



FrieslandCampina 

# Annual Report 2010

Royal FrieslandCampina N.V.







FrieslandCampina [nl](http://www.frieslandcampina.nl)

# Annual report 2010

Royal FrieslandCampina N.V.

# Explanatory note

In this Annual Report we are presenting the financial results and key developments of Royal FrieslandCampina N.V. (hereafter FrieslandCampina) during 2010.

The financial statements have been prepared as at 31 December 2010. The figures for 2010 and the comparative figures for 2009 have been prepared in accordance with the International Financial Reporting Standards to the extent they have been endorsed by the European Union (EU-IFRS). The milk price for 2010 received by the members of Zuivelcoöperatie FrieslandCampina U.A. for the milk they supplied was determined on the basis of FrieslandCampina's method for determining milk prices 2008 - 2010.

In 2010 FrieslandCampina completed the development of, and began implementing, its *route2020* strategy. Considerable attention is paid to this topic in this annual report.

The Annual Report of Royal FrieslandCampina N.V. has also been published on the website [www.frieslandcampina.com](http://www.frieslandcampina.com) and is available on request from the Corporate Communication department of FrieslandCampina (email: [corporate.communication@frieslandcampina.com](mailto:corporate.communication@frieslandcampina.com)).

The Annual Report is published in Dutch, German and English. Only the Dutch text is legally binding as it is the original. The English translation has been produced solely for the purpose of convenience.

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# Foreword

Dear reader,

FrieslandCampina can look back on a dynamic year: The merger was completed, the financial results for 2010 were very good and the course for the future was set.

## Merger completed

The merger between Friesland Foods and Campina is complete. Activities and processes have been integrated, the new central office in Amersfoort is in use and there is a new élan within the organisation. As a merger company there is a clear focus on growth, on the further professionalisation of the organisation and on cooperation. And FrieslandCampina's improved market-orientation and efficiency has led to the synergy goals being achieved ahead of schedule.

## Good results

The financial results for 2010 were good. The market share of most of our brands improved. Our sales volume increased. Both revenue and operating profit rose, in line with our objectives of growth and value creation. Favourable developments on the world dairy market played a role in this. In 2010 the economic climate improved slightly. In our major sales markets in Asia and Africa we achieved double-digit growth. Developments in Europe were not so favourable and market conditions remained challenging, especially in South East Europe.

Compared with 2009, which was a difficult year, the dairy market made a good recovery. In 2010 the prices for dairy products on the world market rose to a higher level. This was reflected in the guaranteed price paid to the Zuivelcoöperatie FrieslandCampina's members last year. FrieslandCampina has no influence over the guaranteed price, but does have influence over the performance premium for member dairy farmers, which is based on the Company's financial result.

The result was much improved thanks to increased sales, particularly of our branded products, and the improved results from commodities due to the higher selling prices

and our improved efficiency. On the basis of the improved results the Cooperative's member dairy farmers received a performance premium that was more than twice the amount of the 2009 performance premium. This was in a year in which the guaranteed price also rose substantially. The profit added to the reserve registered in the names of the members was also higher. The sum total of all this was a total payment for the milk supplied by the members that was over 25% higher than in 2009.

## The course is set

With the formulation of *route2020* the Company's strategic course for the coming years was set. Clear choices were made in the product groups and markets with growth potential, but also in respect of creating an efficient and effective organisation that is capable of making the most of market opportunities on a global scale. The core competencies needed to enable the strategy to be carried out successfully were also defined. Innovation, talent management and an optimum valuation of the members' milk and innovative dairy products are key factors for success. The stringent profitability criteria that must be met by the business units were also formulated.

## Sustainability

Operating in a sustainable way plays a major role in the strategy. The growing demand on the world market for healthy food that has been produced in a sustainable way offers great opportunities. FrieslandCampina firmly believes that consistently following the principles of Corporate Social Responsibility will, in the long term, make an important and material contribution towards sustainable value creation for all stakeholders. In the society in which the Company operates a contribution can be made towards making the value chains for milk more sustainable, safeguarding food certainty and improving public health - not only through the nutritious dairy products themselves but also through various initiatives to make people, especially young people, more aware of the

importance of a healthy lifestyle, healthy eating and healthy exercise.

