemic to endemic, a world in which we learn to live with corona and where strict lockdowns have become a thing of the past. Following the sharp increase of the past two years, at-home consumption is expected to stabilise and may even decline somewhat once normal life outside the home without restrictions resumes. New habits, ingrained or accelerated during the pandemic, no doubt will become part of the 'post-pandemic new normal': more digital purchases, new forms of home delivery, hybrid forms of working and learning, and a strong focus on health and sustainability.

Room for sustainable growth

The initial outline of the strategic roadmap 'Towards 2030' presented by the Corporate Board indicates that FrieslandCampina intends to maintain its milk processing scale in 2030. To be able to continue to be a player on the world market, and to be able to continue to invest in innovation and sustainability, the Executive Board has stated that existing member dairy farms can grow in volume and that new members can join the dairy cooperative. All this will be further worked out over the coming months, as part of the evaluation of the member acceptance policy, together with the company, members and the cooperative's Members' Council. Growth and further sustainability within the company and at farms will continue to go hand-in-hand in the future as well. We will enter into discussion about sustainable growth together, for example during the evaluation of the member acceptance policy.

For 2022, inflation and price increases are the key challenges in terms of keeping the result up to par. We are cautiously optimistic about the recovery of the Professional market, as well as continued high commodity dairy prices. Combined with a slightly improved market for infant nutrition, we expect an increase in revenue of two to four percent with constant margins in comparison to 2021, for the year as a whole. At year-end 2021, FrieslandCampina had not used 1,150 million euros of its committed credit facilities. It is expected that in 2022, FrieslandCampina will be able to comply with the financial ratios specified by its financiers.

Risk Management

FrieslandCampina operates in a dynamic environment full of opportunities, risks and uncertainties. As an organisation FrieslandCampina wants to manage, exploit or control these risks to be able to successfully execute its strategy *'Our Purpose, Our Plan'* over the long term.

2021 once again was a challenging year with increased unpredictability in managing FrieslandCampina's risk profile. The corona pandemic persisted (and continues to persist), with substantial economic and geopolitical impact that affects the spending power of our consumers and customers. More recently, the impact of the rising inflation is becoming increasingly noticeable in sourcing commodities and other materials in the supply chain and consequently is affecting FrieslandCampina's results.

Risk events 2021 & trends

The company's risk profile increased in 2021 as global developments related to the pandemic and its variants kept and will keep impacting our markets, combined with the increased unpredictability of risks. A prolonged global economic impact caused by increased global inflation and protracted disruption of global supply chains can have a substantial effect on our results and key financial indicators. This effect may be further reinforced by more severe environmental laws and regulations and the expectations of society at large, geopolitical/political protectionism, labour market scarcity and the increase in cyber attacks with related fraud risks.

The four principles, that were introduced during the pandemic in 2020, remained in place: safety of staff, permanent focus on the primary processes, staying connected and acting with the long term in mind. As a company we are proud that we were able to make deliveries to all of our customers throughout the world, without major disruptions in our plants and business processes.

The various lockdown measures across the globe restricted the consumer's ability to purchase specific FrieslandCampina products in specific regions and as a result consumers, for example, switched to alternative local Chinese brands. The effect of the pandemic also resulted in increased protectionism, import restrictions in various regions and local price regulations. This in turn increases unpredictability in key regions (e.g., Middle East, North Africa and Nigeria). High dependence of the result and profit on a single product (Friso) in a single area (China/Hong Kong) already became very evident at the start of the corona pandemic). This continued in 2021 as regional unrest persisted and local measures continued to be in effect, thereby significantly affecting our sales.

The increase in global inflation and supply chain issues manifested themselves in exceptional price volatility and pressure on the sourcing of commodity dairy, and the cost of raw materials and transportation. A related risk is that it may not be possible to effectively share these price increases with our customers. This depends on the price elasticity of the relevant product-market combinations and any locally imposed price ceilings. The new Trading business group created to effectively manage commodity price risks and various programs to promote value creation, address and mitigate this price risk.

Finding an optimal balance between the demand for our dairy products, the supply of milk throughout the year and our processing capacity continues to be a challenge. Even more so when considered in the context of governmental regulations and potential livestock reductions (specifically in the Netherlands). The current production network and supply chain have been optimised to a certain extent and key programmes have been implemented, in order to safeguard our standards relating to product and food safety. It continues to be essential for the future to continuously improve our supply chain and further optimise our production network.

During 2021, various members left the cooperative, in part due to the competitive position of the milk price and the fact that members can continue to make use of the termination arrangement of the 'Dutch Milk Foundation'. In 2022, the Cooperative's admission procedure will be evaluated as part of a three-year cycle. Depending on the outcome, this may result in new members who can contribute to our milk supply.

Increasing health and climate awareness and people wanting healthier products provide opportunities in the area of sustainability. These opportunities require further measures and attention, in particular due to the new Environmental, Social & Governance (ESG) regulations and the emission targets that are coming into effect in 2022/23, combined with increased governmental pressure on the dairy industry. See page 239.

External circumstances, such as corona, had their effect on our employees. For example, due to more stringent quarantine rules, teams are regularly required to go the 'extra mile', and working from home over a prolonged period of time has an impact on people engagement and belonging. In addition a growing shortage developed on the labour market in 2021, or a 'war on talent' and higher attrition rates (for example, in our factories and in specific pockets of expertise). The related business continuity risks are carefully monitored and mitigated by our Corporate Crisis and Human Resources teams.

Although no major cyber incidents occurred within FrieslandCampina, ransomware attacks at an external logistics service supplier and a tin manufacturer did affect our supply chain indirectly. The continued pandemic, specifically the upsurge in homeworking and digitalisation of activities, increases the probability of cyber incidents. Additional measures are therefore being implemented at an increasingly faster pace to mitigate these risks. The FrieslandCampina Security Operations Centre continues to expand its monitoring coverage to actively detect, prevent, and respond to such cyber threats with the objective of protecting our key assets.

Turbulence within our Cooperative Board put pressure on the alignment between FrieslandCampina, the Cooperative and its Board and the individual member farmers. This affects the strategy to be implemented and requires constant attention as the strength of the cooperative model lies in cooperation, taking a long term view and supporting required short and long term decisions accordingly. Through means of a new governance structure for our members, including regular updates, we intend to improve alignment among all parties, now and in the future.

FrieslandCampina's focus remains on executing its strategy *'Our Purpose, Our Plan'* in order to future-proof FrieslandCampina, rendering it capable of operating successfully even under extremely challenging market conditions, such as we are witnessing today. This also led to several optimisation and cost-saving initiatives in the organisation relating to the production network, management layers, support services and functions.

The scope and depth of these initiatives, in combination with the fact that many changes took place simultaneously with organisational changes, results in an elevated risk that people shift their attention to internal matters, such as finding their place again within the new company structure. These topics have been and will be of particular focus for the Enterprise Risk Assessments in 2021 and 2022.

Global FrieslandCampina risk owners monitor emerging trends that could potentially be most impactful for the organisation in the future. These emerging trends relate to for example:
- Shifts in food preferences and food-related developments – health conscious consumers are increasingly demanding natural products with less additives and less sugar and are also increasingly looking for 'alternative' forms of dairy in plant-based products;
- The need for affordable nutrition in emerging markets combined with pressure on consumer spending power and increasing inflation;

- The need for shorter and more flexible product cycles to meet rapidly changing customer demands including a shift to local products with a smaller carbon footprint due to a shorter supply chain;
- The impact of sustainability on FrieslandCampina's supply chain and the carbon footprint of our farmers relating to nature and biodiversity (as well as greenhouse gas emissions) with an increasing interest from the general public and potential carbon taxes and legislation in relation to 'the European Green Deal';
- Refinement of restrictive product laws and regulations, for example in relation to sugar taxes, food safety regulations and varying interpretations thereof by government authorities in different countries.

These trend insights are incorporated into the Enterprise Risk Assessments conducted throughout the organisation and that are continuously monitored by FrieslandCampina's risk owners and the Audit and Risk Committee.

Risk Management Framework

FrieslandCampina operates a structured Risk Management Framework to ensure strategic, tactical and operational risks are identified and mitigated appropriately throughout its businesses in line with the Company's risk appetite. This enhances awareness throughout the organisation with respect to Risk Management. FrieslandCampina complies with the conditions of the Dutch Corporate Governance Code. The Risk Management Framework, used by the Company and its consolidated subsidiaries, is based on internationally recognised COSO standards. The framework is updated on an annual basis and describes the risk appetite, risk management measures, responsibilities and governance.

Risk awareness and culture

Employees must abide by the applicable general code of conduct 'Compass' and comply with laws, regulations and policies. Improving employee risk awareness is continuously addressed through targeted communication and regular (mandatory) training. The responsibility for implementing control measures is delegated to risk and control owners, respectively, within the organisation, while controls and risk awareness are monitored through means of specific dashboards and KPIs. FrieslandCampina stimulates a culture in which weak areas in its risk management programmes or control measures can be transparently reported and effectively dealt with, for example through the Company's Speak Up process.

Governance

The Executive Board of the Company is accountable for effectively managing the Company's risks with delegated responsibilities for risk management. Risk assessments and control measures are the responsibility of line management (the 'first line'[1]: individual managers and the management teams of business groups and/or operating companies). Management is supported by Corporate departments in this respect[2]. They serve as the 'second line' and are responsible for the design and operation of the risk management framework, its processes and systems, including policies and procedures. The 'second line' informs the Executive Board about the progress and outcomes of the various risk management programmes. Corporate Internal Audit, as a 'third line', objectively evaluates the structure and the operation of the internal risk management measures (including those carried out by the 'first' and 'second line'). Corporate Internal Audit independently reports to the Executive Board and Audit & Risk Committee on the effectiveness of the risk management framework, policies and procedures.

The Audit & Risk Committee informs the Supervisory Board of the Company. The role of the Audit & Risk Committee is described in the 'Corporate Governance' section.

1 According to the 2020 updated IIA's 3 lines model.
2 Including Enterprise Governance, Risk and Compliance, Business Conduct and Legal Affairs.

Risk management improvements

While the risk management activities as performed by the three lines did not indicate any significant shortcomings in the design and effectiveness of the framework, the risk management framework is nevertheless subject to continuous improvement and optimisation.

In 2021, continuous risk dialogues were introduced with various risk owners to discuss specific risk developments and trends. In 2021, these risk owners were brought together in a formal Risk Committee to discuss the overall FrieslandCampina risk profile and related trends in order to identify interrelationships between risks and areas of concern, and to implement corrective measures.

Due to corona, several virtual Enterprise Risk, Thematic Risk and Fraud Risk Assessments were conducted in an effective way.

For a more detailed description of specific risks and trends – see appendix page 230.

Management Statement

The Executive Board of the Company has final responsibility for controlling the risks associated with corporate goals and the reliability of external (financial) reporting. The Executive Board is also responsible for assessing the effectiveness of the controls aimed at preventing or mitigating such risks.

The Executive Board has assessed the performance of the internal management and control measures. Based on this assessment, the Executive Board concludes that:

- The report provides sufficient insight into the shortcomings and functioning of the internal risk management and control systems;
- The above-referenced systems provide a reasonable degree of certainty that the financial reporting does not contain any material misstatements as at the end of the financial year 2021;
- In accordance with the current state of affairs, the financial reporting has been prepared on a going concern basis; and
- The report includes a statement of the material risks and uncertainties that are relevant to the expected continuity of the Company for a period of 12 months following the preparation of the report.

The system of tasks for the internal risk management and control systems and the ensuing findings, recommendations and measures are discussed with the Audit and Risk Committee, the Supervisory Board and the external auditor.

Statement of Executive Responsibility

In accordance with Section 5:25c subsection 2 under c of the Dutch Financial Supervision Act (Wft), the members of Royal FrieslandCampina N.V.'s Executive Board herewith state that, insofar as they are aware, the Company's financial statements provide a true and fair view of the assets, liabilities and financial position of Royal FrieslandCampina N.V. and the companies jointly consolidated; and That the Annual Report provides an accurate overview of the situation as at 31 December 2021, and progress and operations during the financial year of Royal FrieslandCampina N.V. and the consolidated companies; and that the essential risks that Royal FrieslandCampina N.V. is confronted with are set out in the Annual Report.

Executive Board

Hein (H.M.A.) Schumacher
Chief Executive Officer

Hans (J.G.) Janssen
Chief Financial Officer

Geraldine (G.M.) Fraser
Chief People Officer

Roel (R.F.) van Neerbos
President FrieslandCampina Food & Beverage

Amersfoort, 18 February 2022

Corporate Governance

Corporate governance at a glance

Corporate governance principles

Royal FrieslandCampina N.V. (the 'Company') applies the principles of the Dutch Corporate Governance Code (the 'Code') on a voluntary basis. The way in which the Code's principles are applied is described in this section. This includes an indication and motivation of the points in which the Code is not applied by the Company.

Shareholder Structure

All the shares in the Company's capital are held by Zuivelcoöperatie FrieslandCampina U.A. (the Cooperative), whose members are involved in dairy farming. The Cooperative's geographical area of operations is divided into districts, each of which has a District Board. The Cooperative's members appoint the members of the District Boards, which collectively make up the Cooperative's Members' Council. The Members' Council appoints the members of the Board of the Cooperative on the binding recommendation of the Cooperative's Chairman's consultation process. The Cooperative is the sole shareholder of the Company. The Board of the Cooperative exercises the Cooperative's shareholders' rights and in this capacity functions as the General Meeting of Shareholders of the Company. There are a number of decisions regarding which, on the grounds of the Company's Articles of Association, the Company's Executive Board must obtain the approval of the General Meeting of Shareholders. For a number of important decisions for which the Board of the Cooperative votes on behalf of the Cooperative as the Company's shareholder, the Board of the Cooperative must obtain the approval of the Members' Council. The Cooperative's governance structure is described in the Cooperative's Annual Report.

Board Structure

The Company has a so-called 'two-tier structure' with an Executive Board and a Supervisory Board. Up until 1 March 2021, the Executive Board comprised two members, a Chief Executive Officer (CEO) and a Chief Financial Officer (CFO). Effective from 1 March 2021 the Executive Board was expanded to four members and the President Food & Beverage and the Chief People Officer were appointed as members of the Executive Board. The Executive Board's composition and division of tasks have been set out on page 227. The Supervisory Board comprises all members of the Board of the Cooperative and four 'external' members. The composition of the Supervisory Board is reported on page 225.

Supervisory Board Committees

The Supervisory Board has formed two committees: the Audit Committee, which was renamed Audit and Risk Committee on 1 July 2021, comprising four Supervisory Board members, and the Remuneration and Appointment Committee, which was renamed Remuneration, Nomination and Governance Committee on 1 July 2021, comprising three Supervisory Board members. The composition of the Supervisory Board's Committees is reported on page 226.

The corporate governance principles followed by Royal FrieslandCampina N.V. are laid down in the Articles of Association and the Regulations of the Company's various bodies. This information is published on FrieslandCampina's website. Although the Code is not applicable to the Company, because according to the law only companies whose shares or depositary receipts for shares are listed on the stock exchange are governed by the Code, the Company applies the principles and best-practice provisions of the Code that are compatible with its control structure and the nature of the Cooperative. The provisions that are not applied are highlighted in this overview, along with the reasons why they are deemed inappropriate and the extent to which they are not applied.

Executive Board

Composition, tasks and responsibilities

Up until 1 March 2021, the Executive Board consisted of a CEO and a CFO. Effective from 1 March 2021 the Executive Board was expanded to include the President Food & Beverage and the Chief People Officer and consequently now consists of four members. The Executive Board is supported by the Executive Leadership Team in its day-to-day affairs. Up until 1 March 2021, the Executive Leadership Team consisted of all members of the Executive Board, the presidents of the four business groups and the functional managers of Human Resources, Research and Development and Corporate Supply Chain. Effective from 1 March 2021, the Executive Leadership Team consists of all members of the Executive Board, the presidents of the business groups Ingredients, Specialised Nutrition and Trading and the vice-president of the Professional business unit, as well as the functional managers of Corporate Supply Chain, Research and Development, Corporate Affairs, Corporate Development and the Chief Information Officer. The renewed Executive Leadership Team includes all business units and strategic functions, which reduces the number of management layers, provides for better decision-making and accelerates the implementation of the strategy. The task of the Executive Leadership Team is to implement the strategy, transform objectives into specific plans and manage operating companies within their area of responsibility.

Appointment of members of the Executive Board and other members of the Executive Leadership Team

At the recommendation of the Remuneration, Nomination and Governance Committee the Supervisory Board appoints, suspends and dismisses the members of the Executive Board. The CEO appoints, suspends and dismisses the other members of the Executive Leadership Team following approval by the Supervisory Board and after consultation with the Remuneration, Nomination and Governance Committee.

Remuneration policy and remuneration of the members of the Executive Board and remaining members of the Executive Leadership Team

Almost all relevant recommendations of the Code are applied in the remuneration policy. The Company is legally exempt from publishing its remuneration policy.
The principles underlying the remuneration policy for the Executive Board and the Supervisory Board are set out on page 105 of the Annual Report. The remuneration policy is adopted on the recommendation of the Supervisory Board and can be changed by the Annual General Meeting of Shareholders following consultation with the Remuneration, Nomination and Governance Committee. FrieslandCampina is also accountable to the Cooperative's Members' Council on this topic. The CEO and the Chief People Officer each year discuss the remuneration of the members of the Executive Leadership Team with the Supervisory Board during the internal deliberations of the Supervisory Board, in the absence of the other members of the Executive Board.

Supervisory Board

Tasks and responsibilities

The Supervisory Board supervises the policy set by the Executive Board and the general course of events in the Company and its businesses, and the associated companies. The Supervisory Board also advises the Executive Board.
The Supervisory Board discusses the strategy and the Company's main risks with the Executive Board. In addition, the Supervisory Board discusses the structure, and functioning of and any significant changes relating to the risk management and control systems with the Executive Board. The Supervisory Board also has the authorities specified in the provisions of Book 2 of the Dutch Civil Code in respect of companies subject to the structure regime. These include, in particular, the appointment of Executive Board members, the determination of the number of members of the Executive Board and the approval of a number of other decisions of the Executive Board as specified in legislation. Under the Articles of Association, certain decisions of the Executive Board require the approval of the Supervisory Board.

In the performance of its duties, the Supervisory Board is led by the interests of the Company and its associated companies. The Supervisory Board also considers the relevant interests of the parties involved in the Company and the aspects of corporate social responsibility that are relevant to the Company, such as sustainability, human rights and the like.

Several times each year, members of the Executive Leadership Team attend a meeting of the Supervisory Board, or a part thereof. On this occasion various topics, including the Company's strategy, are discussed. In addition, the members of the Executive Leadership Team are invited to attend the meetings of the Supervisory Board when topics relevant to them are discussed. The Remuneration, Nomination and Governance Committee regularly holds progress meetings with the members of the Executive Leadership Team.

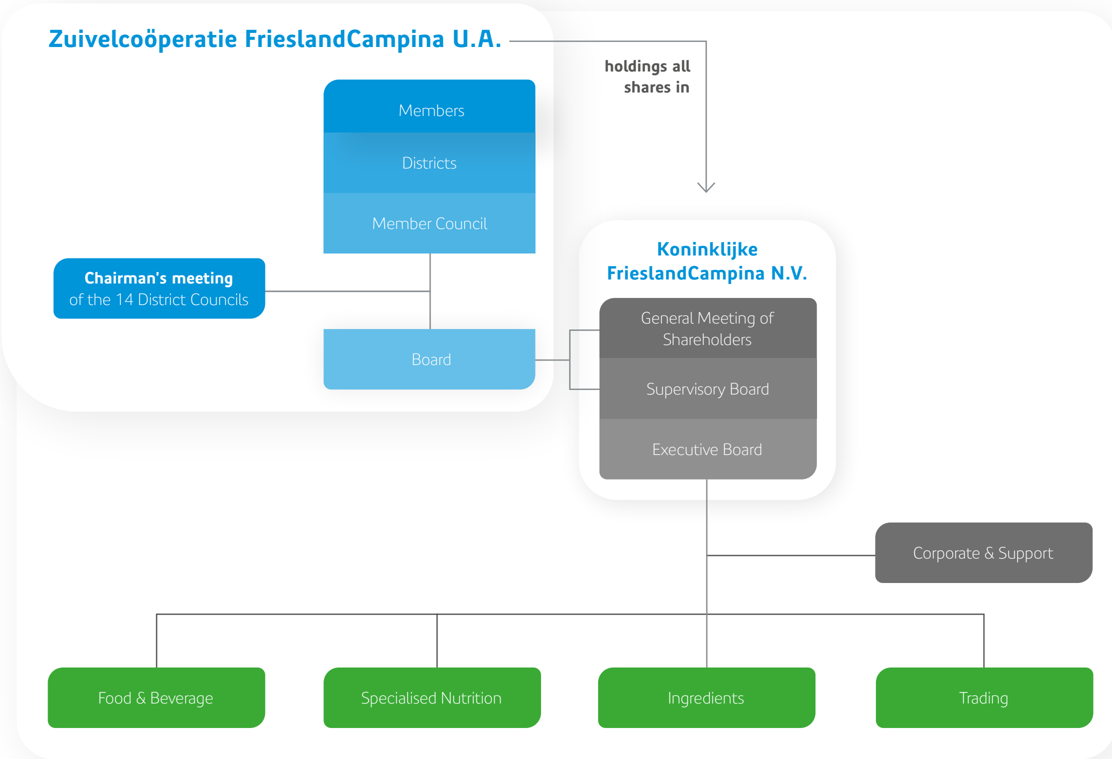
Composition, independence and appointment

A covenant has been signed with the Central Works Council (CWC). The covenant includes agreements regarding the composition of the Supervisory Board, the required profile of the members of the Supervisory Board, the strengthened rights of recommendation of the CWC in respect of the appointment of Supervisory Board members and the way in which the CWC exercises these rights. The profile sketch has been published on the Company's website as an appendix to the Supervisory Board Regulations. On the basis of the covenant the Supervisory Board is composed properly when two thirds of its members are members of the Board of the Cooperative ('internal members') and one third of its members are recruited from outside ('external members').
The chosen composition reflects the two-thirds dominance of internal members in a Supervisory Board permitted by the law for large cooperatives. This dominance by internal members is carried through to the Company level. This regulation deviates from the best-practice provisions for the independence of Supervisory Board members.

The four external Supervisory Board members are independent in the sense of the Code. The external Supervisory Board members are selected on the basis of the criteria laid down in the profile sketch. At least one Supervisory Board member is a so-called financial expert. The Company is subject to the structure regime as set out in Book 2 of the Dutch Civil Code. Supervisory Board members are appointed by the

Supervisory Board, on the basis of a co-optation system. The external Supervisory Board members are appointed for a four-year term and can subsequently be reappointed for another four-year term. After this, the external Supervisory Board members can be reappointed for another two-year term, which can subsequently be extended for a maximum of two years. Reappointment after a period of eight years must be substantiated in the Report of the Supervisory Board.
For internal Supervisory Board members, the appointment and reappointment terms of the members of the Board of the Cooperative applied up until 17 June 2021. In principle they were appointed for a term of at most four years and were eligible for reappointment a maximum of two times. An exception to the above-referenced appointment and reappointment terms of internal Supervisory Board members applied to the incumbent Chairman, who could be appointed for a fourth term when the Company wanted to appoint a Supervisory Board member for this position with a lot of experience with the day-to-day operations of the Company and the Cooperative. The term of internal Supervisory Board members in any event comes to an end upon termination of membership in the Board of the Cooperative.

On 15 December 2020, the Members' Council decided to amend the articles of association of Zuivelcoöperatie FrieslandCampina U.A., effective 17 June 2021. Part of this amendment is a change to the terms of office of the members of the Board of the Cooperative and consequently the internal members of the Supervisory Board. A member of the Board of the Cooperative upon the expiry of his/her first term is eligible for reappointment for a second term of four (4) years, and following this for a third term of two (2) years whereby this third term, following an evaluation by the Cooperative Board, can be extended once more by two (2) years. The rule that applies to the chairman, is that he/she can also be reappointed twice, on the understanding that if he/she functioned as chairman in his/her third term, he/she is eligible for reappointment for a fourth term of two (2) years whereby this fourth term, following an evaluation by the Cooperative Board, can be extended by two (2) years. For internal and external Supervisory Board members, with the exception of the term for the Chairman, the term has been brought in line with the Code effective from 17 June 2021: members



Governance structure as at 31 December 2021, as it went into effect as of 1 March 2021.

of the Supervisory Board are appointed for a four-year (4-year) term and can subsequently be reappointed once for another four-year (4-year) term. After this, Supervisory Board members can be reappointed for another two-year (2-year) term, which can subsequently be extended for a maximum of two (2) years. Reappointment after a period of eight (8) years must be substantiated in the Report of the Supervisory Board. The rule that applies to the chairman is that if the chairman completes his/her third term as chairman, he/she is eligible for reappointment for a two-year (2-year) term, which can subsequently be extended once for two (2) years.

Remuneration

The General Meeting of Shareholders adopts the remuneration of Supervisory Board members as proposed by the Supervisory Board and is annually held accountable by the Cooperative's Members' Council. The remuneration is not dependent on the Company's results. The remuneration policy and the remuneration of Supervisory Board members is specified on page 166.

Supervisory Board committees

The Supervisory Board has a Remuneration, Nomination and Governance Committee and an Audit and Risk Committee. The task of these committees is to prepare the decision-making of the Supervisory Board; they have no independent decision-making authority. The regulations of the committees are posted on FrieslandCampina's website. Both committees report regularly to the Supervisory Board regarding their deliberations and findings. Nine of the thirteen Supervisory Board members are not independent in the sense of the Code as described above. This means that the composition of the Committees of the Supervisory Board deviates from the best-practice provisions of the Code which stipulate that more than half of the members of the Committees of the Supervisory Board should be independent as defined in the Code.

The rule that applies to the Audit and Risk Committee is that half of the members of this Committee must consist of external members, making it an independent body under the Code. As such, the composition of this Committee does not comply with the Code, which stipulates that more than half of the members of committees must be independent. Up until 18 June 2021, the Remuneration, Nomination and Governance Committee consisted of the Chairman and Vice-Chairman of the Supervisory Board, both not independent as defined by the Code, and an external, and therefore independent, member of the Supervisory Board as defined by the Code. Effective from 18 June 2021, the Remuneration, Nomination and Governance Committee consists of two external, and therefore independent, members of the Supervisory Board and one member of the Supervisory Board who is not independent, and as such the Committee's composition now is in line with the Code.

Audit and Risk Committee

The Audit and Risk Committee comprises the financial expert and one other external Supervisory Board member and two internal Supervisory Board members. The duties of the Audit and Risk Committee are of a preparatory nature with respect to:

- The integrity and quality of the financial reporting and the effectiveness of the Company's internal risk management and control systems;
- The increasing role relating to aspects such as the integrity and quality of ESG reporting, the effectiveness of the internal risk management and control systems relating to ESG and assurance by the external auditor;
- The Company's financing;
- The application of information and communication technology by the Company, including cyber security-related risks;
- The Company's tax policy;
- The relationship with the internal auditor and the external auditor (including monitoring the independence of the external auditor), compliance with recommendations and follow-up on observations;
- Recommending candidates for appointment as internal auditor;
- The annual evaluation of the internal audit function;
- Providing advice concerning the nomination for appointment or reappointment or dismissal of the external auditor and making preparations for selecting the external auditor;
- Proposing the assignment of the audit of the financial statements by the external auditor;
- Annually discussing the draft audit plan with the external auditor;
- Compliance with legislation and regulations.

The Chairman of the Audit and Risk Committee is the first point of contact for the external auditor should the auditor reveal irregularities in the Company's financial reporting.

Remuneration, Nomination and Governance Committee

The Remuneration, Appointment and Governance Committee comprises the Supervisory Board member with the 'social profile', who also chairs the Committee, plus the Supervisory Board's Chairman and Vice-chairman. As indicated above, as at the balance sheet date the Remuneration, Nomination and Governance Committee consisted of two external, and therefore independent, members and one member who is not independent as defined by the Code. The duties of the Remuneration, Nomination and Governance Committee include:

- Preparing proposals for the remuneration policy for the Executive Leadership Team, and the remuneration of individual Executive Board members;
- Compiling the remuneration report;
- Selecting and preparing proposals for the appointment of members (including drawing up appointment criteria and procedures) of Executive Board and external Supervisory Board members;
- Regularly evaluating the size and composition of the Supervisory Board, the Supervisory Board's committees and the Executive Board, and proposing a profile;
- Advising the Supervisory Board on proposals by the CEO for the appointment of members to the Executive Leadership Team;
- Regularly evaluating the functioning of the Executive Board, the Supervisory Board, the individual members of both these boards, and the Supervisory Board's committees;
- Preparing a succession plan for members of the Executive Board and the Supervisory Board;
- Supervising the Executive Board's succession policy, selection criteria and appointment procedures for members of senior management.

Conflict of interests

FrieslandCampina has drawn up strict rules to prevent every form and appearance of a conflict of interest between the Company on the one hand and members of the Executive Board, the other members of the Executive Leadership Team and the members of the Supervisory Board on the other hand. In accordance with these rules, decisions to enter into transactions involving conflicting interests of Executive Leadership Team or Supervisory Board members of a material significance for the Company and/or the relevant individual must be approved by the Supervisory Board. During the year under review no conflicts of interests were reported.

The General Meeting of Shareholders

The Company's General Meeting of Shareholders has the authority to approve certain Executive Board decisions as specified in the articles of association. This concerns major decisions relating to the operations, legal structure and financial structure of the Company (and the companies in which it holds shares) and decisions on major investments.

The most important other authorities of the General Meeting of Shareholders are:

- Adopting the Company's financial statements and profit appropriation;
- Discharging the members of the Executive Board for their management and the members of the Supervisory Board for their supervision of the Executive Board;
- Adopting the remuneration policy for the Executive Board and the Executive Leadership Team, and approving the remuneration of Supervisory Board members;
- Appointing and dismissing the external auditor;
- Amending the Articles of Association;
- Issuing shares, excluding the pre-emptive right, authorising the repurchase of the Company's own shares, reducing the paid-up capital, dissolution and applying for bankruptcy.

During the Company's General Meeting of Shareholders the Board of the Cooperative exercises the voting rights on behalf of the Cooperative. In respect of a number of major shareholders' decisions, stipulated in the Cooperative's Articles of Association, the Board in exercising its voting rights in the Company requires the prior approval of the Cooperative's Members' Council.

Company, share capital and Articles of Association

Royal FrieslandCampina N.V. is a public limited liability company with its registered office in Amersfoort, the Netherlands, and its Central Office at Stationsplein 4, Amersfoort. The Company's Articles of Association were most recently amended effective 26 January 2018 and are published on the Company's website. The latter amendments included provisions concerning the appointment and reappointment terms of Supervisory Board members, and the incorporation of new legislation in the Articles of Association.
The Company is registered in the Trade Register of the Chamber of Commerce under number 11057544. On 31 December 2021, the Company's authorised capital amounted to 1,000,000,000 euros divided into 10,000,000 (ten million) shares with a nominal value of 100 euros each.
The shares are registered. On the same date, 3,702,777 shares were issued, which are all paid up and are held by the Cooperative. For the sake of brevity, for the stipulations regarding the issuing of shares, pre-emptive right, acquisition of own shares and capital reduction please refer to the Company's Articles of Association.

Audit of the financial reporting and the roles of the internal and external auditors

Financial reporting

The Executive Board is responsible for the quality and completeness of the published financial announcements. The Supervisory Board ensures that the Executive Board fulfils this responsibility.

External auditor

The external auditor is appointed by the General Meeting of Shareholders. The Supervisory Board nominates a candidate for this purpose. Both the Audit and Risk Committee and the Executive Board issue a recommendation to the Supervisory Board in this respect. The remuneration of the external auditor and the assignments of the external auditor are approved by the Supervisory Board on the recommendation of the Audit and Risk Committee and after consultation with the Executive Board. The external auditor is in any event present during the Supervisory Board meeting in which the decision to approve the financial statements is taken. The external auditor discusses the draft audit plan with the Executive Board before submitting it to the Audit and Risk Committee.

Internal audit function

The internal auditor operates under the responsibility of the Executive Board. The Supervisory Board supervises the internal audit function and maintains regular contact with the internal auditor. The Executive Board, the Audit and Risk Committee and the external auditor are involved in the work plan of the internal audit function and are notified of its findings. The internal auditor has direct access to the Audit and Risk Committee and the external auditor.

Best-practice provisions of the Code not applied by FrieslandCampina as at 31 December 2021

The Company fully endorses the Code by applying the principles and best-practice provisions or by explaining why the Company deviates from the Code. The provisions listed below are not applied for the reasons set out above, unless these reasons are set out below:

2.1, 2.1.7-2.1.9	Independence of the Supervisory Board: see motivation under 'Supervisory Board – Composition, independence and appointment'.
2.2.2	Appointment and reappointment terms of Supervisory Board members: deviation concerning the Chairman of the Supervisory Board: see motivation under 'Supervisory Board – Composition, independence and appointment'.
2.3.2	Institution of committees: the Remuneration Committee and the Selection and Appointment Committee, for practical reasons, have been combined into the Remuneration, Nomination and Governance Committee.
2.3.4	Composition of committees: the composition of the Audit and Risk Committee deviates from the best-practice provisions of the Code, which stipulate that more than half of the members of the committees should be independent: see motivation under 'Supervisory Board Committees'.
2.8.1-2.8.3	Takeover bids: the best-practice provisions in respect of takeover bids are not applicable in view of the fact that all shares in the Company's capital are held by the Cooperative and are not listed.
3.1.3, 3.4	Discussion of the Executive Board's remuneration, publication of remuneration report, most important components of employment conditions for Executive Board: the Company applies the statutory exception as defined in Article 2:383b of the Dutch Civil Code for so-called 'private public liability companies'.
4.1-4.4.8	General Meeting of Shareholders: best-practice provisions in respect of the general meeting of shareholders, information provision and briefings, voting and the issue of depositary receipts for shares are not applicable in view of the fact that all shares in the Company's capital are held by the Cooperative and are not listed.

Report by the Supervisory Board

The Supervisory Board is an independent body of the Company responsible for supervising and advising the Executive Board. In addition, the Supervisory Board oversees the general business progress, the strategy and the operational performance of the company. In this respect, the Board also focuses on the effectiveness of the Company's internal risk management and control systems and the integrity and quality of the financial reporting. In the performance of its duties, the Supervisory Board is led by the interests of the Company and its associated companies, and takes the relevant interests of all parties involved in the company into consideration in this respect. During the year under review, the Supervisory Board (the 'Board') carried out its tasks in accordance with the applicable laws and regulations and the Articles of Association of Royal FrieslandCampina N.V. (the 'Company').

Composition, independence and diversity

Composition of the Supervisory Board and its committees; independence

The Supervisory Board of the Company consists of internal members, being members that are also member of the Cooperative Board of Zuivelcoöperatie FrieslandCampina U.A., and external members. All external Supervisory Board members are independent in the sense of the Code (the 'Code') and the Supervisory Board's regulations. The composition of the Supervisory Board and its committees as at 18 February 2022 is shown on page 225 to 226.

Frans Keurentjes, Chairman of the Supervisory Board, as well as of the Board of the Cooperative, stepped down on 16 June 2021. He was a member of the Supervisory Board of the Company (and its predecessors) since 2006 and fulfilled the role of Chairman since December 2016. Erwin Wunnekink, who since December 2009 has been a member of the Supervisory Board and the Board of the Cooperative and who has functioned as Vice-chairman of both bodies since December 2016, was reappointed as member of the Board on 16 June 2021 (with effect from 14 December 2021) and effective on 16 June was appointed Chairman of the Supervisory Board, as well as Chairman of the Board of the Cooperative. Cor Hoogeveen was reappointed as an internal member of the Board for a second four-year term on 16 June 2021. On 6 September 2021, Frans van den Hurk decided to relinquish his function as Supervisory Board member, as well as member of the Board of the Cooperative. On 22 September 2021, Erwin Wunnekink decided to relinquish his position as Chairman of the Supervisory

Board, as well as of the Board of the Cooperative. As of that date, Sandra Addink-Berendsen as Vice-chairman of the Supervisory Board and the Board of the Cooperative took over the chairmanship of both bodies until, on 12 November 2021 Sybren Attema, through means of an accelerated appointment process, was appointed Chairman of the Supervisory Board, as well as the Board of the Cooperative, for a term of four years. Up until 2010, Attema occupied management positions at various FrieslandCampina predecessors for 18 years. As Chairman of Friesland Foods he was closely involved in the merger of Friesland Foods with Campina and following the merger he was Vice-chairman of the Supervisory Board and the Board of the Cooperative for a period of two years. In 2010, Attema relinquished his board functions and joined FrieslandCampina as regional manager of the Dairy Development Programme in Southeast Asia. He occupied this position until 2019. In accordance with the Cooperative's articles of association a seat on the Board of the Cooperative requires active membership in the Cooperative. Attema is a former member of the Cooperative, which is why the Cooperative's articles of association were amended as part of the appointment procedure. This amendment is of a temporary nature and will expire following the completion of Attema's term of office.

On 16 June 2021, Nils den Besten was appointed as an internal member of the Supervisory Board, as well as of the Board of the Cooperative effective 14 December 2021. In view of the vacancies created by the departure of Frans van den Hurk and Erwin Wunnekink, the Members' Council decided to advance the effective date of Nils den Besten's appointment to 7 October 2021. On 14 December 2021, after four years, Wout Dekker decided to relinquish his position as external Supervisory Board member effective on that date.

The Board is very grateful to Frans Keurentjes, Frans van den Hurk, Erwin Wunnekink and Wout Dekker for their valuable contributions to the Board's deliberations, whereby their knowledge and experience were highly valued. As a result of the stepping down of Frans van den Hurk and Wout Dekker there are two vacancies on the Supervisory Board as at 18 February 2022: one vacancy for an internal member and one vacancy for an external member of the Supervisory Board with the 'social profile' as set out in the profile sketch for the size and composition of the Supervisory Board. In the context of its internal self-evaluation, the Supervisory Board, pursuant to the changes that occurred in 2021, will also assess whether any change to the governance and composition of the Supervisory Board is warranted. This will be further worked out in 2022 and discussed in the various bodies.

Diversity

The aim is to achieve a balanced composition of the Supervisory Board, with a combination of different experiences, backgrounds, skills and independence of its members best enabling the Supervisory Board to discharge its various obligations in relation to the Company and its stakeholders. The aim is also to achieve a balanced ratio of men and women on the Supervisory Board. The target in this respect is to have at least 30 percent of the seats on the Supervisory Board occupied by women and at least 30 percent by men. With four female members, the Supervisory Board's composition is in line with the objectives of the diversity policy.

Meetings of the Supervisory Board

The Supervisory Board met ten times during the year under review. Apart from the regular meetings there was also contact among members of the Supervisory Board, as well as with members of the Executive Board and the Executive Leadership Team. To prepare for the meetings, the Chairman and Vice-chairman regularly spoke with the CEO, among others. During the year, the Board also met outside the regular meeting cycle to discuss the strategy, transformation and for an update on the optimisation of the production network. These topics were also discussed on several occasions by Supervisory Board members, at times in smaller groups in which members of the Executive Board and the Executive Leadership Team also participated on various occasions. In relation to the stepping down of Erwin Wunnekink effective on 22 September 2021, the Board met several additional times in order to provide for a successor over the short term, which resulted in an accelerated appointment process during which Sybren Attema was appointed Chairman of the Board as indicated above. In addition, the Board was regularly kept informed of the state of affairs within the Company in relation to the corona pandemic and many meetings were held online due to the corona measures.

2021 was strongly influenced by the impact of the corona pandemic. The Company was forced to respond to the difficult market conditions this created, i.e. in the out-of-home (hospitality) sector and in the commodity dairy product market, in countries such as Nigeria where the local currency was under severe pressure and in Hong Kong where the sale of baby and infant nutrition came to a virtual standstill as a result of the border closure with China.

During the reporting year there were frequent, regular meetings to discuss the state of affairs within the Company, in particular the development of the results and the measures needed to counter the impact of the corona pandemic, with management's attention first and foremost focused on the health and safety of employees.

In multiple Board sessions, the update on and the acceleration of the strategy in various business groups in the context of the need for a company transformation was extensively discussed with the Executive Board and other members of the Executive Leadership Team, whereby attention was focused on various aspects such as improved milk valorisation, progress in the area of innovation, the sustainability strategy and the various milk scenarios. In addition, the specific implementation of the strategy and the associated potential risks were also discussed. Members of the Executive Board and the Executive Leadership Team shared the update of the strategy with employees in various sessions. On 14 December 2021, the Company announced that FrieslandCampina will be investigating strategic options for the infant nutrition activities under the Friso brand. Since large, key markets for infant nutrition – in particular China – are currently rapidly developing, the objective of the strategic evaluation process is to ensure that the Friso business can continue to optimally grow in the future. The transformation of the company creates a necessity for implementing a wide range of measures that were extensively discussed with and approved by the Board. A key set of measures concerns the optimisation of the production network, which was initiated at the end of 2020 as a result of which the sale of powder activities in Aalter, Belgium, was completed in the year under review. In addition the sale of a number of activities, such as the sale of the Russian subsidiary Campina LLC and the sale of the Nutrifeed animal feed activities was discussed with the Board, which subsequently approved the sale.

The desired future financing of the Company was also elaborately discussed, whereby various loans were approved with a link to sustainability objectives.
The proposed renewed member financing was elaborately discussed within the Company and the Cooperative and was approved by the Board. The core of the renewed member financing consists of coupling an important part of members' capital to the milk supplied by members and of a Cooperative solution for the future tradability of member bonds-free. This reduces the skewed growth of contributed capital due to the greying population. The issue of milk certificates also improves the quality of the company's equity. The renewed member financing went into effect on 1 January 2022. To facilitate a smooth transition to the new member financing system, the company has decided to redeem an amount of 54 million euros in member bonds-free held by the liquidity provider.

