

## Report of the Supervisory Board

### Supervisory Board activities

The Supervisory Board met formally seven times during the year under review and there was also contact with members of the Executive Board on a number of other occasions.

Throughout the year the Mergers & Acquisition strategy was discussed and the Management reported the progress of various acquisition projects. Several projects were submitted to the Supervisory Board for approval. The cooperation with China Huishan Dairy Holdings in China, which is aimed at achieving a fully-integrated infant nutrition production chain, was discussed in considerable detail. After a visit to Huishan, during which the members realised the potential of this investment for FrieslandCampina's ambitions in China, this cooperation was approved by the Board in September. With this cooperation, which can commence during 2015 after it is approved by the Chinese competition authorities, the new FrieslandHuishan Dairy joint venture will be able to introduce a new brand of infant nutrition on the Chinese market. The infant nutrition will be produced in China using Huishan Dairy's high-quality production chain and FrieslandCampina's international expertise and experience in the field of production and marketing.

The Management also informed the Supervisory Board of the progress of the *route2020* strategy. Considerable attention was paid to the innovation portfolio, the milk offering, the progress in processing capacity and the valorisation of milk. Several investment projects were presented for approval, the progress of other projects was discussed and in some cases the entire project was evaluated after several years.



At the end of November Jan Uijtewaal, Vice-chairman of the Supervisory Board of Royal FrieslandCampina N.V. and Vice-chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A., died. Jan had a warm personality and was

an extremely involved Director. His evaluations in decisions in the Supervisory Board and the Cooperative's Board were always based on his business acumen and always from the perspective of the importance of the continuity of both the Cooperative and the Company. The interests of the members were a priority. We will miss his insight.

The analysis of risks and measures to mitigate risks were discussed and the improved approach to crisis management was explained. The results of the safety policy were reported during every meeting. The year was characterised by several exceptional events, including the extensive fire in Gerkesklooster in July which destroyed the warehouse and part of the brining room. The Supervisory Board was informed about the consequences of the fire and the approach being taken to restore production as soon as possible and limit the damage. The proposal for rebuilding the cheese warehouse and brining room was approved in October. The Supervisory Board also discussed the Russian boycott of dairy products and, in particular, measures to limit the consequences for the Company as far as possible. The measures taken after the outbreak of the Ebola Virus Disease epidemic were also discussed. The decision to transfer most of the Sleidinge production facility's activities to the production facility in Aalter and to close the facility in Sleidinge in 2015, with as a consequence the loss of 134 permanent employees, was presented to and approved by the Supervisory Board.

The Company's results were reported by the Management each quarter and discussed by the Supervisory Board as were the findings of the Audit Committee. In February the financial statements for 2013 and the text of the annual report were discussed with the Executive Board and the external auditor and approved by the Supervisory Board. The management letter from the external auditor, like the auditor's report on his findings regarding the first half of the year, were explained by the auditor and discussed with the Management as was the Management's following-up of the indicated areas for improvement. The Supervisory Board, like the Cooperative's member Council, approved the proposal to appoint PricewaterhouseCoopers N.V. as the external auditor as of the 2016 financial year. An analysis of the development of the overheads expense was also discussed. A proposal to change the credit facility was approved. This refinancing enabled FrieslandCampina to improve its conditions quite considerably. During the year the necessary attention was paid to pensions, including the establishment of an industry branch pension for employees in the Netherlands. An amendment to the pension accrual of Dutch employees resulted in one-time income of 131 million euro.

In September the Supervisory Board visited FrieslandCampina's companies in Hong Kong and the Philippines. In October the Board visited Zijerveld in Bodegraven. At all the facilities attention was paid to the results and strategic plans of the companies concerned.

Topics such as remuneration, the composition of the Company's various bodies, diversity and succession planning were discussed, when appropriate in the absence of the Executive Board members. Initiatives related to management development were also discussed. In December the Management presented the results of the 'over2You' employee (satisfaction) survey; the outcome showed not only a high level of participation but also predominantly good scores, including a high score for sustainable engagement. Attention points were identified and actioned per business group.

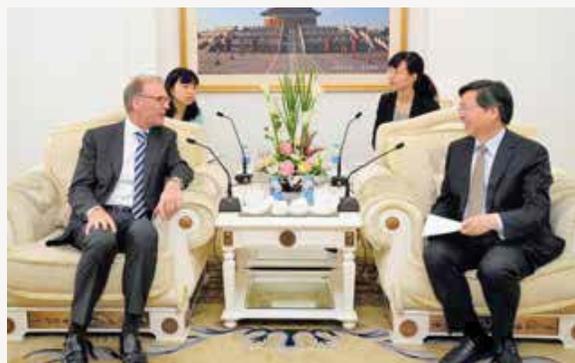
#### Supervisory Board Committees

The Supervisory Board has formed two committees, the Audit Committee and the Remuneration & Selection Committee, to advise them and prepare their decisions in respect of specific tasks.