## Cooperation

During the *route2020* development process a metaphor was used. You can only succeed in reaching the top of a mountain if you have a good plan and team members who not only trust each other but also, and more importantly, are willing to work together. The management and the employees know the route FrieslandCampina wants to travel. And which challenges must be faced along the way. In this annual report you can read more about these challenges in addition to the Company's financial performance and operational developments during 2010.

In 2010 FrieslandCampina's employees once again delivered an exceptional performance. In addition to the 'normal' day-to-day work a great deal of extra effort went into the roll-out of the new strategy. Revamping went 'full steam ahead'. Improvement trajectories were set in motion. Activities were amalgamated and the organisation was partially reorganised. Not everybody finds changes easy and changes often have personal consequences, for example the need to move house. Which is why, on behalf of the entire Executive Board, I would like to thank all our employees for their cooperation and enthusiasm.

## Cees 't Hart CEO

CEO Royal FrieslandCampina N.V.

Amersfoort  
4 March 2011

# FrieslandCampina at a glance

## The major financial developments in 2010

### Increased net revenue and net profit

- Net revenue up by 10% to 8,972 million euro (2009: 8,160 million euro) due to improved sales of consumer products in Asia and Africa and of special ingredients and through higher prices for cheese, milk powder, caseinates (milk proteins), butter, milk and yoghurt
- The market share for most brands increased or remained stable, supported by advertising and promotional campaigns
- Higher volumes in Asia and Africa. In Europe declining dairy consumption put pressure on volume
- In most markets price increases were passed on as a result of rising costs for raw milk and other raw materials
- Currency developments had a net positive effect of 173 million euro on revenue
- Operating profit up by 68% to 434 million euro (2009: 258 million euro)
- Solvency up by 2.4 percent points to 39.1%
- Profit up by 57% to 285 million euro

### Milk price rises due to higher guaranteed price and higher performance premium

- Guaranteed price up by 22.7% to 32.39 euro per 100 kilos of milk (excl. VAT, at 4.41% fat and 3.47% protein)
- Performance premium more than doubled to 1.23 euro per 100 kilos
- Milk price for the Cooperative's members up by 25% to 33.62 euro per 100 kilos (excl. VAT, at 4.41% fat and 3.47% protein)

### Lower cash flow

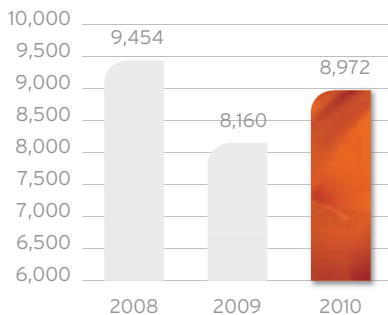
- Cash flow from operating activities down by 342 million euro to 444 million euro as a result of an increase in working capital due to higher prices of raw materials and end products

### Reserve

- 192 million euro added to the general reserve
- 65 million euro (0.73 euro per 100 kilos milk) added to the reserve registered in the names of member dairy farmers

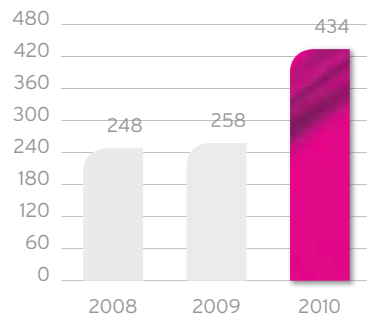
### Revenue

in millions of euros



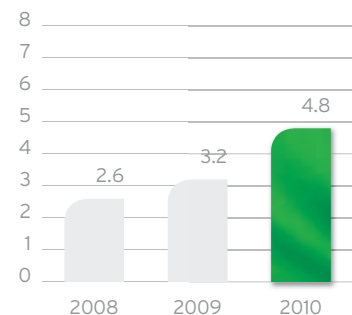
### Operating profit

in millions of euros



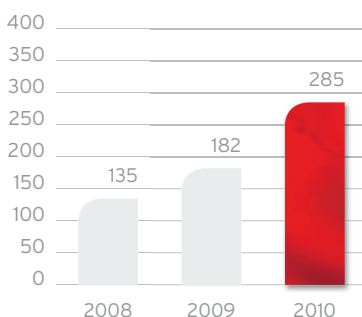
### Operating profit as a percentage of revenue