The more regular topics were also discussed during the meetings. The financial position, the annual budget, partnerships, major investment proposals, the progress of major investment projects, and internal risk management also received due attention. The Board was informed of and approved the internal auditor's Audit Plan and activities. In February of the year under review, the 2020 financial statements and the text of the Annual Report were discussed with the Executive Board and the external auditor, and approved by the Board. The report concerning the findings for the first half-year was set out by the external auditor and the auditor's management letter was discussed with management. The report did not contain any material points of attention.
In 2021, special attention was furthermore devoted to the following topics:

- The proposal concerning the adjustment to the reserve policy as set out in the milk price regulation was discussed as part of the new member financing and approved by the Board, whereby, over the 2021 and 2022 financial years, 40 percent of the profit will be paid as a supplementary cash payment and 60 percent will be added to the retained earnings.
- The Board was furthermore regularly informed of the progress made in the area of sustainability, safety and digital security.
- The Board was informed about how management monitors the effective execution of investment projects.
- Activities in the area of potential acquisitions and partnerships were regularly discussed.

- The flexibility of the business structure was further increased to enable the company to even faster and more effectively anticipate the opportunities in and the demands of its most important markets, for example, by entering into strategic partnerships.
- The proposal to increase the transparency of the remuneration paid to members of the Executive Board and the Supervisory Board was approve by the Board.

Supervisory Board committees

The Supervisory Board has established two committees that provide advice to the Board on specific tasks and that prepare specific decisions. These are the Audit Committee and the Remuneration and Appointment Committee. Effective 1 July 2021, their names were changed to Audit and Risk Committee and Remuneration, Nomination and Governance Committee, respectively, to better reflect the tasks of these committees. The tasks of these committees follow from the committee's regulations, which form part of the Supervisory Board's regulations and are posted on the company's website. These tasks are summarised in the section on Corporate Governance on page 90.

Audit and Risk Committee

During the year under review, the Audit and Risk Committee met seven times in the presence of management, including the CFO and the officers responsible for the relevant corporate services departments. The CEO was also present for certain agenda items. During five meetings, the external auditor was present during the discussion of a number of agenda items. There also was contact among the members of the Committee and with management, outside the meetings.
After each meeting, the Chairman of the Audit and Risk Committee reported to the Supervisory Board on the Committee's findings. In addition, the Audit and Risk Committee met twice a year with the external auditor in the absence of the Executive Board.

The 2020 Annual Report and financial statements were discussed during the year under review, as was the external auditor's report concerning the financial statements and the Executive Board's statement of executive responsibility included in the 2020 Annual Report. During discussions of the company's results, the annual and semi-annual reports, the Audit and Risk Committee in particular devoted attention to the more technical reporting aspects, such as the outcome of the goodwill impairment test, the recognition of acquisitions and disposals, the tax position, including the deferred tax assets, mitigating currency risks, particularly in Nigeria, material legal claims, such as the 57 million euro ABF claim for which a provision has been made, and the valuation of tangible and intangible fixed assets.

The planned activities of the external auditor were discussed on the basis of the external auditor's Audit Plan, which was approved by the Supervisory Board.
The 2021 half-year report, the 2021 interim report of the external auditor and in particular its interim audit findings were extensively covered during the year under review. The list of assignments provided to the external auditor by the Company was approved by the Audit and Risk Committee on four occasions during the year under review. The Audit and Risk Committee was of the view that the external auditor maintained its independence.

Each year the Audit and Risk Committee discusses and approves the internal auditor's Audit Plan and activities and advises the Supervisory Board on this. In addition, during each meeting the internal auditor reports to the Committee on the activities carried out, and the audit findings and the progress on the follow-up actions arising from earlier findings are discussed. Many activities could not be performed onsite during the year under review due to the corona measures and as a result the audit plan was adjusted as time passed. Furthermore, the Audit and Risk Committee was informed about the functioning of the internal control framework, the privacy-related findings, the outcome of large CAPEX project reviews and the outstanding vacancies within internal audit, which put the execution of audits under pressure during the year under review. The Audit and Risk Committee concluded that the effectiveness of the internal control assessments is up to par, but that the organisation changes have had an impact on control activities.

The Audit and Risk Committee was regularly informed by a number of managers (Accounting, Treasury, IT, Tax, Legal Affairs, Privacy and HR concerning certain matters, such as human rights) about their activities. The outcome of the analysis of the key business risks and the activities being carried out to mitigate these risks were also reported. Compliance with the FrieslandCampina Compass Code of Conduct and the performance indicators that are monitored in this respect, such as the degree to which employees are aware of the underlying programme, were also discussed. The activities of the 2021 programme for good entrepreneurship were highlighted. In addition, the Committee spoke about the increasingly more important role of sustainability and the registration and reporting of sustainability data, as well as the associated roles and responsibilities in this regard.

The proposed renewed member financing and the various investigated options in this respect, were elaborately discussed on multiple occasions with the Audit and Risk Committee. In this regard, the Committee discussed the proposal's impact on buffer capital, the tradability of member bonds and milk certificates, the impact on various ratios and on credit bureau credit ratings. Furthermore, various options with respect to the adjustment of the reserve policy for 2021 and 2022 were discussed with the Audit and Risk Committee. The Committee supported the final proposal for the renewed member financing, which was approved by the Supervisory Board and went into effect on 1 January 2022, and emphasised the importance of effective communication about the member financing and the Cooperative solution that forms part of this. To facilitate a smooth transition to the new member financing system, the Company has decided to redeem an amount of 54 million euros in member bonds-free held by the liquidity provider.

The long-term financing strategy was on the agenda of multiple meetings and in this respect the Committee provided positive feedback to the Supervisory Board that in the context of the sustainability strategy, green financing with a link to sustainability objectives has been attracted.

In February 2022, the 2021 Annual Report and financial statements were discussed, as was the external auditor's report concerning the financial statements and the Executive Board's statement of executive responsibility included in the Annual Report.

Remuneration, Nomination and Governance Committee

The Remuneration, Nomination and Governance Committee met ten times during the year under review and reported to the Supervisory Board on its deliberations. In addition there was frequent mutual consultation and there was regular contact with management, in particular with the CEO and the Chief People Officer. The latter two were furthermore invited to be present for a number of agenda items during various meetings of the Committee and they attended these meetings. Furthermore, members of the Committee met several times with the Central Works Council.

The activities of the Remuneration, Nomination and Governance Committee in the area of remuneration included the usual preparation for the Board's decision-making process concerning the achievement by Executive Board members of the objectives for the variable remuneration for the previous year and discussing proposed objectives for Executive Board members for the year under review. In addition, the performance of the members of the Executive Board was discussed and feedback about the conclusions was provided to the relevant individual Executive Board members.

The Remuneration, Nomination and Governance Committee evaluated the remuneration policy during the year under review. In part pursuant to the external consulting firm's observation that the remuneration of the Executive Board was below the applicable benchmark, the Committee extensively discussed the remuneration policy for the Executive Board during multiple meetings and issued a positive recommendation to adjust the remuneration policy.

In addition, the Committee on multiple occasions discussed increasing the transparency of the remuneration paid to members of the Executive Board and the Supervisory Board in the Annual Report. At the proposal of the Remuneration, Nomination and Governance Committee, this resulted in a decision by the Supervisory Board to provide greater transparency in this Annual Report with respect to the individual remuneration of members of the Executive Board and the Supervisory Board and with respect to the principles of the underlying remuneration policy. The Remuneration Report is included on page 103.

During the Members' Council meeting of March 2021, the details concerning the remuneration of the members of the Executive Board and the Supervisory Board for 2020 were reported to the Members' Council of the Cooperative. During the Members' Council meeting of September 2021, the findings in the report of the external consulting firm and the talent development policy were presented.

The Committee discussed the renewed composition of the Executive Board and the Executive Leadership Team, as described on page 227, during multiple meetings. Furthermore, pursuant to the departure of a number of Supervisory Board members, the Committee extensively deliberated and advised the Board about appointments and reappointments to the Supervisory Board and the Executive Board. At the end of 2021, an elaborate internal self-evaluation was initiated in this context, whereby the performance of the individual Supervisory Board members and the Board as a whole was discussed. Pursuant to the conclusions of this self-evaluation, the Committee will discuss whether any change to the governance and composition of the Supervisory Board is warranted. As indicated above, this will be further worked out in 2022 and discussed in the various bodies.
The corporate governance structure was also reviewed during the year under review. In this context, the Committee prepared several minor changes to the governance rules pertaining to the composition of the Remuneration, Nomination and Governance Committee, committee names, a clarification of the Board's right of approval with respect to reorganisations and a refinement of the regulations concerning ancillary positions, and proposals to this effect were submitted to the Board for approval.

Attendance during meetings

The table below shows the presence of Supervisory Board members at various meetings in the year under review. Active Supervisory Board members who were unable to attend a meeting always provided input to the chairman of the relevant meeting in advance of the meeting. Members of the Supervisory Board were also present at some committee meetings as observers. The following only indicates when a member of the relevant committee was present at a meeting during the year under review.

Supervisory Board Members	Meetings of the Supervisory Board (10)	Meetings of the Audit and Risk Committee (7)	Meetings of the Remuneration, Nomination and Governance Committee (10)
J.W. Addink-Berendsen	10/10	7/7	0/1
S.S.U. Attema	2/2		2/2
N. den Besten	4/4		
W. Dekker	9/10		10/10
H.T.J. Hettinga	10/10		
D.R. Hooft Graafland	9/10	7/7	
C.C.H. Hoogeveen	10/10	1/7	
A.A.M. Huijben-Pijnenburg	10/10	7/7	
F.A.M. van den Hurk	4/4		
E. Jellema	8/10		
A.G.Z. Kemna	10/10	7/7	
F.A.M. Keurentjes	3/3		6/6
H. W-J. Schipper	7/10		4/4
H. Stöcker	10/10		
W.M. Wunnekink	6/6		7/7

Composition of the Executive Board and diversity

The composition of the Executive Board as at 18 February 2022, is reported on page 227. Up until 1 March 2021, the Executive Board consisted of the CEO and CFO. Effective from 1 March 2021 the Executive Board's composition was expanded to four members with the accession of Roel van Neerbos as President Food & Beverage and Geraldine Fraser as Chief People Officer. All appointments to the Executive Board are for a four-year term. Jaska de Bakker stepped down as Chief Financial Officer effective 1 March 2021. She was succeeded by Hans Janssen who took up the position of Chief Financial Officer effective from 1 May 2021. Hein Schumacher's first term as CEO expired on 31 December 2021 and effective from 1 January 2022 was reappointed by the Supervisory Board for a four-year term.

Diversity

The aim of achieving a balanced composition also applies to the Executive Board and the Executive Leadership Team, where the combination of different experiences, backgrounds, skills and independence of members best enables the Executive Board and the Executive Leadership Team to function optimally. In addition, the aim is to achieve a balanced ratio of men and women on the Executive Board, as well as the Executive Leadership Team, with the objective of achieving a representation of at least 30 percent men and at least 30 percent women on both bodies. As at 1 May 2021, women made up 25 percent of the Executive Board and 23 percent of the Executive Leadership Team.

Because, in general, the preference is to recruit internal candidates for both bodies, it is important that the succession pipeline below the Executive Board also includes sufficient women candidates. In future (re)appointments a balanced participation ratio of men and women will be taken into consideration. See the overview on page 227 for the composition of the Executive Leadership Team as at 18 February 2022. FrieslandCampina pursues a diversity policy focused on increasing the number of women at senior levels.

Financial statements and profit appropriation

In the meeting of the Supervisory Board of 18 February 2022, the Supervisory Board discussed the 2021 financial statements with the Executive Board, and approved the financial statements, after obtaining the advice of the Audit and Risk Committee, which had earlier discussed the financial statements in February. The financial statements were audited by PricewaterhouseCoopers Accountants N.V., which provided an unqualified auditor's opinion on them.
The 172 million euro consolidated profit in 2021 will be appropriated as follows: 78 million euros is attributed to non-controlling interests and 168 million euros is attributed to the non-controlling interest held by Zuivelcoöperatie FrieslandCampina U.A. The remaining profit in the amount of 262 million euros is reserved for the following interest payments: 42 million euros for the holders of member bonds, 9 million euros for the holders of perpetual bonds and 8 million euros for the provider of the cooperative loan. An amount of 203 million euros is attributable to the shareholder. It is proposed that of this amount, 14 million euros be paid out in the form of a supplementary cash payment and to add the remaining profit in the amount of 189 million euros to the retained earnings.

The General Meeting of Shareholders will be asked to discharge the members of the Executive Board for their management during the 2021 financial year. Furthermore, the General Meeting of Shareholders will be asked to discharge the members of the Supervisory Board for their supervision of the Executive Board during the 2021 financial year.

On 15 March 2022, the Members' Council of Zuivelcoöperatie FrieslandCampina U.A. (the 'Cooperative') will be asked to grant approval of the decision to adopt the 2021 financial statements of Royal FrieslandCampina N.V., including the profit appropriation. This decision is taken by the Board of the Cooperative, which exercises the Cooperative's shareholders' rights and in this capacity functions as the General Meeting of Shareholders of the Company.

In conclusion

The Supervisory Board is very grateful to the Executive Board, the Executive Leadership Team and all employees of FrieslandCampina, for their tremendous efforts and dedication in 2021, and has respect for the perseverance demonstrated by so many during these difficult conditions caused by the corona pandemic.

Supervisory Board

Amersfoort, 18 February 2022

Roster of Appointments and Retirements of the Supervisory Board (as at 18 February 2022)

	Start date of initial term	Reappointed for new term in December	Expiry of current term in December
J.W. Addink-Berendsen	16 December 2014	2018	2022
S.S.U. Attema*	12 November 2021		12 November 2025
N. den Besten**	7 October 2021		7 October 2025
H.T.J. Hettinga	20 December 2016	2020	2024
D.R. Hooft Graafland#	1 May 2015	2018	2022
C.C.H. Hoogeveen	19 December 2017	2021	2025
A.A.M. Huijben-Pijnenburg	15 December 2010	2014, 2018	2022
E. Jellema	17 December 2019		2023
A.G.Z. Kemna#	17 December 2019		2023
H.W.J. Schipper#	17 December 2019		2023
H. Stöcker	14 December 2011	2015, 2019	2023
Vacancy			
Vacancy#			

Supervisory Board members are appointed for a maximum of two four-year terms, followed by a third two-year term that can be extended once by another two years (4+4+2+2). A Supervisory Board who in his/her third term is Chairman of the Board, is eligible for reappointment for another two-year term that can be extended once by another two years (4+4+2+2+2+2).

External Supervisory Board member, not being a member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
* S.S.U. Attema was appointed on 12 November 2021 for a four-year term that expires on 12 November 2025.
** N. den Besten was originally appointed effective 14 December 2021, but the Members' Council on 7 October 2021 decided to advance the effective date to 7 October 2021.

Remuneration report

Our view on remuneration

We are pleased to present FrieslandCampina' s Remuneration Report for 2021 for the first time.

This year we have included a remuneration section of the Annual Report to provide more detail, transparency and rationale for the remuneration principles and policies we adopt and deploy. In response to stakeholders' feedback, and with the establishment of a newly formed four-person Executive Board in 2021, we undertook an independent review on our executive remuneration practices. Two key outcomes resulted from this review: a revised policy, and a decision to provide more transparency with a stepped plan over the next two years.

Policy

The review exercise determined that many components of the existing policy were sound and robust. As such the remuneration components did not change from previous years. The core focus of the review was the positioning of remuneration that can be both attractive to current members of the Executive Board and candidates, and also commensurate and appropriate in the context of working for a cooperative. FrieslandCampina, as a multinational company, needs to attract both local and international talent, with a broad spectrum of experience and capabilities to adequately manage a complex global business. This report outlines the positioning we have taken that we believe strikes the optimal balance.

Transparency

We have also established a clear plan towards increased transparency, deciding to voluntarily disclose remuneration in response to the recommendations of the review, that included feedback from a broad stakeholder group. With the establishment of a new Executive Board, the reappointment of the CEO, and the placement of a new Chief Financial Officer from May 2021, we concluded a transition to full transparency is the best path to follow to move from consolidated to individual remuneration disclosure. This will also enable us to show differences in remuneration between the years in a clearer and more informative manner. We have started this transition by taking a forward-looking approach in this report, sharing the on-target remuneration of the Executive Board for 2022 by individual. The actual remuneration of the Executive Board and Supervisory Board over 2021 can be found as usual in the financial statements in cumulative numbers. The actual earned remuneration in 2022 will be reported, again by individual, in the 2022 annual report. The actual earned remuneration in 2022 of the Supervisory Board will also be reported by individual in the 2022 annual report.

We feel confident we have a policy that drives performance and can support the recruitment, engagement and retention of qualified and experienced Executive Board members and Supervisory Board members. A policy will require regular review, and the engagement of stakeholders will always be an important element. Critical to us is that the policy, and the execution of the policy, reflects the purpose of the company, the requirement for progressive annual performance and recognises the contributions of the individual executives.

Remuneration at a glance

The Executive Board Remuneration Policy has been designed to drive performance and support the recruitment, engagement, and retention of qualified and experienced board members. The short and long-term interests of FrieslandCampina are captured in five underpinning remuneration principles.

Remuneration principles of the executive remuneration policy

The remuneration principles have been established in consultation with the Supervisory Board and several stakeholders during 2021. In addition, it was decided to increase transparency toward our stakeholders.

Connected to the business strategy

The design of the incentives aims to reward the successful implementation of the company strategy. This is done by having underlying objectives in the incentive plans that are linked to our business strategy *Our Purpose, Our Plan* and to the long-term value creation of FrieslandCampina. The mixture of long and short-term incentives enables attention on near term performance balanced with longer term interests.

Competitive in the market

An annual base salary that is positioned at market median, with a moderate variable remuneration level to reflect the cooperative nature and context, that leads to an overall total direct compensation level around the 25th percentile of the relevant market reference group.
This results in relatively modest compensation levels that corresponds with our cooperative structure while still allows FrieslandCampina to compete for executive talent in a fierce international talent market.

Linked to individual and company performance

The short-term variable compensation is tied to both individual performance and annual financial performance.

Focus on sustainability

The long-term variable compensation is linked to three-year goals comprising financial and non-financial targets, with a strong weighting on sustainability objectives. The target levels of the sustainability objectives are tied to *Nourishing a Better Planet* and set at the beginning of each long-term incentive plan.

Internally consistent and transparent

The RNGCo of the Supervisory Board continuously monitors and evaluates the performance and incentives to be awarded to the Executive Board.
The short-term and long-term incentive frameworks, and the standards for assessing performance, are internally consistent with those that are applicable to other eligible employees.
The Supervisory Board reviews, at least annually, the executive remuneration policy. Practices comply with all relevant laws, regulations, and standards of business ethics.

Overview of key remuneration elements of the Executive Board

The remuneration principle described above translate into the following key remuneration elements of the executive remuneration policy:

Annual base salary

It rewards the main responsibilities of the role and aims to pay at the median of the relevant market reference group.

Short-term incentive plan (STIP)

This incentive plan is tied in a set of financial objectives (70% weighting) derived from FrieslandCampina' s annual strategic plan and personal objectives (30% weighting). The payout relates to the achievement of these two objectives after the end of the performance year and upon a sound financial performance assessment.

- Financial objectives: include financial performance measures such as earnings, strategic sales and cash flow that are key drivers of short-term and long-term interest of FrieslandCampina.
- Personal performance: It is a set of 5 to 7 personal objectives that are relevant for each role and they are assessed at the end of the performance year by the Supervisory Board.

Long-term incentive plan (LTIP)

This incentive plan is tied to FrieslandCampina' s purpose with focus on *a good living for our farmers, now and for generations to come.*
The LTIP is based on the performance of three objectives: milk performance price paid to our farmers, a set of sustainability objectives and return on capital employed. The LTIP consists of a three-year performance period and pays out upon a sound performance assessment of the objectives.

Pensions and other benefits

The purpose is to provide income protection and support for retirement, reimbursement of costs related to the execution of the role as well as providing a company car or a mobility scheme instead.

2022 Variable remuneration target levels and performance measure

	Short-term incentive plan (STIP) as percentage of base salary	Long-term incentive plan (LTIP) as percentage of base salary
Executive Board		
Chief Executive Officer	60%	75%
President Food & Beverage	50%	65%
Chief Financial Officer	50%	65%
Chief People Officer	50%	40%

The tables below show the remuneration opportunity as percentage of base salary to be granted dependent on three different performance scenarios (minimum, at target and maximum performance).

- A minimum performance is achieved when the outcome of the financial and personal objectives is below target but above the minimum level of the plan. If the performance is assessed and considered to be below the minimum level, it leads to 'zero' variable remuneration payout.
- At target performance is achieved when the outcome of the financial and personal objectives is line with the plan.
- A maximum performance is achieved when the outcome of the financial and personal objectives is above the target level. Performance above the maximum level is capped, so there is no remuneration payout above the maximum.

2022 Variable remuneration target levels

	Short-term incentive plan (STIP) as percentage of base salary		
	Minimum performance	At target performance	Maximum performance
Executive Board			
Chief Executive Officer	30%	60%	90%
President Food & Beverage	25%	50%	75%
Chief Financial Officer	25%	50%	75%
Chief People Officer	25%	50%	75%

	Long-term incentive plan (LTIP) as percentage of base salary		
	Minimum performance	At target performance	Maximum performance
Executive Board			
Chief Executive Officer	26%	75%	90%
President Food & Beverage	23%	65%	78%
Chief Financial Officer	23%	65%	78%
Chief People Officer	14%	40%	48%

Relevant market reference group for remuneration of the Executive Board

The remuneration package of the Executive Board is assessed against a reference market group to offer a competitive remuneration package. This market comparison is carried out every other year using a Dutch labor-market reference group and an international sector-specific group.

Dutch labor-market benchmark group	International sector-specific benchmark group
AkzoNobel	Agropur
ASML	Arla Foods
Boskalis	DMK
DSM	Fonterra
Heineken	Groupe Danone
Jacobs Douwe Egberts	Kerry Group
KPN	Lactalis
Nutreco	Nestlé (EU)
Randstad	Sodiaal
Refresco	
Unilever (EU)	
VION Food Group	
WoltersKluwer	

At target remuneration of the Executive Board at the beginning of 2022

As the remuneration information at the beginning of 2022 is presented per individual member and with a new labeling, FrieslandCampina pursues a disclosure on actual remuneration per individual member in the 2023 annual report published in 2024. By doing so, the historical information on 2022 actual remuneration can be added in the 2023 annual report for comparison purposes.

This table shows the remuneration levels as per start of 2022 on individual Executive Board member, based on STIP and LTIP at target pay out and estimated cost on pensions and other benefits.

In thousand euros	2022				
	H.M.A. Schumacher	R.F. van Neerbos	J.G. Janssen	G.M. Fraser	Totaal
Executive Board					
Annual base salary	930	710	590	388	2618
Short-term incentive plan at target (STIP)[1]	465	355	295	194	1309
Long-term incentive plan at target (LTIP)[1], three-year performance period	605	462	384	155	1605
Pensions	126	144	66	55	391
Other benefits	24	19	33	55	131
Total remuneration at target	2,150	1,689	1,367	847	6,053

1 Hein Schumacher has decided to deviate from the CEO remuneration as set out in the 2022 executive remuneration policy and has requested that the same STIP target as that of other EB members and the same LTIP target as that of the Chief Financial Officer and President Food & Beverage be applied.

Key remuneration elements of the Supervisory Board

The remuneration of the Supervisory Board aims to attract and retain individuals with the relevant skills and experience to monitor and guide the execution of the company strategy to ensure long-term value creation.

In thousand euros

	2022		
	Chairperson	Vice-chairperson	Member
Supervisory Board			
Annual base remuneration[1]	220	155	55
Representational and mobility costs	24	22	–
Audit and Risk Committee	13	-	8
Remuneration, Nomination and Governance Committee	9	-	6

[1] The chairperson and vice-chairperson do not receive additional remuneration for their membership of committees of the Supervisory Board and the annual base remuneration includes their position as chairman respectively vice-chairman of the board of the cooperative.

The remuneration levels of the Supervisory Board and respective compensation for special committees is benchmarked by an external party every other year against a specified reference group.
A group of 8 companies from the 25 largest Dutch listed organizations (AEX index) was defined in accordance with comparable revenue to FrieslandCampina, having a "two-tier board" structure and excluding financial services companies.
Despite the remuneration level being below the reference group, the Supervisory Board has decided not to increase the current remuneration levels in the policy for the period 2015 to the present. The Remuneration Committee considers a P25 positioning appropriate for supervisory board and committee membership remuneration.

Dutch market benchmark group
AkzoNobel
ASML
DSM
Heineken
KPN
Philips
Randstad
WoltersKluwer

Taxes

FrieslandCampina takes its tax payment obligations seriously.

Tax legislation and regulations

FrieslandCampina aims for timely, correct and full compliance with tax legislation in all jurisdictions in which the Company operates. FrieslandCampina not only follows the letter, but also the spirit of the tax legislation and regulations that apply to all of its activities. This is in line with the standards and values set out in Compass: our guide for good business conduct.

Tax position in the financial statements

FrieslandCampina provides its stakeholders with reliable information. Financial as well as non-financial figures are transparent, correct, complete and up to date. Furthermore, financial reporting complies with local laws and regulations and Group accounting policies.

Tax planning

FrieslandCampina pays taxes in the countries in which it operates in accordance with the activities of its companies (tax follows the companies). FrieslandCampina operates in accordance with the single tax principle and tries to avoid situations involving double taxation and double non-taxation. The Company does not implement any artificial tax structures without commercial and economic reality. FrieslandCampina adopts fiscally defensible positions.

Transfer pricing

Intercompany transactions are subject to internal transfer pricing guidelines. These internal guidelines are in accordance with the at arm's length principles set out in the OECD transfer pricing guidelines. It is FrieslandCampina's goal to document the at arm's length conduct of relevant transactions by signing bilateral or unilateral transfer pricing agreements with tax authorities. FrieslandCampina has embraced the Base Erosion and Profit Shifting (BEPS) initiative and has elaborated on this in its transfer pricing documentation to ensure compliance with published guidelines, including the Country Report.

Tax management and risk management

FrieslandCampina's tax policy and tax control framework promote a culture of consistent, coherent and compliant tax conduct that is in accordance with laws and regulations and with the objective of creating a sustainable and predictable tax position. FrieslandCampina is convinced that building professional relationships with tax authorities based on mutual respect, transparency and trust contributes to this predictability. If possible, this is confirmed in a cooperative compliance regulation. In the Netherlands, FrieslandCampina's homeland, FrieslandCampina is a participant in the Horizontal Monitoring programme of the Dutch Tax and Customs Authority. FrieslandCampina's Corporate Tax Department reports at least twice a year to the Audit and Risk Committee.

“FrieslandCampina is well financed. We have sufficient investment funds, which makes the company future-proof

Hans Janssen,
Chief Financial Officer

Watch the video interview

Financial statements

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Consolidated income statement

In millions of euros

	Note	2021	2020
Revenue	(3)	11 501	11,140
Cost of goods sold	(4)	–9,780	–9,429
Gross profit		**1,721**	**1,711**
Advertising and promotion costs	(4)	–504	–503
Selling and general administrative costs	(4)	–851	–822
Other operating costs	(5)	–95	–125
Other operating income	(5)	84	7
Operating profit		**355**	**268**
Finance income	(6)	16	10
Finance costs	(6)	–63	–57
Share of profit of joint ventures and associates, net of tax	(11)	14	17
Profit before tax		**322**	**238**
Income tax	(7)	–150	–159
Profit for the year		**172**	**79**
Profit attributable to:			
– holders of member bonds		42	46
– holders of perpetual bonds		9	3
– provider of Cooperative loan		8	9
– shareholder		203	207
Shareholder and other providers of capital		**262**	**265**
Shareholder as holder of non-controlling interests		–168	–253
Shareholder and other providers of capital (incl. non-controlling interests shareholder)		**94**	**12**
Other holders of non-controlling interests		78	67
		172	**79**

Consolidated statement of comprehensive income

In millions of euros

	Note	2021	2021	2020	2020
Profit for the year			**172**		**79**
Items that will or may be reclassified to the income statement (net of tax):					
– Effective portion of cash flow hedges		8		12	
– Currency translation differences		44		–128	
– Currency translation differences reclassified to the income statement	(5)	29			
– Share in other comprehensive income of joint ventures and associates	(11)			–3	
			81		**–119**
Items that will never be reclassified to the income statement (net of tax):					
– Remeasurement of liabilities (assets) under defined benefit plans		36		–10	
			36		**–10**
Other comprehensive income, net of tax			**117**		**–129**
Total comprehensive income for the year			**289**		**–50**
Total comprehensive income attributable to:					
– Shareholder and other providers of capital		365		157	
– Shareholder as holder of non-controlling interests		–162		–255	
Shareholder and other providers of capital (incl. non-controlling interests shareholder)			**203**		**–98**
– Other holders of non-controlling interests			86		48
			289		**–50**

Consolidated statement of financial position

At 31 December, in millions of euros

	Note	2021	2020
Assets			
Property, plant and equipment	(8)	3,402	3,412
Intangible assets	(9)	1,503	1,564
Biological assets	(10)	8	7
Deferred tax assets	(19)	187	208
Joint ventures and associates	(11)	113	113
Employee benefits	(18)	8	5
Other financial assets	(12)	48	29
Non-current assets		**5,269**	**5,338**
Inventories	(13)	1,493	1,407
Trade and other receivables	(14)	1,605	1,445
Income tax receivables		24	19
Other financial assets	(12)	151	26
Cash and cash equivalents	(15)	507	466
Assets held for sale	(16)	7	16
Current assets		**3,787**	**3,379**
Total assets		**9,056**	**8,717**

	Note	2021	2020
Equity			
Issued capital	(17)	370	370
Share premium	(17)	114	114
Other reserves	(17)	–276	–352
Retained earnings	(17)	1,706	1,441
Equity attributable to shareholder		**1,914**	**1,573**
Member bonds	(17)	1,502	1,560
Perpetual bonds	(17)	301	301
Cooperative loan	(17)	295	295
Equity attributable to other providers of capital		**2,098**	**2,156**
Equity attributable to providers of capital		**4,012**	**3,729**
Non-controlling interests shareholder	(17)	–377	–212
Equity directly attributable to providers of capital		**3,635**	**3,517**
Other non-controlling interests	(17)	326	300
Total equity		**3,961**	**3,817**
Liabilities			
Employee benefits	(18)	250	452
Deferred tax liabilities	(19)	91	101
Provisions	(20)	73	18
Interest-bearing borrowings	(21)	1,156	927
Other financial liabilities	(22)	17	67
Non-current liabilities		**1,587**	**1,565**
Interest-bearing borrowings	(21)	189	476
Trade and other payables	(23)	3,091	2,659
Income tax payables		134	124
Provisions	(20)	30	71
Other financial liabilities	(22)	64	5
Current liabilities		**3,508**	**3,335**
Total liabilities		**5,095**	**4,900**
Total equity and liabilities		**9,056**	**8,717**

Consolidated statement of cash flows

In millions of euros

	Note	2021	2021	2020	2020
Operating activities					
Profit before tax			**322**		**238**
Adjustments for:					
– interest	(6)	21		30	
– depreciation of property, plant and equipment and amortisation of intangible assets	(8) (9)	465		456	
– impairments of non-current assets and reversals of impairments	(8) (9)	14		62	
– share of profit of joint ventures and associates	(11)	–14		–17	
– other finance income and costs		16		16	
– gain on divestments		–22		–6	
Total adjustments			**480**		**541**
Movements in:					
– inventories		–88		88	
– receivables		–154		137	
– liabilities		315		–134	
– employee benefits		–160		–26	
– provisions	(20)	14		43	
Total movements			**–73**		**108**
Cash flows from operating activities			**729**		**887**
Dividend received			17		14
Income tax paid			–132		–131
Interest paid			–35		–47
Interest received			15		14
Net cash flows from operating activities			**594**		**737**

	Note	2021	2021	2020	2020
Investing activities					
Investments in property, plant and equipment and intangible assets		–326		–391	
Disposals of property, plant and equipment, intangible assets and assets held for sale		44		13	
Divestments of businesses, net of cash and cash equivalents	(5)	90			
Loans issued		–108		–30	
Acquisitions, net of acquired cash and cash equivalents		–2		–35	
Net cash flows used in investing activities			**–302**		**–443**
Financing activities					
Dividend paid to holders of non-controlling interests		–42		–62	
Interest paid to holders of member bonds		–42		–43	
Interest paid to holders of perpetual bonds		–9		–3	
Repayment of member bonds		–54		–80	
Interest-bearing borrowings drawn		1,610		2,542	
Repayment of interest-bearing borrowings		–1,553		–2,490	
Repayment of lease liabilities		–61		–62	
Payment of contingent consideration	(27)	–2		–2	
Settlement of derivatives and other		1		25	
Net cash flows used in financing activities			**–152**		**–175**
Net cash flow			**140**		**119**
Cash and cash equivalents at 1 January[1]			339		278
Net cash flow			140		119
Currency translation differences on cash and cash equivalents			26		–58
Cash and cash equivalents at 31 December[1]			**505**		**339**

1 Cash and cash equivalents also includes overdrafts that are repayable on demand and form an integral part of the cash management of FrieslandCampina.

Consolidated statement of changes in equity

In millions of euros

													2021
						Other reserves							
	Issued capital	Share premium	Member bonds	Perpetual bonds	Coopera-tive loan	Cash flow hedge reserve	Currency translation reserve	Retained earnings	**Equity attribu-table to providers of capital**	Non-controlling interests share-holder	**Equity directly attribu-table to providers of capital**	Other non-controlling interests	**Total equity**
At 1 January	370	114	1,560	301	295	–2	–350	1,441	**3,729**	–212	**3,517**	300	**3,817**
Comprehensive income:													
– profit for the year			42	9	8			203	**262**	–168	**94**	78	**172**
– other comprehensive income						8	68	27	**103**	6	**109**	8	**117**
Total comprehensive income for the year			**42**	**9**	**8**	**8**	**68**	**230**	**365**	**–162**	**203**	**86**	**289**
Transactions with providers of capital recognised directly in equity:													
– dividends paid												–42	**–42**
– interest paid			–46	–9	–8			14	**–49**		**–49**		**–49**
– repayment member bonds			–54						**–54**		**–54**		**–54**
– reallocation goodwill due to changes in segments								21	**21**	–3	**18**	–18	
Total transactions with providers of capital			**–100**	**–9**	**–8**			**35**	**–82**	**–3**	**–85**	**–60**	**–145**
At 31 December	**370**	**114**	**1,502**	**301**	**295**	**6**	**–282**	**1,706**	**4,012**	**–377**	**3,635**	**326**	**3,961**

2020

						Other reserves							
	Issued capital	Share premium	Member bonds	Perpetual bonds	Coopera-tive loan	Cash flow hedge reserve	Currency translation reserve	Retained earnings	**Equity at-tributable to pro-viders of capital**	Non-controlling interests share-holder	**Equity directly attribu-table to providers of capital**	Other non-controlling interests	**Total equity**
At 1 January	370	114	1,641		295	–14	–238	1,231	**3,399**	51	**3,450**	306	**3,756**
Comprehensive income:													
– profit for the year			46	3	9			207	**265**	–253	**12**	67	**79**
– other comprehensive income						12	–112	–8	**–108**	–2	**–110**	–19	**–129**
Total comprehensive income for the year			**46**	**3**	**9**	**12**	**–112**	**199**	**157**	**–255**	**–98**	**48**	**–50**
Transactions with providers of capital recognised directly in equity:													
– dividends paid										–8	**–8**	–54	**–62**
– interest paid			–47	–2	–9			14	**–44**		**–44**		**–44**
– issue of bonds				300				–3	**297**		**297**		**297**
– repayment member bonds			–80						**–80**		**–80**		**–80**
Total transactions with providers of capital			**–127**	**298**	**–9**			**11**	**173**	**–8**	**165**	**–54**	**111**
At 31 December	**370**	**114**	**1,560**	**301**	**295**	**–2**	**–350**	**1,441**	**3,729**	**–212**	**3,517**	**300**	**3,817**

Notes to the consolidated financial statements

In millions of euros, unless stated otherwise

General

Royal FrieslandCampina N.V. has its registered office in Amersfoort, the Netherlands. The address is: Stationsplein 4, 3818 LE, Amersfoort, the Netherlands. The Company is registered in the Chamber of Commerce's Trade Register, No. 11057544. The consolidated financial statements for the year ended 31 December 2021 comprise the financial statements of Royal FrieslandCampina N.V. and its subsidiaries (jointly referred to as FrieslandCampina).

Zuivelcoöperatie FrieslandCampina U.A. ('Cooperative') is the sole shareholder of Royal FrieslandCampina N.V.

FrieslandCampina processes approximately 10 billion kilograms of member milk per year into a very varied range of dairy products containing valuable nutrients for consumers. In the professional market, FrieslandCampina is a key producer and supplier of dairy products to bakeries, restaurants, bars and fast-food chains. FrieslandCampina also produces and supplies high quality ingredients for manufacturers in the food industry and pharmaceutical sector.

The consolidated financial statements have been prepared on a going concern basis.

Basis of preparation

The significant accounting policies for financial reporting are included in Note 30.

Changes in accounting policies

New and revised standards, amendments and interpretations as applied by FrieslandCampina

The changes in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 because of phase 2 of the Interest Rate Benchmark Reform, and the IFRIC interpretation with respect to IAS 19, are applied for the first time in 2021 but do not have a significant impact on the consolidated financial statements of FrieslandCampina.

Other revisions, amendments or IFRIC interpretations do not have an impact on the consolidated financial statements of FrieslandCampina.

Phase 2 Interest Rate Benchmark Reform

FrieslandCampina has conducted an impact analysis of outstanding financial instruments that are characterised by a reference interest rate that will no longer be published after 31 December 2021 as a consequence of the interest rate benchmark reform.

- FrieslandCampina does not have any interest rate swaps that are affected by this.
- FrieslandCampina has an outstanding loan based on the 6-month USD Libor (with an outstanding principal balance of USD 60 million and an end-date of June 2026).
- FrieslandCampina has placed private loans with institutional investors in the United States (principal of USD 80 million with an end date of August 2022; USD 146 million with an end date of August 2024 and USD 123 million with an annual repayment of USD 20 million and an end date of August 2027) whose USD repayment and interest obligations have been converted into EUR obligations with a fixed interest rate through means of a swap. The Libor is used to determine the fair value of the loans and derivatives.
- FrieslandCampina has a facility with a multi-currency option whereby it makes use of Libor for currencies other than EUR.
- The Libor will be used as reference for various intercompany loans.

FrieslandCampina has worked together with various counterparties towards a market-based application of the relevant reference interest rate. The yield curves for the valuation of these financial instruments have also been adjusted on this basis.

As a result, the financial impact will be minimal and will not result in an adjustment of the risk management strategy.

New and revised standards, amendments and interpretations issued but effective for the financial year starting on 1 January 2022 without early adoption

New standards, amendments to standards and interpretations that are effective for annual periods starting after 1 January 2022, have not been early adopted in these consolidated financial statements. These are not expected to have any significant impact on the consolidated financial statements of FrieslandCampina.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (EU-IFRS). Where applicable, these also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code.

The Company income statement is presented in accordance with the exemption of article 2:402 of the Dutch Civil Code.

After authorisation for issue by the Executive Board and the Supervisory Board on 18 February 2022 the financial statements of Royal FrieslandCampina N.V. as at 31 December 2021 will be made available for publication by the Executive Board on 22 February 2022. On 15 March 2022 the financial statements will be submitted for approval to the General Meeting of Shareholders of Royal FrieslandCampina N.V. being Zuivelcoöperatie FrieslandCampina U.A., represented by its Board.

Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following material items in the statement of financial position:

- derivatives measured at fair value with changes in value recognised in the income statement or in equity via the other comprehensive income;
- net pension liability (asset) under the defined benefit pension plan, measured at the fair value of the plan assets less the present value of the accrued pension entitlements.

Functional and presentation currency

The consolidated financial statements are presented in euros, which is also the functional currency of the Company. All financial information presented in euros has been rounded off to the nearest million, unless stated otherwise.

Judgements, estimates and assumptions

The preparation of the consolidated financial statements in accordance with EU-IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The actual results may differ from management's estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis taking into account the opinion and advice of (external) experts. These estimates and assumptions include the potential impact of Covid-19 and sustainability-related developments.