#### Audit Committee

The annual report and the financial statements for 2012 were discussed in depth as was the report of the external auditor regarding the financial statements and the declaration of the Executive Board included in the annual report.

The tasks of the external auditor, the selection of the entities involved in the audit and the audit material to be handled were discussed on the basis of the audit plan approved by the Audit Committee. The application as of 2014 of the Company-specific external auditor's report was discussed with the auditor. The 2014 half-yearly report and the external auditor's findings regarding the half-yearly report and interim audit findings were also discussed in depth. The main topics discussed during the year were the findings of the external auditor in respect of the annual impairment test carried out by the Company, the changes to the Dutch pension plans and the effect this would have on the financial statements and the (measurement of) the Companies taxation position in the various jurisdictions. The list of additional tasks assigned to the external auditor was evaluated by the Audit Committee four times during the year under review and the Audit Committee's opinion was that the independence of the auditor was also safeguarded. The selection procedure for a new external auditor was paid the necessary attention and a tender process was



#### The Dutch dairy sector and China strengthen relations

On Wednesday 11 June Cees 't Hart, Chairman of the Dutch Dairy Organisation (NZO) and CEO of Royal FrieslandCampina, met the Vice-minister of the Chinese Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), Mr. Wu Qinghai. The objective of the meeting was the further strengthening of relations with the Chinese authorities. In addition, in view of the wish for "the growth of the export of Dutch dairy to China" expressed by Chinese President Xi Jinping during his visit to the Netherlands in March 2014, the next steps to be taken were discussed.

carried out. An extensive selection procedure for a new external auditor, in which three external accountancy companies were invited to participate, took place under the leadership of the Audit Committee in cooperation with the Management. The proposal to charge PWC with auditing the financial statements of Royal FrieslandCampina as of the 2016 financial year was approved by the Cooperative's Members' Council in August 2014.

During meetings of the Audit Committee a number of managers (internal audit, enterprise risk management, treasury, ICT, tax) reported to the Audit Committee regarding their activities. The tax risks in the different countries were discussed and attention paid to topics such as transfer pricing and VAT. Enterprise risk management reported on the internal control framework and the analysis of the division of tasks. Special attention was paid to the treasury function and the treasury policy was up-dated. The Audit Committee was also informed about the approach to process improvement in the finance function.

In the ICT field the progress of the Summit project was discussed twice; attention was paid to several aspects including risk management and the progress with regard to process standardisation. An overview of material claims was discussed.

The Audit Committee considered at length the developments in the field of pensions and the effects of these developments on the Company.

During the year under review the Audit Committee met four times in the presence of the Management and the external auditor. In addition to these meetings the members of the Audit Committee were in contact with each other and with the management on various occasions. After every meeting the findings of the Audit Committee were reported to the Supervisory Board by the Committee's Chairman. The Chairman of the Audit Committee also had several separate discussions with the external auditor.

In February 2015 the annual report and financial statements for 2014 were discussed as was the external Auditor's report regarding the financial statements and the Executive Board's responsibility statement as included in the annual report.

#### **Remuneration & Selection Committee**

In connection with the vacancies for both an internal and an external Supervisory Board member, during the year under view the Remuneration & Selection Committee paid considerable attention to the composition of the Supervisory Board and the Audit Committee. The changes in the composition of the Executive Board were also discussed. In this context discussions were also held with the candidates for the vacant functions.

The Committee also made preparations for the evaluation of the Executive Board and the Supervisory Board. During the year under review evaluation discussions were held with the members of the Executive Board and reported in the Supervisory Board meetings. Evaluation discussions were also held with the members of the Supervisory Board regarding their functioning and the functioning of the Supervisory Board and its Committees. The outcome of these discussions were reported to and discussed with the Supervisory Board. Both the functioning of the Board and the cooperation with the Executive Board were deemed to be excellent. Attention points will be followed up; these points relate to topics to be discussed during subsequent meetings and the need for a further deepening of the knowledge of one or more members in respect of areas of relevance to the Company. Considerable attention was paid to the talent and leadership development programmes within the Company and the Committee was informed about a transition programme that has been set-up to ensure good management of the succession of various Managing Directors.