Climate change

In preparing the Consolidated Financial Statements management has considered the impact of climate change, particularly in the context of the disclosures included in the Board Report this year and the stated ambition to produce net climate neutral by 2050. Management has set intermediate goals for 2030 reducing the Greenhouse gas emissions for its worldwide operations and logistics and emissions at the farms of the member dairy farmers. These considerations did not have a material impact on the financial reporting judgements and estimates. The climate change does not have a significant impact on FrieslandCampina's going concern assessment The following specific points were considered:

- FrieslandCampina continues to invest in renewable energy generation solutions for her facilities and scenario's for a sustainable footprint of her supply chain has been developed. Reduction of CO_2 emission is an integral factor in the global Supply Chain and footprint strategy. FrieslandCampina has developed CO_2 reduction plans for her supply chain facilities. Investments are needed to meet the 2030 target for -40% (versus base year 2015) greenhouse gas emissions (scope 1 and 2) from worldwide operations and logistics. Management expects that the required investments would not result in lower net results in the

future, as higher costs should be compensated by increased efficiency, cost reductions and higher sales prices of our products.
- Water consumption is gaining attention as a sustainability topic. FrieslandCampina is conducting water short- and long term risk assessments for its supply chain facilities. Management expects that the required investments would not result in lower net results in the future.
- The carbon emission regulations in the Netherlands, can have an impact on our member-dairy farms in the Netherlands. Management has considered the impact of reduced milk supply for the Group and developed several scenarios to minimize the impact for FrieslandCampina. These scenarios include amongst others buying additional milk volumes from non-members, the acceptance of new members to compensate for lower milk supply of the current members and supply chain footprint optimization. Management appreciates that managing climate change risk effectively implies developing robust mitigation plans and the agility to anticipate any possible regulatory and legal change. The impact of climate change on for example drought and floods is uncertain, which is also the case for the impact of more strict environmental rules and regulations. As governments would consider measures such as carbon taxations this could have an impact on the companies financial performance. Also extension of scope 3 emissions will increase likelihood of certain risks and requires resilience across the value chain. Management continues to build its understanding of the impacts of climate change and will continue to extend its assessment of climate change impacts on its operations, through OECD guidelines.
- Management has considered the impact of climate change scenarios, as mentioned above, on the estimates of future cash flows used in impairment assessments of the carrying value of non-current assets. In the capex decisions the climate impact of specific production lines and factories are considered to ensure that the sustainability targets are met and the facilities meet the regulatory requirements. Management has assumed the milk supply development to slightly reduce in the forecasts. In the cash flow projections no cash out for restructuring programs of site closures are included, as no restructuring plans are committed nor have site closures been decided yet. When management will decide on a site closure and restructuring, this would result in an impairment of the asset value and restructuring costs at the time of decision and will result in a reduction of costs in the future. Management expects that the impact on the cash flow projection is minimal.

Most critical estimates and assumptions
Gains or losses following changes in estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates and assumptions considered most critical are:
- impairments (Notes 8 and 9);
- useful life of property, plant and equipment and intangible assets (Notes 8 and 9);
- lease terms and the projected use of right of use assets (Note 8);
- utilisation of tax losses and deferred tax assets and valuation of uncertain tax positions (Notes 7, 19 and 24);
- provision for doubtful debtors (Note 14);
- measurement of defined benefit obligations (Note 18);
- valuation of put option liabilities (Note 27);
- provisions and contingencies (Note 20 and 24);
- key assumptions applied to determine the fair value of business combinations and financial instruments (Note 2 and 27).

Consolidation of entities

During 2021 FrieslandCampina has sold her interests in FrieslandCampina Nutrifeed B.V. and Campina LLC. For further information see Note 5.

FrieslandCampina has a direct interest of 50% in DFE Pharma GmbH & Co. KG. In addition, FrieslandCampina has an interest of 51% in FrieslandCampina Engro Pakistan Ltd. FrieslandCampina has control over these entities, among others due to a majority in the management board and the entity's dependence on the know-how, brands and supply of goods made available by FrieslandCampina. These entities are therefore fully consolidated with the recognition of a non-controlling interest.

FrieslandCampina holds a 74.53% interest in Het Kaasmerk B.V. and a 60% interest in United Dutch Arizona Dairy Inc. FrieslandCampina holds more than 50% of the shares in these entities, however, FrieslandCampina has no control over these entities based on the agreements. These interests are accounted for using the equity method.

FrieslandCampina has an 89,56% interest in CMG Grundstücksverwaltungs- und Beteiligungs- GmbH and is entitled to 100% of the results of this company based on an agreement. Assets and liabilities of this entity are fully consolidated with the recognition of a minority interest.

FrieslandCampina is the managing partner of FC C.V., an entity that comprises all of the business activities of FrieslandCampina (in the Netherlands), except for the production and invoicing activities. Zuivelcoöperatie FrieslandCampina U.A. is the limited partner and is entitled to 99% of the results. FC C.V. is fully consolidated by the managing partner, inclusive of a non-controlling interest that is directly attributable to the shareholder.

For more detailed information regarding the above see Notes 11 and 17 of the financial statements.

1. Segmentation

Per 1 April 2021, FrieslandCampina has processed changes in the management structure in which mainly consumer activities from former business group Dairy Essentials and foodservice activities from business group Ingredients have moved to busines group Food & Beverage. Comparative figures have been adjusted for this purpose. As a result of this change, goodwill was re-allocated among the business groups on the basis of the relative values. Starting 1 April 2021, FrieslandCampina distinguishes the following four market-orientated business groups, which are the operating segments disclosed in more detail:

- Food & Beverage provides consumers throughout the world with dairy products, such as milk, yoghurt, condensed milk, dairy-based beverages, cheese, quark, butter and cream. The business group Food & Beverage focuses on the consumer and professional channels.
- Specialised Nutrition provides dairy products for specific consumer groups. These vary from infant nutrition to adult nutrition with specific requirements during different stages of life. This business group operates in various countries in Asia, Europe, Africa and the Middle East.
- Ingredients is a partner for brands and producers wishing to differentiate themselves on the basis of nutrition, health and wellbeing for consumers in all stages of life. This business group focuses on ingredients for infant nutrition and offers specific innovations and applications for adults relating to medical and sports nutrition.
- Trading is involved in selling and procuring commodity dairy products for internal customers and external business-to-business customers. Its product portfolio comprises cheese, butter, milk powder and liquid products, such as raw milk, cream, skimmed milk and milk concentrate. FrieslandCampina Trading also limits the risk of rising or declining raw material prices for dairy by hedging the company's fat and protein positions.

Corporate activities, discontinued operations and Global Shared Services are recognised as other, since these activities cannot be classified under the market-oriented business groups.

The identified operational segments concern the separate segments within FrieslandCampina for which financial information is available that is frequently evaluated by the Executive Board in order to take decisions concerning the allocation of available resources to the segment and to assess the segment's performance.

Segmentation by business group

2021	Food & Beverage	Specialised Nutrition	Ingredients	Trading	Other	Elimination	Total
Revenue third parties	7,891	1,086	1,279	1,244	1		**11,501**
Internal deliveries[1]	402	190	389	2,484		–3,465	
Total revenue	**8,293**	**1,276**	**1,668**	**3,728**	**1**	**–3,465**	**11,501**
Operating result	296	111	86	–100	–38		**355**
Result from joint ventures and associates			3		11		**14**
Financing income and -expenses							**–47**
Profit before tax							**322**
Operating result as % net revenue from third parties	3.8	10.2	6.7	–8.0			**3.1**
Carrying amount of assets employed in operating activities[2]	3,893	904	1,787	1,408	482	–513	**7,961**
Carrying amount of other assets							**1,095**
Total assets							**9,056**
Liabilities resulting from operational activities[3]	1,970	416	334	566	678	–513	**3,451**
Other liabilities							**1,644**
Total liabilities							**5,095**
Investments in property, plant and equipment and intangible assets[4]	148	44	72	85	27		**376**
Depreciation of property, plant and equipment and amortisation of intangible assets	–184	–50	–104	–53	–74		**–465**
Impairment of non-current assets	–5	–1	–6	–2	–2		**–16**
Reversal of impairment of non-current assets				2			**2**
Carrying amount of share in joint ventures and associates			32		81		**113**

1 Internal deliveries are accounted for in a similar way as transactions with third parties.
2 Relates to carrying amount of assets excluding deferred tax assets, joint ventures and associates, loans granted, securities, long-term receivables, corporate income tax receivables, receivables from Zuivelcoöperatie FrieslandCampina U.A., cash and assets held for sale.
3 Relates to employee benefits, provisions, derivative payables, trade payables and other payables, excluding payables to Zuivelcoöperatie FrieslandCampina U.A.
4 Relates to investments in property, plant and equipment and intangible assets, excluding investments related to right of use assets.

Segmentation by business group

	Food & Beverage	Specialised Nutrition	Ingredients	Trading	Other	Elimination	Total
							2020
Revenue third parties	7,565	1,125	1,260	1,187	3		**11,140**
Internal deliveries[1]	391	508	518	2,001		–3,418	
Total revenue	**7,956**	**1,633**	**1,778**	**3,188**	**3**	**–3,418**	**11,140**
Operating result	319	134	116	–210	–91		**268**
Result from joint ventures and associates			3		14		**17**
Financing income and -expenses							**–47**
Profit before tax							**238**
Operating result as % net revenue from third parties	4,2	11,9	9,2	–17,7			**2,4**
Carrying amount of assets employed in operating activities[2]	3,740	859	1,904	1,286	491	–494	**7,786**
Carrying amount of other assets							**931**
Total assets							**8,717**
Liabilities resulting from operational activities[3]	1,732	378	315	492	789	–494	**3,212**
Other liabilities							**1,688**
Total liabilities							**4,900**
Investments in property, plant and equipment and intangible assets[4]	154	37	99	62	25		**377**
Depreciation of property, plant and equipment and amortization of intangible assets	-183	-42	-103	-54	-74		**-456**
Impairment of non-current assets	-8	-3	-24	-20	-7		**-62**
Reversal of impairment of non-current assets							
Carrying amount of share in joint ventures and associates			31		82		**113**

1 Internal deliveries are accounted for in a similar way as transactions with third parties.
2 Relates to carrying amount of assets excluding deferred tax assets, joint ventures and associates, loans granted, securities, long-term receivables, corporate income tax receivables, receivables from Zuivelcoöperatie FrieslandCampina U.A., cash and assets held for sale.
3 Relates to employee benefits, provisions, derivative payables, trade payables and other payables, excluding payables to Zuivelcoöperatie FrieslandCampina U.A.
4 Relates to investments in property, plant and equipment and intangible assets, excluding investments related to right of use assets.

Geographical information	2021 Revenue third parties	2021 Carrying amount of operating non-current assets	2020 Revenue third parties	2020 Carrying amount of operating non-current assets
The Netherlands	4,910	3,251	4,689	3,335
Germany	930	370	990	371
Rest of Europe[1]	1,511	323	1,382	346
Asia and Oceania[2]	3,050	778	3,048	758
Africa and the Middle East	911	125	849	117
North and South America	189	58	182	47
	11,501	**4,905**	**11,140**	**4,974**

1 This primarily includes the countries of establishment France, Belgium and Greece.
2 This primarily includes the countries of establishment Indonesia, China, Philippines, Thailand and Pakistan.

The revenue is separated according to the country in which the operating company is located. See Note 3 for the subdivision of revenue in the geographical location of customers. The carrying amount of non-current operating assets relates to property, plant and equipment and intangible assets.

2. Acquisitions

The purchase price allocations related to the acquisitions of the operations of Dutch Nutrition and the dairy operations of Nutricima in Nigeria were finalized in 2021. The final purchase price allocations have resulted in an adjustment of EUR 1 million in the fair value of both intangible fixed assets acquired and liabilities assumed. The comparative figures have been adjusted accordingly.

The total fair value of the assets acquired and liabilities assumed, with respect to the above acquisitions recognised on the acquisition date, amounts to:

	Provisional 'purchase price allocation'	Adjustments	Final 'purchase price allocation'
Property, plant and equipment	25		25
Intangible assets	6	1	7
Inventories	3		3
Trade receivables and other assets	1		1
Deferred tax liabilities	-1		-1
Other payables	-5	-1	-6
Net identifiable assets and liabilities	**29**		**29**

Goodwill from the acquisitions is not adjusted.

3. Revenue

Revenue by geographical location of customers	2021		2020	
		%		%
The Netherlands	2,524	22	2,365	21
Germany	981	8	1,040	9
Rest of Europe	2,629	23	2,416	22
Asia and Oceania	3,643	32	3,722	33
Africa and the Middle East	1,255	11	1,155	11
North and South America	469	4	442	4
	11,501	**100**	**11,140**	**100**

Revenue primarily consists of the sale of goods with settlement of the performance obligation by FrieslandCampina at a point in time and not over time.

4. Operating expenses

	2021	2020
Milk from member dairy farmers	-3.821	-3.610
Cost of other raw materials, consumables and commodities	-3.510	-3.359
Employee benefit expenses	-1.158	-1.168
Depreciation of property, plant and equipment and amortisation of intangible assets	-465	-456
Impairments of property, plant and equipment, intangible assets and assets held for sale	-16	-19
Advertising and promotion costs	-504	-503
Transportation costs	-539	-502
Service costs from third parties and agency staff costs	-250	-259
Energy costs	-195	-190
Other	-677	-688
Total of the cost of goods sold, advertising and promotion costs and selling, general and administrative costs	**-11.135**	**-10.754**

The costs of depreciation of property, plant and equipment and amortization of intangible assets include EUR 60 million (2020: EUR 61 million) depreciation for right-of-use assets, see Note 8.

Part of other operating expenses are lease expenses of in total EUR 24 million (2020: EUR 18 million). These costs are primarily related to the short-term leases of forklift trucks, variable expenses for storage locations and the lease of low-value assets, such as pallets, industrial clothing and office supplies.

The other operating expenses further mainly relate to other personnel expenses, office costs and costs for repairs and maintenance.

In 2021 research and development expenses amounts to EUR 85 million (2020: EUR 76 million), of which EUR 58 million relates to employee benefit expenses (2020: EUR 54 million).

For an explanation of the impairments, see Note 8 and 9.

Employee benefit expenses	2021		2020	
		%		%
Wages and salaries	-957	83	-956	82
Social security charges	-106	9	-107	9
Pensions and other long-term employee benefits	-95	8	-105	9
Employee benefit expenses reported in operating expenses	**-1,158**	**100**	**-1,168**	**100**
Release pension provision reported in Other Operating income	51			
	-1,107		**-1,168**	

Employees by business group (average number of FTEs)	2021		2020	
		%		%
Food & Beverage	13,324	58	13,845	58
Specialised Nutrition	2,829	12	2,910	12
Ingredients	2,567	11	2,731	11
Trading	2,218	10	2,354	10
Corporate, Global Shared Services and other	2,023	9	2,037	9
	22,961	**100**	**23,877**	**100**

Employees by geographical region (average number of FTEs)	2021		2020	
		%		%
The Netherlands	7,911	34	8,179	34
Germany	1,380	6	1,434	6
Rest of Europe	3,737	16	4,011	17
Asia and Oceania	8,693	38	9,015	38
Africa and the Middle East	1,070	5	1,054	4
North and South America	170	1	184	1
	22,961	**100**	**23,877**	**100**

5. Other operating costs and income

Other operating costs	2021	2020
Costs of implementing the ICT standardisation programme	-2	-6
Restructuring costs and release of restructuring provisions	4	-63
Provision legal proceeding Thailand	-58	
Impairments of non-current assets (and reversals thereof) due to restructuring	2	-43
Result on divestment of businesses	-13	
Other operating costs	-28	-13
	-95	**-125**

Other operating income	2021	2020
Release pension provision	51	
Income from the sale of property, plant and equipment	1	4
Gain on sale-and-leaseback transaction	31	
Result on divestment of businesses		2
Other operating income	1	1
	84	**7**

Provision legal proceeding Thailand

On 31 May 2021, a court in Thailand issued a ruling in a business dispute between FrieslandCampina Thailand and a business-to-business client. The court, on the basis of its interpretation of the contract between both parties, concluded that FrieslandCampina has charged its client too much over a period of 10 years. Pursuant to this ruling, FrieslandCampina is required to compensate its client for an amount of translated into euro's EUR 52 million. FrieslandCampina disagrees with this ruling and has filed an appeal against it. The result of the appeal is uncertain and therefore an amount of EUR 58 million including interest and costs in accordance with the verdict has been charged to the other operating costs.

Result on divestment of businesses

Divestment of Nutrifeed activities

On 30 June 2021, FrieslandCampina completed the sale of FrieslandCampina Nutrifeed B.V. to Denkavit Internationaal B.V. This business unit produces and sells animal feed and formed part of business group Ingredients.
Nutrifeed's activities are no longer being consolidated effective from 30 June 2021. The results up to the date of the divestment are recognised in the income statement. The divestment resulted in a loss of EUR 2 million and is reported under other operating costs.

Fair value of the consideration received	**30**
Assets transferred	-37
Liabilities transferred	12
Allocation goodwill and recognition of contingent considerations	-6
Costs related to divestment	-1
Result on divestment of business	**-2**

Divestment of Campina LLC, Russia

On 26 August 2021, FrieslandCampina completed the sale of the shares in its Russian subsidiary Campina LLC to Ehrmann SE. This business unit produces and sells yoghurt and yoghurt drinks and sells and distributes several FrieslandCampina products and was part of business group Food & Beverage. The results up to the date of the divestment are recognised in the income statement.
As of 26 August 2021 the activities of Campina LLC are no longer being consolidated. As a result of the divestment, the negative balance of currency translation differences amounting to EUR 29 million, that was processed in equity, was realised and reclassified to the income statement. The divestment resulted in a loss of EUR 11 million and is reported under other operating costs. Without the negative balance of currency translation differences of EUR 29 million, the profit is EUR 18 million.

Fair value of the consideration received	**65**
Assets transferred	-50
Cash transferred	-11
Liabilities transferred	38
Repayment loan	-15
Allocation goodwill	-9
Result on divestment of business, excluding currency translation reserve	**18**
Reclassification currency translation differences to the income statement	-29
Result on divestment of business, including currency translation reserve	**-11**

Divestment of milk powder activities Aalter

On 1 November 2021, FrieslandCampina completed the sale of milk powder activities in Aalter (Belgium) to A-Ware Dairy Products Belgium BV. The powder towers in Aalter produce skimmed milk powders and were part of business group Trading.
The milk powder activities in Aalter are no longer being consolidated effective from 1 November 2021. The results up to the date of the divestment are recognised in the income statement. The respective assets are sold at carrying amount.

Fair value of the consideration received	**6**
Assets transferred	- 6
Result on divestment of business	

Release pension provision

For further information see Note 18.

Gain on sale-and-leaseback transaction

On 31 October, FrieslandCampina in Malaysia finalised the sale of land and buildings of the current production facility. The sale includes an arrangement that the land and buildings will be leased back for a period of 27 months, until the new production facility is expected to be in service. As a result of the sale-and-leaseback transaction a lease liability of EUR 3 million is recorded and a gain of EUR 31 million is realised.

6. Finance income and costs

Finance income	2021	2020
Interest income	16	10
	16	**10**

Finance costs	2021	2020
Interest expenses	-37	-40
Foreign exchange losses on receivables and payables	-5	-9
Other finance costs	-21	-8
	-63	**-57**

Interest expenses, among other things, relate to accretion of lease liabilities of EUR 3 million (2020: EUR 3 million).

The other finance costs include the net result of the interest accrued and the remeasurement of the put option liability; also see Note 27.

Other finance costs comprise the amortisation of transaction costs and commitment fees for non-current borrowings of EUR 4 million (2020: EUR 6 million) and the negative result from hedging derivatives in the amount of EUR 7 million (2020: EUR 2 million negative).

Foreign exchange results related to operational activities are included in the cost of goods sold or in the appropriate component of operating expenses. In 2021, FrieslandCampina included a negative foreign exchange result in operating profit of EUR 60 million (2020: EUR 16 million negative).

7. Income tax expense

Breakdown of tax expense	2021	2020
Current tax expense, current year	-134	-150
Adjustment for prior years	-1	
Current tax expense	**-135**	**-150**
Deferred tax expense, current year	43	79
Adjustments to deferred taxes, attributable to changes in tax rates	7	9
Write-down of deferred tax assets	-69	-98
Adjustment for prior years	4	1
Deferred tax expense	**-15**	**-9**
Income tax expense	**-150**	**-159**

Effective tax rate

	2021	2021 %	2020	2020 %
Profit before tax	**322**		**238**	
Tax payable on the basis of the Dutch tax rate	-80	25.0	-59	25.0
Effect of different tax rates outside The Netherlands	9	-2.8	11	-4.6
Effect change in tax rates	7	-2.2	9	-3.8
Share of result of joint ventures and associates	4	-1.2	4	-1.7
Withholding tax on dividends	-13	4.0	-14	5.8
Non-deductible expenses	-15	4.7	-14	5.8
Tax-exempt income	8	-2.5	1	-0.4
Write-down of deferred tax assets	-69	21.4	-98	41.1
Divestment of subsidiaries	-4	1.2		
Adjustments to estimates relating to prior years	3	-1.0	1	-0.4
Effective tax rate	**-150**	**46.6**	**-159**	**66.8**

The effect change in tax rates are mainly related to the Netherlands and Philippines.
The write-down of the deferred tax assets is mainly due to insufficient forecasted taxable results in the Netherlands and China to offset the deferred tax assets.

Income tax recognised directly in equity

2021	Before tax	Tax expense/ income	Net of tax
Interest Cooperative loan	-8	2	- 6
Interest perpetual bonds	-9	2	-7
Interest member bonds	-42	10	-32
	-59	**14**	**-45**
Income tax recognised in other comprehensive income			
Movement cash flow hedge reserve	11	-3	8
Movement currency translation reserve	73		73
Movement joint ventures and associates accounted for using the equity method			
Remeasurement of liabilities (assets) under defined benefit plans	44	-8	36
	128	**-11**	**117**

Income tax recognised directly in equity		2020	
	Before tax	Tax expense/ income	Net of tax
Interest Cooperative loan			
Interest perpetual bonds	-9	2	-7
Interest member bonds	-3	1	-2
	-46	11	-35
	-58	14	-44
Income tax recognised in other comprehensive income			
Movement cash flow hedge reserve	16	-4	12
Movement currency translation reserve	-125	-3	-128
Movement joint ventures and associates accounted for using the equity method	-3		-3
Remeasurement of liabilities (assets) under defined benefit plans	-18	8	-10
	-130	**1**	**-129**

8. Property, plant and equipment

	Land and buildings	Plant and equipment	Other operating assets	Right-of-use assets	Assets under construction	**Total**
						2021
Cost	1,788	4,380	537	313	345	**7,363**
Accumulated depreciation and impairments	-901	-2,584	-365	-99	-2	**-3,951**
Carrying amount at 1 January	**887**	**1,796**	**172**	**214**	**343**	**3,412**
Disposed through divestments of businesses	- 2	-3		-1		**-6**
Additions	1	4	2	51	343	**401**
Disposals		-5	-1			**-6**
Currency translation differences	8	11	2	1	4	**26**
Remeasurements				-3		**-3**
Transfers	87	132	47		-264	**2**
Transfers to assets held for sale	-8	-12	-5	-1	-1	**-27**
Depreciation	-70	-210	-45	-60		**-385**
Impairments	-1	-8			-5	**-14**
Reversal of impairments		2				**2**
Carrying amount at 31 December	**902**	**1,707**	**172**	**201**	**420**	**3,402**
Cost	1,849	4,400	555	329	420	**7,553**
Accumulated depreciation and impairments	-947	-2,693	-383	-128		**-4,151**
Carrying amount at 31 December	**902**	**1,707**	**172**	**201**	**420**	**3,402**

						2020
	Land and buildings	Plant and equipment	Other operating assets	Right of Use assets	Assets under construction	Total
Cost	1,749	4,247	501	276	438	**7,211**
Accumulated depreciation and impairments	-872	-2,443	-322	-61	-4	**-3,702**
Carrying amount at 1 January	**877**	**1,804**	**179**	**215**	**434**	**3,509**
Acquired through acquisition	15	9	1			**25**
Additions	2	4	3	53	335	**397**
Disposals	-1	-2	-1			**-4**
Currency translation differences	-17	-38	-5	-2	-7	**-69**
Revaluation				13		**13**
Transfers	90	263	48		-404	**-3**
Transfer to assets held for sale	-5	-9	-1			**-15**
Depreciation	-67	-207	-45	-61		**-380**
Impairments	-7	-28	-7	-4	-15	**-61**
Carrying amount at 31 December	**887**	**1,796**	**172**	**214**	**343**	**3,412**
Cost	1,788	4,380	537	313	345	**7,363**
Accumulated depreciation and impairments	-901	-2,584	-365	-99	-2	**-3,951**
Carrying amount at 31 December	**887**	**1,796**	**172**	**214**	**343**	**3,412**

For explanation of the movement 'disposed through divestment of businesses', see Note 5.

The additions of EUR 401 million (2020: EUR 397 million) relates for EUR 234 million (2020: EUR 221 million) to production capacity expansions and replacement investments in the Netherlands.

The impairments mainly relate to production lines in the Netherlands and to costs capitalized for assets under construction which have been discontinued.

The investments include capitalised borrowing costs amounting to EUR 2 million (2020: EUR 2 million). The applicable average interest rate is 1.3 % (2020: 1.3%).

Right-of-use assets

The table below gives the book value and depreciation costs per category of the right-of-use assets. Leases in the land and buildings category mainly relate to office buildings and storage locations. Leases in the plant and equipment category mainly relate to production lines, trucks and forklifts. Other operating assets mainly concern car leases.

	2021		2020	
	Carrying amount at 31 December	Depreciation current year	Carrying amount at 31 December	Depreciation current year
Land and buildings	124	30	135	30
Plant and equipment	51	15	51	15
Other operating assets	26	15	28	16
	201	**60**	**214**	**61**

9. Intangible assets

					2021
	Goodwill	Trademarks, customer relations and patents	Software	Intangible assets under construction	**Total**
Cost	1,288	388	501	34	**2,211**
Accumulated amortisation and impairments	-204	-121	-321	-1	**-647**
Carrying amount at 1 January	**1,084**	**267**	**180**	**33**	**1,564**
Additions			1	25	**26**
Disposals	-2				**-2**
Currency translation differences	7		1		**8**
Transfers			33	-35	**-2**
Transfers to assets held for sale	-9				**-9**
Amortisation		-23	-57		**-80**
Impairments			-1	-1	**-2**
Carrying amount at 31 December	**1,080**	**244**	**157**	**22**	**1,503**
Cost	1,284	332	533	22	**2,171**
Accumulated amortisation and impairments	-204	-88	-376		**-668**
Carrying amount at 31 December	**1,080**	**244**	**157**	**22**	**1,503**

					2020
	Goodwill	Trademarks, customer relations and patents	Software	Intangible assets under construction	Total
Cost	1,307	408	457	44	**2,216**
Accumulated amortisation and impairments	-204	-105	-268	-1	**-578**
Carrying amount at 1 January	**1,103**	**303**	**189**	**43**	**1,638**
Acquired through acquisition	5	7			**12**
Additions				33	**33**
Currency translation differences	-24	-21			**-45**
Transfers			45	-42	**3**
Amortisation		-22	-54		**-76**
Impairments				-1	**-1**
Carrying amount at 31 December	**1,084**	**267**	**180**	**33**	**1,564**
Cost	1,288	388	501	34	**2,211**
Accumulated amortisation and impairments	-204	-121	-321	-1	**-647**
Carrying amount at 31 December	**1,084**	**267**	**180**	**33**	**1,564**

Amortisation costs of intangible assets were allocated to the items in the income statement on the basis of their function.

Goodwill impairment test

FrieslandCampina carries out the goodwill impairment test during the fourth quarter of each year and whenever there is a trigger for impairment. Goodwill is monitored and tested at business group level. The goodwill impairment test calculates the recoverable amount, which is the value in use, per business group.

The table below indicates how the goodwill is allocated to the cash generating units. In addition, the key assumptions used in calculating the value in use per business group are shown:

	31 december 2021	Assumptions		
	Goodwill	% Growth rate terminal value	% Average growth rate gross profit	% Pre-tax discount rate
Food & Beverage	730	2.5	8	8
Specialised Nutrition	237	1.5	8	7
Ingredients	113	1.5	10	7
	1,080			

	31 december 2020	Assumptions		
	Goodwill	% Growth rate terminal value	% Average growth rate gross profit	% Pre-tax discount rate
Consumer Dairy	687	2.5	10	8
Specialised Nutrition	229	2.0	15	7
Ingredients	151	1.5	15	8
Dairy Essentials	17	0.0	-8	5
	1,084			

Due to the changes in segments and the reallocation of goodwill among segments, as at 31 December 2021 no goodwill is allocated to business group Trading and there is no disclosure for this business group concerning the assumptions used in the goodwill impairment test.

The values in use of the business groups are defined based on the budget 2022 and the long-term plans up and until 2024. Also taking into account the allocation of corporate costs and the compensation for the function which is mainly fulfilled by the business group Trading for processing the member milk. This compensation is allocated to the other business groups and serves to cover the loss primarily realised by business group Trading in processing member milk into commodity dairy products, because all milk supplied by member dairy farmers must be purchased. The compensation is determined on the basis of the relative quantity and value of member milk processed by the respective business group. The allocation of corporate costs is determined on the basis of the relative revenue realised by the respective business group.

The average growth rate of the gross profit for each business group in the long-term plans to 2024 is based on past experience, specific expectations for the near future and market-based growth percentages. The increases mainly relate to the forecasted increase in revenue and efficiency improvements. Aside from this, the average growth rate is affected by the allocation of corporate costs and the compensation for the function of business group Trading. The discount rate for each business group is based on information that can be verified in the market and is pre-tax.

For the period after 2024, a growth rate equal to the forecasted long-term inflation rates was applied, as is best practice in the market, which is capped at 0% for the Eurozone.

Sensitivity to changes in assumptions
The outcome of the goodwill impairment test of all business groups shows that the values in use exceed the carrying amounts.

For business group Ingredients, the estimated value in use exceeds the carrying value by EUR 180 million. This outcome is primarily dependent on the long-term plans up and until 2024 and the pre-tax discount rate. The test was performed using a forecast average growth rate of 10% for the gross margin and a pre-tax discount rate of 7%. The forecasted average growth rate of the gross margin is based on experience from previous years and the expected growth from primarily innovations, optimisation of the supply chain and successfully increasing sales prices for rising commodity prices and inflation. In addition, the forecasted average growth rate is dependent on the allocated compensation for the function of business group Trading. An increase in this compensation allocated to business group Ingredients results in a decrease of the forecasted average growth rate and consequently the value in use of business group Ingredients. The compensation allocated to business group Ingredients can increase when this business group processes relatively more member milk or is able to better valorise it, or when the forecasted losses of business group Trading are adjusted negatively, or when another business group processes relatively less member milk or is less able to effectively valorise it and consequently is allocated a lower compensation.

If the forecasted average growth rate of the gross margin decreases by 1% to 9%, or if the pre-tax discount rate increases by 0.4%, the value in use of business group Ingredients would be equal to its carrying value.

A reasonable possible change of the other assumptions does not result in values in use below the carrying amounts of the other business groups.

10. Biological assets

The biological assets relate to dairy livestock in Pakistan (EUR 7 million) and Nigeria (EUR 1 million). On 31 December 2021, FrieslandCampina has 3,446 mature cows, which can produce milk (2020: 3,151) and 2,925 immature cows that are being raised to produce milk in the future (2020: 2,212).

11. Joint ventures and associates

FrieslandCampina holds interests in a number of joint ventures and associates that individually are not considered to be material. The following table shows, in aggregate, the carrying amount and the share of these joint ventures and associates in total comprehensive income.

			2021			2020
	Joint ventures	Associates	**Total**	Joint ventures	Associates	**Total**
Carrying amount	97	16	**113**	98	15	**113**
Share of:						
- Profit or loss, net of tax	13	1	**14**	15	2	**17**
- Other comprehensive income				-3		**-3**
Total comprehensive income	**13**	**1**	**14**	**12**	**2**	**14**

The largest joint venture concerns the 50% interest in Betagen Holding Ltd. and this interest is accounted for using the equity method. FrieslandCampina's interest in Betagen Holding Ltd. amounts to EUR 64 million (2020: EUR 65 million), of which EUR 30 million relates to goodwill (2020: EUR 30 million) and the share in the 2021 profit amounts to EUR 10 million (2020: EUR 11 million).

For a summary of the most important joint ventures and associates, refer to page 192.

12. Other financial assets

Non-current other financial assets	2021	2020
Loans issued	20	20
Derivatives	24	4
Other	4	5
	48	**29**

Current other financial assets	2021	2020
Loans issued	14	11
Derivatives	20	6
Other	117	9
	151	**26**

Other current other financial assets mainly relate to prepayments to banks and distributors in Nigeria to obtain US Dollars over time. The economic situation in Nigeria results in limited availability of US Dollars, needed to pay international trade creditors. As far as these US Dollars become available within three months, the prepayments are classified as (restricted) cash. When these US Dollars become available after three months, the prepayments are classified as other current other financial assets.

The average interest rate on loans issued at the end of 2021 was 2,2% (2020: 3,7%). For EUR 15 million of the loans issued, the maturity date is after 2026.

The provision for expected credit losses relating to other financial assets was not significant at the end of 2021.
For information regarding derivatives, see Note 22. The determination of the fair value of derivatives is included in Note 27.

13. Inventories

	2021	2020
Raw materials and consumables	530	465
Finished goods and commodities	1,001	989
Write-down to net realisable value	-38	-47
	1,493	**1,407**

EUR 141 million (2020: EUR 233 million) of the inventories is valued at net realisable value of EUR 103 million (2020: EUR 186 million). The write-down to net realisable value is recognised in cost of goods sold.

No inventories are pledged as collateral for liabilities.

14. Trade and other receivables

	2021	2020
Trade receivables	1,172	1,064
Provision for doubtful debts and other receivables	-20	-20
Receivables from Zuivelcoöperatie FrieslandCampina U.A.	102	63
Other receivables	82	33
	1,336	**1,140**
Receivables related to tax (excluding income tax) and social security contributions	107	163
Prepayments	162	142
	1,605	**1,445**

Provision for doubtful debts and other receivables	2021	2020
At 1 January	-20	-20
Currency translation differences		1
Charged to the income statement	-5	-6
Released to the income statement	4	4
Trade receivables written off	1	1
At 31 December	**-20**	**-20**

Maturity schedule trade and other receivables	2021			2020		
	Gross	Write-down	Net	Gross	Write-down	Net
Within payment term	1,190	-5	1,185	1,012	-6	1,006
Overdue by less than 3 months	120	-4	116	118	-3	115
Overdue by 3 - 6 months	23	-2	21	12	-1	11
Overdue by more than 6 months	23	-9	14	18	-10	8
	1,356	**-20**	**1,336**	**1,160**	**-20**	**1,140**

The additions and releases of the provision for doubtful debts and other receivables have been included in the cost of goods sold. Receivables are written off and charged to the provision when they are not expected to be collected.

Trade and other receivables are non-interest-bearing and are generally due between 10 and 90 days.

In various countries, FrieslandCampina has mitigated the credit risk related to trade debtors by taking out credit insurance and bank guarantees. At the end of 2021, this secured position amounted to EUR 39 million (2020: EUR 56 million). No trade receivables have been pledged.

15. Cash and cash equivalents

	2021	2020
Deposits	267	134
Other cash and cash equivalents	240	332
	507	**466**

Funds of EUR 47 million (2020: EUR 34 million) are not freely available and mainly designated for intercompany transactions to Nigeria. These funds are released once the goods have been supplied.
Pursuant to IAS7, the remaining portion of the cash and cash equivalents in Nigeria in the amount of EUR 122 million (2020: EUR 183 million) is restricted for use by the group due to currency restrictions, including the very limited availability of USD, although the cash and cash equivalents are available for use in the subsidiary's daily business operations.

16. Assets and liabilities held for sale

Assets held for sale	2021	2020
At 1 January	16	7
Transfer from property, plant and equipment	27	15
Transfer from intangible assets	9	
Transfer from current assets	28	
Disposals	-73	-6
At 31 December	**7**	**16**

Liabilities held for sale	2021	2020
At 1 January		
Transfer from current and non-current liabilities	38	
Disposals	-38	
At 31 December		

At year-end 2021, assets held for sale primarily consist of packaging lines in Germany and land and buildings of production facilities in Genk (Belgium) and Rijkevoort (the Netherlands). A sales agreement for the cheese production facility in Rijkevoort was signed in December 2021. The production facility is expected to be transferred to the new owner at the beginning of 2022. The gain on disposal at the time of transfer amounts to EUR 1 million.

During 2021 assets and liabilities related to the Russian subsidiary Campina LLC have been transferred to assets and liabilities held for sale. Land and buildings of the production facility in Malaysia were also transferred to assets held for sale. These sales have been completed in 2021. See Note 5 for further disclosure.

The total gain on disposal of other assets held for sale amounts to EUR 1 million in 2021 (2020: EUR 2 million) and is recognised in other operating income.

17. Equity

Issued capital

The number of issued shares at both the beginning and end of the financial year was 3,702,777 shares. EUR 370 million has been paid up on these shares. The authorised capital amounts to EUR 1 billion, divided into 10,000,000 shares with a nominal value of EUR 100. The shares are held by Zuivelcoöperatie FrieslandCampina U.A.

Share premium
The share premium comprises primarily a capital contribution of EUR 110 million by Zuivelcoöperatie FrieslandCampina U.A. in 2009.

Member bonds
The member bonds comprise member bonds-fixed and member bonds-free. Member bonds-fixed cannot be traded. On the termination of business activities and termination of the membership, the member bonds-fixed are automatically converted into member bonds-free. Legal entities that are members of FrieslandCampina can also convert member bonds-fixed into member bonds-free on the transfer of business between members. Member bonds-free can be held and traded between member bond holders. FrieslandCampina has the right to annually redeem a maximum of 10% of member bonds.

Member bonds have been issued to Zuivelcoöperatie FrieslandCampina U.A. and its members. The member bonds are perpetual and have no maturity date. The interest charge for the member bonds is the six-month Euribor as at 1 June and 1 December of the relevant year plus 3.25%. The bonds are subordinated to the claims of all other existing and future creditors to the extent that these are not subordinated. Until 2021, member dairy farmers received a portion of their compensation for the supply of milk during the financial year in the form of member bonds-fixed or in certain cases partly as member bonds-free. Interest payments may be deferred, provided that Royal FrieslandCampina N.V. has not determined or distributed any supplementary cash payment in the 12 months prior to the annual coupon date. Deferred interest becomes payable on the date on which a supplementary cash payment is determined or next distributed.

From the profit over the 2021 financial year, EUR 42 million (2020: EUR 46 million) is attributed to the holders of the member bonds as an interest payment.

As per 1 January 2022, Zuivelcoöperatie FrieslandCampina U.A. has issued 8.00 Euro of membercertificates per 100kg supplied milk to her member farmers. This has impact on the share premium and the member bonds as part of equity of FrieslandCampina, see note 29.

Perpetual Bonds
On 10 September 2020, FrieslandCampina issued EUR 300 million in perpetual bonds with an effective interest rate of 2.875%. FrieslandCampina has the right to redeem the bonds at the end of 2025. These perpetual bonds are listed on the Euronext Dublin (multilateral trading facility).

The perpetual bonds are subordinated to the receivables of all existing and future creditors insofar as these are not subordinated. Interest payment may be deferred, provided that Royal FrieslandCampina N.V. has not determined or distributed any supplementary cash payment, based on the reserve policy, in the 12 months preceding the annual interest payment date. Deferred interest becomes payable on the date on which a supplementary cash payment is established or distributed.

In the 2021 financial year, EUR 9 million (2020: EUR 3 million) is attributed from profit as interest on the perpetual bonds.

Cooperative loan
The EUR 290 million perpetual subordinated loan advanced to Royal FrieslandCampina by Zuivelcoöperatie FrieslandCampina U.A. has no maturity date. The interest rate of the perpetual subordinated loan is the six months Euribor as at 1 June and 1 December of the relevant year plus 3.25%. The loan from the Cooperative is subordinated by the claims from all other existing and future creditors to the extent that these are not subordinated. Interest payments may be deferred, provided that Royal FrieslandCampina N.V. has not determined or distributed any supplementary cash payment in the 12 months prior to the annual interest payment date. Deferred interest becomes payable on the date on which a supplementary cash payment is determined or next distributed. The perpetual subordinated loan from the Cooperative is classified as equity.

EUR 8 million of the profit over the 2021 financial year (2020: EUR 9 million) is attributed to the provider of the Cooperative loan as interest payment.

Other reserves
The item 'Other reserves' comprises the cash flow hedge reserve and the currency translation reserve.

The cash flow hedge reserve concerns changes in the fair value of cross currency swaps and f and commodity swaps to the extent that they classify as highly effective cash flow hedges. The cashflow hedge reserve also contains EUR 1 million negative related to terminated hedged relations.

The currency translation reserve relates to the cumulative currency translation differences of subsidiaries, as well as currency translation differences from loans granted to subsidiaries with a permanent nature. As a consequence of the sale of shares in Campina LLC, Russia, the related cumulative currency translation reserve of EUR 29 million is reclassified to the income statement. See Note 5 for further disclosure.

Retained earnings
Retained earnings comprise the balance of accumulated profits that have not been distributed to the shareholder and the revaluation of the net pension liability. Pursuant to the Articles of Association, a decision to distribute dividends may be taken if and to the extent that equity exceeds the issued share capital plus the statutory reserves and in accordance with the other legal stipulations.

Reserve policy
The 2021-2022 reserve policy stipulates that 60% of the Company's profit based on the guaranteed price, as far as it attributes directly or indirectly to the shareholder of the Company, will be added to the retained earnings. As part of the payment for milk supply, 40% of this profit can be paid out to member dairy farmers as a supplementary cash payment. In the event of a goodwill impairment greater than EUR 100 million, it may be decided to deduct the entire amount from retained earnings via the profit appropriation. In case a book profit of at least EUR 100 million is realized relating to divestments of businesses, it may be decided to add the entire amount or part of the amount to retained earnings via the profit appropriation. The reserve policy is described in the milk price regulation and is being revised every three years. After the General Meeting of Shareholders' adoption of the financial statements, the supplementary cash payments are made, if any.

Non-controlling interests shareholder
In order to comply with the fiscal cooperative regime, FrieslandCampina created as per 1 January 2020 a limited partnership structure (FC C.V.). All of the company's activities in the Netherlands, except for production and invoicing activities, were brought into this C.V. In this structure, 99% of the result realised by FC C.V. and 99% of the equity of FC C.V. are directly attributed to the Cooperative, the limited partner in FC C.V.

The non-controlling interests directly attributable to the shareholder relates to the Cooperative's share in equity that is not attributable to FrieslandCampina. This share is not limited to the interest in the above-referenced C.V., this concerns several other subsidiaries in which the Cooperative holds a minority interest.

Other non-controlling interests
Other non-controlling interests concerns the share in equity that is not attributed to FrieslandCampina or the Cooperative.

The following table summarises the financial information of each of the subsidiaries in which FrieslandCampina has a material non-controlling interest, based on FrieslandCampina's accounting policy, before any intra-group eliminations and on the basis of the latest publicly available information.

	2021						2020					
	FrieslandCampina WAMCO Nigeria PLC[1]	FrieslandCampina Engro Pakistan Ltd.	DFE Pharma GmbH & Co. KG[1]	Dutch Lady Milk Industries Berhad[1]	Other	**Total**	FrieslandCampina WAMCO Nigeria PLC[1]	FrieslandCampina Engro Pakistan Ltd.	DFE Pharma GmbH & Co. KG[1]	Dutch Lady Milk Industries Berhad[1]	Other	**Total**
Non-controlling interest percentage	**32.19**	**49.00**	**50.00**	**49.04**			**32.19**	**49.00**	**50.00**	**49.04**		
Non-current assets	98	186	94	42			98	207	94	42		
Current assets	325	76	83	57			325	52	83	57		
Non-current liabilities	-39	-50	-14	-2			-39	-67	-14	-2		
Current liabilities	-330	-70	-29	-63			-330	-49	-29	-63		
Net assets	**54**	**142**	**134**	**34**			**54**	**143**	**134**	**34**		
Carrying amount of non-controlling interest	17	69	148	17	75	**326**	17	70	166	17	30	**300**
Revenue	457	270		225			457	239		225		
Profit for the year	22	2	56	15			22	-7	56	15		
Other comprehensive income	-10	-3	-2	-2			-10	-19	-2	-2		
Total comprehensive income	**12**	**-1**	**54**	**13**			**12**	**-26**	**54**	**13**		
Profit allocated to non-controlling interest	7	1	30	8	32	**78**	7	-3	28	8	27	**67**
Other comprehensive income allocated to non-controlling interest	-3	-2	-1	-1	15	**8**	-3	-9	-1	-1	-5	**-19**
Dividends paid out to non-controlling interest	-5		-28	-5	-4	**-42**	-5		-28	-5	-16	**-54**
Net cash from operating activities	45	12		21			45	12		21		
Net cash used in investing activities	-11	-9		-1			-11	-9		-1		
Net cash from/used in financing activities	-29	4		-14			-29	4		-14		
Net cash flows	**5**	**7**		**6**			**5**	**7**		**6**		

1 As the 2021 results of FrieslandCampina WAMCO Nigeria PLC, DFE Phrma GmbH & Co. KG and Dutch Lady Industries Berhad are not yet publicly available, the 2020 figures have been disclosed. Furthermore, the revenue and cash flows of DFE Pharma GmbH & Co. KG are not publicly available.

The percentages stated in the table on the previous page indicate the direct non-controlling interest held by third parties in these entities. For all the entities included in the table, the indirect non-controlling interest is the same as the direct non-controlling interest, with the exception of DFE Pharma GmbH & Co. KG (DFE). FrieslandCampina's indirect interest in DFE is lower than the direct interest as a result of intermediate holding companies in which FrieslandCampina does not hold a 100% interest. The carrying amounts, total comprehensive income and dividends allocated to non-controlling interests are based on the indirect non-controlling interest.

18. Employee benefits

Obligations under long-term employee benefits	2021	2020
Net pension liability	219	426
Other long-term employee benefits	23	21
	242	**447**

Effective 1 January 2020, all employees in the Netherlands, with the exception of employees involved in production operations and invoicing activities, have joined FC C.V. All other employees continue to be employed by FrieslandCampina Nederland B.V. The expenses under long-term employee benefits recognised in the income statement, as well as the remeasurement of the net pension liability, are distributed pro rata between the employees involved in production operations and invoicing activities and the other employees.

Other long-term employee benefits

The other long-term employee benefits mainly consist of jubilee provisions and long-term bonuses for senior management.

Net pension liability

Pension situation Dutch employees covered by the Collective Labour Agreement for the dairy sector

As of 1 January 2015, all Dutch employees who are covered by the Collective Labour Agreement (CLA) for the dairy sector accrue their pension benefits in defined contribution plans as specified below.

Annual pensionable salary	Pension plans for Dutch employees covered by the CLA for the dairy sector as of 1 January 2015
Up to EUR 68,747	Collective defined contribution plan based on a fixed contribution and executed by the industry wide pension fund for the dairy sector ('Bedrijfstakpensioenfonds voor de Zuivel' (BPZ))
Between EUR 68,747 and EUR 112,189	Individual defined contribution plan, administered by a premium pension institution
Above EUR 112,189	Net pension savings plan, administered by the same premium pension institution

In connection with the pension situation since 1 January 2015, the accrual of pension benefits in the pension plan for former Campina employees, administered in a company pension fund, and the pension plan for former Friesland Foods employees and FrieslandCampina employees hired in the period between 1 January 2009 up to and including 31 December 2014, administered by an insurance company in a segregated investment fund, has ceased. Relating to the plan for former Campina employees, FrieslandCampina currently only has an obligation to settle a number of smaller guarantee schemes pursuant to the execution agreement. Upon reaching agreement with the pension fund, FrieslandCampina will have a 'settlement of the full plan'. At that moment the present value of the gross obligation pursuant to the pension benefits ('gross pension liability') and the fair value of the plan assets (at the end of 2021 both: EUR 1,625 million) will be released from the net pension liability in the statement of financial position because FrieslandCampina will no longer be exposed to risks. This will not affect the income statement because the current, and at the moment of settlement expected net pension liability (the gross pension liability minus the fair value of plan assets) amounts to nil.

FrieslandCampina – as part of the Dutch Dairy Organization (NZO) – has reached an agreement with trade unions regarding a new 2-year CLA for the dairy sector (valid from 1 January 2021 to 31 December 2022). Part of the amended CLA are the agreements made in the Pension Collective Labour Agreement (Pension CLA). The new Pension CLA has a duration of 5 years (1 January 2021 to 31 December 2025). New agreements have been made for the coming 5 years in the context of the CLA negotiations regarding the sector pension scheme for the dairy industry. The outcome of this is a reduction in indexation commitment to active employees already in service before 1 January 2015. This reduction will take effect on 1 January 2021. It has also been agreed that employers and employees will pay a higher contribution to the collective defined contribution scheme in the dairy sector (executed by BPZ) effective from 2026. This last adjustment also anticipates the transition to the new pension system (*"national pension agreement"*). The change with regard to the indexation of the pensions accrued up to 1 January 2015 is as follows:

- Reduction of the unconditional indexation percentage for active participants from 1.75% to 1.25%, and
- Change in the duration of the grant period from the entire period of active employment to a maximum duration of 15 years (the final indexation will take place on 1 January 2035).

The change in the indexation scheme has resulted in a non-recurring release of the provision for this indexation commitment of EUR 51 million. The release of the provision is included in other operating income (note 5).

Pension plan entitlements accrued until 2015 for former Friesland Foods employees and FrieslandCampina employees

The pension plan entitlements accrued until 2015 for former Friesland Foods employees and FrieslandCampina employees concern a defined benefit plan. At the end of 2021, this plan accounted for 53% (2020: 52%) of the total gross pension liability and is disclosed in more detail hereafter.

Plan characteristics	From 2015 the regular pension accrual has been terminated. Accrued benefits until 2015 for active participants are increased annually in accordance with the provisions of the CLA (a new 5-year Pension CLA has been agreed in 2021 for the period 1 January 2021 to 31 December 2025) by a fixed rate for as long as employment has been continued (until 1 January 2035 at the latest). For the years 2015 to 2020 this indexation rate was 1.75%. As from 1 January 2021, the annual fixed indexation for active participants has been reduced to 1.25%. Conditional indexation is applicable for non-active participants.
Pension administrator	An insurance company, in a segregated investment fund via a guarantee contract.
Funding agreements	Each year FrieslandCampina pays a premium, calculated based on market value, for the indexation of the pensions of active participants. Also, in respect of the segregated investment fund, if the coverage ratio remains lower than the contractually agreed 110% for longer than 18 consecutive months from the end of the calendar year, FrieslandCampina has the obligation to pay a supplementary premium in order to restore the coverage ratio to 110%. At the end of 2021 the coverage ratio was 126.8% determined on the basis of the principles specified in the insurance contract (2020: 121.6%).
Supervision and governance	The insurer is responsible for holding sufficient resources to pay out all accrued benefits. This is supervised by DNB (Dutch Central Bank). The investment policy for the insurance contract is determined by the insurer in consultation with FrieslandCampina.

Participants	Approximately 41% of the participants are active employees of FrieslandCampina, 38% are former employees and 21% are pensioners. The duration of the pension liabilities is approximately 19 years.
Most significant risks	The most significant risk is that the coverage ratio at the end of the calendar year drops below 110%. If this situation continues for more than 18 consecutive months, FrieslandCampina has the obligation to pay a supplementary premium in order to restore the coverage ratio to 110%. As the pension liabilities in the contract are calculated on the basis of a fixed interest rate, the movements in the value of plan assets have a significant impact on the coverage ratio.

Pension plan entitlements accrued until 2015 for former Campina employees

The pension plan entitlements accrued until 2015 for former Campina employees concern a defined benefit plan. At the end of 2021, this plan accounted for 42% (2020: 40%) of the total gross pension liability. Accrued benefits until 2015 for active participants are increased annually in accordance with the provisions of the CLA (a new 5-year Pension CLA has been agreed in 2021 for the period 1 January 2021 to 31 December 2025) by a fixed rate for as long as employment has been continued. For the years 2015 to 2020 the indexation rate was 1.75%. As from 1 January 2021, the annual fixed indexation for active participants has been reduced to 1.25%. This indexation, which has been insured with an insurance company in a guarantee contract without profit sharing, will be increased with a fixed percentage to cover post-retirement indexation.

Other plans for Dutch employees covered by the CLA for the dairy sector

In addition to the plans disclosed above, the Dutch employees who were employed at the end of 2005 are possibly entitled to a supplementary lump-sum payment, determined on an individual basis, upon retirement from active employment. This conditional lump-sum amount was granted on 1 January 2021, or on retirement if this was earlier. At the beginning of 2021 FrieslandCampina purchased pension benefits for the remaining lump-sum amounts. Social partners in the dairy sector agreed in 2020 that payment via the employee's salary was also possible. At the end of 2021 (2020: 2%) this plan is no longer part of the total gross pension liability.

Dutch employees covered by the CLA for 'Het Partikulier Kaaspakhuisbedrijf'

Effective 1 January 2021, the accrual of pension benefits for FrieslandCampina employees who are covered by the CLA for 'Het Partikulier Kaaspakhuisbedrijf' is administered by 'Pensioenfonds PGB'. This plan qualifies as a defined contribution plan.

Foreign employees

In respect of FrieslandCampina's foreign activities, both defined contribution and defined benefit plans are applicable. The most important defined benefit pension plans are the plans in Germany. These are primarily unfunded pension plans based on salary, length of service and fixed amounts that, at the end of 2021, accounted for 2% (2020: 3%) of FrieslandCampina's total gross pension liability. The accrued benefits are increased each year with a maximum of the price inflation. This is a conditional entitlement depending on the financial position of the relevant company.

For a defined benefit plan of FrieslandCampina in North America, administered by an industry wide pension fund, there may be future risks in case of a mass withdrawal of contributing employers.

Assumptions

Due to the large amounts, the table below indicates the assumptions applied in performing the calculations of (movements in) the gross pension liability, the fair value of plan assets and the relevant components of the pension costs for FrieslandCampina's Dutch pension plans as recognised in the consolidated statement of financial position and income statement. For the majority of the foreign pension plans, the same method is applied for deriving the discount rate and inflation parameter.

Assumptions[1]	2021	2020
	%	%
Discount rate	1.1-1.2	0.7
Wage inflation	n.a.	n.a.
Price inflation	2.0	2.0
Indexation		
- active employees	1.3	1.8
- former employees and pensioners	2.6	1.8
Life expectancy	in years	in years
- man / woman age 65 at end of year	20.1 / 23.0	20.0 / 22.9
- man / woman age 65 in 20 years' time	22.3 / 24.9	22.1 / 24.8

1 The percentages shown concern the above-referenced schemes for the pension entitlements of employees in the Netherlands, which represent 95% (2020: 92%) of the gross pension liability and 98% (2020: 98%) of the fair value of plan assets.

The discount rate is based on the yield of high quality corporate bonds and takes into account the term of the defined benefit obligation for each plan individually.

Movement in and specification of net pension liability

	Gross pension liability		Fair value of plan assets		Net pension liability	
	2021	2020	2021	2020	2021	2020
At 1 January	**4,193**	**4,184**	**-3,767**	**-3,746**	**426**	**438**
Included in the income statement						
Operating expenses:						
– Current service cost	- 42	14			-42	14
– Interest expense or income	34	44	-30	-39	4	5
– Administration costs			1	1	1	1
Total	**-8**	**58**	**-29**	**-38**	**-37**	**20**
Recognised in equity:						
Remeasurement of the net pension liability by:						
– Return on plan assets, excluding the interest income and adjusted guaranteed value			-86	-49	-86	-49
– Changes in financial assumptions	87	220			87	220
– Changes in demographic assumptions	-2	-96			-2	-96
– Experience adjustments	-43	-57			-43	-57
Total remeasurement gain or loss	**42**	**67**	**-86**	**-49**	**-44**	**18**
Currency translation differences	1	-5	-1	1		-4
Total	**43**	**62**	**-87**	**-48**	**-44**	**14**
Other						
Contributions paid by the employer to the plan			-125	-46	-125	-46
Benefits paid	-195	-111	195	111		
Transferred through sale of business unit	-2		1		-1	
Total	**-197**	**-111**	**71**	**65**	**-126**	**-46**
At 31 December	**4,031**	**4,193**	**-3,812**	**-3,767**	**219**	**426**
Classification						
– Non-current assets					**8**	5
– Non-current liabilities					**227**	431

At year-end 2021, EUR 130 million of the EUR 4,031 million gross pension liability has not yet been funded (2020: EUR 241 million of the EUR 4,193 million was not yet funded). The contributions to the plans of EUR 125 million are the premiums paid by FrieslandCampina in 2021, of which EUR 14 million relates to 2020. Furthermore, this includes an amount of EUR 88 million concerning the settlement of the supplementary lump-sum payment for employees in the Netherlands who were employed at the end of 2005 up to and including 2020.

Income and expenses under long-term employee benefits recognised in the income statement

	2021	2020
Current service cost	-9	-14
Benefit from indexation scheme adjustment	51	
Interest expense or income	-4	-5
Administration costs	-1	-1
Defined benefit cost recognised in the income statement	**37**	**-20**
Pension costs for defined contribution plans	-92	-94
Employees' share in pension costs	10	10
Pension costs recognised in the income statement	**-45**	**-104**
Expenses under other long-term employee benefits	-1	-1
Expenses under long-term employee benefits recognised in the income statement	**-46**	**-105**

The adjustment to the indexation scheme concerns a reduction, as of 1 January 2021, of the unconditional indexation percentage on the accrued pension benefits up to 1 January 2015 for active participants. This has resulted in a non-recurring release of the provision for this indexation commitment of EUR 51 million in 2021.

FrieslandCampina expects to contribute EUR 30 million into its defined benefit plans in 2022, of which EUR 10 million relates to 2021. In 2022, FrieslandCampina expects to contribute EUR 92 million into its defined contribution plans, primarily related to the collective and individual defined contribution plans for Dutch employees.

Disaggregation of the fair value of plan assets into asset categories

	2021			2020		
	%			%		
	Company pension fund	Insurance contract	Foreign pension schemes	Company pension fund	Insurance contract	Foreign pension schemes
Equities						
- North America	9			10		
- Europe	2			3		
- Japan	1			2		
- Emerging Markets	1			2		
- Other	2			1		
Fixed income						
- Investment grade (BBB- rating or higher)	26			22		
- Non-investment grade (rating below BBB-)	3			4		
Other investments			2			2
Guaranteed value of insurance contract		54			54	
Total	**44**	**54**	**2**	**44**	**54**	**2**

At year-end 2021, the plan assets in the company pension fund and the guaranteed value of the insurance contract amount to 44% and 54% of the total plan assets respectively (2020: 44% and 54%). Of the plan assets in the company pension fund approximately EUR 15 million is invested in subordinated bonds of Zuivelcoöperatie FrieslandCampina U.A. At the end of 2021, the interest rate risk relating to the liabilities of the company pension fund is hedged for 72% of which governments bonds (currency risk is largely hedged) contribute for 35% and interest rate swaps for 65%. The collateral of the swap portfolio is invested in a well-diversified AAA-rated cash fund. The currency risk of both the remaining fixed income portfolio and the equities portfolio is hedged for 70% to 100%. The value of the plan assets in the insurance contract is based on the guaranteed value of the contract. However, the profit sharing in this contract is based on the investments in the segregated investment fund. At year-end 2021 approximately 62% of the investment portfolio consists of fixed-income securities, 28% of equities and 10% of other investments. Because the insurer calculates the pension liabilities at a fixed interest rate, the interest rate hedge is limited. The investments in the foreign pension plans comprise 2% of the total amount (2020: 2%) and are largely related to insurance contracts.

Sensitivity analysis

The table below shows the impact of a change in key actuarial assumptions on the gross pension liability in respect of the Dutch pension plans.

Effect on the gross pension liability at 31 December	2021		2020	
	Increase	Decrease	Increase	Decrease
Change of 0.25% in discount rate	-163	174	-169	180
Change of 0.25% in indexation of former participants	144	-136	143	-135
Change of 1 year in life expectancy	179	-176	179	-175

As a result of cross effects, changes in multiple assumptions could lead to other effects than the sum of the individual effects. In addition, the impact on the net pension liability is usually less because the effect shown in the sensitivity analyses is partly offset by a change in the guaranteed value of the insurance contract or a change in the indexation rate assumption for the company pension fund.

19. Deferred tax assets and liabilities

						2021
	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, trade receivables, derivatives, trade payables, liabilities and provisions	Unused tax losses and facilities	**Total**
At 1 January	-89	12	60	107	17	**107**
Mutation due to divestment of business	1			-2		**-1**
Recognised through the income statement	13	1	-18	1	-12	**-15**
Recognised in equity			-8	-3	14	**3**
Currency translation differences	-1			3		**2**
At 31 December	**-76**	**13**	**34**	**106**	**19**	**96**

Deferred tax assets and liabilities relate to the following items of the statement of financial position:

	Assets	Liabilities	**Net**
Property, plant and equipment	4	80	**-76**
Intangible assets	82	69	**13**
Employee benefits	37	3	**34**
Inventories, trade receivables, derivatives, accounts payable, liabilities and provisions	118	12	**106**
Unused tax losses and facilities	19		**19**
Netting	-73	-73	
Net deferred tax asset	**187**	**91**	**96**

Deferred tax assets and liabilities

2020	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, trade receivables, derivatives, trades payables and provisions	Unused tax losses and facilities	**Total**
At 1 January	-115	-15	63	139	24	**96**
Acquired from acquisition		-1				**-1**
Recognised through the income statement	21	22	-10	-22	-20	**-9**
Recognised in equity			8	-7	14	**15**
Currency translation differences	5	6	-1	-3	-1	**6**
At 31 December	**-89**	**12**	**60**	**107**	**17**	**107**

Deferred tax assets and liabilities relate to the following items of the statement of financial position:

	Assets	Liabilities	**Net**
Property, plant and equipment	1	90	**-89**
Intangible assets	96	84	**12**
Employee benefits	63	3	**60**
Inventories, trade receivables, derivatives, accounts payable and provisions	123	16	**107**
Unused tax losses and facilities	17		**17**
Netting	-92	-92	
Net deferred tax asset	**208**	**101**	**107**

At the end of the financial year, the unused tax losses and facilities amounted to EUR 19 million (2020: EUR 17 million). Of which EUR 19 million (2020: EUR 12 million) concerned unused tax losses and EUR 0 million (2020: EUR 5 million) concerned unused facilities.

Deferred tax assets are recognised if it is probable that there will be future taxable profits within the entities against which the losses can be utilised.
The expectation is that the deferred tax assets can be offset against future profits. Our expectations to offset the deferred tax assets in the Netherlands amounted to EUR 84 million is based on the accelerated transformation of the business and strategy "Our Purpose, Our Plan", including the strategic review of the brand Friso. Our expectation to offset the deferred tax assets outside the Netherlands is based on long-term planning.

No deferred tax assets have been recognised for subsequent losses (including deferred tax-deductible items), facilities and temporary differences:

	2021	2020
Unrecognised tax losses (including deferred tax-deductible items)	264	204
Unrecognised facilities	108	100
Unrecognised temporary differences	3	3
	375	**307**

At the end of the financial year, the nominal value of the unrecognised tax losses and deferred tax-deductible items amounts to EUR 991 million (2020: EUR 795 million). Of these unrecognised tax losses and deferred tax-deductible items, EUR 149 million expire within 10 years (2020: EUR 485 million). The remaining unrecognised tax losses and facilities will not elapse under the current fiscal rules. From 1 January 2022 tax losses in the Netherlands can be carried forward indefinitely.

20. Provisions

	2021			2020		
	Restruc-turing	Other provisi-ons	**Total**	Restruc-turing	Other provisi-ons	**Total**
At 1 January	72	17	**89**	26	20	**46**
Additions charged to the income statement	9	63	**72**	67	6	**73**
Release to the income statement	-13	-3	**-16**	-3	-1	**-4**
Utilisations	-40	-2	**-42**	-18	-8	**-26**
At 31 December	**28**	**75**	**103**	**72**	**17**	**89**
Non-current provisions	8	65	**73**	10	8	**18**
Current provisions	20	10	**30**	62	9	**71**
	28	**75**	**103**	**72**	**17**	**89**

Restructuring provisions
In 2021, restructuring provisions were recognised pursuant to the announced restructurings for the amount of EUR 9 million. In addition, an amount of EUR 13 million has been released from the restructuring provision due to adjustments in the estimates, mainly because more employees than anticipated were relocated or found a new job outside FrieslandCampina and because of severance payments that were lower than expected.
The utilisations in 2021 are primarily related to restructuring provisions in Genk (Belgium) and Cologne and Heilbronn (Germany).

The restructuring provisions will result in future cash outflows. The provisions are recognised at nominal value, because their present value is not materially different.

Other provisions

Other provisions primarily relate to provisions for legal and arbitration proceedings and provisions for long-term illness.
From time to time, FrieslandCampina is involved in legal and arbitration proceedings arising in the ordinary course of business. When specific problems occur, provisions are made as necessary. Due to the nature of the legal proceedings the timing of making use of these provisions is uncertain.

The dotation in 2021 primarily relates to the legal proceeding in Thailand for which a provision has been recorded. See Note 5 for a further explanation.

21. Interest-bearing borrowings

The terms and conditions of outstanding borrowings are as follows:

	Year of maturity	% Nominal interest rate	2021 Carrying amount		2020 Carrying amount	
Syndicate (variable interest)	2021				10	
European Investment Bank (fixed interest)	2021-2026	0.8	139		142	
International Finance Corporation (variable interest)	2021-2026	1.5	53		60	
TLTRO borrowings (variable interest)	2023-2024	-0.2	325			
Other borrowings from credit institutions			49		58	
Borrowings from credit institutions				**566**		**270**
Private Placement (fixed interest)	2022	4.0	70		65	
Private Placement (fixed interest)	2024	4.2	129		120	
Private Placement (fixed interest)	2021-2027	4.0	108		117	
Borrowings from institutional investors				**307**		**302**
Green bonds (fixed interest)	2021-2026	1.5	252		300	
Borrowings from holders of green bonds				**252**		**300**
Euro commercial paper (variable interest)	2021				135	
Other uncommitted facilities (variable interest)	2021				40	
Uncommitted facilities						**175**
Borrowings from member dairy farmers (variable interest)	2021-2022	0.3	14		16	
Bank overdrafts (variable interest)	2021-2022	0.6	2		127	
Lease liabilities (fixed interest)	2021-2039	1.5	205		215	
Capitalised issue costs	2021-2027		-1		-2	
Other				**220**		**356**
Interest-bearing borrowings				**1,345**		**1,403**
Recognised under non-current interest-bearing borrowings				1,156		927
Recognised under current interest-bearing borrowings				189		476

The nominal value of the interest-bearing borrowings does not deviate from the carrying value. The average interest paid on the interest-bearing borrowings, including the effect of the cross currency swaps at year-end 2021, is 1.7% (2020: 1.7%).

Of the lease liabilities, EUR 149 million (2020: EUR 162 million) is classified as non-current and EUR 56 million (2020: EUR 53 million) is classified as current.

No guarantees were provided for the short-term and long-term loans.

Borrowings from credit institutions

In the second half of 2017, FrieslandCampina adjusted the credit facility, negotiated with a syndicate of credit institutions, on the basis of more favourable conditions due to the issue of a public credit rating, whereby the facility was reduced to EUR 1 billion with a 5-year term. As the extension options were exercised in 2018 and 2019 this facility is available until October 2024.
At 31 December 2020, the credit facility is not utilised (2020: EUR 10 million).

In 2016 FrieslandCampina agreed a loan facility at EUR 150 million with the European Investment Bank (EIB). This loan is being used for research into and development of new products. After repayments during this financial year, the outstanding amount at the end of 2021 is EUR 139 million (2020: EUR 142 million). The loan consists of three parts with fixed interest rates. The terms range from 3 to 10 years. An amount of EUR 4 million of the loans is recorded as current interest bearing borrowings. The issue costs of the loans are capitalised and are amortised over the term of the loans.
By the end of 2021 a new credit facility was negotiated with the EIB for an amount of EUR 150 million, although per year end no drawings have taken place.

In 2016 FrieslandCampina has negotiated a loan with International Finance Corporation (IFC) for USD 100 million in support of the acquisition of a 51% interest in Engro Foods. After repayments made in the current financial year (USD 13 million), the amount outstanding at year-end 2021 was EUR 53 million (2020: EUR 60 million). An amount of EUR 12 million of the IFC loan was classified as current at year-end 2021.

The USD repayments and interest payment obligations to IFC have been converted to EUR borrowings with a fixed interest rate (also see Note 22).
The loss resulting from the revaluation of the loan to euro of EUR 4 million in 2021 (2019: EUR 5 million gain) has been fully offset by the hedge.

FrieslandCampina negotiated in the first half of 2021 a new (TLTRO) loan of EUR 300 million with ING Bank. The loan, with terms ranging from 6 months to 3 years, has a variable interest based on EURIBOR and an interest discount if sustainability targets are met. The loan is used for refinancing the current facilities. In the second half of 2021, two tranches have been repaid for a total amount of EUR 75 million.

FrieslandCampina negotiated by the end of 2021 a new (TLTRO) loan of EUR 100 million with ABN AMRO Bank. The loan is maturing by the end of June 2024, has a variable interest based on EURIBOR and an interest discount if sustainability targets are met. The loan is used for refinancing the current facilities.

Borrowings from institutional investors

FrieslandCampina has taken out privately placed loans with institutional investors in the United States to a total of USD 349 million (2020: USD 369 million).
In 2021, EUR 17 million was repaid (2020: EUR 136 million).

On 31 December 2021, the total amount of borrowings from institutional investors (private placements) classified as non-current amounts to EUR 218 million (2020: EUR 285 million) and an amount of EUR 88 million (2020: EUR 17 million) is classified as current.

The USD repayments and interest payment obligations associated with the private placement obligations were converted into EUR obligations with a fixed interest rate through means of cross-currency swaps, see Note 22. The loss resulting from the revaluation of the loan to euro of EUR 21 million in 2021 (2020: EUR 27 million gain) has been fully offset by the hedge.

Borrowings from holders of green bonds

FrieslandCampina issued green bonds (Green Schuldschein) amounting to EUR 252 million (2020: EUR 300 million), consisting of four tranches at fixed interest rates. The terms vary between 2 and 5 years. These bonds are recognised in the non-current interest-bearing borrowings; issue costs are capitalised and amortised over the duration of the bonds.

Uncommitted facilities

In 2017, FrieslandCampina established a Euro Commercial Paper (ECP). The maximum term of the paper issued is 12 months. At year-end 2021, there were no drawings under the ECP Programme (2020: EUR 135 million).

Borrowings from member dairy farmers

The borrowings from member dairy farmers amounting to EUR 14 million (2020: EUR 16 million) concern three year deposit loans held by member dairy farmers. These loans are repayable on demand by the member dairy farmers against the payment of a 0.25% interest penalty.

22. Other financial liabilities

Non-current other financial liabilities	2021	2020
Derivatives		9
Contingent considerations		1
Put option liabilities	14	54
Other	3	3
	17	**67**
Current other financial liabilities		
Derivatives	9	3
Contingent considerations	4	2
Put option liabilities	51	
	64	**5**

The long-term put option liability relates to the co-financing of the acquisition of a 51% interest in FrieslandCampina Engro Pakistan Ltd. At year-end 2021, an amount of EUR 51 million was classified as current and an amount of EUR 14 million was classified as non-current. For a further explanation, see Note 27.

Derivatives

In the statement of financial position the hedging derivatives are recognised in current and non-current other financial assets and other financial liabilities. An explanation of FrieslandCampina's goal, course of action and policy regarding the use of derivatives and other financial instruments is included in Note 27.

Hedging activities

2021	Maturity date	Assets	Liabilities	Contract volume at year-end
Cross currency swaps	2022	8	4	136
Cross currency swaps	after 2022	17		195
Commodity swaps	2022	5		8
Commodity swaps	after 2022	5		13
Total cash flow hedges subject to hedge accounting		**35**	**4**	
Interest rate swaps	after 2022			250
Forward exchange contracts	2022	1	4	683
Commodity swaps	2022	6	1	28
Commodity swaps	after 2022	2		5
Derivatives not subject to hedge accounting		**9**	**5**	
Total derivatives		**44**	**9**	
Classified as current		20	9	
Classified as non-current		24		

Hedging activities

2020	Maturity date	Assets	Liabilities	Contract volume at year-end
Cross currency swaps	2021		2	29
Cross currency swaps	after 2021	4	7	331
Commodity swaps	2021			8
Commodity swaps	after 2021		1	17
Total cash flow hedges subject to hedge accounting		**4**	**10**	
Interest rate swaps	after 2021		1	250
Forward exchange contracts	2021	3	1	431
Commodity swaps	2021	2		41
Commodity swaps	after 2021	1		12
Derivatives not subject to hedge accounting		**6**	**2**	
Total derivatives		**10**	**12**	
Classified as current		6	3	
Classified as non-current		4	9	

Cash flow hedges

Cross currency swaps

The USD repayments and interest payment obligations associated with the private placement obligations and the IFC obligations totalling USD 349 million (2020: USD 369 million) and USD 60 million (2020: USD 73 million) were converted into EUR obligations with a fixed interest rate through means of cross-currency swaps. The cross currency swaps were negotiated to hedge the cash flows and are subject to cash flow hedge accounting. The cross currency swaps are measured at fair value. The portion of the profit or loss realised on these hedge instruments that qualifies as an effective hedge is recognised in other comprehensive income. The private placement obligations were fixed at EUR 275 million and the IFC obligations were fixed at EUR 56 million on the basis of the above-referenced swaps.

For the above-referenced hedges, to which hedge accounting is applied, the hedge accounting documentation requirements are met in accordance with IFRS 9 and effectiveness tests are conducted in advance and on every reporting date to confirm that there is an economic relationship between the derivative and the hedged item. The characteristics of the cross currency swap, such as instalments, interest rates and maturity date are matched with the loan at the start of the hedging relationship.

No significant ineffectiveness in the cashflow hedges occurred in 2021. As of year-end 2021 a cash flow hedge-reserve of EUR 0 million (2020: EUR 0 million) is recognised as part of equity for active hedge relations.

The effects of the cashflow hedges on FrieslandCampina's financial position are as follows:

Cross currency swaps	2021	2020
Carrying amount	21	-5
Contractual amount	331	360
Maturity date	2022-2027	2021-2027
Hedge ratio	1:1	1:1
Changes in value of outstanding hedging instruments for the purpose of determining the hedge effectiveness	4	2
Changes in value of hedged items for the purpose of determining the hedge effectiveness	1	2
Weighted average interest	3.4%	3,.4%

Commodity swaps

In 2021, FrieslandCampina continued to hedge part of the price risk on fuel costs for road transport in the Benelux over the period 2022-2024, to which hedge accounting is applied. For these hedges, the hedge accounting documentation requirements are met in accordance with IFRS 9 and effectiveness tests are conducted in advance and on every reporting date to confirm that there is an economic relationship between the derivative and the hedged item. For a further explanation, see Note 27.

At year-end 2021, EUR 7 million (2020: EUR 0 million) is included in the cash flow hedge reserve within equity for active hedge relations.

Derivatives not subject to hedge accounting

Derivatives not subject to hedge accounting have been contracted primarily to hedge currency risks related to anticipated sales and purchases, loans and outstanding receivables and payables. The movements in the value of the receivables and payables are largely being offset with movements in the value of derivatives.

Also, derivatives were entered into to hedge part of the price risk on future purchases and sales of milk powder and butter. Furthermore, derivatives were concluded to hedge part of the price risk on fuel costs for sea transport for the years 2020 - mid-2023. For a further explanation, see Note 27.

The interest rate swaps are entered into to convert the variable interest-bearing borrowings of EUR 250 million (2020: EUR 250 million) into fixed interest-bearing borrowings.

FrieslandCampina's policy is and was throughout the financial year, that no trading takes place for speculative purposes.

23. Trade and other payables

	2021	2020
Payables to member dairy farmers	468	407
Trade payables	1,676	1,421
Payables related to tax (excluding income tax) and social security contributions	67	121
Other payables	880	710
	3,091	**2,659**

As part of other payables, contract liabilities of EUR 8 million (2020: EUR 6 million) are primarily related to deferred income.

24. Commitments and contingencies

Purchase commitments fixed assets
At the end of the financial year, purchase commitments amounting to EUR 208 million (2020: EUR 78 million) were reported, with regard to property, plant and equipment. Of this, EUR 193 million (2020: EUR 66 million) relates to commitments for the next year.

Tax risks
Transfer pricing uncertainties
FrieslandCampina has issued internal guidelines regarding transfer pricing policies which are in accordance with the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. Transfer pricing has a cross-border effect and, as a consequence, local tax authorities often focus on the impact of transfer pricing on the local result. To reduce transfer pricing risks FrieslandCampina has implemented monitoring procedures to safeguard the correct application of the transfer pricing policies. In certain countries, FrieslandCampina has proactively approached the tax authorities with the aim of seeking alignment of the applied transfer pricing policies.

Acquisitions, partnering & divestments
FrieslandCampina is involved in mergers and acquisitions ('M&A' transactions) whereby shares or assets are acquired or divested, or whereby partnerships are entered into. Such transactions may result in different tax risks and uncertain tax positions. Examples are the transfer of historical tax liabilities to FrieslandCampina upon an acquisition, non-deductibility of acquisition related costs and tax risks arising from the integration of the acquired activities.
Within FrieslandCampina, M&A transactions are managed by M&A teams comprising representatives from all the relevant disciplines, including tax specialists. Uncertainties regarding the tax position resulting from M&A transactions are therefore investigated and risks are mitigated if required and to the extent possible.

Contingent liabilities

Commitments related to the merger

Zuivelcoöperatie FrieslandCampina U.A. is required to pay member dairy farmers who terminate their membership a lump-sum leave fee of EUR 5.00 per 100 kilograms of milk delivered in the year prior to the year in which the application for eligibility for the lump-sum leave fee is made. The eligibility requirement for the lump-sum leave fee is that the member dairy farmer must become a supplier to another purchaser of raw milk in the Netherlands. The commitment will remain in force until member dairy farmers with a total milk volume of 1.2 billion kilograms have left FrieslandCampina (year-end 2021: 0.8 billion).

Bank guarantees

At 31 December 2021, FrieslandCampina has provided bank guarantees to third parties amounting to a total of EUR 74 million (2020: EUR 14 million). Of the provided bank guarantees per 31 December 2021, EUR 60 million relates to the legal proceeding in Thailand for which a provision is recorded. Refer to note 5.

Contingent tax liabilities

FrieslandCampina is involved in various tax proceedings that have emerged during normal operations. In many countries, there is a high degree of complexity concerning local tax regimes. FrieslandCampina regularly carefully evaluates the probability that a tax proceeding will result in a tax liability in the form of a cash outflow, and/or whether it is necessary to recognise a provision. However, it is difficult to predict the outcome of tax proceedings with any certainty and the outcome from a tax proceeding may differ from FrieslandCampina's estimate.

FrieslandCampina estimates the contingent tax liabilities as at 31 December 2021, that are being investigated by tax authorities, at a total of EUR 14 million (2020: EUR 12 million).

Legal claims

Various claims were submitted to FrieslandCampina relating to the Company's ordinary operations. A provision is made for claims for which payment is considered probable and for which a reliable estimate can be made, see Note 20. FrieslandCampina does not expect the other claims to result in liabilities that have a material impact on its financial position.

Contingent assets

As part of the sale of the fruit juices and fruit drinks activities in the Netherlands and Belgium, FrieslandCampina has agreed on a contingent asset from the buyer. This contingent asset is in part dependent on the future developments in the results of the divested activities. As per January 2022, both parties have agreed to largely settle the contingent asset for a total amount of EUR 11 million. The income as a result of the settlement will be recognised in 2022.

25. Transactions with related parties

See Note 26 for the remuneration of the Supervisory Board and the Executive Board.

Zuivelcoöperatie FrieslandCampina U.A.

Zuivelcoöperatie FrieslandCampina U.A., the shareholder of the Company, and FC C.V., represented by the managing partner FrieslandCampina B.V., have agreed that the latter will purchase the milk supplied by the Cooperative's members. In 2021, this was 10 billion kilograms (2020: 10 billion kilograms). The price to be paid for this milk is based on the weighted average milk price in Germany, the Netherlands, Denmark and Belgium, which represents 55 billion kilograms (2020: 56 billion kilograms) of milk in total.

As disclosed in detail in Note 17, to finance the assets of Royal FrieslandCampina N.V. Zuivelcoöperatie FrieslandCampina U.A. has provided a perpetual subordinated loan (at arm's length), of which its nominal value is EUR 290 million.

The relations are specified in the table below:

	2021	2020
Interest on the Cooperative loan	8	9
Interest on member bonds	4	4
Other income	8	8
Receivables from Zuivelcoöperatie FrieslandCampina U.A.	102	63
Cooperative loan	295	295
Member bonds	127	145

Joint ventures and associates

FrieslandCampina regularly purchases and sells goods from and/or to joint ventures and associates in which FrieslandCampina has no control. The conditions under which these transactions take place are similar to transactions with third parties. The relations are specified in the tables below:

	2021	2020
Joint ventures		
– Purchase of raw materials, consumables and commodities	34	29
– Sale of raw materials, consumables and commodities	1	2
– Payables to joint ventures	2	2
Associates		
– Purchase of raw materials, consumables and commodities	28	31
– Sale of raw materials, consumables and commodities	100	88
– Receivables from associates	10	9
– Payables to associates	3	2

Member dairy farmers

FrieslandCampina regularly purchases goods from member dairy farmers. The conditions under which these transactions take place are similar to transactions with third parties. The relations are specified in the table below:

	2021	2020
Purchase of raw materials	3,821	3,610
Interest on member bonds	38	42
Member bonds	1,375	1,415
Liabilities to member dairy farmers	482	423

Supervisory Board and Executive Board

The members of the Supervisory Board who are also a member of the Cooperative's Board enter into transactions with FrieslandCampina in their capacity as dairy farmers, including the supply of milk. This results in a liability as at 31 December pursuant to milk supply allowances. These Supervisory Board members are also holders of member bonds. The table below sets out the transactions of the member dairy farmers who were a Supervisory Board member during the reporting period and the balance sheet positions with the members who were a Supervisory Board member as at 31 December of the reporting period:

	2021	2020
Purchase of raw materials	5	4
Member bonds	3	3

There were no transactions in 2021 between FrieslandCampina and the Executive Board, other than remuneration. See Note 26 for the remuneration of the Supervisory Board and the Executive Board.

Pension funds

For transactions and outstanding positions with the company pension fund and the industry wide pension fund for the dairy sector ('Bedrijfstakpensioenfonds voor de Zuivel'), refer to Note 18.

26. Remuneration of the Supervisory Board and the Executive Board

The remuneration of the Supervisory Board and the Executive Board consists of the remuneration of members during the reporting year.

Executive Board
The remuneration of members of the Executive Board consists of a fixed component and a variable component. The variable component consists of a short-term incentive and a long-term incentive. The short-term incentive is based on a company part and an individual part as determined by the Supervisory Board at the beginning of the year. For further explanation with regard to the fixed and variable component, reference is made to the Remuneration report (page 103).

In 2020 the Executive Board consisted of 2 members. J.M. de Bakker was Executive Board member until 1 March 2021. G.M. Fraser and R.F. van Neerbos became Executive Board member from 1 March 2021, and J.G. Janssen became Executive Board member from 1 May 2021, increasing the number of Executive Board members from two to four.

in millions of euros	2021	2020
Executive Board	Total	Total
Short-term remuneration	3.2	1.4
Long-term remuneration[1]	0.5	
Termination benefits		1.1
Special wage taxes[2]		0.7
Pension plans	0.4	0.2
	4.1	**3.4**

1 The long-term remuneration relates to the costs in relation to the performance of 2021 reporting year across three long-term incentive plans. These plans are vesting in 2021, 2022 and 2023 subject to the final performance assessment and paid out in the subsequent year.
2 The special wage taxes concern a provision in 2020 of EUR 0.7 million for special wage taxes on termination benefits (Article 32bb of the 'Wet op de loonbelasting 1964').