During the year under review the Remuneration & Selection Committee's activities included the remuneration of the Executive Board. Items discussed included issues such as the determination of bonuses and the fixing of targets for the short and long-term bonuses for the coming year or three years respectively. The twice-yearly report in which the remuneration of the Executive Board is compared with a reference group of companies was submitted to the Supervisory Board with recommendations for adjustments. These adjustments were accepted by the Supervisory Board and will be shared with the Member Council in April 2015. Attention was also paid to the changes to the pension plans for Dutch employees and, therefore, also for the Dutch members of the Executive Board, in connection with a change in legislation.



#### **Open Farm Days in the Netherlands, Germany and Belgium**

72 farms participated in the 2014 Open Farm Days - nearly twice as many as in 2013. Some of the around 100,000 visitors even visited several farms. In addition to a tour of the farm the visitors could enjoy other activities including a real 'farmer's assault course', a treasure hunt, tasting at the dairy bar and cow-pat football.

The Remuneration & Selection Committee met four times during the year under review and after each meeting reported to the Supervisory Board. There was also contact between the members of the Committee and with the Management at other times.

#### **Composition of the Supervisory Board, Committees and Executive Board**

The composition of the Supervisory Board and its Committees as at 27 February 2015 is stated on pages XX and XX.

##### **Supervisory Board**

During the year under review the composition of the Supervisory Board changed. The term of office of Jan Uijttewaal, which was due to end on 16 December 2014, came to a premature end due to his death on 30 November 2014. Jan Uijttewaal had been a member of the Cooperative's Board and the Supervisory Board of FrieslandCampina since the merger of Friesland Foods and Campina and since 2011 had been the Vice-chairman of both Boards. Before the merger he had been a member of the Board of Zuivelcoöperatie Campina U.A. since 2003. He will be missed as a valued colleague and person by the Supervisory Board and many others within FrieslandCampina.

Jan Keijsers has succeeded Jan Uijttewaal as Vice-chairman of the Supervisory Board and the Board of the Cooperative.

On 16 December 2014 Angelique Huijben-Pijnenburg and Frans Keurentjes were reappointed as members of the Supervisory Board and Sandra Addink-Berendsen was appointed as a member, all for terms of four years. The term of Henk Scheffers ended on 16 December 2014, but he was not available for reappointment. Henk Scheffers was also the Chairman of the Audit Committee for many years and his leadership was always excellent.

As of 1 May 2015 René Hooft Graafland will be appointed as the successor of Henk Scheffers in the Supervisory Board. René Hooft Graafland qualifies as a 'financial expert' in the sense of the Supervisory Board regulations.

The Supervisory Board is very grateful to Jan Uijttewaal and Henk Scheffers for their valuable advice and contributions towards the Board's discussions. FrieslandCampina's Supervisory Board currently comprises twelve members and as of 1 May 2015 will once again comprise thirteen members. Nine of the

members are members of the Board of Zuivelcoöperatie FrieslandCampina U.A. and the remaining members are external Supervisory Board members. All the external members of the Board (the members who are not also members of the Board of the Cooperative) are independent of the Company as stipulated in the Dutch Corporate Governance Code and the Supervisory Board Regulations.

##### **Diversity of the Supervisory Board**

FrieslandCampina strives for a composition of its Supervisory Board that is balanced and in which the combination of the members' experience, expertise and independence ensures the Supervisory Board can fulfil its various duties on behalf of the Company and its stakeholders in the best possible way. FrieslandCampina also strives for a balanced participation of men and women in the Supervisory Board with at least 30 percent of the member being female.

The Supervisory Board comprises thirteen members (as stated above, temporarily twelve members), two of whom are female. This means that the representation of the Cooperative's female members (15 percent) is guaranteed. In 2014 one female Supervisory Board member was reappointed and one female Board member and one male Board member (as of 1 May 2015) appointed. The goal of a balanced participation of women and men was taken into consideration in respect of the reappointment and appointment of these members. The next time a vacancy arises the search criteria specified by the Remuneration & Selection Committee will once again emphasise that the candidates should be female.

##### **Committees**

The composition of the Remuneration & Selection Committee changed during the year under review due to the death of Jan Uijttewaal, which resulted in the acceleration of his succession by Jan Keijsers.

##### **Audit Committee**

Henk Scheffers and his successor as of 1 May 2015, René Hooft Graafland, as well as Ben van der Veer, all qualify as a 'financial expert' in the sense of the Supervisory Board Regulations. During the year under review Henk Scheffers was the Chairman of the Audit Committee until his resignation on 16 December 2014. On that date he was succeeded as Chairman by Ben van der Veer. The Audit Committee also includes two internal Supervisory Board members and other internal Board members attend the meetings of the Audit Committee as observers on a rota

basis.