Supervisory Board
The members of the Supervisory Board do not receive short-term nor long-term incentives and have received the following remuneration:

in millions of euros	2021	2020
Supervisory Board	Total	Total
Short-term remuneration	1.0	1.1
Termination benefits[1]	0.1	
	1.1	**1.1**

1 This round-off amount of EUR 0.1 million concerns a cost compensation of EUR 66 thousand for settlement of costs committed by E. Wunnekink in relation to the termination of his position as Supervisory Board member and member of the board of the Cooperative.

27. Financial risk management and financial instruments

Capital management
FrieslandCampina strives to achieve a balance between a prudent financing and reserve policy, investment in the Company and payments to the member dairy farmers. The relationship between the reserves and the payments to member dairy farmers is reviewed every three years and approved by the Members' Council. When reviewing the policy, expected future circumstances are taken into consideration. Potential risks over which FrieslandCampina has no influence are also taken into account.

The Executive Board, under the supervision of the Supervisory Board, is responsible and formulates the policy for FrieslandCampina's risk management and internal control measures. This policy is revised on a regular basis to ensure that it reflects changes in market conditions or activities. The internal control framework within FrieslandCampina supports the Executive Board in its monitoring tasks.

Please refer to the paragraph 'Covenant Guidelines' for the quantitative notes with respect to the financial ratios that are monitored.

Active risk management

The increased volatility of foreign exchange markets, the significant decline in economic growth in emerging markets and problems in the Eurozone can have a material impact on the future results of FrieslandCampina in various ways.

FrieslandCampina pursues an active risk management policy. This includes scenario planning and measures to address any issues. Based on a continuous business process of monitoring and risk analyses, the business plans of all FrieslandCampina operating companies are adjusted where necessary and maintained on the basis of a focused package of risk-mitigating measures. The impact of the Covid-19 virus did not have impact on the way of risks being managed.

Financial risk management

FrieslandCampina is a multinational concern with many operating companies in various countries. This makes FrieslandCampina sensitive to various financial risks, such as credit risks, interest rate risks, liquidity risks, commodity price risk and currency translation risks. The general risk policy is aimed at identifying and analysing risks and, if necessary, mitigating these risks in such a way that possible negative financial results are prevented. Corporate Treasury has been given the mandate to implement these mitigating measures. These measures are laid-down in a clearly formulated policy. Corporate Treasury reports the exposure to financial risks, including the liquidity risk, currency translation risk, interest rate risk, commodity price risk and credit risk related to financial services providers to the Treasury Committee.

FrieslandCampina's principal financial instruments are borrowings from credit institutions and institutional investors, members bonds and cash and cash equivalents. The main purpose of this mix of financial instruments is to raise funds for FrieslandCampina's operations from a variety of markets and investors. FrieslandCampina has various other financial instruments, such as trade receivables and trade payables, which arise directly from its operations. FrieslandCampina closely monitors the market risks relative to all financial instruments, mainly currency risks and interest rate risks.

FrieslandCampina also enters into derivative transactions, primarily forward exchange contracts and interest rate swaps, in order to manage the currency risks and interest rate risks arising from FrieslandCampina's operations and the financing of its operations. FrieslandCampina's policy is, and was throughout the year under review, that no trading in financial instruments takes place for speculative purposes. The main risks arising from FrieslandCampina's financial instruments are currency risks, interest rate risks, liquidity risks and credit risks.

Netting of financial instruments

FrieslandCampina has various financial assets and financial liabilities that are subject to offsetting or netting agreements.

FrieslandCampina has implemented multiple cash pool systems that facilitate a more efficient management of the daily working capital requirements of the participating entities. The netting mechanisms of these cash pools are managed by an external financial institution, mainly via daily clearance, as a result of which no difference exists anymore between the gross outstanding amount and the net outstanding amount at the financial institution. At year-end 2021, EUR 181 million (2020: EUR 223 million) of the gross outstanding amount was still reported on a net basis in the financial statements.

Derivative transaction are carried out by FrieslandCampina on the basis of standard agreements according to the International Swaps and Derivatives Association (ISDA). In general, the amounts outstanding on a daily basis can be aggregated in the same currency, resulting in a net amount. In certain circumstances, for example when an event such as a default occurs, all outstanding transactions under the agreement may be terminated, the termination value is assessed and a net amount must be paid upon settlement of the transactions. At year-end FrieslandCampina has netted a not significant amount based on ISDA settlement agreements.

Financing programmes

FrieslandCampina makes use of various financing programmes for trade receivables and account payables as part of its liquidity and credit risk management processes:

- A number of FrieslandCampina suppliers participates in financing programmes, whereby banks function as financing partners for these suppliers. When suppliers participate in these programmes, the supplier, at its own discretion and flexibility, has the option of receiving early payment from the financing partner on the basis of invoices sent to FrieslandCampina. The condition here is that FrieslandCampina must recognise and approve the receipt of goods or services, and irrevocably accept the obligation of paying the invoice to the financing partner on the due date. By participating in this financing programme, suppliers benefit from FrieslandCampina's creditworthiness, while FrieslandCampina is able to improve its payment term.
- In addition, FrieslandCampina makes use of trade receivable sales programmes, whereby the trade receivables are sold to banks before the payment term expires. The risks and rewards pertaining to these trade receivables, including credit risk, are fully transferred in this respect.

FrieslandCampina itself also makes use of financing programmes provided by its customers. Under these programmes, FrieslandCampina has the option of receiving early payments.

Currency risks

As FrieslandCampina operates worldwide, a considerable portion of its assets, liabilities and results is sensitive to currency fluctuations. The purpose of the policy for managing transaction risks is to limit the effect of currency fluctuations on financial performance. In principle, transaction risks are hedged. The amount of hedged positions may vary due to specific product and market conditions.

Currency risks resulting from investments in foreign subsidiaries, joint ventures and associates are, in principle, not hedged. The currency risk arising from dividend receivables from foreign subsidiaries is also not hedged. The currency translation risks arising from loans to foreign subsidiaries are, in principle, hedged. By financing foreign subsidiaries in the local currency wherever possible, the risk arising from a currency mismatch between assets and liabilities is restricted.

The economic situation in Nigeria has created currency restrictions since 2020, resulting in an increased USD liability. The currency risk is partially hedged by non-deliverable forwards and is consequently hedged only for a specific term (2021: EUR 88 million, 2020: EUR 116 million). In addition currency risk is partially hedged with prepayments in local currency to obtain US Dollars in the future.

The solvency requirements that FrieslandCampina imposes on its foreign subsidiaries do, however, result in a degree of currency translation risk.

Exposure to currency risk

The summary of quantitative data about FrieslandCampina's exposure to foreign currency risk provided to management based on its risk management policy was as follows (positions stated in EUR):

					2021
	EUR/USD	EUR/CNY	NGN/USD	IDR/USD	EUR/HKD
Receivables	455	63	108	45	5
Cash and cash equivalents	73		45		9
Liabilities	483	3	325	9	63
Net statement of financial position	**45**	**60**	**-172**	**36**	**-49**
Forward exchange contracts	38	83	-35		-8
Net exposure 31 December	**7**	**-23**	**-137**	**36**	**-41**
Sensitivity analysis					
Impact on profit before tax		-1	-7	2	-2

					2020
	EUR/USD	EUR/CNY	NGN/USD	IDR/USD	EUR/HKD
Receivables	409	66		58	
Cash and cash equivalents	23	22	34		58
Liabilities	310		281	14	133
Net statement of financial position	**122**	**88**	**-247**	**44**	**-75**
Forward exchange contracts	107	68	-116	-8	-6
Net exposure 31 December	**15**	**20**	**-131**	**52**	**-69**
Sensitivity analysis					
Impact on profit before tax	1	1	-7	3	-3

Sensitivity analysis

FrieslandCampina is primarily sensitive to fluctuations in the US dollar exchange rate due to its sales and purchases in dollars. The largest currency pairs are EUR/USD, EUR/CNY, NGN/USD, IDR/USD and EUR/HKD. As far as the euro is concerned, this relates mainly to sales in US dollars and Chinese yuan. For the other currencies this mainly relates to the purchase of raw materials on the world market.

The table above illustrates the impact of a 5% change in the specified currency (USD, CNY and HKD) in relation to the local currency (EUR, NGN and IDR) on the profit before tax. A 5% change in exchange rate is considered a realistic possibility. This analysis is based on foreign currency exchange rate variances that FrieslandCampina considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

In addition, from time to time US Dollars are sourced in Nigeria at a higher exchange rate than the official exchange rate, because of the currency restrictions. The difference is recognised in costs of goods sold. At the end of 2021, this exchange rate is 34% higher. If for the full net exposure of Nigeria US Dollars are sourced at this higher rate, this would have EUR 35 million negative impact on the profit before tax of FrieslandCampina.

Currently a 5% exchange rate movement would not lead to a material impact on the cash flow hedge reserve, which is therefore not disclosed.

Commodity Price Risk

FrieslandCampina is sensitive to price risks on future purchases and/or sales of raw materials, such as milk, milk-related positions (for example, milk powder and butter) and ingredients (for example, sugar). In addition it is also sensitive to price risks on the fuel component of transport by road and sea.

The treasury policy sets out that a part of the forecast consumption of fuel and ingredients for limited graduated quantities at a maximum can be hedged over the coming years. The price risks on raw materials are primarily hedged by taking out financial derivatives, independent of the contracts with the physical suppliers. The total portfolio of financial derivatives that hedges these price risks is relatively limited in comparison to FrieslandCampina's total positions.

Interest rate risk

The objective of interest rate risk management is to limit the effect of interest rate fluctuations on profit and to reduce interest expense where possible. Interest rate derivatives are used to match the effective interest in borrowings to the intended interest rate risk profile. The treasury policy specifies that the percentage characterised by a fixed interest rate, or that is fixed by means of a hedge, varies with a bandwidth of 40%-80% with a minimum time horizon of at least three full calendar years.

The percentage which is characterised by a fixed interest percentage or is fixed by means of a hedge is at 31 December 2021 91% (2020: 92%). The overview below shows the situation at the end of the year:

Interest on borrowings	2021		2020	
	Carrying amount excl. hedging	Carrying amount incl. hedging	Carrying amount excl. hedging	Carrying amount incl. hedging
Fixed rate	915	1,218	977	1,287
Variable rate	430	127	426	116
	1,345	**1,345**	**1,403**	**1,403**

FrieslandCampina carried out a sensitivity analysis based on the impact of interest rates on derivatives and other financial instruments at the end of the year. The analysis of cash and cash equivalents and liabilities with variable interest rates was carried out based on the assumption that the outstanding amount at the end of the year had been outstanding throughout the year. This sensitivity analysis indicates that, if interest had risen or fallen by 0.5%, the cumulative interest charges for the current year would not have been significantly higher or lower.

Liquidity risk

FrieslandCampina's objective is to maintain a balance between the continuity and flexibility of its funding by using a range of financial instruments. Total net debt should be covered mainly by long-term borrowings and committed credit facilities, which is also maintained as a backup for short-term debt securities. FrieslandCampina manages its liquidity mainly by keeping available a significant amount of headroom under the committed credit facilities totaling EUR 2,274 million, (2020: EUR 2,398 million). Of these facilities EUR 1.150 million (2020: EUR 1.565 million including the temporary additional EUR 575 million credit facility) was unused at the end of 2021, which is substantially more than the minimum credit headroom of EUR 350 million required according to FrieslandCampina's financial policy.

Cash flows on financial liabilities

The table below gives an overview of the maturity dates of the financial liabilities of contractual nominal payments including related interest liabilities. This table does not show derivatives recognised under the current and non-current other financial assets. For derivatives recognised under the other financial liabilities the table shows both the incoming and outgoing contractual cash flows.

					2021
	Carrying amount	**Contractual cash flows**	2022	2023 - 2026	After 2026
Non-derivative financial liabilities					
Interest-bearing borrowings	1,140	**-1,188**	-191	-994	-3
Lease liabilities	205	**-219**	-59	-120	-40
Trade and other payables	3,091	**-3,091**	-3,091		
Put option liabilities	65	**-65**	-51		-14
Contingent considerations	4	**-4**	-4		
Derivates					
Cross currency swaps - inflow	1	**53**	53		
Cross currency swaps - outflow		**-56**	-56		
Forward exchange - inflow	4	**321**	321		
Forward exchange - outflow	-1	**-324**	-324		
Commodity swaps - inflow	1				
Commodity swaps - outflow		**-1**	-1		
	4,510	**-4,574**	**-3,403**	**-1,114**	**-57**

					2020
	Carrying amount	**Contractual cash flows**	2021	2022 - 2025	After 2025
Non-derivative financial liabilities					
Interest-bearing borrowings	1,188	**-1,248**	-478	-707	-63
Lease liabilities	215	**-229**	-57	-129	-43
Trade and other payables	2,659	**-2,659**	-2,659		
Put option liabilities	54	**-54**		-44	-10
Contingent considerations	3	**-3**	-2	-1	
Derivates					
Cross currency swaps - inflow	9	**61**	12	49	
Cross currency swaps - outflow		**-69**	-13	-56	
Interest rate swaps - inflow	1				
Interest rate swaps - outflow		**-2**	-1	-1	
Forward exchange - inflow	1	**148**	148		
Forward exchange - outflow		**-150**	-150		
Commodity swaps - inflow	1				
Commodity swaps - outflow		**-1**		-1	
	4,131	**-4,206**	**-3,200**	**-890**	**-116**

Credit Risk

FrieslandCampina is exposed to credit risk in respect of its trade receivables, cash and cash equivalents and derivative financial instruments. FrieslandCampina manages credit risk by systematically monitoring the credit rating of its customers at a decentralised level and financial counterparties at a central level. The strategy focuses among others on the strengthening of cash flows. Through continuous focus on creditworthiness and payment arrears of customers (among others due to the impact of the Covid-19 virus), credit risk is being managed.

FrieslandCampina generally trades with reputable third parties with whom it maintains long-standing trading relationships. In accordance with FrieslandCampina's credit management policy, customers are categorised, and depending on their credit profile, the following risk mitigating measures have been taken:

- prepayment, paid cash on delivery or collateralisation;
- coverage by letter of credit or bank guarantee;
- credit insurance.

Thanks to the spread of geographical areas and product groups, there is no significant concentration of credit risk in FrieslandCampina's trade receivables (no single customer accounts for more than 2.2% (2020: 2.0%) of revenue). The total write-offs of trade receivables amount to less than 0.1% of annual revenue. For further information regarding trade receivables, see Note 14.

Whenever possible, cash and cash equivalents have been deposited with first class international banks, in example those with at least a 'single A' credit rating. Over recent years, the credit rating of banks has declined across the board. Cash and cash equivalents held by subsidiaries in relatively unstable political climates are, however, subject to local country risks. To minimise these risks, FrieslandCampina follows an active dividend policy in relation to these subsidiaries. Many countries in which FrieslandCampina operates, in particular emerging markets, have a credit rating far lower than 'single A'. As a result, local banks in these countries have a correspondingly low credit rating, or no credit rating. For example, FrieslandCampina has substantial cash positions in Nigeria and to mitigate this higher credit risk, FrieslandCampina, in addition to an active dividend policy and a strict banking policy with limits for each bank, also made use of financial instruments.

Derivatives are in principle traded with financial institutions with good credit ratings, i.e. at least 'investment grade' (credit rating BBB or higher). Whenever possible, FrieslandCampina strives for offsetting in accordance with the ISDA agreements. FrieslandCampina's maximum credit risk exposure on financial assets is equal to the current carrying amount.

The overview below shows the credit ratings of outstanding cash and cash equivalents and derivative financial instruments as at 31 December:

Credit rating financial institution	2021		2020	
	Cash positions	Contract volume derivatives	Cash positions	Contract volume derivatives
AA	4	29	3	
A	294	1,218	217	1,034
BBB	13	50	12	50
< BBB	129		148	2
No rating	67	21	86	33
	507	**1,318**	**466**	**1,119**

Covenant guidelines	
Existing guidelines for financial ratios:	
– Net Debt / EBITDA	< 3.5
– EBITDA / Net Interest	> 3.5

The conditions of all facilities were met. If the conditions are not met, the amounts stated under the credit facilities, green bonds, the European Investment Bank, International Finance Corporation and the Private Placements are callable.

The table below sets out the specification of the net debt at year-end, in accordance with the covenant guidelines the impact of lease liabilities are disregarded:

	2021	2020
Non-current interest-bearing borrowings	1,006	765
Current interest-bearing borrowings	134	423
Receivables from Zuivelcoöperatie FrieslandCampina U.A.	-102	-63
Cash and cash equivalents	-507	-466
Cash and cash equivalents not freely available	169	217
Net debt	**700**	**876**

Derivatives designated as cash flow hedges with the application of hedge accounting

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair values of the related hedging instruments.

					2021
	Fair value	Expected cash flows	2022	2023 - 2026	After 2026
Cross currency swaps					
Assets	25	**25**	10	14	1
Liabilities	-4	**-3**	-3		
Commodity swaps					
Assets	10	**10**	6	4	

					2020
	Fair value	Expected cash flows	2021	2022 - 2025	After 2025
Cross currency swaps					
Assets	4	**3**	1	3	-1
Liabilities	-9	**-9**	-1	-7	-1
Commodity swaps					
Liabilities	-1	**-1**		-1	

Accounting classifications and fair values

The carrying value of the financial assets and liabilities recorded in the consolidated balance sheet are stated below, as are the financial instruments measured at fair value, or with carrying amount that differ from the fair value, shown by valuation method. The fair value is the amount that would be received or paid if the receivables and/or liabilities were settled on the reporting date, without further liabilities. The different levels of input data for the determination of the fair value are defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: input other than quoted market prices that come under Level 1 that is observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
Level 3: input related to the asset or liability that is not based on observable market data (unobservable input) whereby this input has a significant impact on the outcome.

	Note	Fair value – hedge accounting instruments	Mandatorily at FVTPL	Financial assets at amortised cost	Other financial liabilities	**Total carrying amount**	Level 1	Level 2	Level 3	**Total fair value**
										2021
Financial assets not measured at fair value										
Loans issued – fixed rate	(12)			10		**10**		10		**10**
Loans issued – variable rate	(12)			24		**24**				
Other financial assets	(12)			121		**121**				
Trade and other receivables	(14)			1,605		**1,605**				
Cash and cash equivalents	(15)			507		**507**				
				2,267		**2,267**				
Financial assets measured at fair value										
Hedging derivatives	(22)	35	9			**44**		44		**44**
		35	**9**			**44**				
Financial liabilities not measured at fair value										
Interest-bearing borrowings – fixed rate	(21)				915	**915**		955		**955**
Interest-bearing borrowings – variable rate	(21)				430	**430**				
Other non-current financial liabilities	(22)				3	**3**				
Trade and other payables	(23)				3,091	**3,091**				
					4,439	**4,439**				
Financial liabilities measured at fair value										
Hedging derivatives	(22)	4	5			**9**		9		**9**
Put option liabilities	(22)		65			**65**			65	**65**
Contingent considerations	(22)		4			**4**			4	**4**
		4	**74**			**78**				

										2020
	Note	Fair value – hedge accounting instruments	Mandatorily at FVTPL	Financial assets at amortised cost	Other financial liabilities	**Total carrying amount**	Level 1	Level 2	Level 3	**Total fair value**
Financial assets not measured at fair value										
Loans issued – fixed rate	(12)			11		**11**		10		**10**
Loans issued – variable rate	(12)			20		**20**				
Other financial assets	(12)			14		**14**				
Trade and other receivables	(14)			1,445		**1,445**				
Cash and cash equivalents	(15)			466		**466**				
				1,956		**1,956**				
Financial assets measured at fair value										
Hedging derivatives	(22)	4	6			**10**		10		**10**
		4	**6**			**10**				
Financial liabilities not measured at fair value										
Interest-bearing borrowings – fixed rate	(21)				977	**977**		1,035		**1,035**
Interest-bearing borrowings – variable rate	(21)				426	**426**		427		**427**
Other non-current financial liabilities	(22)				3	**3**				
Trade and other payables	(23)				2,659	**2,659**				
					4,065	**4,065**				
Financial liabilities measured at fair value										
Hedging derivatives	(22)	9	3			**12**		12		**12**
Put option liabilities	(22)		54			**54**			54	**54**
Contingent considerations	(22)		3			**3**			3	**3**
		9	**60**			**69**				

To calculate the fair value of the interest-bearing borrowings with a fixed interest rate an average weighted interest rate of 0.5% (2020: 0.2%) is used. The fair value of the loans provided with a fixed interest rate is determined using an average interest rate of 2.5% (2020: 2.3%).

Hedging derivatives

The hedging derivatives are classified as Level 2 valuation method. The fair value of the forward exchange contracts is calculated by comparison with the current forward prices of contracts for comparable remaining terms. The fair value of interest rate swaps is determined on the basis of the present value based on current market data provided by Bloomberg. The fair value of the commodity swaps is based on the statement of the market-to-market valuations of the relevant counterparties based on the EEX quotations.

Put option liabilities

FrieslandCampina issued a put option to IFC and the Netherlands Development Finance Company (FMO) with respect to the shares held in the Dutch legal entity holding 51% of the shares in FrieslandCampina Engro Pakistan Ltd. The fair value of the put option is determined based on the present value of the expected exercise price on the expected exercise date. The exercise price is primarily dependent on the profit of FrieslandCampina Engro Pakistan Ltd. before interest, taxes, depreciation and amortisation. The shares are subdivided into type A and type B shares, whereby a cap and floor has been agreed upon in relation to the return of type A shares. The put option on type A shares can first be exercised at the beginning of 2022, the put option on type B shares first at the beginning of 2024. Due to the sensitivity to the results of FrieslandCampina Engro Pakistan Ltd., the measurement method for this liability has been classified as Level 3.

At year-end 2021, a remeasurement of the put option liability was performed, whereby the expected exercise moment of the put option on type A shares has also been changed from 2024 to 2022. This resulted in a dotation of EUR 8 million (2020: release of EUR 2 million). This dotation is recognised under other finance cost.

If the forecasted profit before interest, taxes, depreciation and amortisation of FrieslandCampina Engro Pakistan Ltd. would have been 10% higher, then FrieslandCampina's profit over 2021 would have been EUR 1 million lower due to the remeasurement of the put option liability.

Movements and transfers

During 2021, movements of the financial instruments classified as Level 3 were as follows:

	2021	
	Contingent considerations	Put option liabilities
Carrying amount at 1 January	3	54
Redemptions	-2	
Recognised following sale of businesses	3	
Finance costs		3
Fair value adjustment		8
Carrying amount at 31 December	**4**	**65**

There were no transfers from or to levels 1, 2 or 3 during 2021.

	2020	
	Contingent considerations	Put option liabilities
Carrying amount at 1 January	5	54
Redemptions	-2	
Finance costs		2
Fair value adjustment		-2
Carrying amount at 31 December	**3**	**54**

28. Specification of external auditor's fee

	2021		
	Pricewater-houseCoopers Accountants N.V.	Other PwC network	**Total PwC network**
Audit of the financial statements	1.3	1.8	3.1
Other audit engagements	0.3	0.1	0.4
	1.6	**1.9**	**3.5**

	2020		
	Pricewater-houseCoopers Accountants N.V.	Other PwC network	**Total PwC network**
Audit of the financial statements	1.3	2.0	3.3
Other audit engagements	0.6	0.1	0.7
	1.9	**2.1**	**4.0**

29. Subsequent events

Effective 1 January 2022, the Cooperative will issue milk certificates valued at 8.00 euros per 100 kilos of supplied milk to its member dairy farmers. On the basis of the volume of milk supplied during the period 1 October 2020 through to the end of 30 September 2021, the number of milk certificates was set at 9,405 million, with a nominal value of EUR 752 million. The milk certificates were paid up by members by handing in member bonds (EUR 544 million), member certificates of the Cooperative (EUR 50 million), the current account or cash (EUR 23 million). The Cooperative has provided members a loan for the remaining amount (EUR 135 million). The Cooperative has made a capital contribution to FrieslandCampina's equity in the amount of EUR 617 million to offset the handing in of member bonds and member certificates, as well as for the milk certificates that were paid up by the current account or cash.

30. Significant accounting policies

The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements and have also been applied consistently by all FrieslandCampina's entities.

Basis of Consolidation

Business combinations

Business combinations are accounted for by using the acquisition method as at the acquisition date, which is the date on which control is transferred to FrieslandCampina. FrieslandCampina is deemed to have control if, on the basis of its involvement with the entity, it is exposed to or is entitled to variable returns and has the power to influence the variable returns on the basis of its control of the entity.

FrieslandCampina measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

If the excess is negative, a bargain purchase gain is recognised immediately in the income statement. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. Transaction costs incurred by FrieslandCampina in connection with a business combination, which are not costs in connection with the issue of shares or bonds, are recognised in the income statement when they are incurred.

Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Subsequent changes in the fair value of the contingent consideration are recognised in the income statement. The interest accrued on and the adjustments made to the fair value as a result of changes to the interest accrual period are reported under finance income and costs. Adjustments to the fair value as a result of other changes are reported under other operating costs and income.

The put option liabilities relating to non-controlling interests are classified as a liability, rather than a non-controlling interest, in both the balance sheet and the income statement. The interest accrued on the put option liabilities, any dividends paid to holders of the put option and adjustments to the fair value are recorded under finance income and costs. The put option liabilities are recognised under other financial liabilities.

For each business combination, FrieslandCampina elects to measure any non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Acquisition of non-controlling interests

Changes in FrieslandCampina's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners in their capacity as owners). Adjustments to non-controlling interests whereby control is retained are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in the income statement.

Subsidiaries

Subsidiaries are entities over which FrieslandCampina has control. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases.

Loss of control

At the moment of loss of control, FrieslandCampina derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. If FrieslandCampina retains any interest in the previous subsidiary, such interest is measured at fair value at the date control ceases. Subsequently the interest is accounted for as an equity accounted investee or as an available-for-sale financial asset, depending on the level of influence retained.

Associates and joint ventures

Associates are those entities in which FrieslandCampina has significant influence, but no control, over the financial and operating policies. Joint ventures are the entities in which FrieslandCampina has joint control and to which FrieslandCampina is entitled to a portion of the net assets rather than the assets and liabilities of the entity. A joint venture is a contractual arrangement whereby FrieslandCampina and other parties undertake an economic activity through a jointly controlled entity.
Joint control exists when strategic, financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

After initial recognition, the consolidated financial statements include FrieslandCampina's share of the results and the other comprehensive income of the participations from the date on which FrieslandCampina first has significant influence up to the date on which it last has significant influence or joint control. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When FrieslandCampina's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interest that forms a part thereof, is reduced to zero and the recognition of further losses is discontinued except to the extent that FrieslandCampina has an obligation or has made payments on behalf of the investee.

Elimination of intercompany transactions

Intra-group balances and transactions and any unrealised gains arising from intra-group transactions are eliminated when preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of FrieslandCampina's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

A list of the principal subsidiaries, joint ventures and associates is included on page 192.

Foreign currency translation

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates on the reporting date, derived from the market in which transactions are expected to be settled. Transactions denominated in foreign currencies are translated at the exchange rate on the date of the transaction.

Non-monetary balance sheet items valued at historical cost in foreign currencies are translated at the exchange rates on the date of the initial transaction. Non-monetary items valued at fair value in foreign currencies are translated using the exchange rates on the date on which the fair value was determined.

Foreign currency differences arising on translation are recognised in the income statement, except for the following differences, which are recognised in other comprehensive income arising on the translation of:
- available-for-sale equity investments;
- a financial liability designated as a hedge of the net investment in a foreign operation;
- qualifying cash flow hedges to the extent the criteria for hedge accounting are met.

These differences are recognised in equity via other comprehensive income.

Foreign operations

Assets and liabilities of foreign subsidiaries are translated at the exchange rates on the reporting date; their income and expenses are translated at the exchange rates on the date of the transaction. Foreign currency translation differences are recognised in other comprehensive income and presented in the currency translation reserve in equity. If however, the foreign operation is a subsidiary that is not owned by FrieslandCampina for 100%, the relevant proportion of the translation difference is allocated to non-controlling interests.

When control, significant influence or joint control in a foreign operation is lost due to a (partial) disposal, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the income statement as part of the gain or loss on disposal. When FrieslandCampina disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is classified as a non-controlling interest. When FrieslandCampina disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the income statement.

If the settlement of a monetary receivable from or obligation to a foreign activity is neither planned nor likely in the foreseeable future, this is considered as a net investment in the foreign activity. Currency translation differences arising through the translation of a receivable or liability that is classified as a net investment in a foreign activity are recognised in other comprehensive income and accounted for in the currency translation differences reserve in equity. When this receivable or liability is repaid, the portion of the currency translation differences reserve related to this net investment is transferred to the income statement.

The following exchange rates have been used in the preparation of the consolidated financial statements:

	2021	
	At year-end	Average
US dollar	1.14	1.18
Chinese yuan	7.22	7.63
Philippine peso	57.65	58.28
Hong Kong dollar	8.86	9.19
Indonesian rupiah (1,000)	16.14	16.91
Malaysian ringgit	4.72	4.90
Nigerian naira	476.11	481.97
Pakistan roupee	200.72	192.69
Russian rouble	85.47	87.18
Singapore dollar	1.53	1.59
Thai baht	37.76	37.82
Vietnamese dong (1,000)	25.89	27.13

	2020	
	At year-end	Average
US dollar	1.22	1.14
Chinese yuan	8.00	7.87
Philippine peso	59.04	56.60
Hong Kong dollar	9.47	8.86
Indonesian rupiah (1,000)	17.28	16.60
Malaysian ringgit	4.95	4.80
Nigerian naira	485.95	435.56
Pakistan roupee	195.91	184.97
Russian rouble	90.64	82.66
Singapore dollar	1.61	1.57
Thai baht	36.69	35.71
Vietnamese dong (1,000)	28.47	26.54

Financial instruments

Non-derivative financial assets

FrieslandCampina initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that FrieslandCampina becomes a party to the contractual provision of the instrument.

FrieslandCampina derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position if, and only if, FrieslandCampina has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and the liability simultaneously.

The classification of loans, receivables and deposits is dependent on the business model for managing the assets and the contractually cash flows. When the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding, and when in the business model the assets are held to collect, the loans, receivables and deposits are classified at amortised cost. Otherwise, loans, receivables and deposits are classified as fair value through other comprehensive income or as fair value through profit or loss.

The classification of securities is dependent on an irrevocable decision by FrieslandCampina to classify the instrument on initial recognition as a fair value instrument with value changes recognised in total comprehensive income or as a fair value instrument with value changes recognised in the income statement.

Fair values for disclosure purposes, are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Financial assets measured at fair value through profit or loss

A financial asset is classified as stated at fair value with any changes in fair value recognised in the income statement if it is classified as such on initial recognition or if the financial asset is reclassified as a financial asset held for sale. Directly attributable transaction costs are recognised as an expense in the income statement when they are incurred. Financial assets measured at fair value through profit or loss are measured at fair value and any changes in that fair value are recognised in the income statement.

Financial assets at amortised cost

Loans granted, long-term receivables, trade receivables and other receivables and deposits are financial instruments with fixed or determinable payments that are not listed on an active market.

On initial recognition such assets are stated at fair value plus any directly attributable transaction costs.

After initial recognition, the loans and receivables are stated at amortised cost in accordance with the effective interest method, less any impairments.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits ordinarily with original maturities of three months or less from the acquisition date.

Non-derivative financial liabilities

The initial recognition of financial liabilities (including liabilities designated as fair value through profit and loss) is stated at transaction date. The transaction date is the date on which FrieslandCampina commits to the contractual provisions of the instrument.

The fair value, determined for the purpose of the notes, of the liabilities is determined on the basis of the discounted cash flows.

FrieslandCampina no longer recognises a financial liability in the balance sheet as soon as the performance pursuant to the relevant liability was completed, expired or released.

Financial liabilities other than derivatives consist of interest-bearing borrowings, other financial liabilities, trade payables and other liabilities. On initial recognition, such financial liabilities are stated at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are stated at amortised cost in accordance with the effective interest method.

Lease liabilities

The interest-bearing borrowings include lease liabilities. At initial recognition, lease liabilities are measured at the present value of future lease payments. Lease payments consist of:

- fixed payments, including in substance fixed payments, minus contractual lease incentives;
- the exercise price of a purchase option when it is reasonably certain that FrieslandCampina will exercise this option;
- the payment of a penalty when it is reasonably certain that FrieslandCampina will terminate the lease early;
- payments that fall within the period of an extension option when it is reasonably certain that FrieslandCampina will exercise this option;
- payments that fall within the period of which it is reasonably certain that FrieslandCampina will make use of the asset, for contracts for which a contractual end-date has not been agreed upon.

When an estimate in respect of the lease payments changes, including changes in remaining lease payments based on an index or rate, the lease liability is remeasured taking into account these changes, whereby the right-of-use asset is also remeasured.

Lease payments are discounted using the interest rate implicit in the lease. When the interest rate implicit in the lease cannot be derived, the lease payments are discounted using the incremental borrowing rate that reflects the interest rate at which FrieslandCampina could have obtained a loan to finance a similar asset in the same economic environment for the same duration and with the same collateral.

The lease liability is reduced by the lease payments, and the interest accrued on the lease liabilities is recognised as part of finance costs in the income statement.

Derivatives (including derivatives for which hedge accounting is applied)

FrieslandCampina holds derivatives to hedge its exposure on foreign currency risk, cash flow risks interest rate risk and price risk on commodities.

Derivatives are recognised initially at fair value where direct attributable transaction costs are recognised in the income statement as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are accounted for as described below, depending on whether hedge accounting has been applied. When measuring derivatives, the credit risk arising from adjustments to the fair value for the credit risk of the counterparty (Credit Valuation Adjustment (CVA)) and the Company's credit risk (Debit Valuation Adjustment (DVA)) are taken into account.

The fair value of forward exchange contracts is generally determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract. The fair value of interest rate swaps and cross currency swaps is determined by discounting the cash flows resulting from the contractual interest rates of both sides of the transaction. The fair value takes into account the current interest rates, current foreign currency rates and the current creditworthiness of both the counterparties and FrieslandCampina itself.

The fair value of the commodity swaps is generally based on the market values issued by the brokers.

Derivatives for which hedge accounting is applied

FrieslandCampina applies cash flow hedge accounting on a portion of its foreign currency, interest rate and commodity derivatives.

Assessment of the hedging relationship's effectiveness

On initial designation of the derivative as a hedging instrument, FrieslandCampina formally documents the relationship between the hedging instrument(s) and the hedged item(s), including its risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. At the start of the hedging relationship and on each subsequent reporting date, FrieslandCampina assesses whether the hedging instruments during the period for which the hedge was designated are expected to meet the hedge accounting criteria.

The hedging relationship can result in ineffectiveness when:

- Changes in value of the hedging instrument do not match the changes in value of the hedged item due to for example the credit risk of the counterparty (CVA), the Company's credit risk (DVA) or the currency spread basis in the derivative;
- Deviations between the characteristics of the hedging instrument and the hedged item.

Applying for a cash flow hedge for an anticipated transaction requires that it is highly probable that the transaction will take place and that this transaction would result in an exposure to the fluctuation of cash flows of such significance that these ultimately could affect the reported profit or loss.

Cash flow hedges

When a derivative is designated as the hedging instrument for the variability in cash flows resulting from a particular risk associated with a recognised asset, liability, or highly probable anticipated transaction that could affect the income statement, then the effective portion of changes in the fair value of the derivative is included in the consolidated statement of other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

If the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases, the amount accumulated in equity is reclassified to the income statement in the same period that the hedged item affects the income statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires, is sold, terminated or exercised, then hedge accounting is terminated from the date of the most recent assessment of effectiveness. If the forecasted transaction is no longer expected to occur, the balance in equity is reclassified to the income statement.

Derivatives without application of hedge accounting

When a derivative is not designated as a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in the income statement.

Equity

Share capital

The shares are classified as equity. Costs directly attributable to the extension of the share capital are deducted from equity after taxation. The share capital comprises paid-up capital and the remaining portion concerns share premium reserve.

Other financial instruments

Other financial instruments are classified as equity if the instruments do not have a maturity date and FrieslandCampina can defer the interest payments.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Property, plant and equipment

Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation, accumulated impairment losses and remeasurement of lease liabilities. The cost price includes any costs directly attributable to the acquisition of the asset.

The cost price of self-constructed assets comprises:

- costs of materials and direct labour costs;
- any other costs directly attributable to making the asset ready for use;
- costs directly attributable in obtaining right-of-use assets;
- if FrieslandCampina has an obligation to remove the asset, an estimate of the cost of dismantling and removing the items;
- capitalised borrowing costs.

Property, plant and equipment also include right-of-use assets. At the commencement date of the lease, the leased asset is measured at the present value of the lease liability, except for short-term leases or low-value leases.

If parts of property, plant and equipment have different useful lives, the parts are accounted for as separate components of property, plant and equipment. Any gain or loss on the disposal of property, plant and equipment is determined on the basis of a comparison of the proceeds from the sale and the carrying amount of the property, plant or equipment and is recognised in the income statement.

Acquisition of property, plant and equipment resulting from a business combination

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which property could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction based on negotiations wherein the parties had each acted knowledgeably. The fair value of land, buildings and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement costs when appropriate.

Depreciated replacement costs reflect adjustments for physical deterioration as well as functional and economic obsolescence.

Costs after initial recognition

Costs after initial recognition are capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to FrieslandCampina. Ongoing repair and maintenance costs are expensed as incurred.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis in the income statement over the estimated useful life of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that FrieslandCampina will obtain ownership at the end of the lease term.

Property, plant and equipment are depreciated from the date that they are installed and are ready for use.

Right-of-Use assets are depreciated from the commencement date of the lease agreement.

The estimated useful lives for the current year of significant property, plant and equipment and other operational assets are as follows:

Land	not depreciated
Buildings	10-25 years
Plant and equipment	5-33 years
Other operational assets	3-20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and if appropriate, adjusted.

Intangible assets and goodwill

Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented as an intangible asset. For the measurement of goodwill at initial recognition, see the basis of consolidation for business combinations. Goodwill is measured at cost less accumulated impairment losses. In respect of investees that are not being consolidated, the carrying amount of goodwill is included in the carrying amount of the joint venture or associate and any impairment loss is allocated to the carrying amount of the joint venture or associate as a whole.

Research and development

Expenditure on research activities undertaken with the prospect of gaining new technical knowledge and understanding is recognised in the income statement as incurred. Development activities include the drawing-up of a plan or design for the production of new or significantly improved products or processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and FrieslandCampina intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs directly attributable to preparing the asset for its intended use and capitalised borrowing costs. Other development expenditure is recognised in the income statement as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Other intangible assets

Other intangible assets which are acquired by FrieslandCampina and which have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Acquisition of intangible assets resulting from a business combination

The fair value of patents and trademark names acquired in a business combination is based on the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Costs after initial recognition

Costs after initial recognition are capitalised only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

Amortisation

Intangible assets other than goodwill are amortised on a straight-line basis in the income statement over their estimated useful lives calculated from the date that they are available for use.

The estimated useful life for the current year for the main categories of intangible assets is as follows:

Trademarks and patents	10-40 years
Customer relations	5-20 years
Software	5-7 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Biological assets

The dairy livestock is valued at fair value less the cost to sell. The fair value of the livestock is determined by an independent valuer based on the best available estimates for livestock with similar characteristics.

Profit or loss resulting from changes to the fair value less the cost to sell is recognised in the income statement.

Inventories

Inventories are measured at the lower of cost and market value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity. The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

Acquisition of inventories resulting from a business combination

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated cost of completion and sale plus a reasonable profit margin based on the effort required to complete and sell the inventories.

Impairments

Non-derivative financial

Impairment of financial assets

The impairment of financial assets is based on the estimated risk of non-payment and the expected loss ratios. To be able to determine these values, FrieslandCampina makes use of projections that are based on past history, existing market conditions and future conditions. These values are determined each year at the end of the financial year.
The following assets fall under the 'Expected Credit Loss Model':

- Loans granted at amortised cost;
- Trade receivables and other receivables;
- Non-current receivables.

Loans granted at amortised cost and non-current receivables

In case of a low credit risk, a provision is made on the basis of the expected credit losses over the coming 12 months. In case of a significant increase in credit risk, a provision is made on the basis of the life time expected credit losses. FrieslandCampina determines the impairment of loans granted at amortised cost on an annual basis. A low credit risk is assumed in case there were no defaults of payment in the past and the counterparty has sufficient funds at its disposal to meet the contractual payment obligations.

Trade receivables and other receivables

In determining the provision for bad debts and other receivables, FrieslandCampina uses the simplified method for applying the 'Expected Credit Loss Model'. The 'expected credit loss' on trade receivables and other receivables is determined at origination of the financial asset for the total expected lifetime of the receivable. The trade receivables and other receivables are grouped on the basis of credit risk and aging. The amount of the provision is determined for each group on the basis of historical payment behaviour information. In addition, due consideration is given to current developments that could affect the credit risk of an individual position, such as significant payment difficulties of a debtor or group of debtors, indications that a debtor may be unable to meet his payment obligations or may file for bankruptcy, the disappearance of an active market that may bring about, or observable data indicating, a decline in the expected cash flows of a group of financial assets.

Financial assets measured at amortised cost

FrieslandCampina measures financial assets at amortised cost at both a specific asset and collective level. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. If an event occurring after the balance sheet date causes the amount of impairment loss to decrease, this decrease is reversed through the income statement.

Non-financial assets

The carrying amounts of FrieslandCampina's non-financial assets, other than biological assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any trigger for impairment. If such a trigger exists, the asset's recoverable amount is estimated. Goodwill and intangible assets with an indefinite life are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its recoverable amount.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs of disposal. When assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or cash generating unit. The value in use is determined on the basis of the budget, the long-term plans and the subsequent use, with due consideration to the role of the asset or the division in the milk processing. For the goodwill impairment test, compensation is made between the business group Trading and the other business groups for the role which the business group Trading fulfills in the milk processing.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units. Cash generating units to which goodwill is allocated are aggregated for the purpose of impairment testing so that the level at which impairment testing is performed reflects the lowest level within FrieslandCampina at which goodwill is monitored for the purpose of internal reporting. Goodwill acquired in a business combination is allocated to the FrieslandCampina cash generating units expected to benefit from the synergies of that combination.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units, and then to reduce the carrying amounts of the other assets in the entity on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.
An impairment loss on other assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Assets held for sale

Non-current assets (or groups of assets and liabilities that will be disposed of), whose carrying amount is expected to be recovered primarily via a sale transaction rather than through continuing use, are classified as held for sale. Immediately before being classified as such, the assets (or the components of a group of assets that will be disposed of) are remeasured in accordance with FrieslandCampina's accounting policies. Thereafter, the assets (or a group of assets and liabilities that will be disposed of) are generally measured at their carrying amount, or if this is lower, their fair value less selling costs.
An impairment on a disposal group is first allocated to goodwill and then on a pro rata basis to the remaining assets and liabilities, except that no impairment is allocated to biological assets, inventories, financial assets, deferred tax assets or employee related provisions, which continue to be measured in accordance with FrieslandCampina's accounting policies. Impairment losses arising from the initial classification as held for sale or distribution and gains or losses from subsequent remeasurement are recognised through the income statement. If the gain from subsequent remeasurement exceeds the cumulative impairment loss, this difference is not included.

Once they have been classified as held for sale or distribution, intangible assets and property, plant and equipment are not amortised or depreciated.

In addition, for investments recognised in accordance with the equity method, this measurement method is no longer applied once these investments are classified as held for sale or distribution.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligations to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the income statement in the periods during which the related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The part of the pension obligation placed by FrieslandCampina with an industry-wide pension plan in the Netherlands can be qualified as a defined contribution plan.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net pension liability (or asset) in respect of defined benefit plans is calculated annually for each plan on the basis of expected future developments in discount rates, salaries and life expectancy, less the fair value of the fund investments related to the plan. The present value of the obligations is calculated actuarially using the projected unit credit method. The discount rate used is the return at the balance sheet date on high-quality corporate bonds with at least an AA credit rating and with maturity dates similar to the term of the pension obligations.

The net present value per pension plan is recognised in the balance sheet as a pension liability, or as a pension asset, under employee benefits.

Remeasurement of the net pension liability (asset), comprising actuarial gains and losses resulting from changes in the assumptions for calculating the pension obligation, the return on plan assets (excluding interest) and the impact of the effect of the asset ceiling (if applicable) is carried out for each individual plan and recognised in the other comprehensive income.

If the calculation of the net pension liability per pension plan results in a positive balance, the asset recognised is limited to the sum of the present value of any future repayments by the fund or lower future pension contributions.

FrieslandCampina determines the net interest expenses (or gains) resulting from the defined benefit plan by multiplying the net pension liability (or asset) with the discount rate used to measure the defined benefit plan at the start of the year. Changes in the net pension liability (or asset) during the year as a result of benefits being paid out are taken into account. The net interest expenses (or gains) and other costs related to the defined benefit plan are recognised in the income statement.

FrieslandCampina recognises results due to the adjustment (plan amendment, curtailment and settlement) of pension plans through the income statement at the time an adjustment occurs or at the moment a restructuring provision is formed.

Other long-term employee benefits

Frieslandcampina's other long-term employee benefits liability concerns the present value of the benefits accrued by employees during the periods in which related services are provided by employees. Remeasurements are recognised in the income statement in the period in which they occur.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed at the time the related service is provided. A liability is recognised for the amount expected to be paid as a short-term employee benefit if FrieslandCampina has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions

A provision is recognised in the statement of financial position when, as a result of a past event, FrieslandCampina has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

Restructuring provision
Provisions for restructuring are formed when FrieslandCampina has formalised a detailed and formal restructuring plan and has either started implementing the restructuring plan or has announced the main aspects of the restructuring in such a way that the affected employees have a valid expectation the restructuring will take place.

Provision for onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by FrieslandCampina from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, FrieslandCampina recognises an impairment loss on the assets associated with the contract.

Revenue
Revenue from the sale of goods is recognised based on the transaction price of the received or receivable payment. The transaction price is determined taking into account returns, trade discounts and volume rebates. Revenue is recognised in the income statement when settlement of the contractual performance obligation by transfer of the goods to the customer took place. Settlement of the performance obligation has occurred when control over the goods has been transferred to the customer, associated costs and possible return of goods can then be estimated reliably and there is no continuing control over or involvement with the goods.

Discounts are recognised as a reduction of revenues when they will probably be granted and the discount amount can be measured reliable. When discounts will granted over past performance obligations, a provision is recognised in the balance sheet. In case a discount will be granted over future performance obligations, a contract liability will be recognised.

Cost of goods sold
Cost of goods sold primarily comprises the purchase of goods (including milk from the member dairy farmers and other raw materials and consumables), production costs (including personnel costs, depreciation and impairments of production facilities) and related transport and logistics costs.

Cost of raw materials, consumables and commodities that are a component of cost of goods sold are determined according to the first-in-first-out principle. The costs include the currency translation differences on trade receivables and payables as well as differences in the measurement of related derivatives.

Advertising and promotion costs
Advertising and promotion costs mainly comprise expenditure for marketing and consumer campaigns.

Selling, general and administrative costs
Selling, general and administrative costs comprise mainly the costs of the sales organisation, outbound transport costs, research and development costs, general costs and administrative costs.

Other operating costs and income
Other operating costs and income consist of costs and income that, according to the management, are not the direct result of normal business operations and/or that are so significant in terms of nature and size that they must be considered separately for a proper analysis of the underlying result.

Government grants
Government grants are recognised at fair value when there is reasonable assurance that the grants will be received and all related conditions will be complied with. When a grant relates to an expense item it is systematically deducted from the costs incurred over the period that are necessary to match the grant to the costs that it is intended to compensate. By reducing the depreciation expense this grant is accounted for in the income statement as income over the period of the expected useful life of the asset to which the grant relates.

Leases

Lease costs for short-term leases, leases of low-value assets and the variable portion of lease payments are recognised in the income statement in the period to which the cost pertains. Short-term leases have a term of less than 12 months. The variable portion of the lease payments is dependent on the use of the asset.

Finance income and costs

Finance income comprises interest received on loans and receivables from third parties, dividend income, positive changes to the fair value of financial assets valued at fair value after incorporating changes in value in the income statement, gains on hedging instruments that are recognised in the income statement and reclassifications of amounts previously recognised in other comprehensive income. Interest income is recognised in the income statement as it accrues, using the effective interest method, with due consideration to impairments.

Finance costs comprises interest expenses on borrowings and other obligations to third parties, fair value losses on financial assets at fair value through profit or loss, unwinding the discount on provisions, impairment losses recognised on financial assets (other than trade receivables), losses on hedging instruments that are recognised in the income statement and reclassifications of amounts previously recognised in other comprehensive income. Interest expenses are recognised in the consolidated income statement as they accrue by means of the effective interest method.

Foreign currency gains and losses from trade debtors and creditors are recognised as a component of operating profit. All other foreign currency gains and losses are reported on a net basis as either finance income or finance costs, depending on whether foreign currency movements are in a net gain or net loss position.

Taxes

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:
- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that on the transaction date does not affect accounting or taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not be settled in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, FrieslandCampina takes into account the effect of uncertain tax positions and whether additional taxes and interest may be due. FrieslandCampina operates in several different tax jurisdictions. This leads to complex tax issues. The ultimate decision regarding these complex tax issues is often outside the control of FrieslandCampina and depends on the efficiency of the legal processes in the relevant tax jurisdiction. FrieslandCampina believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions about future events. New information may become available that causes FrieslandCampina to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will affect tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and if the assets and liabilities relate to taxes levied by the same tax authority, on the same taxable entity or on different tax entities, but they intend either to settle current tax liabilities and assets on a net basis or realise their tax assets and liabilities simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Cash flows

The cash flow statement is prepared using the indirect method. Cash flows in foreign currencies have been translated into euros at the exchange rates prevailing on the transaction date.

Segmentation

The identified operational segments concern the separate segments within FrieslandCampina for which financial information is available that is frequently evaluated by the Executive Board, as the chief operating decision maker, in order to take decisions concerning the allocation of available resources to the segment and to assess the segment's performance.

FrieslandCampina has subdivided the operating segments by business group: Food & Beverage, Specialised Nutrition, Ingredients and Dairy Trading. Pricing within a segment is determined on a business-like, objective basis. The segmented results, assets and liabilities comprise items that are directly attributable to a segment and that can also be attributed on a reasonable basis. Unallocated items primarily consist of jointly used assets and liabilities and joint costs.

Subsidiaries, joint ventures and associates[1]

Principal subsidiaries

The Netherlands
FrieslandCampina B.V., Amersfoort
FC C.V., Amersfoort
FrieslandCampina DMV B.V., Amersfoort
FrieslandCampina Domo B.V., Amersfoort
FrieslandCampina International Holding B.V., Amersfoort
FrieslandCampina Kievit B.V., Meppel
FrieslandCampina Nederland B.V., Amersfoort
FrieslandCampina Ingredients B.V., Amersfoort
FrieslandCampina Pakistan Holding B.V., Amersfoort (81,69%)
Zijerveld en Veldhuyzen B.V., Bodegraven
FrieslandCampina Dutch Nutrition B.V., Amersfoort
FrieslandCampina International Specialised Nutrition B.V., Amersfoort

Belgium
FrieslandCampina Belgium N.V., Aalter
FrieslandCampina Belgium Cheese N.V., Aalter
FrieslandCampina B.V., Aalter (99.84%)

Germany
CMG Grundstücksverwaltungs- und Beteiligungs - GmbH, Heilbronn (89.56%)
DFE Pharma GmbH & Co. KG, Goch (50%)[2]
FKS Frischkonzept Service GmbH, Viersen
FrieslandCampina Germany GmbH, Heilbronn (94.90%)
FrieslandCampina Kievit GmbH, Lippstadt
Milchverwaltung FrieslandCampina Germany GmbH, Cologne

France
FrieslandCampina Cheese France S.A.S., Salon-de-Provence
FrieslandCampina France S.A.S., Saint-Paul-en-Jarez

Greece
FrieslandCampina Hellas S.A., Athens

Hungary
FrieslandCampina Hungária zRt, Budapest (99.99%)

Italy
FrieslandCampina Italy Srl, Verona

Romania
FrieslandCampina Romania S.A., Satu Mare (97.58%)

Spain
FrieslandCampina Canarias S.A., Las Palmas
FrieslandCampina Iberia S.L., Barcelona

United Kingdom
FrieslandCampina UK Ltd., Horsham

China
FrieslandCampina Dairy Co. Ltd., Shenyang
FrieslandCampina Branding Management (Shanghai) Co. Ltd., Shanghai
FrieslandCampina Ingredients (Beijing) Co. Ltd., Beijing
FrieslandCampina Ingredients (Shanghai) Co. Ltd., Shanghai
FrieslandCampina Trading (Shanghai) Co. Ltd., Shanghai

Hong Kong
FrieslandCampina (Hong Kong) Ltd., Hong Kong

Philippines
Alaska Milk Corporation, Makati City (99.86%)

Indonesia
PT Frisian Flag Indonesia, Jakarta (95%)
PT Kievit Indonesia, Jakarta

Malaysia
Dutch Lady Milk Industries Berhad, Petaling Jaya (50.96%)

Pakistan
FrieslandCampina Engro Pakistan Ltd., Karachi (51%)

Singapore
FrieslandCampina (Singapore) Pte. Ltd., Singapore
FrieslandCampina AMEA Pte. Ltd., Singapore

Thailand
FrieslandCampina Fresh (Thailand) Co. Ltd., Bangkok
FrieslandCampina (Thailand) PCL, Bangkok (99.71%)

Vietnam
FrieslandCampina Ha Nam Co. Ltd., Phu Ly
FrieslandCampina Vietnam Co. Ltd., Binh Duong province (70%)

Saudi Arabia
FrieslandCampina Saudi Arabia Ltd., Jeddah (75%)

United Arab Emirates
FrieslandCampina Middle East DMCC, Dubai

Egypt
FrieslandCampina Egypt Consulting and Trading S.A.E., Cairo

Ghana
FrieslandCampina West Africa Ltd., Accra

Ivory Coast
FrieslandCampina Ivory Coast S.A., Abidjan

Nigeria
FrieslandCampina WAMCO Nigeria PLC, Ikeja (67.81%)

United States
FrieslandCampina Ingredients North America Inc., Paramus, State: New Jersey
Jana Foods LLC., Iselin, State: New Jersey
Best Cheese Corporation, Purchase, State: New York

Joint ventures and associates[3]

Betagen Holding Ltd., Hong Kong, China (50%)
Coöperatieve Zuivelinvesteerders U.A., Oudenhoorn, the Netherlands (49.90%)
Great Ocean Ingredients Pty. Ltd., Allansford, Victoria, Australia (50%)
United Dutch Arizona Dairy Inc., Tempe, State: Arizona, United States (60%)

1 Unless where stated otherwise, it concerns a 100% interest. If the percentage is below 100%, the direct interest of the parent company in the relevant subsidiary is stated.
2 Due to local requirements this footnote is in German. In diesen Gesellschaften hat FrieslandCampina einen beherrschenden Einfluss. Durch die Einbeziehung in den Konzernabschluss der Royal FrieslandCampina N.V. hat die DFE Pharma GmbH & Co. KG als vollkonsolidiertes verbundenes Unternehmen von den Erleichterungen des § 264b HGB Gebrauch gemacht.
3 FrieslandCampina does not have control over these joint ventures and associates. This consideration was based on an analysis of both the shares and the voting rights held by FrieslandCampina for the relevant joint venture or associate.

Company statement of financial position

As at 31 December, before profit appropriation, in millions of euros

	Note	2021	2020
Assets			
Investments in subsidiaries	(2)	3,860	3,519
Loans to subsidiaries	(3)	906	1,421
Deferred tax assets			1
Other financial assets	(8)	33	14
Non-current assets		**4,799**	**4,955**
Other receivables	(4)	440	414
Other financial assets	(8)	21	4
Cash and cash equivalents		48	
Current assets		**509**	**418**
Total assets		**5,308**	**5,373**

	Note	2021	2020
Equity			
Issued capital	(5)	370	370
Share premium	(5)	114	114
Legal cash flow hedge reserve	(5)	6	–2
Legal currency translation reserve	(5)	–282	–350
Legal reserve for investments in participations	(5)	192	226
Profit for the year attributable to the shareholder	(5)	203	207
Retained earnings		1,311	1,008
Equity attributable to shareholder		**1,914**	**1,573**
Member bonds	(5)	1,502	1,560
Perpetual bonds	(5)	301	301
Cooperative loan	(5)	295	295
Equity attributable to other providers of capital		**2,098**	**2,156**
Equity attributable to providers of capital		**4,012**	**3,729**
Liabilities			
Interest-bearing borrowings	(6)	971	724
Deferred tax liabilities		1	
Other financial liabilities	(8)		9
Non-current liabilities		**972**	**733**
Interest-bearing borrowings	(6)	118	403
Trade and other payables		8	7
Current liabilities	(7)	193	497
Other financial liabilities	(8)	5	4
Current liabilities		**324**	**911**
Total liabilities		**1,296**	**1,644**
Total equity and liabilities		**5,308**	**5,373**

Company income statement

In millions of euros

	2021	2020
Share of profit of subsidiaries, net of tax	225	252
Other results, net of tax	37	13
Profit for the year	**262**	**265**

Notes to the consolidated financial statements

in millions of euros, unless stated otherwise

1. General

Accounting policies and notes
The Company financial statements are prepared in accordance with the legal requirements of Part 9, Book 2 of the Dutch Civil Code, making use of the option of article 2:362, paragraph 8 of the Dutch Civil Code regarding the application of the accounting policies for the measurement of assets and liabilities and determination of result (measurement principles) applied in the consolidated financial statements. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (EU-IFRS). The company income statement is presented in accordance with the exemption of article 2:402 of the Dutch Civil Code.

See the notes to the consolidated financial statements for items not included in the notes to the company financial statements. Investments in subsidiaries are measured using the equity method.

A legal reserve has been formed for the retained earnings of participations where distribution is subject to restrictions.

A list of subsidiaries and other companies in which the Company participates directly or indirectly, is available for inspection at FrieslandCampina's offices and has been filed with the trade register.

2. Investments in subsidiaries

	2021	2020
At 1 January	3,519	3,244
Profit for the year	225	252
Other comprehensive income for the year	95	–120
Other equity movements for the year	21	139
Reclassification of loans from subsidiaries		4
At 31 December	**3,860**	**3,519**

The other equity movements in 2021 relate to the reallocation of the goodwill included in the equity value of the subsidiaries. The reallocation results from changes in the management structure, see Note 1 of the consolidated financial statements.

This reallocation results in a reduction of equity from subsidiaries attributable to non-controlling interest, and results in an increase of equity from subsidiaries attributable to FrieslandCampina.

3. Loans to subsidiaries

	2021	2020
At 1 January	1,421	1,302
Reclassification to other receivables	-15	110
Loans issued	2	22
Repaid loans	-502	–9
Reclassification to loans from subsidiaries		–4
At 31 December	**906**	**1,421**

Maturity schedule	2021			2020	
	2023 - 2026	After 2026	**Total repay-ment**	2022 - 2025	**Total repay-ment**
Loans to subsidiaries	905	1	**906**	1,421	**1,421**

The current portion of these issued loans is recognised under other receivables. The average interest rate of the loans to subsidiaries at the end of 2021 was 1.9% (2020: 1.7%).

4. Other receivables

EUR 12 million (2020: EUR 15 million) of the other receivables relates to receivable with subsidiaries resulting from sweeping of cash and cash equivalents positions within FrieslandCampina and EUR 326 million (2020: EUR 336 million) mainly relates to receivables from subsidiaries and the current portion of loans to subsidiaries. In addition, a receivable from Zuivelcoöperatie FrieslandCampina U.A. for an amount of EUR 102 million (2020: EUR 63 million) has been recognised.

5. Equity attributable to the providers of capital

The number of issued shares at both the beginning and end of the financial year was 3,702,777 shares. EUR 370 million has been paid-up on these shares. The authorised capital amounts to EUR 1 billion, divided into 10,000,000 shares with a nominal value of EUR 100. The shares are being held by Zuivelcoöperatie FrieslandCampina U.A.

The cash flow hedge reserve and the currency translation reserve are legal reserves and as such cannot be distributed. Furthermore EUR 192 million (2020: EUR 226 million) has been classified as a legal reserve for investments in participations. This legal reserve concerns, among other items, the implementation costs of the ICT standardisation programme and undistributed profits of participating interests over which distribution cannot be enforced by FrieslandCampina.

The equity that is attributable to the providers of capital and that is included in the company financial statements is equal to the equity attributable to the providers of capital that is included in the consolidated financial statements. See Note 17 in the consolidated financial statements for more details regarding equity.

6. Interest-bearing borrowings

The terms and conditions of outstanding borrowings are as follows:

			2021		2020	
	Year of maturity	% Nominal interest rate		Carrying amount		Carrying amount
Syndicate (variable interest)	2021				10	
European Investment Bank (fixed interest)	2021-2026	0.8	139		142	
International Finance Corporation (variable interest)	2021-2026	1.5	53		60	
TLTRO borrowings (variable interest)	2023-2024	-0.2	325			
Borrowings from credit institutions				**517**		**212**
Private Placement (fixed interest)	2022	4.0	70		65	
Private Placement (fixed interest)	2024	4.2	129		120	
Private Placement (fixed interest)	2021-2027	4.0	108		117	
Borrowings from institutional investors				**307**		**302**
Green bonds (fixed interest)	2021-2026	1.5	252		300	
Borrowings from holders of green bonds				**252**		**300**
Euro commercial paper (variable interest)	2021				135	
Other uncommitted facilities (variable interest)	2021				40	
Uncommitted facilities						**175**
Borrowings from member dairy farmers (variable interest)	2021-2022	0.3	14		16	
Bank overdrafts (variable interest)	2021				123	
Capitalised issue costs	2021-2027		-1		-2	
Other interest-bearing borrowings					1	
Other				**13**		**138**
Interest-bearing borrowings				**1,089**		**1,127**
Recognised under non-current interest-bearing borrowings				971		724
Recognised under current interest-bearing borrowings				118		403

See Note 21 of the consolidated financial statements for an explanation of the commitments made to credit institutions, institutional investors, green bondholders, uncommitted facilities and member dairy farmers.

The borrowings from member dairy farmers concern three-year deposit loans held by member dairy farmers. These loans are immediately repayable on demand by the member dairy farmers against payment of a penalty interest of 0.25%.

7. Current liabilities

EUR 193 million (2020: EUR 489 million) of the current liabilities concerns a temporary current account with subsidiaries as a result of the sweep of bank positions within FrieslandCampina.

8. Other financial assets and liabilities

Other financial assets	2021	2020
Cross currency swaps	25	4
Commodity swaps	17	3
Forward exchange contracts	2	1
Loans issued	10	10
	54	**18**

Other financial liabilities	2021	2020
Cross currency swaps	4	9
Interest rate swaps		1
Commodity swaps		1
Forward exchange contracts	1	2
	5	**13**

The cross currency swaps and interest rate swaps are equal to the consolidated financial statements (see Note 22 of the consolidated financial statements). As a result of derivatives arranged with subsidiaries, more forward exchange contracts are recognised in other financial assets or financial liabilities in the company financial statements than in the consolidated financial statements. The contract volumes for the forward exchange contracts are EUR 664 million (2020: EUR 461 million). The granted loan concerns a variable loan with a term to the end of 2030.

9. Financial instruments

FrieslandCampina is sensitive to various financial risks, such as credit risks, interest rate risks, liquidity risks, commodity price risks and currency risks. The notes to the consolidated financial statements contain information regarding FrieslandCampina's exposure to each of these risks and FrieslandCampina's objectives, principles and procedures for managing and measuring these risks, see Note 27 of the consolidated financial statements.

These risks, objectives, principles and procedures for the management and measurement of these risks are correspondingly applicable for the Company financial statements of FrieslandCampina. The following quantitative disclosure is also included.

Fair value

The carrying amounts and the fair value of financial assets and liabilities are stated in the table below. The fair value is the amount that would be received or paid if the receivables and/or liabilities were settled on the reporting date, without further obligations. The fair value of most of the financial instruments recognised in the statement of financial position is virtually the same as the carrying amount.

	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets not measured at fair value				
Loans to subsidiaries	906	906	1,421	1,421
Loans issued	10	10	10	10
Other receivables	440	440	414	414
Cash and cash equivalents	48	48		
	1,404	**1,404**	**1,845**	**1,845**
Financial assets measured at fair value				
Hedging derivatives	44	44	8	8
	44	**44**	**8**	**8**
Financial liabilities not measured at fair value				
Interest-bearing borrowings – fixed rate	697	737	744	802
Interest-bearing borrowings – variable rate	392	392	383	384
Current liabilities to subsidiaries	193	193	497	497
Trade and other payables	8	8	7	7
	1,290	**1,330**	**1,631**	**1,690**
Financial liabilities measured at fair value				
Hedging derivatives	5	5	13	13
	5	**5**	**13**	**13**

10. Commitments and contingencies

Royal FrieslandCampina N.V. has issued statements of liability in conformance with Article 2:403 of the Dutch Civil Code in respect of liabilities resulting from legal acts of FrieslandCampina B.V., FrieslandCampina International Holding B.V. and FrieslandCampina Specialised Nutrition B.V. These entities have a statement of joint and several liability in accordance with Article 2:403 of the Dutch Civil Code, issued to the majority of Dutch subsidiaries.

Royal FrieslandCampina N.V together with the majority of Dutch operating companies forms the Royal FrieslandCampina N.V fiscal unity for corporate income tax purposes. The fiscal unity for value-added tax consists of Zuivelcoöperatie FrieslandCampina U.A., Royal FrieslandCampina N.V, FC C.V. and the active Dutch operating companies. On these grounds the Company is severally liable for the tax liability of the fiscal unity as a whole.

11. Remuneration of the Supervisory Board and the Statutory Directors

The remuneration of members of the Supervisory Board and the Statutory Directors is equal to the remuneration of members of the Supervisory Board and the Executive Board as disclosed in Note 26 of the consolidated financial statements. During the year under review, the members of the Executive Board were employed by the Company.

12. Subsequent events

For information regarding subsequent events, see Note 29 of the consolidated financial statements.

13. Proposed appropriation of profit attributable to the shareholder

The Supervisory Board gave its approval to the Executive Board's proposal to allocate the following amounts of the EUR 262 million profit: EUR 8 million as interest on the Cooperative's loan, EUR 42 million as interest payment to holders of member bonds and EUR 9 million as interest payment for holders of perpetual bonds. Of the profit attributable to the shareholder of EUR 203 million, EUR 14 million will be paid as supplementary cash payment and the remaining profit of EUR 189 million will be added to retained earnings.

Amersfoort, the Netherlands, 18 February 2022

Executive Board
Royal FrieslandCampina N.V.

H.M.A. Schumacher, CEO
J.G. Janssen, CFO
G.M. Fraser
R.F. van Neerbos

Supervisory Board
Royal FrieslandCampina N.V.

S.S.U. Attema, Chairman
J.W. Addink-Berendsen, Vice-Chairman
N. den Besten
H.T.J. Hettinga
C.C.H. Hoogeveen
D.R. Hooft Graafland
A.A.M. Huijben-Pijnenburg
E. Jellema
A.G.Z. Kemna
H.W.J. Schipper
H. Stöcker

Other Information

Provisions of the Articles of Association governing profit appropriation

The provisions regarding the appropriation of profit are included in Article 28 of the Articles of Association. These can be summarised as follows: profit will be distributed after adoption of the financial statements showing such distribution to be legitimate. The profit will be at the disposal of the General Meeting of Shareholders. The General Meeting will adopt the Company's reserve policy, as included in Article 27 of the Articles of Association, on a proposal from the Executive Board approved by the Supervisory Board. Distributions chargeable to a reserve may be made on a proposal from the Executive Board, which will be subject to the approval of the Supervisory Board, pursuant to a resolution passed by the General Meeting. Unretained profit will be distributed.

Auditor's assurance report

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Independent auditor's report

To: the general meeting and the supervisory board of Royal FrieslandCampina N.V.

Report on the financial statements of 2021

Our opinion

In our opinion:

- the consolidated financial statements of Royal FrieslandCampina N.V. together with its subsidiaries ('the Group') give a true and fair view of the financial position of the Group as of 31 December 2021 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code; and
- the company financial statements of Royal FrieslandCampina N.V. ('the Company') give a true and fair view of the financial position of the Company as of 31 December 2021 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements of 2021 of Royal FrieslandCampina N.V., Amersfoort. The financial statements include the consolidated financial statements of the Group and the Company's financial statements.

The Group's financial statements comprise:

- the consolidated statement of the financial position as of 31 December 2021;
- the following statements for 2021: the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows; and
- the notes, comprising significant accounting policies and other explanatory information.

The Company's financial statements comprise:

- the Company's statement of financial the position as of 31 December 2021;
- the Company's income statement for 2021; and
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Royal FrieslandCampina N.V. in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in The Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

Our audit approach

We designed our audit procedures regarding key audit matters, fraud and going concern, and the matters arising from these elements, in the context of the audit of the financial statements as a whole and in forming our opinion thereon. The information supporting our opinion, such as our findings and observations regarding individual key audit matters, our audit approach regarding fraud risks and our audit approach regarding going concern are to be read in this context and not to be regarded as a separate opinion or conclusion on these matters.

Overview and context

Royal FrieslandCampina N.V. is a dairy company owned by the member dairy farmers through Zuivelcoöperatie FrieslandCampina U.A. The member dairy farmers supply milk and are represented in the supervisory board of FrieslandCampina. These members are important stakeholders of FrieslandCampina and have (had) a significant influence on the materiality setting as included in the paragraph 'Materiality' in this auditor's report. The organisational structure is further explained in the 'Corporate Governance' chapter of the annual report. This structure also has its influence on the management and reporting of the group, and therefore also on the annual report and our audit approach, for example with regard to purchases of milk and cooperative activities (which will be further explained in the 'This is FrieslandCampina' chapter of the annual report). Due to the various components of the Group, we considered our group audit scope and approach as set out in the section 'The scope of our group audit'.

The financial year 2021 was characterised by increased turnover in the business groups Food & Beverage and Trading. However, with regard to its results, the business groups Specialised Nutrition and Ingredients were under pressure. Our materiality is comparable to last year and the results of the concerned business groups have been included in our audit approach (please also refer to the key audit matters regarding the valuation of goodwill and the recoverability of deferred tax positions).

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we devoted attention to the areas where the Executive Board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In the section 'judgements, estimates and assumptions', part of the paragraph 'basis of preparation' of the financial statements, the Executive Board describes the key areas of judgement and assumptions. Due to the significant estimation uncertainty and the related higher inherent risk associated with the valuation of goodwill and the recoverability of deferred tax positions, we identified these as key audit matters, as set out in the section 'Key audit matters'.

Impact of climate change

FrieslandCampina has committed itself to net climate targets for 2030 and 2050, as explained in the section 'Better climate, carbon-climate-neutral future' in the annual report. In 2021, the Company submitted concrete targets for the 'well below 2 degrees' scenario to the Science Based Target initiative (SBTi). The annual report also discloses that the Company intends to commit itself to the 'well below 1.5 degree' scenario for scope 1 and 2 emissions in 2022. The impact of this commitment on the Company's targets, as well as on the required investments, the current cost base and future cash flows, will be further elaborated in 2022.

FrieslandCampina has disclosed the uncertainties arising from climate change, as well as on the actions taken, in the risk paragraph of the annual report. In the explanation of the materiality matrix in step 3, FrieslandCampina also elaborates on actions that have already been taken, as well as on yet to be conducted analyses intended to determine the financial impact of the 25 subjects from the materiality analysis on the Company. The Executive Board has further elaborated, for as far as possible, on the impact of climate change on the assumptions and estimates in the financial statements and the financial position of FrieslandCampina in the section 'climate change' in the financial statements.

Together with our specialists on sustainability reporting, we held discussions with management of FrieslandCampina about the impact of climate change and the climate targets on the Company. During our audit, we did not identify climate change as a separate key audit matter but included it in the key audit matters already identified. We evaluated the potential impact of the current committed net climate targets on the financial position, including the underlying assumptions and estimates, for example with regard to the future cash flows in the goodwill impairment model and the related disclosures in the financial statements.

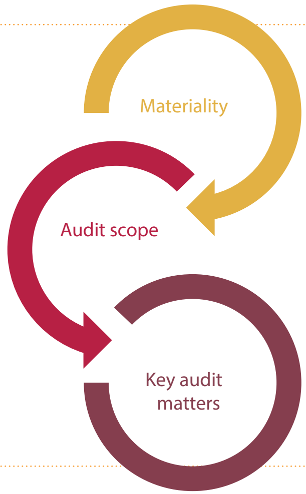
Other areas of focus in the audit

An area of focus in our audit that was not identified as a key audit matter, is the impact of COVID-19. The direct and indirect consequences of COVID-19 had an impact on economic activities and market conditions in 2021. The impact of COVID-19 on our audit process has been limited. The measures related to COVID-19 resulted in our audit mainly having been carried out through digital collaboration. We were able to perform the necessary on-site observations (such as inventory counts) and therefore, the measures related to COVID-19 did not significantly impact our audit.

Other areas of focus in our audit, which were not identified as key audit matters, were the court ruling in Thailand regarding a business dispute between FrieslandCampina Thailand and a business-to-business customer, the one-off release of the pension liability as a result of the changed indexation scheme and the annual evaluation of indications of depreciation and/or increases in value of fixed assets.

We made sure that the audit teams, both at group and component level, possessed the appropriate skills and competences that are needed for an audit of a global dairy company. In our team, we therefore included experts and specialists in the areas of IT systems, valuation of goodwill and other fixed assets, (international) taxes, financial instruments, and long-term employee benefits.

The outline of our audit approach was as follows:



Materiality

- Overall materiality: €45 million.

Audit scope

- We conducted audit work on eighteen components in fourteen locations.
- Due to travel restrictions as result of COVID-19, we did not visit any foreign components in relation to our 2021 audit. Alternatively, we held video conference calls with the component auditors and management of the components in Nigeria, Germany, China, Hong Kong, and Indonesia.
- Audit coverage: 85% of consolidated revenue, 96% of consolidated total assets and 91% of consolidated profit before tax.

Key audit matters

- Valuation of goodwill.
- Valuation of tax positions.

Materiality

The scope of an audit is generally influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect and impact of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€45 million (2020: €45 million).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 1.5% of the compensation to the member dairy farmers for milk supply. The materiality benchmark is consistent with prior year, based on our professional judgement and the common information need of the users, the materiality is maximised at €45 million.
Rationale for benchmark applied	The benchmark is based on our analysis of the common information needs of users of the financial statements. Based on this, we believe that the compensation to the members for milk supply is an important metric for the financial performance of the Company.
Component materiality	Based on our judgement, we allocate materiality that is less than our overall group materiality to each component in our audit scope. The materiality allocated to the components is between €3 million and €36 million.

We also take into account misstatements and/or possible misstatements that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board on the fact that we would report to them any and all misstatements identified during our audit above €1 million (2020: €1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit
Royal FrieslandCampina N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Royal FrieslandCampina N.V. The activities of the group were divided into four business groups: Food & Beverage, Specialised Nutrition, Ingredients and Trading. The execution and coordination of the group audit has been performed along the lines of these four business groups.

We tailored the scope of our audit in such a way that we were able to ensure that we, in the aggregate, could provide sufficient coverage of the financial statements in order to give an opinion on the financial statements as a whole, considering the management structure of the Group, the nature of operations of its components, the business processes and internal controls and the markets in which the components of the Group operate. During the establishing of the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the group engagement team and by each component auditor.

In determining the scope of our group audit, we considered the following important elements of the internal control environment of the Group:
- Internal Control Framework: During the coordination of our group audit, we instructed the component teams to, where relevant for the audit, make use of the Internal Control Framework and to report to us their observations regarding the design and effectiveness thereof. In circumstances where it was not deemed effective or efficient to rely on the internal control framework of the group, additional substantive procedures were performed to obtain sufficient and appropriate audit evidence.
- Central IT systems: FrieslandCampina implemented one global ERP-system in most of the countries. The majority of the IT-systems of the group are operated centrally. With support of our IT-specialists we tested the IT General Controls (ITGCs) and IT-dependencies of the central ERP-system. During this audit, non-significant findings were identified, which were addressed by additional substantive procedures. We shared the results of our audit procedures with the component teams.
- Shared-service centres: In 2021, the majority of the activities of the Dutch shared service centre in Wolvega (The Netherlands) were transferred to the shared service centre in Budapest (Hungary) and to a small extent to the shared service centre in Malaysia. FrieslandCampina has two shared service centres worldwide. The shared service centres in Malaysia and Hungary are audited by local auditors, who report the results of their work for the Dutch operations to us and to the various local audit teams.
- To give and maintain a direction to our audit, we took notice of the results of the work performed and the reports of Corporate Internal Audit. We did not rely on their work, but where relevant, we used their results for our risk assessment.

In determining the scope of the group audit, we considered, apart from the above-mentioned elements, the relative share of the individual components and the risk profile of these components. We marked the Dutch component as significant, but none of the other components have been marked as significant based on their size or risk profile. Next to the significant component, we subjected seventeen components to audits of their complete financial information to gain sufficient coverage over the financial statements line items. Additionally, for one component we performed specific audit procedures to achieve appropriate coverage on individual financial statements line items. In total, we performed audit procedures on eighteen components in fourteen countries.

By performing these procedures, we achieved the following coverage on the financial line items:

Revenue	85%
Total assets	96%
Profit before tax	91%

None of the remaining components represented more than 2% of total group revenue or total group assets. On those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

The group engagement team performed the audit work for the Dutch activities. In addition, the group team performed the audit procedures with respect to the consolidation, the restructuring provisions, the valuation of goodwill and intangible assets and significant estimates with respect to uncertain tax positions as well as the disclosures in the financial statements.

We engaged (other) component auditors to audit foreign components. Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we had obtained sufficient and appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole.

We issued instructions to the component audit teams that were in our audit scope. We held regular conversations with the component audit teams to discuss the risks, the audit approach, the progress of the audit and, based on the reports, the findings and conclusions received from the component audit teams. Where deemed necessary, we expanded this by including file reviews to evaluate the quality of the work performed. Closing meetings were held with the financial directors and auditors of the business groups about the financial results, the (important) estimates used and the findings from the audit.

Due to the international travel restrictions related to COVID-19, we did not visit components of group entities for the 2021 audit but held video conference calls instead. For the 2021 financial year, we held at least two video conference calls with the component audit teams that were part of our group audit. We also attended video conference calls with local management for the shared service centres in Hungary and Malaysia and the components in Nigeria, Germany, China, Hong Kong and Indonesia. Based on our experience with the component audit teams from previous years, the increased frequency of contacts and additional procedures at group level, were able to obtain sufficient and appropriate audit evidence on the group's financial information as a whole to provide a basis for our opinion on the financial statements.

Audit approach fraud risks

We identified and assessed risks of material misstatement of the financial statements due to fraud. During our audit, we obtained insight into Royal FrieslandCampina N.V. and its environment, the components of the internal control system, including the risk assessment process and the way in which the Executive Board responds to fraud risks and monitors the internal control system, and the way in which the supervisory board supervises, as well as the results thereof.

We evaluated the design and relevant aspects of the internal control system and in particular the fraud risk analysis, for example the code of conduct (Compass), anti-corruption procedures (Doing honest business), whistle-blower procedure (Speak-Up Procedure), incident registration (Case Management System) and investigation protocols (investigation procedures). In addition, we evaluated the follow-up of the incident registration.

We evaluated the design and existence and tested the effectiveness of internal controls aimed at mitigating fraud risks whenever we deemed necessary. As part of our process for identifying risks of material misstatement of the financial statements due to fraud, we considered fraud risk factors related to fraudulent financial reporting, misappropriation of assets and bribery and corruption. We evaluated whether these factors were indicative of the presence of the risk of material misstatement due to fraud. The fraud risks identified and the specific work performed are as follows:

Identified fraud risks	Our audit work and observations
The risk of management override of internal control In our audit, we consider the risk of management override of internal control, including risks of potential misstatement due to fraud based on an analysis of management's potential interests. In that context, we paid special attention to the cut-off of expenses and possible unusual transactions. We also paid special attention to the assessment of possible impairments in intangible fixed assets and the deferred tax positions. The fact that the estimates of these items are generally inherently subject to uncertainty, could lead to an opportunity for management not recognising a possible impairment.	Where relevant to our audit, we evaluated the design of the internal controls that are intended to mitigate the risk of management override of controls and assessed the effectiveness of the measures in the processes of generating and processing journal entries and making estimates. We also paid specific attention to the access safeguards in the IT-system and the possibility that these may lead to breaches of the segregation of duties. We also paid specific attention to the consequences of COVID-19 on the effectiveness of the internal controls. We concluded that, in the context of our audit, we were able to rely on the internal controls relevant to this risk. We selected journal entries based on risk criteria and conducted specific audit activities for these entries and paid attention to significant transactions outside the normal course of business. We particularly paid attention to the inherent risk of management bias in management's analysis and forecasts underlying the valuation of intangible assets and deferred tax assets. We would like to refer to the key audit matters for our work performed regarding the financial statement line items goodwill and deferred tax positions. We also performed specific substantive procedures on the cut-off of expenses. Our audit procedures did not identify any material misstatement in the information of the financial statements and the board report compared with the financial statements provided by management. Our audit procedures did not lead to specific indications of fraud or suspicions of fraud with respect to management override of internal controls.

Identified fraud risks	Our audit work and observations
The risk of fraudulent financial reporting due to overstating the revenue The member dairy farmers assigned a clear task to the executive board to achieve the financial targets, including a revenue growth target compared to 2020. Management receives bonuses, the amount of which depends on the financial results achieved. In the previous financial year, no cash supplementary payment could be made because of the results and in 2021, COVID-19 and the results of business groups Specialised Nutrition and Ingredients had an impact on revenue and profit. As a result, there is a risk of pressure being put on the executive board to achieve the growth target, as well as a risk of overstatement of revenue in the financial year.	Where relevant to our audit, we assessed the design and effectiveness of the internal controls related to revenue reporting and in the processes for generating and processing journal entries related to the revenue. We concluded that, in the context of our audit, we were able to rely on the internal control procedures relevant to this risk. Using data analysis, we identified potential notable revenue entries in the financial year and performed substantive audit procedures on these entries by determining whether these entries are based on deliveries that actually took place in the financial year. In addition, we performed substantive audit procedures related to the accuracy of the revenue entries in the financial year. We performed substantive procedures on outstanding receivables at year-end, whereby we asked debtors to confirm the balance. At year-end, we performed specific audit procedures related to cut-off procedures to identify possible shifts in revenue of delivered products from the next financial year to the revenue recognition of the current financial year. In addition, we performed audit procedures to determine whether credit invoices were registered in the next financial year that indicate incorrectly registered revenue in the current financial year. Our audit procedures did not identify any material misstatement in the information of the financial statements and the board report compared with the financial statements provided by management. Our audit procedures did not lead to specific indications of fraud or suspicions of fraud with respect to the accuracy of the revenue reporting.