#### **Executive Board**

Since 1 January 2015 the Executive Board has comprised six members. In 2014 the composition and portfolio division of the Executive Board were amended (see page XX). Kees Gielen, until the end of 2014 Chief Financial Officer, was appointed Chief Operating Officer Business Development as of 1 January 2015. Hein Schumacher joined the Executive Board on 1 September 2014 and succeeded Kees Gielen as Chief Financial Officer on 1 January 2015. Bas van den Berg was appointed Executive Director of the Cheese, Butter & Milkpowder business group as of 1 January 2015. He reports to Cees 't Hart who has the formal responsibility for the business group within the Executive Board. Bas van den Berg succeeds Piet Hilarides, who was appointed Chief Operating Officer of the Consumer Products Asia business group as of 1 January 2015. Piet Hilarides succeeds Freek Rijna who left FrieslandCampina on 31 December 2014. Freek Rijna had been Chief Operating Officer since 2009, first of the Consumer Products Europe business group and then of Consumer Products Asia in Singapore. The Supervisory Board is grateful to Freek Rijna for his efforts on behalf of and management of these business groups during the important post-merger years.

#### **Diversity of the Executive Board**

FrieslandCampina strives for a balanced composition of the Executive Board including the balanced participation of men and women. This means that at least 30 percent of the Executive Board members should be women. Currently all the members of the Executive Board are men. Hein Schumacher was ultimately selected to fill the vacancy of CFO in view of his qualities and international experience. The search criteria specified by the Remuneration & Selection for the following vacancies will emphasise that the candidates should be female. As, in general, the preference is to recruit internal candidates, it is important that sufficient female candidates are available in the ranks under the Executive Board. FrieslandCampina is implementing a diversity policy that is aimed at increasing the number of women in these levels in the organisation.

#### **Financial statements and appropriation of profit**

In February 2015 the Audit Committee discussed the 2014 financial statements drawn-up by the Executive Board and notified the Supervisory Board of their findings. During the Supervisory Board meeting of 27 February 2015 the Supervisory Board members and the Executive Board members discussed and signed the financial

statements. The financial statements were audited by KPMG Accountants N.V., which then issued an unqualified auditor's report. The financial statements will be submitted to the General Meeting of Shareholders for adoption on 1 May 2015.

From the profit of 303 million euro, 70 million euro is attributable to minority interests and 183 million euro has been added to retained earnings. The remaining profit will be appropriated as follows: 40 million euro will be reserved as interest payment for the holders of member bonds and 10 million euro will be reserved as interest payment for the loan from the Cooperative to the Company.

During the General Meeting of Shareholders it will be proposed that the members of the Executive Board be discharged for their management during the 2014 financial year and that the members of the Supervisory Board be discharged for their supervision of the Executive Board during 2014.

On 29 April 2015 the Member Council of Zuivelcoöperatie FrieslandCampina U.A. will be asked to approve the decision of the Cooperative's Board, which exercises the Cooperative's rights as shareholder and in this way functions as the General Meeting of Shareholders, to adopt the 2014 financial statements of Royal FrieslandCampina N.V. and approve the appropriation of profit.

#### **Thanks**

The Supervisory Board is extremely thankful to Cees 't Hart for his efforts during the past seven years. After the merger at the end of 2008, Cees 't Hart's management of the integration of Friesland Foods and Campina was inspirational. Since then he has played a major and binding role in the successful expansion of FrieslandCampina. His integrity, dedication and finely-tuned instincts for organisational developments have made FrieslandCampina a company that is ready for the future.

#### **Supervisory Board**

Amersfoort, 27 februari 2015

## Supervisory Board appointment and resignation roster (as at 17 December 2014)

	appointed	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
P. Boer	31 Dec 2008		<				◇				>		
J.W. Addink-Berendsen	16 Dec 2014				>				>				<
P.A.F.W. Elverding	7 May 2008	>				<				◇			
S.H. Galema	14 Dec 2011	>				>				<			
L.W. Gunning	14 Dec 2011	>				>				<			
A.A.M Huijben-Pijnenburg	15 Dec 2010				>				<				◇
R. Hoofst Graafland	1 May 2015				>				>				<
J.P.C. Keijsers	26 April 2006	>		<				◇				>	
F.A.M. Keurentjes	31 Dec 2008				<				◇				>
S.R.F. Ruiters	26 April 2006		<				◇				>		
H. Stöcker	14 Dec 2011	>				>				<			
B. van der Veer	1 Oct 2009			>				<				◇	
W.M. Wunnekink	16 Dec 2009			>				<				◇	

> resigns, eligible for reappointment

< resigns, not eligible for reappointment

◇ successor of current member resigns, eligible for reappointment