Identified fraud risks	Our audit work and observations
The risk of paying bribes by and at the initiative of agents FrieslandCampina is active worldwide and uses sales agents in various countries. This includes agents located in countries with a higher risk of corruption according to the Corruption Perception Index of Transparency International. Given the inherent risk, we paid particularly paid attention to the risk of bribes being paid by and coming to be at the initiative of agents in transacti-ons made through agents.	As described in the paragraph 'Good business behaviour' in the board report, FrieslandCampina has drawn up anti-corruption rules (Doing Hones Business) for employees and parties acting on behalf of FrieslandCampina. Where relevant to our audit, we assessed the design and effectiveness of the internal controls with respect to entering into contracts with agents and the monitoring of work performed by agents. As a result of a deficiency in the design of internal control that we identified and reported during the 2020 audit, management established a renewed acceptance process for agents during 2021 and performed additional analyses to improve central administration. Management used these analyses to assess the transactions for higher risk characteristics and, where necessary, conducted further investigations to the beneficiaries. We tested the reliability of this analysis with substantive audit procedures. In addition, for a number of high-risk countries, we sent out a detailed questionnaire and discussed it with our component auditors to identify material transactions with agents that were not known. Our audit procedures did not identify any material misstatements in the information provided by management in the financial statements and the board report compared to the financial statements. Our audit procedures did not lead to specific indications of fraud or suspicions of fraud with respect to possible bribes by and at the initiative of agents.

We incorporated an element of unpredictability in our audit. We also reviewed the outcome of other audit procedures and investigated those for indications of fraud or non-compliance with laws and regulations.

We reviewed the available information and inquired members of the executive board, management of the various business groups, the internal audit department, the internal control department, business conduct department, IT department, legal affairs, human resources, and the board of directors. This did not reveal any indications of fraud that could lead to material misstatement.

We also took note of lawyers' letters and correspondence with relevant regulators and during the course of the audit we remained alert for indications of signs of fraud. Moreover, we also reviewed the outcome of other audit procedures and investigated those for indications of fraud or non-compliance with laws and regulations. In case of a detection of fraud or non-compliance with laws or regulations, we re-evaluated our fraud risk assessment and its impact on our audit.

Audit approach going concern

The executive board prepared the financial statements on the assumption that the entity is a going concern and that it will continue its operations in the foreseeable future. Our audit procedures to evaluate the executive board's going concern assessment include:

- considering whether the executive board's going concern assessment includes all relevant information about elements such as credit risk, interest rate risk, liquidity risk, commodity price risk and currency risk that we are aware of as a result of our audit, and inquiry with the executive board regarding the most important assumptions underlying their going concern assessment and examining the most important assumptions and determining whether the executive board identifies events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter: going concern risks);
- analysing the financial position per balance sheet date in relation to the financial position per previous year balance sheet date, to assess whether indicators exist that may depict a going concern risk;
- recalculating the debt covenants to determine whether the conditions of the facilities have been met;
- evaluating the budgeted operating results and the related cash flows compared to the previous year, current developments in the industry and all relevant information of which we are aware as a result of our audit; and
- performing inquiries of the executive board as to their knowledge of going concern risks beyond the period of the going concern assessment performed by the executive board's assessment.

Our audit procedures did not result in an outcome contrary to the executive board's judgements, estimates and assumptions used in the application of the going concern assumption.

Key audit matters

Key audit matters are matters that, in our professional judgement, were of most significance to the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are no comprehensive reflection of all matters discussed before and identified by our audit. In 2021, the impact of the strategic restructuring was no longer identified as a key audit matter because the impact on the financial statements and audit that year was limited. In this section, we have described the key audit matters and included a summary of the audit procedures we performed on those matters.

We determined our audit procedures with regard to these key audit matters in the context of the financial statements audit as a whole. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comment or observation made on the results of our procedures is to be read in this context.

Key audit matters	Our audit work and observations
Valuation of goodwill	
Refer to note 9 of the financial statements The group recorded €1,080 million of goodwill related to historical acquisitions. The goodwill is subject to an annual impairment test at the level of individual business groups. The valuation of goodwill is complex and involves management's estimates, which are inherently uncertain. Given the material impact of goodwill, any change in the assumptions, based on their sensitivity, could have a significant effect on the financial statements. As a result, we considered the valuation of goodwill to be a key audit matter. The valuation of goodwill is tested based on the value in the use, which is based on the discounted cash flows. The most important assumptions for testing the valuation are the discount rate, the long-term growth rate, the gross margin growth rate, and the developments in results. Within the model, compensation for the role that mainly business group Trading has in processing the members' milk ('cooperative role') is considered. The compensation from other business groups is to cover the losses on mainly basic dairy products as a result of the fact that all milk supplied by the member farmers has to be processed. This allocation is subject to management estimates. Financial results from activities that have a cooperative role are being allocated to the other business groups based on the volume of milk from member farmers that they process.	We tested the valuation methodology, the assumptions applied in the goodwill impairment model and the underlying calculations. Together with valuation specialists, we tested the discount rate and long-term growth rate with available market information (such as market interest rate and inflation) as well as our own independent assessment. We noted no significant findings. The gross margin growth rate and result developments are reconciled with the budget and management forecasts (budget 2022 and the long-term plans until 2024). The decrease in values in use as a result of lower expected discounted cash flows from FrieslandCampina did not lead to an impairment, but it does indicate a decrease of headroom compared to 2020, in particular for the business group Ingredients (refer to note 9 of the financial statements). We evaluated the outcome of management's estimates in prior years by comparing actual results with forecasts for prior years to test whether, in retrospect, the assumptions were too optimistic. In addition, we tested the process underlying the preparation of these budgets and forecasts. In our audit procedures we compared actual results of 2021 with the projections in impairment analysis from last year. These actual results were lower than last year's forecast and management adjusted forecasts in this year's model. We also questioned management about the assumptions regarding climate change as explained in the section 'climate change' and the way in which these assumptions have been taken into consideration by management in the testing of the valuation of goodwill and the sensitivity analyses. We tested management's budget and forecasts by comparing them to historical results, external information, and market outlooks. The estimations as made by management are consistent and in line with our expectations.

Key audit matters	Our audit work and observations
	We inquired with management regarding the allocation method of the compensation between the business groups and we verified this with underlying supporting evidence. We paid specific attention to confirm the fact that losses are allocated to other business groups based on an accurate and consistent manner and reflect the economic reality. We did not find exceptions. Based on our procedures we conclude that the disclosures include the required information regarding estimates, assumptions, and sensitivities.

Valuation of tax positions

Refer to note 7, 19 and 24 of the financial statements

The Group has subsidiaries in several countries and is therefore subject to local tax legislation. In the paragraph 'Taxes' of the annual report FrieslandCampina's approach towards tax positions is described.

Because of the complexity of multiple local tax regimes, the determination and local acceptance of internal transfer pricing is difficult. The determination can have an impact on the local fiscal results and taxes payable.

The recognition and valuation of tax positions is subject to judgement, as it involves interpretation of local tax legislation (including the local acceptance of the internal transfer prices as applied by FrieslandCampina). The outcome of legal cases in the relevant tax jurisdictions is difficult to predict and can therefore deviate from the estimation. Important data for determining the deferred tax positions are the local tax percentages and settlement periods. The assumptions of the budgets used are also important for the recognised tax positions.

Deferred tax assets are capitalised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available, for which the losses can be utilised. The expectation of the recoverability to offset the deferred tax assets in the Netherlands of €84 million is based on the acceleration of the transformation of the Company and the strategy 'Our Purpose, Our Plan', including the strategic reorientation related to the Friso brand activities. FrieslandCampina also has unrecognised tax losses for which no asset is recognised in the financial statements.

Given that the tax positions are material and inherently uncertain, a significant risk of inaccurate internal transfer prices and inaccurate valuation of tax positions exists. Thus, we consider this a key audit matter for our audit.

Valuation of tax positions

We conducted the audit together with international tax specialists. Our procedures consisted, among other things, of a risk assessment, including the evaluation of the outcome of estimations that were made by management in prior years. We tested the accuracy of the internal transfer prices by evaluation of the correspondence from the tax authorities, evaluation of internal transfer pricing documentation and tax legislation combined with our own independent analysis.

Our procedures were focused on determining whether the legal processes in the relevant tax jurisdictions lead to a tax liability or provision in the financial statements. For this purpose, we assessed correspondence with the tax authorities, and we prepared our own independent analysis, with support of our international tax specialists, to assess the status and treatment of the procedures. We compared management's calculation with our calculation and determined that management's assessment is acceptable.

Regarding the valuation, we test assumptions underlying the valuation of deferred tax assets by reconciling the underlying budgets and forecasts to substantiate the valuation of deferred tax assets. In addition, we have tested the plans of management regarding the reorientation related to the Friso brand activities and the associated assumptions regarding the expected future taxable results based on the available substantiation.

We did not identify any material findings based on the audit work performed and the audit evidence obtained.

In addition, we checked whether the disclosures about the recognised tax positions and the recoverability of the deferred tax assets contain the required information. We did not find any material findings in this regard.

Report on the other information included in the annual report

The annual report also included other information. This concerns all information in the annual report other than the annual accounts and our auditor's report thereon.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements; and
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The executive board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

On 30 April 2015, based on nomination of the supervisory board, we were appointed as auditors of Royal FrieslandCampina N.V. by the general meeting. This appointment is reconfirmed on an annual basis by the general meeting. We have been auditors of the company for a total period of uninterrupted engagement of six years.

Responsibilities for the financial statements and the audit

Responsibilities of the executive board and the supervisory board for the financial statements

The executive board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control that the executive board determines to be necessary for enabling the preparation of the financial statements to be free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the executive board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going concern basis of accounting, unless the executive board either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so. The executive board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion.
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements.

Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 18 February 2022

PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by A.L. Koops-Aukes RA

Appendix to our auditor's report on the financial statements 2021 of Royal FrieslandCampina N.V.

In addition to what is included in our auditor's report, in this appendix we have further set out our responsibilities for the audit of the financial statements and explain what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements, and independence requirements. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board.
- Concluding on the appropriateness of the executive board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair representation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related actions taken to eliminate threats or safeguards applied.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Assurance report of the independent auditor

To: the general meeting and the supervisory board of FrieslandCampina N.V.

Assurance report on the sustainability information 2021

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the sustainability information included in the annual report 2021 of Royal FrieslandCampina N.V., in Amersfoort (hereafter: FrieslandCampina) does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to sustainability; and
- the thereto related events and achievements for the year ended 31 December 2021, in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as included in the section 'Reporting criteria'.

What we have reviewed

We have reviewed the sustainability information included in the following sections of the annual report for 2021 (hereafter: the sustainability information):

- 'This is FrieslandCampina', excluding the sections 'The FrieslandCampina brands', 'Top 10 consumer brands and top 5 ingredients' and 'FrieslandCampina worldwide';
- 'Report by the executive board', excluding the sections 'Outlook for 2022', 'Risk management', 'Management statement' and 'Statement of executive responsibility';
- appendix '2021 HR data'.

The sustainability information includes a description of FrieslandCampina's policy and business operations with regard to sustainability and of the events and achievements in that area during 2021.
This report is aimed at obtaining a limited level of assurance.

The basis for our conclusion

We conducted our review in accordance with Dutch law, including the Dutch Standard 3810N 'Assurance engagements relating to corporate social responsibility reports'. Our responsibilities under this standard are further described in the section 'Our responsibilities for the review of the sustainability information' of our report.

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Independence and quality control

We are independent of FrieslandCampina in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other independence requirements in the Netherlands relevant for the engagement. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Dutch Code of Ethics).

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS – Regulations for quality systems) and, accordingly, maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements

Reporting criteria

The sustainability information needs to be read and understood together with the reporting criteria. The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in the appendices 'Glossary' and 'Explanatory note' of the annual report.

The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities, and over time.

Limitations to the scope of our review

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans, estimates and risk assessments. Inherent to prospective information, the actual future results are uncertain, and are likely to differ from these expectations. These differences may be material. We do not provide any assurance on the assumptions and the achievability of prospective information.

In the sustainability information references are made to external sources or websites. The information on these external sources or websites is not part of the sustainability information reviewed by us. Therefore, we do not provide assurance on this information.

Our conclusion is not modified in respect of these matters.

Responsibilities for the sustainability information and the review thereon

Responsibilities of the executive board and the supervisory board for the sustainability information

The executive board of FrieslandCampina is responsible for the preparation of reliable and adequate sustainability information in accordance with the reporting criteria as included in the section 'Reporting criteria', including selecting the reporting criteria, the identification of stakeholders, determining the material matters and determining that the applicable reporting criteria are acceptable in the circumstances, taking into account applicable law and regulations relating to reporting. The choices made by the executive board regarding the scope of the sustainability information and the reporting policy are summarised in the appendices 'Glossary' and 'Explanatory note' of the annual report.

Furthermore, the executive board is responsible for such internal control as the executive board determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or error.

The supervisory board is responsible for overseeing the company's reporting process on the sustainability information.

Our responsibilities for the review of the sustainability information

Our responsibility is to plan and perform a review engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence to provide a basis for our conclusion.

Our objectives are to obtain a limited level of assurance to determine the plausibility of the sustainability information. The procedures vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. The level of assurance obtained in a review is therefore substantially less than the assurance obtained in an audit in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

Procedures performed

We have exercised professional judgement and have maintained professional skepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and the independence requirements.

Our procedures included, amongst other things, the following:

- Performing an analysis of the external environment and obtaining an understanding of the relevant social themes and issues and the characteristics of the company.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the executive board.
- Obtaining an understanding of the reporting processes for the sustainability information including obtaining a general understanding of internal control relevant to our review.
- Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information of material misstatement, whether due to fraud or error. Designing and performing further assurance procedures aimed at determining the plausibility of the sustainability information responsive to our risk analysis.
- Our other procedures consisted of amongst others:
  - interviewing management (and/or relevant staff) responsible for the (sustainability) strategy, policy and results;
  - interviewing relevant staff responsible for providing the information for, carrying out the internal control procedures on, and consolidating the data in the sustainability information;
  - obtaining assurance evidence that the sustainability information reconciles with underlying records of the company;
  - reviewing, on a limited test basis, relevant internal and external documentation;
  - performing an analytical review of the data and trends submitted for consolidation at corporate level.
- Reconciling the relevant financial information with the financial statements.
- Evaluating the consistency of the sustainability information with the information in the annual report, which is not included in the scope of our review.
- Evaluating the presentation, structure and content of the sustainability information.
- Considering if the sustainability information as a whole, including disclosures, reflects the purpose of the reporting criteria used.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the review and significant findings that we identify during our review.

Amsterdam, 18 February 2022

PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by A.L. Koops-Aukes RA

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Financial history

In millions of euros, unless stated otherwise

	2021	2020	2019[5]	2018	2017
Key figures					
Income statement					
Revenue	11,501	11,140	11,297	11,553	12,110
Operating profit	355	268	432	342	444
Profit for the year	172	79	278	203	227
Milkprice[1]					
Guaranteed price[2]	37.84	34.46	35.66	36.05	37.96
Supplementary cash payment[3]	0.14		1.07	0.46	1.03
Issue of member bonds[4]			0.31	0.13	0.30
Meadow milk premium	0.66	0.66	0.65	0.63	0.60
Company contribution to Foqus Planet	0.25	0.24			
Special supplements	0.34	0.36	0.26	0.16	0.12
Milk price	39.23	35.72	37.95	37.43	40.01
Financial position					
Balance sheet total	9,056	8,716	9,049	8,823	9,046
Equity attributable to shareholder	1,914	1,573	1,463	1,304	1,287
Equity attributable to providers of capital	3,635	3,517	3,450	3,260	3,229
Net debt (excluding lease liabilities)	700	876	1,067	1,287	1,400
Cash flows					
Net cash flows from operating activities	594	737	567	619	418
Net cash flows used in investing activities	–302	–443	–185	–490	–414
Depreciation of plant and equipment and amortisation of intangible assets	465	456	441	362	368
Additional information					
Equity as a % of total assets	40.1	40.4	38.1	36.9	35.7
Employees (average number of FTEs)	22,961	23,877	23,816	23,769	23,675
Milk supplied by members (in millions of kg)	9,745	10,064	10,020	10,375	10,716

1 In Euros per 100 kgs of milk
2 Excluding VAT for 2020 and 2021 at 3.57% protein, 4.42% fat and 4.53% lactose. For prior years at 3.47% protein, 4.41% fat and 4.51% lactose.
3 Proposed payment from the profit for the year attributable to the shareholder. As a result of changes to the legal structure, the performance premium was changed into a supplementary cash payment effective from 1 January 2020.
4 Due to changes in the milk price regulations, effective from the 2021 financial year member bonds will no longer be issued as part of the compensation for member milk.
5 IFRS16 – Leases has been applied effective from 2019, as a result of which the balance sheet total, among others, has increased.

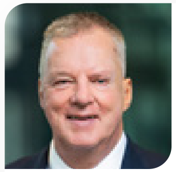
Milk price overview

In euros per 100 kilos of milk

	2021	2020
Fat price	13.42	12.22
Protein price	21.67	19.74
Lactose price	2.75	2.50
Guaranteed price[1]	**37.84**	**34.46**
Supplementary cash payment[2]	0.14	
Meadow milk[3]	0.66	0.66
Company contribution to Foqus planet[4]	0.25	0.24
Special supplements5	0.34	0.36
Milk price	**39.23**	**35.72**
Interest member bonds	0.44	0.46
Retained earnings[6]	0.21	–0.46
Performance price	**39.88**	**35.72**

1 Excluding VAT at at 3.57% protein, 4.42% fat and 4.53% lactose.
2 Proposed payment from the profit for the year attributable to the shareholder. As a result of changes to the legal structure, the performance premium was changed into a supplementary cash payment effective from 1 January 2020.
3 Member dairy farmers applying pasture grazing receive a 1.50-euro meadow milk premium per 100 kilos of milk for 2021. An amount of 1.00 euro per 100 kilos of meadow milk is paid from the operating profit. On average, on all FrieslandCampina member milk, this amounts to 0.66 euro per 100 kilos of milk.
4 Member dairy farmers will receive a Foqus planet contribution of EUR 24 million for 2021 through means of a generic allowance of EUR 0.125 per 100 kilos of milk and an amount for sustainable development. On average, on all FrieslandCampina member milk, this amounts to EUR 0.25 per 100 kilos of milk.
5 Special supplements concern the total amount of payments per 100 kilos of milk of Landliebe milk, the VLOG premium and On the Way to PlanetProof, and the difference between the guaranteed price paid for organic milk and the guaranteed price paid. On average, on all FrieslandCampina member milk, this amounts to EUR 0.34 per 100 kilos of milk.
6 Inclusive of equity from non-controlling interests that is directly attributable to the shareholder.

Supervisory Board



Sybren (S.S.U.) Attema (1960)

Position Chairman of the Supervisory Board of Royal FrieslandCampina N.V., Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Nationality Dutch
Other positions Advisory Council Anders Invest – Food and Agri Fund

Sandra (J.W.) Addink-Berendsen (1973)

Position Vice-Chairman of the Supervisory Board of Royal FrieslandCampina N.V., Vice-Chairman of the Board of ZuivelcoöperatieFrieslandCampina U.A.
Nationality Dutch
Profession Dairy Farmer
Other positions Vice-Chairman of the Supervisory Board of ForFarmers N.V., Vice-Chairman of the Supervisory Board of Alfa Top-Holding B.V.

Nils (N.) den Besten (1982)

Position Member of the Supervisory Board of Royal FrieslandCampina N.V., Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Nationality Dutch
Profession Dairy Farmer
Other positions Chairman of the Supervisory Board of AB Midden-Nederland

Hans (H.T.J.) Hettinga (1959)

Position Member of the Supervisory Board of Royal FrieslandCampina N.V., Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Nationality Dutch
Profession Dairy Farmer
Other positions CDA Chairman Súdwest-Fryslân Municipal Council

Cor (C.C.H.) Hoogeveen (1962)

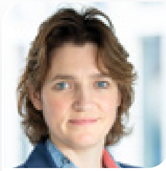
Position Member of the Supervisory Board of Royal FrieslandCampina N.V., Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Nationality Dutch
Profession Dairy Farmer
Other positions None

René (D.R.) Hooft Graafland (1955)

Position Member of the Supervisory Board of Royal FrieslandCampina N.V.
Nationality Dutch
Other positions Member of the Supervisory Board of Royal Ahold Delhaize N.V., Chairman of the Supervisory Board of Lucas Bols N.V., Chairman of the Board of the African Parks Foundation, Chairman of the Board of the Carré Fonds, Member of the Corporate Governance Code Monitoring Committee

Angelique (A.A.M.) Huijben-Pijnenburg (1968)

Position Member of the Supervisory Board of Royal FrieslandCampina N.V., Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Nationality Dutch
Profession Dairy Farmer
Other positions None



Elze (E.) Jellema (1979)

Position Member of the Supervisory Board of Royal FrieslandCampina N.V., Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Nationality Dutch
Profession Dairy Farmer
Other positions None

Angelien (A.G.Z.) Kemna (1957)

Position Member of the Supervisory Board of Royal FrieslandCampina N.V.
Nationality Dutch
Other positions Non-Executive Director AXA Group S.A., Senior Independent Director AXA Investment Management S.A., Vice-Chairman of the Supervisory Board of NIBC N.V., Chairman Advisory Council Ownership Capital B.V., Non-Executive Director Naspers Ltd/Prosus N.V.

Heiko (H.W.J.) Schipper (1969)

Position Member of the Supervisory Board of Royal FrieslandCampina N.V.
Nationality Dutch
Profession Member of the Board of Management Bayer AG, President of the Consumer Health Division
Other positions Chairman Global Self Care Federation

Hans (H.) Stöcker (1964)

Position Member of the Supervisory Board of Royal FrieslandCampina N.V., Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Nationality German
Profession Dairy Farmer
Other positions Chairman of the Landesvereinigung Milch NRW, Chairman of the Supervisory Board of Milchverwertungsgesellschaft Nordrhein-Westfalen, Member of the Landschaftsbeirat Oberbergischer Kreis, Member of the Supervisory Board of Raiffeisen Warengenossen-schaft Rheinland eG, Chairman of the 'Milch und Kultur Rheinland und Westfalen' Association

Audit and Risk Committee

Angelien Kemna, Chairman
Sandra Addink-Berendsen
René Hooft Graafland
Angelique Huijben-Pijnenburg

Remuneration, Nomination and Governance Committee

René Hooft Graafland, interim Chairman
Sybren Attema
Heiko Schipper

Executive Leadership Team

Executive Board

Hein (H.M.A.) Schumacher (1971)

Position Chief Executive Officer
Appointment 1 January 2018
Nationality Dutch
Responsible for
Business groups
Cooperative Affairs
Corporate Affairs, Communication & Public Affairs
Corporate Internal Audit
Corporate Legal & Company Secretariat
Corporate Research & Development
Corporate Mergers & Acquisitions
Corporate Strategy & Transformation
Corporate Supply Chain
Other positions Chairman of the Dutch Dairy Association (NZO), Chairman Global Dairy Platform (GDP), Member of the Supervisory Board of The Royal Music Hall, Member of the Supervisory Board of C&A A.G., Member of the Board of AgriNL

Hans (J.G.) Janssen (1967)

Position Chief Financial Officer
Appointment 1 May 2021
Nationality Dutch
Responsible for
Corporate Finance and Reporting
Corporate Tax
Corporate Treasury
Global Finance Processes and Shared Services, Enterprise Risk Management
Corporate Real Estate and Corporate Internal Control
Corporate IT, Summit, ERP and PTO
Other positions Member of the Supervisory Board of the TIAS School for Business and Society

Geraldine (G.M.) Fraser (1966)

Position Chief People Officer
Appointment 1 maart 2021
Nationality New Zealander
Responsible for
Corporate Human Resources
Other positions None

Roel (R.F.) van Neerbos (1959)

Position President Food & Beverage
Appointment 1 March 2021
Nationality Dutch
Responsible for
Business Group Food & Beverage
Other positions Chairman of the Supervisory Board of Spadel

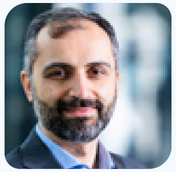
Other ELT members

Berndt Kodden
President FrieslandCampina Specialised Nutrition

Herman Ermens
President FrieslandCampina Ingredients

Arnoud van den Berg
President FrieslandCampina Trading

Roger Loo
Vice-President FrieslandCampina Professional



Kemal Cetin
Chief Information Officer

Roman Scieszka
Chief Supply Chain Officer

Simone Boitelle
Global Director Corporate Affairs

Hein Brenninkmeijer
Global Director Corporate Development

Margrethe Jonkman
Global Director Research and Development

Appendices

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Key Risks and Emerging Trends

FrieslandCampina is active in a significant number of countries and product-market combinations. As a result, the Company is potentially exposed to a large number of risks and trends. The Executive Board has identified risks that can be considered to be the largest risks on the basis of probability of occurrence and/or impact. The following is an overview of the key risks and trends, including the risk appetite and mitigating measures. These risks are also related to the stakeholder materiality matrix as included in appendix 245.

Key Risks and Emerging Trends	Risk Acceptance	Mitigating Measures
Cyber Security	Low to none	
Technologies, processes and practices designed to protect networks (computers, programs and data) might not be adequate to protect FrieslandCampina from attacks, damage or unauthorized access. This may result in the disruption of business processes, loss of confidential information, and financial losses and reputational damage. As a result of the corona pandemic, cyberactivity has increased globally. The continued lockdown in many countries forces our staff to work from home (a situation that is being incorporated in our future way of working) while at the same time organised crime keeps increasing the frequency of phishing/malware and fraud attempts using ever smarter, advanced technology. In 2021, our supply chain was indirectly impacted by ransomware attacks at some of our suppliers.	The Company accepts minor risks of operational malfunction, provided this does not adversely affect customers, business continuity or lead to any non-compliance with applicable regulations.	The cyber security plan follows a continuous development and improvement path. Regular ICT systems maintenance, vulnerability testing, business continuity procedures, e-Learning and awareness campaigns, access management and SOD programmes are in place to increase the security of ICT systems and infrastructure. Our Security Operations Centre continually improves its capability to prevent, detect and respond to cyber threats. A security board and network of security ambassadors was established, to strengthen responsibilities, accountabilities and communication along with a new security awareness program for our employees. In addition, cyber security has been included in FrieslandCampina's strategy as an essential pillar.

Key Risks and Emerging Trends	Risk Acceptance	Mitigating Measures
Balanced Business Portfolio	Balanced	
An unbalanced business portfolio (products, brands, markets, geography, distribution channels) could leave the Company open to substantial fluctuation in business results (e.g. due to economic developments impacting local demand, as well as the severe impact of regulatory changes) and affects (long-term) revenue and profit growth potential. The business portfolio risk remains relatively high due to the impact of the ongoing corona pandemic and other geopolitical events in emerging markets and specific product/market segments (e.g., the high dependence of the result and profit on a single product (Friso) in a single area (China/Hong Kong) already became very evident at the start of the corona pandemic).	The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not jeopardised as a result.	The accelerated implementation of the *'Our Purpose, Our Plan'* strategy continues and focuses on the continuous development of the business portfolio to meet nutritional demands and emerging customer trends. These initiatives are aimed at accelerating the innovation roadmap and strengthening the core brands. Furthermore, organic growth of the portfolio includes the enhanced coverage of certain geographies, channels, and occasions while accelerating the growth of certain portfolios by scaling up 'on-trend' propositions. Partnerships, acquisitions and divestments form an integral part of the portfolio's continuous development. In parallel to this the Company is exploring strategic options for the Friso infant nutrition business to capture growth. Within the business groups, assessments are performed of the portfolio's balance and reliance on specific product portfolios and markets, thereby taking the lessons learned from the Friso/China product/market segment into consideration.

Key Risks and Emerging Trends	Risk Acceptance	Mitigating Measures
Financing	Balanced	
Various financial risks exist that might impact the financial position of FrieslandCampina, e.g., an exposure to interest rates, currency fluctuations, commodity pricing risks, credit risks, and failure to effectively manage cash flows – all potentially leading to an overall excess or shortage of cash and capital, and requiring stability of funding (equity vs debt). Execution of the Company's strategy relies on availability of funding like member funding and external financing. The overall external economic circumstances affect the financial position; pressure on profits may lead to an unfavourable development of the financial position of the Company, related credit ratings and increased cost of capital with fewer investment opportunities and/or growth.	The Company is prepared to accept a moderate impact of external developments on its financial position.	Strict procedures for setting targets, preparing budgets and monitoring performance are key success factors to manage and forecast working capital, EBIT, and cash flow. Covenants were put in place and are being monitored closely to strengthen our means to obtain affordable funding. To ensure credible and reliable financial forecasts, economic developments are closely monitored and scenario analyses are a fixed component of the financial management processes and programmes to hedge credit risks. As part of the accelerated *'Our Purpose, Our Plan'* strategy further initiatives were taken to divest non-core businesses, thus creating a more robust financing structure. In 2020 FrieslandCampina floated a hybrid bond on the Dublin stock exchange, thus securing more stable financing and achieving a better balance between debt and equity. In 2021 a new, future proof member financing structure was approved, which went into effect on 1 January 2022.

Key Risks and Emerging Trends	Risk Acceptance	Mitigating Measures
Geopolitical and Political Developments	Balanced	
Geopolitical events can affect the Company's ability to operate in certain countries and can have a significant impact on local demand, credit risk and currency volatility. Events could include political and social instability, uncertainty due to approaching elections, terrorism, protectionism and import/trade restrictions. A fluid regulatory landscape creates additional challenges. As a result of the ongoing pandemic certain markets are still facing closure of borders and increasing protectionism, and import restrictions are impacting sourcing strategies for dairy and other raw materials and distribution channels for finished products in certain countries (mainly in Asia, Africa and the Middle East). A persistent pandemic can also cause greater instability and unrest and as a result impact the possibility of operating in certain countries and regions. Furthermore, long lead times for product registration in China limits our ability to respond to trending customer demands on a timely basis.	The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not jeopardised as a result.	Geopolitical events and challenges are effectively managed through the further professionalisation of FrieslandCampina's External Affairs department. FrieslandCampina actively maintains relationships with governments, because it is important to further emphasise FrieslandCampina's values to local markets and ensure FrieslandCampina has access to relevant local governmental stakeholders. Various production registration audits were successfully completed. Supply Chain Business Continuity Plans for the markets with the highest geopolitical risks and/or priority in FrieslandCampina's strategy have been developed and are continuously reviewed and updated on the basis of events that can affect the achievement of FrieslandCampina's strategic long-term objectives. For markets with increased protectionism, scenario analyses are being performed and response actions are being implemented to establish alternative distribution channels and/or increase regional and local production.

Key Risks and Emerging Trends	Risk Acceptance	Mitigating Measures
Coordination with Member Dairy Farmers	Balanced	
Alignment between FrieslandCampina, the Cooperative and member dairy farmers is paramount to be able to make and implement timely decisions and to be able to operate decisively and stay competitive. With the operating results under pressure, a continuously changing regulatory landscape, pressure on the overall dairy sector (e.g. Nitrogen) and changes in the Cooperative Board in 2021, the alignment between the Company, the Cooperative and the member dairy farmers on strategy, programs and their implications has become more complex.	The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not jeopardised as a result.	The Company and the Cooperative have established projects and communication programmes to promote a continuous dialogue with each other and with member dairy farmers to ensure the right level of buy-in and support in the cooperative in order to achieve agility in decision making. A process of regular updates by the Executive Board to the Cooperative on the status of the strategy's execution and the main projects helps to promote a continuous dialogue. The new governance structure was approved to improve dialogue with specific delegations of member dairy farmers on specific topic clusters and was approved and is getting positive feedback.

Key Risks and Emerging Trends	Risk Acceptance	Mitigating Measures
Product quality and food safety	None	
Poor product quality or contamination that constitutes a health hazard to consumers or even a change in the perception of quality by consumers or government organisations can have serious consequences for the Company's reputation and market position. Despite all quality measures taken, this remains a critical inherent risk as a serious food safety incident could have a material impact on the Company. During 2021, the number of quality incidents and complaints further decreased in comparison to 2020. Food safety regulations and their interpretation kept evolving and are increasingly diverging by authority in different countries. This potentially impacts recall decisions and complicates alignment of food quality standards between countries.	The Company maintains the highest food quality and food safety standards with zero tolerance to the risk. Consumers' health must not be endangered under any circumstances.	FrieslandCampina's Golden Quality Rules are implemented throughout the world and continuous investments are made in quality at production facilities and in campaigns to further reinforce quality awareness for all disciplines/levels within the organisation. Several quality improvement programmes were introduced in the supply chain at the Company's own sites, at member dairy farmers and at suppliers. These programmes are being regularly audited by both internal and external parties. In addition, all programmes are supported by structural and transparent management reporting on quality trends and incidents that make it possible to constantly share knowledge and best practices between production sites.

Key Risks and Emerging Trends	Risk Acceptance	Mitigating Measures
Supply	Balanced	
Dependency on a concentrated supply base may have a substantial impact on the supply chain in case of breakdown. Price fluctuations in the supply and availability of sourcing of materials, utilities and services (e.g. transportation) can cause inefficiencies, lack of speed, quality and/or increased cost levels. Since (year-end) 2020 and following the corona pandemic, the world is experiencing a significant imbalance between supply and demand. This is resulting in unprecedented supply disruptions and inflation across all commodities and is putting pressure on the sourcing of raw materials and the availability of containers. Availability and the sharp price spike of gas in Europe further increases the costs. Furthermore there is a risk that it may not be possible to effectively share these costs with our customers. Furthermore, the seasonal peaks in the number of corona infections impacts the availability of personnel within the supply chain (e.g. due to quarantine requirements).	The Company is prepared to accept a moderate risk level and aims to develop its supply chain capabilities and minimise the impact of any unforeseen malfunctions on its business operations.	FrieslandCampina's Supply Chain Unlock Programme is significantly improving cost/performance ratios as well as increasing the robustness of FrieslandCampina's supply chain network. The sourcing transformation programme was completed, further improving the ongoing long-term sourcing strategies for critical raw materials/ingredients. These strategies are continuously monitored and updated to meet changing market conditions, resulting in enhanced make-or-buy analyses and ensuring better cost-benefit decisions. Attracting new suppliers and various improvements in the supplier network ensures flexibility and promotes the reliability of our supply chain. In addition, crisis management teams have been established in every country to ensure effective response to the challenges resulting from the corona pandemic, thus preventing major disruptions in the supply chain.

Key Risks and Emerging Trends	Risk Acceptance	Mitigating Measures
Economic Situation	Balanced	
Deteriorating economic conditions (e.g. economic slowdown, recessions, high inflation, currency devaluation, higher unemployment rates) that threaten the purchasing power of consumers (who switch to private labels as a result) and affect the business health of customers/B2B partners. Negative economic developments can have a direct impact on the Company's profitability and financial position. Corona has had and will have an economic impact for the years to come. For example its impact is persistently noticeable in hospitality brands, as well as in Nigeria (drop in demand of oil in 2020, impacting US dollar flow into Nigeria, which in turn impacted consumer spending power in 2021). Certain regions are also pressured by decreased customer buying potential, as well as by the impact of further declining birth rates on our IFT business.	The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not jeopardised as a result.	The accelerated implementation of the *Our Purpose, Our Plan* strategy addresses several areas to make FrieslandCampina more robust in the long term. Furthermore, related risks are being reduced by mitigating measures, such as advanced credit management activities, a robust product portfolio with affordable nutrition and the optimisation of the supply chain and the network of plants (mentioned in greater detail under other mitigation measures). Where applicable specific scenario analyses and/or risk assessments are being performed to determine the impact of economic developments on our markets and strategy in order to initiate specific mitigating measures on this basis.

Key Risks and Emerging Trends	Risk Acceptance	Mitigating Measures
Milk supply	Balanced	
Increasing volatility of the milk price and/or unpredictability of the size of the milk supply, which makes synchronization with market demand and/or milk processing capacity more difficult. Despite all measures taken, this remains an inherent risk, as significant volatility of the milk supply/price can have a material impact on the Company. Governmental and public pressure is leading to changes in laws and regulations, potentially resulting in a structural decline in the supply of milk in the coming years. Even more so when considered in the context of governmental regulations and potential livestock reductions (specifically in the Netherlands).	The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not jeopardised as a result.	The Company is in constant consultation with member dairy farmers to be able to absorb the consequences of potential changes in laws and regulations, or market demand, on a timely basis, so as to be able to anticipate the associated changes in the milk supply and, for example, the required production capacity. In 2022, the Cooperative's admission procedure will be evaluated as part of a three-year cycle. Depending on the outcome, this may result in new members who can contribute to our milk supply. A new Trading business group was created to be able to effectively manage commodity price risks. This further simplifies the budgeting and planning processes for other business units. In addition, the unpredictability of the milk supply is being mitigated through continuous trend and scenario analyses, while the established partnerships further cover the risk of milk supply volatility. FrieslandCampina, together with member dairy farmers, is focusing on sustainable innovative solutions to reduce nitrogen emissions. In association with the Dutch Dairy Association (NZO), FrieslandCampina is devoting its efforts to this as a participant in the Coalition for Future-Proof Dairy Farming. A constructive dialogue with governments and NGOs is an integral part of our cooperative sustainability approach.

Key Risks and Emerging Trends	Risk Acceptance	Mitigating Measures
Sustainability and climate change	Balanced	
Lack of a clear vision and direction for major sustainability initiatives, including services, products and programmes, might negatively impact the successful achievement of the Company's long-term objectives. The direct impact of climate change in the form of, for example, long-term droughts, heatwaves and excessive rainfall, as well as uncertainties concerning potential stricter environmental requirements arising from laws and regulations over the long-term, are impossible to clearly foresee over the long-term. Failure to achieve or comply with sustainability objectives, regulations or agreements, exposing the Company to a loss of reputation and/or financial losses. The strategic importance of sustainability and ESG in general is ever-increasing with the overall perception of the industry, changing regulatory landscape and constant pressure on the dairy sector (e.g. by regulatory issues around Nitrogen and CO2 levels in the Netherlands).	The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not jeopardised as a result.	The Company is continuously working on global and local sustainability programmes. Corporate Affairs teams are proactively involved in communication with stakeholders as well as in media tracking and crisis management activities. Robust processes have been established in setting and measuring the sustainability KPIs as part of the implementations of the *'Nourishing a better planet'* programme which is solidly anchored in our strategy. This strengthens the focus on sustainability within FrieslandCampina. On the basis of international standards (WEI and Aqueduct) we have identified the short and long-term impact on water-related risks (water stress) for all of our plants. These risk analyses are used as input for the water strategy. Initiatives are in place to leverage local and global partnerships to further develop the dairy agenda, including but not limited to, the aspects of sustainability, affordable nutrition, heathy diets, doing honest business and responsible marketing.

Key Risks and Emerging Trends	Risk Acceptance	Mitigating Measures
Talent and people	Balanced	
Limited possibility of attracting and retaining talent and building up crucial capacity for the future, impacts business performance and continuity (combined with an aging workforce). Higher attrition rates in certain areas (e.g. in our plants and specific pockets of expertise) were noticeable due to the globally rising 'war on talent' in certain regions and areas of expertise, as well as various organisational changes as part of the implementation of the accelerated strategy *'Our Purpose, Our Plan'*.	The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not jeopardised as a result.	FrieslandCampina is actively working on its employer branding and is maintaining high positions on the lists of most attractive employers in most of the countries in which it operates. The unique Company's purpose statement and consumer branding promotes attractivity for new as well as existing employees. For example, in 2021 FrieslandCampina was selected as the winner of the 'Best Employer Brand' in the Netherlands by LinkedIn Talent Awards. The Human Resources department is in constant dialogue with the management teams, supported by regular 'pulse checks' among employees to support high talent engagement levels, strengthening crucial capabilities and retaining talent while allowing management to take action where needed. Important metrics are regularly assessed such as salary benchmarks, sustainable engagement of employees, employer branding and ageing workforce studies.

Stakeholder Dialogue

FrieslandCampina is continuously in dialogue with a wide range of stakeholders with diverging interests. These discussions take place by employees at all levels within the organisation and often form part of their daily work. The table below provides an overview of the stakeholders with which FrieslandCampina maintained contact in 2021, the subjects of discussion and the actions that arose from this. See our website for a more elaborate overview.

Stakeholders	Topics of Discussion	Actions and Outcomes
Non-governmental organisations (NGOs) and interest groups		
Dutch Dairy Association (NZO)	FrieslandCampina participates as board member. In 2021, a wide range of topics affecting the sector, ranging from the CLA to sustainability, quality matters, and nutrition and health were discussed.	Communication on various topics, including the power of dairy, cooperation with chain parties, such as the interest group ZuivelNL.
Access to Nutrition Foundation	Evaluation and stimulation of efforts on the part of the food industry to tackle global malnutrition, obesity and nutrition-related chronic diseases, and marketing substitutes for mother's milk.	Analysis of continuous improvement of internal processes and results.
Trade and industrial associations		
FNLI, IDF, EDA, NZO,	Codex, composition criteria, labelling (nutrient profiles, front-of-pack labelling), additives, sustainability, quality, IDF's contribution to the Food System Summit, commercial opportunities, market management relating to dairy products.	Input was provided through membership in these organisations.
ISDI, SNE, VNFKD	Codex, discussions relating to legislation pertaining to infant nutrition, incl. composition criteria, labelling, additives, organic products, hydrolysates, harmonised regulations for toddler milk.	Input was provided through membership in these organisations.
EU Pledge	Code of conduct pertaining to agreements formulated by European food companies about responsible marketing focused on children.	Contributed to discussions about the EU Pledge strategy and the EU Pledge nutritional criteria.

Stakeholders	Topics of Discussion	Actions and Outcomes
Government bodies and local authorities		
Ministry of Health, Welfare and Sport (VWS)/Ministry of Agriculture, Nature and Food Quality (LNV)	The role of dairy in a healthy and sustainable diet, National Prevention Agreement (NPA).	Input was provided for consultations conducted in the context of the NPA and for the FAO definition for making sustainability measurable.
Nutrition and health experts		
Local nutrition, dieticians and doctors associations (BDA, SNDA, NSN, CIFST, FMSA, MSCP, PDGMI, IDAI, IDI, NISOMN, NISPHGAN)	Development of accredited educational materials for nutrition, health and medical professionals relating to food allergies, the role of dairy in a healthy diet, the first five years of a child's life, and constipation.	Accreditation.
Universities (Thailand, Malaysia, Indonesia, Vietnam and the Ivory Coast)	SEANUTS investigation into the nutritional status of children.	Insights into malnutrition and overweight.
FrieslandCampina Institute Independent External Expert Panel	This group of multidisciplinary experts reviews FrieslandCampina's method of working and its strategy in terms of topics such as nutrition, malnutrition, nutritional policy, health, access to nutrition, security of nutrients, and life style and education.	Members participated in a virtual meeting on two occasions in 2021.
Employees		
All employees	FrieslandCampina aims for healthy and committed employees. In 2021, discussions were held about employee satisfaction.	Conducted Over2You survey among all employees. Conducted pulse surveys about specific themes (e.g. COVID-19).
Works Council	Reorganisations and M&As	Inform employees about planned organisational decisions and the potential impact on them. In some countries this occurs through means of meetings with a representative body and/or this is coordinated with trade unions.
Global Committee on Diversity & Inclusion with members from various countries	Diversity & Inclusion	The Committee discusses issues and initiates actions relating to D&I.

Stakeholders	Topics of Discussion	Actions and Outcomes
Zuivelcoöperatie FrieslandCampina U.A.		
	Evaluation of the Cooperative's governance with the objective of creating a more decisive, agile and well-supported Cooperative.	In various meetings, members engaged in dialogue about governance and how to improve it. In December 2021, the Members' Council approved the amendments to the Articles of Association, the adoption of the standing rules and the adjustment to the district boundaries.
	Making the member financing system future-proof.	In 2020, an intensive members' dialogue was initiated about the dilemmas and basic assumptions underlying future-proof member financing. Decisions were made on this topic in 2021.
	Continued development of special supplements.	Expansion of the 'On the way to PlanetProof' milk stream and the VLOG (non-GMO) milk stream.
	Adjustment of the Foqus Planet quality and sustainability programme.	Focus groups were held with district board members about the proposed changes to the Rules of Practice, incl. Foqus planet. Deep dives were also held with members on topics such as KalfOK and KoeMonitor (CowMonitor). In December 2021, the Board approved the proposed changes.
	Continuous improvement of the results achieved at the farm in relation to Climate and Biodiversity.	In workshops and simulation sessions supported members and enabled them in making their sustainability management choices (Winning with Climate and Nature project).
	Current developments and trends relating to FrieslandCampina.	Two meetings (one digital) in which stakeholders from the dairy sector who also maintain direct contact with members, were informed about current developments concerning FrieslandCampina
Suppliers		
	Criteria for sustainable agricultural raw materials – in line with FrieslandCampina's aim to only purchase agricultural raw materials and paper packaging from fully sustainably managed sources.	FrieslandCampina cooperates with its suppliers in developing plans for sustainability in the procurement of agricultural raw materials.
	Purchase and generation of green electricity and green gas.	FrieslandCampina has frequent contact with significant suppliers.
	Marketing focused on children.	Through membership in the WWF and the EU Pledge, solutions were explored in consultation with Google and YouTube in order to comply with the rules of the EU Pledge.

2021 Sustainability Targets

KPI	2021 Target	2021 Actual
Product composition (as a percentage of the total volume of consumer products that comply with the FrieslandCampina Global Nutritional Standards Next Level)	71	71
Greenhouse gas emissions on member dairy farms (kt CO_2 equivalent)	12,100	12,063
Greenhouse gas emissions from production and transport (kt CO_2 equivalent)	712	691
Water consumption (m^3/tonne end product)	4.85	4.85
Biodiversity (number of member dairy farmers compensated for improvements)	1,000	1,018
Recyclable packaging (percentage suitable for sorting and recycling systems)	90.0	90.0
Dairy Development (number of local farmers participating in a training programme)	60,770	70,385
Traceability to source (palm oil, soy, pulp and paper, and cocoa purchased by the company)	93	94

Explanation of Materiality Matrix

FrieslandCampina carries out a materiality analysis every two years to determine the social and environmental topics, on which FrieslandCampina has an impact, that are most relevant to stakeholders. An independent party supported FrieslandCampina in completing the analysis, which is based on the guidelines of the Global Reporting Initiative (GRI). The following steps were completed to arrive at a prioritisation of the most relevant topics for FrieslandCampina.

Step 1 – recalibration of relevant topics

The list of topics established in 2019 was reviewed. This included a review of internal developments within FrieslandCampina, as well as developments in the environment, through sector and media analyses. These analyses also incorporate the 11 criteria (greenhouse gas emissions, soil nutrients, soil quality and retention of soil quality, availability and quality of water, biodiversity, working conditions, animal care, waste, market development, countryside economy and product safety and quality) and the 4 basic elements of the Dairy Sustainability Framework (comply with applicable legal directives, human rights, animal welfare and deforestation). On the basis of these analyses, the 2019 list with material topics was adjusted. The table below contains the relevant topics for FrieslandCampina together with specific definitions developed for this purpose.

Table 1: List with relevant topics and definitions

#	Topic	Definition
1	Sustainable innovation	Work on technological solutions and innovations to increase efficiency and sustainable practices.
2	Nature and biodiversity	Take measures to preserve, restore and improve the diversity of animal species, nature and landscaping elements.
3	Animal health and welfare	Treat dairy animals with care so as to ensure animals' health and welfare, including the responsible use of antibiotics and the five freedoms (freedom from hunger and thirst, from discomfort, from pain, injury, and disease, to express normal and natural behaviour, from fear and distress).
4	Pasture grazing	Encourage pasture grazing to increase the quality of products, the sector's visibility and animal wellbeing.
5	Attractive employer	Offer attractive working conditions and growth opportunities to increase employee wellbeing and to be able to recruit and maintain a skilful workforce.
6	Diversity and inclusion	Provide equal opportunities and combat discrimination to increase employee wellbeing and reduce inequalities
7	Milk price	Set a fair milk price for farmers to guarantee a good living for our farmers for now and in the future.
8	Support local dairy farms in countries where we collect and process local milk (Dairy Development).	Offer trainings, consultancy services, access to suppliers, hardware and infrastructure to local farmers in Asia, Africa and Eastern Europe to increase Farmers' resilience, economic viability and access to markets and rural communities.
9	Contribute to affordable nutrition	Offer affordable dairy products to make dairy nutrition available for all income groups.
10	Plant-based proteins	Offer plant based proteins to diversify the product portfolio towards dairy alternatives.
11	Nutritional & healthy products	Offer nutrient rich and healthy products to positively influence the world's food and nutrient security.

#	Topic	Definition
12	Product quality and product safety	Offer products of high quality to provide consumer satisfaction and safety.
13	Waste	Minimize waste generation on farm level and processor level to reduce scarcity of resources and waste pollution.
14	Greenhouse gas emissions and energy use by production and transport	Minimize greenhouse gas emissions by optimizing energy use during the production and transport of our products to reduce the environmental impact.
15	Sustainable packaging	Develop and use sustainable packaging (reduce, reuse, recycle) to reduce raw material input and waste pollution.
16	Supply chain management	Manage the supply chain responsibly and source sustainable materials to improve the impact on communities and the environment.
17	Local sourcing	Promote local sourcing of dairy products to increase availability of fresh products, reduce transport distance and support local economies in valorising products from own soil.
18	Water usage & efficiency	Minimise freshwater intake and increase water efficiency of our operations.
19	Carbon-neutral products	Offer products with low and compensated greenhouse gas impact to reduce the environmental impact.
20	Human rights	Align the approach to international human rights standards in order to prohibit the use of child labour, forced/bonded labour and harsh or inhumane treatment of workers, and freedom of association, both in the operations and wider supply chain.
21	Employee health and safety	Implement health and safety measures to respect and promote working safety and a healthy work environment.
22	Responsible taxation	Pay taxes to the appropriate levels in the operating countries to comply with local regulations.

#	Topic	Definition
23	Greenhouse gas emissions by farms	Minimize greenhouse gas emissions from member dairy farms to reduce the environmental impact, including carbon sequestration on farms.
24	Soil nutrients and fertiliser use	Stimulate proactive management and minimisation of fertiliser use and nutrient losses to enhance soil quality and retention, and to reduce water, air and land pollution.
25	Digitalisation	The use of digital technologies to optimise and change the business model by increasing speed/flexibility, generating new income and offering value added opportunities (e.g. e-commerce, digital marketing, insight-driven decision-making), while at the same time guaranteeing data security.

* Greenhouse gas emissions, among others, include methane, carbon dioxide and nitrogen oxide.

Step 2 – Prioritising the topics

After the new list with relevant topics for FrieslandCampina was established, internal and external stakeholders were approached to prioritise the topics. FrieslandCampina values the expectations of stakeholders. An online survey was developed to give them an opportunity to provide input in an accessible manner. In this survey, stakeholders were invited to identify which topics they consider most relevant for FrieslandCampina to act on. See Table 2 with the stakeholder groups involved in the materiality analysis. In addition to this stakeholders' perspective, members of the Executive Leadership Team were asked to identify 5 of the 25 topics on which they think FrieslandCampina can have the greatest impact (positive and negative).

Material topics

1. **Greenhouse gas emissions at farms**
2. **Nature and biodiversity**
3. **Healthy products with nutritional value**
4. **Sustainable innovation**
5. **Animal health and welfare**

6. Milk price
7. Product quality and product safety
8. Carbon-neutral products
9. Greenhouse gas emissions and energy use by production and transport
10. Sustainable packaging
11. Supply chain management

12. Soil nutrients and fertiliser use
13. Support local dairy farms in countries where we collect and process local milk (Dairy Development).
14. Employee health and safety
15. Water usage & efficiency
16. Contribute to affordable nutrition
17. Digitalisation
18. Waste

19. Pasture grazing
20. Human Rights
21. Plant-based proteins
22. Attractive employer
23. Local sourcing
24. Diversity and inclusion
25. Responsible taxation

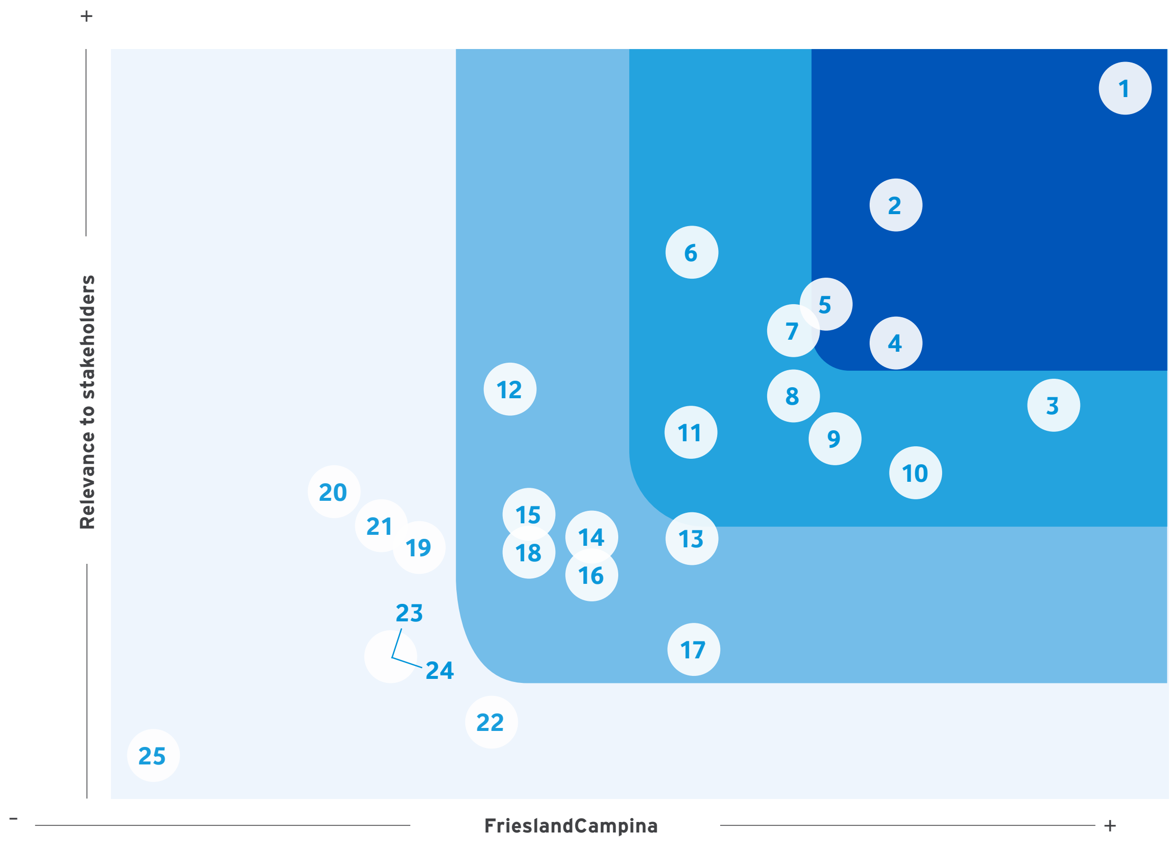

Table 2: Stakeholder groups involved in the materiality analysis

Stakeholder group
Competitors
Customers
Employees
Industrial associations
Member dairy farmers
Regulatory/Authority
Scientific organisations
Social organisations
Strategic partners
Suppliers

On the basis of the contribution made by all stakeholders and the Executive Leadership Team, the list of 25 topics was prioritised. This was first submitted to the Board of the Cooperative after which it was validated by them. On the basis of these findings, a materiality matrix was developed that visualises the prioritisation of the topics (see Figure 1). The most relevant topics shown in the top right corner are discussed in this Annual Report.

Step 3 – Double materiality

Double materiality is an increasingly more frequently occurring concept that not only considers the organisation's impact on social and environment-related topics (as described above), but also the financial impact of these topics on the organisation (in a positive or negative sense). For example, FrieslandCampina has an impact on the environment because of the greenhouse gas emissions at farms, but at the same time these emissions and climate change may also have an impact on FrieslandCampina's financial position.

Double materiality is a key theme within the new mandatory European reporting guidelines: the Corporate Sustainability Reporting Directive (CSRD), which is expected to go into effect starting in 2023. As a first step towards these new regulations, FrieslandCampina has asked an external independent party to carry out an interview-based analysis of the potential financial impact of the 25 topics on FrieslandCampina. During these interviews a distinction was made between potential positive financial impact (opportunities) and potential negative impact (risks). The findings of this analysis show that there is a correlation between the topics that are found to be material on the basis of the materiality matrix and the topics that according to respondents have a financial impact on FrieslandCampina. For example, this applies to the topics greenhouse emissions at farms, milk price, and nutritional and healthy products. In 2023, the findings of this analysis will be included in the risk analysis and will be discussed with internal risk management departments. This way we promote the integration of social, environment-related and financial elements.

Step 4 – Impact on policy and reporting

The outcome of the analysis was included in determining the themes on which FrieslandCampina will be focusing. The material topics form the basis for FrieslandCampina's sustainability strategy. The Executive Board and the Cooperative Board were involved in developing and approving the sustainability strategy. These two boards will be informed about the progress of the strategy and the material topics on a quarterly basis so that adjustments can be made as necessary.

The 2021 materiality analysis shows that greenhouse gas emissions at farms is the most important topic considering its relevance for stakeholders and the impact FrieslandCampina has on it according to the Executive Leadership Team. This is followed by nature and biodiversity, nutritional and healthy products, sustainable innovation and animal health and welfare. In comparison to the 2019 analysis, various topics, including nature and biodiversity and nutritional and healthy products are ranked higher on the list of priorities. The topic milk price is no longer in the top 5. Topics not included in the top 5 are also relevant to FrieslandCampina and are addressed in the Annual Report.

GRI table

Indicator	Description	Reference
GRI 102: General Indicators 2016		
Organisation Profile		
102-1	Name of the organisation	AR: Front page; This is FrieslandCampina p. 3
102-2	Key brands, products and/or services	AR: This is FrieslandCampina – Dairy from grass to glass p. 3 This is FrieslandCampina – The FrieslandCampina brands p. 7; This is FrieslandCampina – Top 10 consumer brands p. 8
102-3	Location of the organisation's head office	AR: Corporate Governance – Company, share capital and Articles of Association p. 92; Back page
102-4	Number of countries where the organisation's is active	RAR: This is FrieslandCampina – Dairy from grass to glass p. 3; This is FrieslandCampina – FrieslandCampina Worldwide p. 9
102-5	Ownership structure and legal form	AR: This is FrieslandCampina – Dairy from grass to glass p. 3; Corporate Governance p. 85-110; Corporate Governance - Company, share capital and Articles of Association p. 92
102-6	Sales markets	AR: This is FrieslandCampina – FrieslandCampina Worldwide p. 9 This is FrieslandCampina – Dairy from grass to glass p. 3; This is FrieslandCampina – The FrieslandCampina brands p. 7; This is FrieslandCampina – Top 10 consumer brands p. 8
102-7	Size of the reporting organisation	AR: Dashboard 2021 p. 10; This is FrieslandCampina - Dairy from grass to glass p. 3; This is FrieslandCampina – Worldwide p. 9; This is FrieslandCampina – Value creation p. 22; Report by the Executive Board – 2021 Key Figures p. 31; Report by the Executive Board – By and for people p. 59
102-8	Composition of workforce	AR: Report by the Executive Board – For and by people p. 59; Report by the Executive Board – Inclusion, equality and diversity p. 60; Appendices – 2021 HR-data p. 257
102-9	Description of the organisation's supply chain	AR: This is FrieslandCampina - Dairy from grass to glass p. 3; This is FrieslandCampina – Value creation p. 22

Indicator	Description	Reference
102-10	Significant changes during the reporting period	AR: Report by the Executive Board - 2021 Key Figures p. 31; This is FrieslandCampina – A word from the CEO – p. 13; Report by the Executive Board – Royal FrieslandCampina in 2021 – Developments and results p. 27; Report by the Executive Board – The Foundations in 2021 p. 64; Report by the Executive Board – Nourishing a better planet p. 42; Report by the Executive Board – Business groups p. 32; Report by the Executive Board – Outlook for 2022 p. 78; Appendices – Key Risks and Emerging Trends p. 230
102-11	Explanation of the application of the precautionary principle by the reporting organisation	AR: Report by the Executive Board – Risk management p. 80; Appendices – Key Risks and Emerging Trends p. 230;
102-12	Externally developed economic, environmental and social charters, principles that the organisation is committed to	AR: Report by the Executive Board - Better nutrition, affordable for everyone p. 43; Report by the Executive Board – Better living for farmers p. 47; Report by the Executive Board – Better climate, carbon-neutral future p. 48; Report by the Executive Board – Better nature, improving biodiversity p. 52; Report by the Executive Board – By and for people p. 59
102-13	Memberships of associations (including sector boards) and national and international special interest groups	AR: Report by the Executive Board – Better procurement, 100% responsible agricultural raw materials p. 54; Report by the Executive Board – Better living for farmers – Dairy Development Program p. 47; Report by the Executive Board – Better nature, improving biodiversity p. 52

Strategy

Indicator	Description	Reference
102-14	Statement of the highest decision-maker	AR: A word from the CEO p. 13

Ethics and integrity

Indicator	Description	Reference
102-16	Standards, values, principles, standards and codes of conduct applied	AR: Report by the Executive Board – By and for people p. 59 Website: Compass for good business conduct Website: Company culture

Management structure

Indicator	Description	Reference
102-18	The management structure of the highest decision-making body and the committees that are responsible for decision-making relation to social, environmental and economic impacts	AR: Corporate governance – Corporate governance p. 85; Appendices – Explanation of Materiality Matrix p. 245;

Indicator	Description	Reference
Consultation with stakeholders		
102-40	List of stakeholders involved	AR: Appendices – Stakeholder Dialogue p. 241 Appendices – Explanation of Materiality Matrix p. 245;
102-41	Employees subject to a CLA	AR: Appendices - 2021 HR-data p. 257
102-42	Starting points for identification/selection of stakeholders	AR: Appendices – Stakeholder Dialogue p. 241 Appendices – Explanation of Materiality Matrix p. 245;
102-43	How stakeholders are involved	AR: This is FrieslandCampina - Value creation - In dialogue with stakeholders p. 23 Appendices – Stakeholder Dialogue p. 241
102-44	Key topics and issues that resulted from consultation with stakeholders	AR: Appendices – Stakeholder Dialogue p. 241 Appendices – Explanation of Materiality Matrix p. 245;
Reporting profile		
102-45	Companies in the annual financial statements that are not subject to this report	AR: Financial statements – Consolidated financial statements p.86
102-46	Process for determining reporting content and specific demarcation	AR: Appendices – Explanation of Materiality Matrix p. 245
102-47	Material issues defined	AR: This is FrieslandCampina - Value creation – Material themes - p. 23; Appendices – Explanation of Materiality Matrix p. 245
102-48	Consequences of a possible redefinition of information	AR: No restatements of information have occurred other than: – The water intensity calculations: Due to a correction as a result of reduction in production volume due to double counting, the water intensity of the base year 2018 through 2020 has been revised.
102-49	Significant changes compared to previous reporting periods	AR: There are no significant changes in scope and delineation with respect to the previous reporting period other than: - The periodic update of emission factors. - The calculation baseline for 2020 GHG emissions for milk production (processing) and transportation, and GHG emissions from member dairy farms has been adjusted to better align with Science Based Target initiatives and ensure comparison between 2021 and 2020.
102-50	Reporting period that the information provided relates to	January 1, 2021 to December 31, 2021.
102-51	Date of the most recent previous report	The previous integrated annual report was published in March 2020.
102-52	Reporting cycle	Annually
102-53	Contact for questions regarding the report	Send questions or comments to: corporate.communication@frieslandcampina.com.

Indicator	Description	Reference
102-54	GRI application level and GRI table	AR: Core application level
102-56	Policy with respect to assurance	AR: Auditor's reports – Independent auditor's report p. 203; Auditor's reports – Independent auditor's assurance report p. 219; Corporate Governance – Audit of the financial reporting and the roles of the internal and external auditors p. 92X

Specific indicators

Carbon footprint (Standards aspect: Greenhouse gases, Energy) – GRI Standard 305 (2016)

103-1 (2016)	Management approach: Why is this topic material?	AR: This is FrieslandCampina – A word from the CEO p. 13; This is FrieslandCampina – Value creation – Material themes p. 23; This is FrieslandCampina – Our purpose, our plan – Strategic themes p. 25; Report by the Executive Board – Nourishing a better planet – Better climate, carbon-neutral future p. 48; Appendices: Explanation of Materiality Matrix p. 245
103-2 (2016)	Management approach: How is this material topic managed?	AR: This is FrieslandCampina – Value creation p. 22; Report by the Executive Board – Nourishing a better planet – Better climate, carbon-neutral future p. 48; Appendices: Explanation of Materiality Matrix p. 245
103-3 (2016)	Management approach: How is this material topic evaluated?	AR: This is FrieslandCampina – Dashboard 2021 p. 10; Report by the Executive Board – Developments and results p. 27; Report by the Executive Board – 2021 Key figures – Nourishing a better planet p. 31; Report by the Executive Board – Nourishing a better planet - Better climate, carbon-neutral future p. 48; Appendices: 2021 Sustainability Targets p. 244 Appendices: Explanation of Materiality Matrix p. 245

Indicator	Description	Reference
305-1	Direct greenhouse gas emissions (scope 2)	AR: This is FrieslandCampina – Dashboard 2021 p. 10; Report by the Executive Board – Royal FrieslandCampina in 2021 – Developments and results p. 27; Report by the Executive Board – 2021 Key Figures – Nourishing a better planet p. 31; Report by the Executive Board – Nourishing a better planet - Better climate, carbon-neutral future p. 48; Appendices: 2021 Sustainability Targets p. 244 Appendices: Explanation of Materiality Matrix p. 245 The indicators in GRI standard 305 are inadequate for reporting the impact of FrieslandCampina and its members with regard to greenhouse gas emissions. FrieslandCampina has opted to develop its own indicators to provide insight into the greenhouse gas emissions for the production (processing) and transport of milk, and the greenhouse gas emissions of member dairy companies, see below.
305-2	Indirect greenhouse gas emissions (scope 2)	AR: This is FrieslandCampina – Dashboard 2021 p. 10; Report by the Executive Board – Royal FrieslandCampina in 2021 – Developments and results p. 27; Report by the Executive Board – 2021 Key Figures – Nourishing a better planet p. 31; Report by the Executive Board – Nourishing a better planet - Better climate, carbon-neutral future p. 48; Appendices: 2021 Sustainability Targets p. 244 Appendices: Explanation of Materiality Matrix p. 245 The indicators in GRI standard 305 are inadequate for reporting the impact of FrieslandCampina and its members with regard to greenhouse gas emissions. FrieslandCampina has opted to develop its own indicators to provide insight into the greenhouse gas emissions for the production (processing) and transport of milk, and the greenhouse gas emissions of member dairy companies, see below.
Own indicator	Greenhouse gas emissions members - dairy farms	AR: This is FrieslandCampina – Dashboard 2021 p. 10; Report by the Executive Board – 2021 Key Figures – Nourishing a better planet p. 31; Report by the Executive Board – Nourishing a better planet - Better climate, carbon-neutral future p. 48; Appendices: 2021 Sustainability Targets p. 244

Indicator	Description	Reference
Nature & biodiversity (Standards aspect: Biodiversity) – GRI Standard 304 (2016)		
103-1 (2016)	Management approach: Why is this topic material?	AR: This is FrieslandCampina – Value creation – Material themes p. 23; This is FrieslandCampina – Our purpose, our plan – Strategic themes p. 25; Report by the Executive Board – Nourishing a better planet – Better nature, improving biodiversity p. 52; Appendices: Explanation of Materiality Matrix p. 245
103-2 (2016)	Management approach: How is this material topic managed?	AR: Report by the Executive Board – Nourishing a better planet p. 42; Report by the Executive Board – Nourishing a better planet – Better nature, improving biodiversity p. 52; Appendices: Explanation of Materiality Matrix p. 245
103-3 (2016)	Management approach: How is this material topic evaluated?	AR: Report by the Executive Board – Developments and results p. 27; Report by the Executive Board – 2021 Key Figures – Nourishing a better planet p. 31; Appendices: Explanation of Materiality Matrix p. 245
304-2	Significant impacts of activities, products and services on biodiversity	AR: This is FrieslandCampina – Value creation – Material themes p. 23; This is FrieslandCampina – Our purpose, our plan – Strategic themes p. 25; Report by the Executive Board – Nourishing a better planet – Better nature, improving biodiversity p. 52; Appendices: Explanation of Materiality Matrix p. 245 The GRI indicator is insufficiently specific to provide an insight into FrieslandCampina's impact on biodiversity. FrieslandCampina has decided to develop its own indicators to provide an insight into the impact (in the future).
Own indicator	Number of member dairy farmers using the biodiversity monitor	AR: Report by the Executive Board – Nourishing a better planet – Better nature, improving biodiversity p. 52
Own indicator	Proactive nature and landscape management by dairy farms	AR: Report by the Executive Board – Nourishing a better planet – Better nature, improving biodiversity p. 52
Healthy products with nutritional value (Standards, aspect: Healthy users)		
103-1 (2016)	Management approach: Why is this topic material?	AR: This is FrieslandCampina – A word from the CEO p. 13 This is FrieslandCampina – Value creation – Material themes p. 23; This is FrieslandCampina – Our purpose, our plan – Strategic themes p. 25; Appendices: Explanation of Materiality Matrix p. 245

Indicator	Description	Reference
103-2 (2016)	Management approach: How is this material topic managed?	AR: This is FrieslandCampina – Value creation p. 22; Report by the Executive Board – Nourishing a better planet – Better nutrition, affordable for everyone p. 43; Appendices: Explanation of Materiality Matrix p. 245
103-3 (2016)	Management approach: How is this material topic evaluated?	AR: This is FrieslandCampina – Dashboard 2021 p. 10; Report by the Executive Board – 2021 Key Figures – Nourishing a better planet p. 31; Report by the Executive Board – Nourishing a better planet – Better nutrition, affordable for everyone p. 43; Appendices: Explanation of Materiality Matrix p. 245
Own indicator	Product composition	AR: This is FrieslandCampina – Dashboard 2021 p. 10; This is FrieslandCampina – Value creation p. 22; Report by the Executive Board – 2021 Key Figures – Nourishing a better planet p. 31; Report by the Executive Board – Nourishing a better planet – Better nutrition, affordable for everyone p. 43;
Own indicator	Product Range Balance	AR: Report by the Executive Board – 2021 Key Figures – Nourishing a better planet p. 31; Report by the Executive Board – Nourishing a better planet – Better nutrition, affordable for everyone p. 43;

Sustainable Innovations

103-1 (2016)	Management approach: Why is this topic material?	AR: This is FrieslandCampina – A word from the CEO p. 13 This is FrieslandCampina – Value creation – Material themes p. 23; Report by the Executive Board – Outlook for 2022 – The dairy sector p. 78; Appendices: Explanation of Materiality Matrix p. 245
103-2 (2016)	Management approach: How is this material topic managed?	AR: Report by the Executive Board – Nourishing a better planet – Better nutrition, affordable for everyone p. 43; Report by the Executive Board – Foundations – Innovations p. 72; Appendices: Explanation of Materiality Matrix p. 245
103-3 (2016)	Management approach: How is this material topic evaluated?	AR: Report by the Executive Board – Foundations – Innovations p. 72 Appendices: Explanation of Materiality Matrix p. 245
Own indicator	Investments in Research & Development activities	AR: Report by the Executive Board – Foundations – Innovations p. 72

Indicator	Description	Reference
Animal Health & Wellbeing		
103-1 (2016)	Management approach: Why is this topic material?	AR: This is FrieslandCampina – Value creation – Material themes p. 23; Report by the Executive Board – Nourishing a better planet p. 42; Report by the Executive Board – Nourishing a better planet - Better procurement, 100% responsible agricultural raw materials p. 54; Appendices: Explanation of Materiality Matrix p. 245
103-2 (2016)	Management approach: How is this material topic managed?	AR: Report by the Executive Board – Nourishing a better planet - Better procurement, 100% responsible agricultural raw materials p. 54; Appendices: Explanation of Materiality Matrix p. 245
103-3 (2016)	Management approach: How is this material topic evaluated?	AR: Report by the Executive Board – 2021 Key Figures – Nourishing a better planet p. 31; Report by the Executive Board – Nourishing a better planet - Better procurement, 100% responsible agricultural raw materials p. 54; Appendices: Explanation of Materiality Matrix p. 245
Own indicator	Percentage of dairy farms with grazing and partial grazing	AR: Report by the Executive Board – Nourishing a better planet - Better procurement, 100% responsible agricultural raw materials p. 54;

2021 HR data

Senior management diversity

Female	25.6%
Male	74.4%
Total	100.0%

Employment

Part-time	9.0%
Fulltime	91.0%
Total	100.0%

Type of contract

Temporary	10.3%
Permanent	89.7%
Total	100.0%

Part-time vs. fulltime subdivided by gender

Part-time	Female	5.7%
	Male	3.3%
Fulltime	Female	22.9%
	Male	68.1%
Total		100.0%

Employees covered by collective labour agreement (CLA)

Not covered by CLA	33.4%
Covered by CLA	66.6%
Total	100.0%

Temporary vs. permanent subdivided by gender and region

Temporary	Female	Africa and Middle East	0.0%
		Asia and Oceania	3.1%
		Germany	0.1%
		North and South America	0.0%
		Remainder of Europe	0.2%
		Netherlands	0.9%
	Male	Africa and Middle East	0.1%
		Asia and Oceania	3.7%
		Germany	0.2%
		North and South America	0.0%
		Remainder of Europe	0.5%
		Netherlands	1.4%
Permanent	Female	Africa and Middle East	0.7%
		Asia and Oceania	7.4%
		Germany	1.6%
		North and South America	0.3%
		Remainder of Europe	5.9%
		Netherlands	8.2%
	Male	Africa and Middle East	4.0%
		Asia and Oceania	23.9%
		Germany	4.3%
		North and South America	0.6%
		Remainder of Europe	8.5%
		Netherlands	24.3%
Total			100.0%

Glossary

Share of Affordable Nutrition
Total volume of Affordable Nutrition consumer products sold as a percentage of the total volume of consumer products sold in Indonesia, Vietnam, the Philippines, Pakistan, Nigeria and the Ivory Coast. Also see FrieslandCampina's website.

Affordable Nutrition
The purpose of Affordable Nutrition products is to increase access to affordable, healthy and/or enriched nutrition in our lower income markets (Indonesia, Vietnam, the Philippines, Pakistan, Nigeria and the Ivory Coast). These are products that in these countries focus on consumers with low or medium income, offer a locally attractive price and come in small-sized packages. Also see FrieslandCampina's website.

Balanced product range
The subdivision of the product groups is determined on the basis of the product type (for example, milk product, cheese, butter or meat substitute) and its place in daily nutrition (basic food products for daily consumption, self-indulgent products for occasional consumption or products for a specific target group). Each year, the balance in FrieslandCampina's consumer product range is expressed in terms of basic nutritional products for daily consumption and self-indulgent products meant for occasional consumption as a percentage of the total volume of consumer products sold. Also see FrieslandCampina's website.

Dairy Development
FrieslandCampina has 150 years of experience in the dairy farming sector and applies the knowledge gained to help dairy farms in Asia, Africa and Eastern Europe to further develop their farms through Dairy Development activities. This way FrieslandCampina – for example through training – supports local dairy farmers in Nigeria, Vietnam, Thailand, Malaysia, Indonesia, Pakistan, Romania, the Ivory Coast and the Philippines in improving the quality of their milk, increasing the productivity per cow, introducing sustainable and more efficient farming practices and securing access to the market.

Partial pasture grazing
Allowing a minimum of 25 percent of all cows (not only lactating cows, but also all other cattle) on a dairy farm can graze in a pasture with adequate grass supply for at least 120 days per calendar year, such that the animals can maintain their natural grazing behaviour.

Sustainable agricultural raw materials
Raw materials with globally recognized sustainability certificates or products for which a plan for sustainable development is created in cooperation with suppliers.

Energy consumption
Total net energy consumption in Giga Joule per total production volume in tonnes. External registration of gas, oil, etc. usage with calibrated equipment is the basis for the amounts consumed. If steam, gas, electricity is bought but sold to other parties, this amount is subtracted from the total amount bought. If steam is delivered to third parties the energy content (1 ton of steam = 2.5 GJ) is administered as a negative consumption. If a process requires less energy to achieve the same goal, it is judged to be more efficient. Acquisitions are included in the reported energy consumption figures after a full calendar year.

Guarantees of Origin/Green Certificates
Guarantees of Origin or Green Certificates are certificates issued for each MWh of electricity from renewable energy sources: wind, solar, co-fermentation of biomass, and manure fermentation. FrieslandCampina buys such certificates to guarantee that the electricity used in FrieslandCampina production facilities is generated from renewable sources.

Green electricity
Electricity generated from renewable energy sources, such as wind, solar energy, co-fermentation of biomass, manure fermentation, etc.

Green energy from own chain
Renewable energy generated at member dairy farms or produced at production facilities. Included are gas and electricity produced out of manure, solar and wind energy.

Greenhouse gas emissions
FrieslandCampina reports the total greenhouse gas emissions in scope 1 and 2 and the scope 3 emissions from the production of milk on the member dairy farms. This concerns the emission of CO_2, CH_4 and N_20. The reporting follows the Greenhouse Gas Protocol.

Accident ratio and total number of accidents
The ratio of the total number of accidents resulting in absence (at least one calendar day of lost time, excluding the day of the accident), substitute work or medical treatment by an emergency service or family doctor per 200,000 hours worked. This concerns work-related accidents. The accident ratio is calculated as follows: total number of accidents / total number of hours worked x 200,000. All FrieslandCampina employees and subcontractors working under FrieslandCampina's supervision for entities in which FrieslandCampina has a controlling interest for at least twelve months fall within the scope of this indicator. The total (absolute) number of accidents is also reported in the Annual Report. In addition to the number of accidents involving FrieslandCampina employees and subcontractors working under FrieslandCampina's supervision, this also includes subcontractors working beyond the sphere of FrieslandCampina's supervision.

Product composition
The share of FrieslandCampina's product range that complies with the criteria for elements such as protein, calories, sugar, salt and fat, as described in the FrieslandCampina Global Nutritional Standards Next Level, expressed as a percentage of the total volume of consumer products sold. Also see FrieslandCampina's website.

Product composition Affordable Nutrition
Percentage of Affordable Nutrition consumer products (also see definition of Affordable Nutrition) in Indonesia, Vietnam, the Philippines, Pakistan, Nigeria and the Ivory Coast that complies with the FrieslandCampina Affordable Nutritional Standards, part of the FrieslandCampina Global Nutritional Standards Next Level. This figure is expressed as a percentage of the total volume of Affordable Nutrition consumer products sold in these countries. Also see FrieslandCampina's website.

Recyclable packaging
To define recyclability, FrieslandCampina builds on the definitions of RecyClass and the Ellen MacArthur Foundation (EMF) in the context of the New Plastics Economy Global Commitment (signed by FrieslandCampina). Recyclable means that packaging can be recycled into materials that replace virgin materials. Hence, materials without further use cycles (plastic-to-road), waste to energy and waste to fuel are excluded.
Furthermore, in line with EMF, FrieslandCampina this year makes a distinction between two levels of recycling: 1) Recyclable at scale and 2) designed for recycling but not yet recycled at scale. Ultimately, the company is working on a system in which packaging is recycled in actual practice and at the right scale. However, FrieslandCampina sometimes can already take certain steps to redesign packaging when it is not yet always recycled. The two levels enable FrieslandCampina to give priority to redesigning packaging to make it suitable for recycling. At the same time the company is working together with various parties in the chain to make recycling at scale possible. Effective from 2021, the KPI includes both levels of recycling. Packaging was reviewed at the component level for this purpose. The scope of the reported recyclable packaging comprises the

entire organisation. We made a number of assumptions and estimates with respect to the recycling of packaging indicators. This involves various factors, such as the number of times packaging is reused.

Traceability to source

The volume of palm oil, soy, pulp and paper, and cocoa purchased by the company that is traceable to source. The source for palm oil is defined as the local palm oil press; for cocoa the cooperative's local warehouse, for soy the country of origin and for pulp and paper the forest, plantation or region of origin. For administrative reasons, the traceability of palm oil relates to the volumes of the previous year under review and is reported in the current year under review.

Water consumption

Water withdrawal from well/ground water and tab water/city grid. The water consumption is measured per tonne of processed product, i.e. the total net water consumption in cubic meters per total production volume in tonnes.

Pasture grazing

All eligible lactating cows on a dairy farm can graze in a pasture with adequate grass supply, such that the animals can maintain their natural grazing behaviour, for at least 120 days per calendar year, at least 6 hours per day (or at least 720 hours per calendar year).
Pasture grazing contributes to reducing ammonia emissions. First, the cows spend less time in the stable as a result of which there is less manure in the stable, which reduces emissions there. Second, because in pasture grazing the urine ends up on the soil separated from the manure. It is only when urine and manure mix that urea is converted into ammonia. The focus on increasing the number of hours spent in the pasture as an ammonia-reducing measure can have an increasing effect on the number of farms with full pasture grazing.

Explanatory note

This integrated Annual Report of Royal FrieslandCampina N.V sets out the financial results and the developments and results relating to value creation and sustainability over 2021. The Annual Report is drawn up as at 31 December 2020. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards as adopted in the European Union (EU-IFRS) and, where applicable, in accordance with Part 9 Book 2 of the Dutch Civil Code. This report is prepared in compliance with the Global Reporting Initiative (GRI) Standards, Core application level, and the internally used criteria for non-financial KPIs as summarised in the glossary (see page 258 to 260).

The 2021 milk price that the members of Zuivelcoöperatie FrieslandCampina U.A. received for the milk they supplied was determined by the FrieslandCampina 2020-2022 milk price regulation.

All amounts in this Annual Report are in euros unless stated otherwise.

In addition to the Annual Report, Royal FrieslandCampina N.V. also publishes a supporting reporting website with key figures, videos and anniversary stories

For more information about FrieslandCampina's developments and results, visit www.frieslandcampina.com.

This Annual Report is a translation of the Dutch version. In case of discrepancies between versions, the Dutch text prevails. The Annual Report of Royal FrieslandCampina N.V. is also available on its website www.frieslandcampina.com.

The following terms, among others, are used in this Annual Report:
- Royal FrieslandCampina N.V. (the 'Company' or 'FrieslandCampina');
- Zuivelcoöperatie FrieslandCampina U.A. (the 'Cooperative');
- Supervisory Board of the Company (the 'Supervisory Board');
- Executive Board of the Company (the 'Executive Board').

Colophon

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