as a %



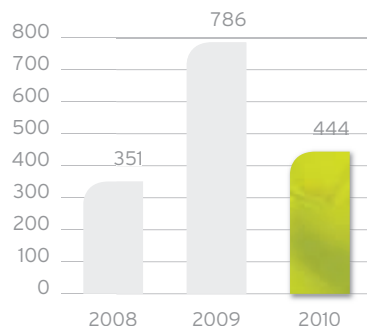
### Profit for the year

in millions of euros



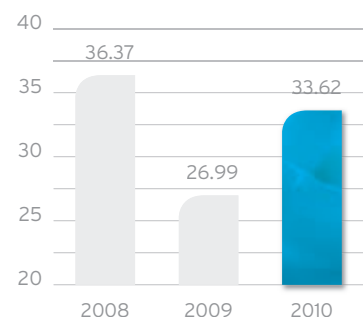
### Net cash flows from operating activities

in millions of euros



### Milk price

in euros per 100 kilograms, excl. of VAT



## Key figures

285

Profit up by 57%

## Results in millions of euros

	2010	2009
Net revenue	8,972	8,160
Operating profit before non-recurring income and expenses	428	347
Operating profit	434	258
Profit	285	182

39.1

Solvency strengthened

## Balance sheet in millions of euros

	2010	2009
Balance sheet total	5,299	4,770
Group equity	2,071	1,749
Equity attributable to shareholder in the company and other providers of capital	1,961	1,652
Net debt	776	842
Group equity as a percentage of the balance sheet total	39.1%	36.7%

444

Reduced cash flow due to higher prices

## Cash flow in millions of euros

	2010	2009
Net cash flow from operating activities	444	786
Investments in property, plant, equipment and intangible assets	261	231
Depreciation on buildings and equipment and amortisation of intangible assets	210	206

33.62

Milk price up by 25%

Value creation for member dairy farmers in euros per 100 kilos  
(excl. VAT, at 4.41% fat and 3.47% protein)

	2010	2009
Guaranteed price	32.39	26.40
Performance premium	1.23	0.59
Milk price	33.62	26.99
Registered reserve	0.73	0.35
Total payment for milk to member dairy farmers	34.35	27.34

10.3

Billion kilos milk processed

## Additional information

	2010	2009
Employees (average number of FTEs)	19,484	20,034
Number of member dairy farms at year end	14,829	15,326
Number of members at year end	20,375	21,062
Total milk processed (in millions of kilos)	10,266	10,755
Milk supplied by members (in millions of kilos)	8,821	8,685

# Our strategy

## Aspiration



To help people move forward in life with natural dairy nutrition

## Value-drivers

Dairy-based beverages



Infant & toddler nutrition (B2B, B2C)



## Benefit platforms

Growth & development



Daily nutrition



## Capabilities

Talent management



Milk valorisation



## Growth and value-creation

In 2010 the development of FrieslandCampina's *route2020* strategy was completed. The growing demand for healthy food that has been produced in a sustainable way offers major opportunities. Six value-drivers for value growth have been defined. The implementation of the strategy will build further on the solid foundations reflected in FrieslandCampina's basis hallmarks. The focus in the field of marketing and innovation will be on the selected benefit platforms.

## Foundation

Goodness of dairy



Chain advantages





To be the most attractive dairy company for member farmers

Branded cheese



Strongholds & geographic expansion



Foodservice in Europe



Basic products



Health & wellness



Functionality



Innovation



Business model & cost focus



Sustainable dairy farming & business operations



The way we work



## Ambition and *route2020* strategy

During 2010 the formulation of the *route2020* strategy was completed and a start was made on implementing the plan. Growth and value-creation are the key words of *route2020*.

FrieslandCampina's strategy is to increase its added-value and, at the same time, ensure all the milk produced by the Cooperative's member dairy farmers reaches its full value. To this end FrieslandCampina wants to achieve accelerated growth in selected markets and product categories.

### Ambitions and target

FrieslandCampina has two primary ambitions in respect of consumers and the Cooperative's members. FrieslandCampina wants to help people move forward in life with natural dairy nutrition. With milk FrieslandCampina can respond to the growing demand on the world market for healthy food that is produced in a sustainable manner. Milk contains essential nutrients, such as protein, fats, lactose, vitamins and minerals. FrieslandCampina also wants to be the most attractive dairy company for the Zuivelcoöperatie FrieslandCampina's member dairy farmers. The Company's target for 2020 is a substantially higher performance premium for milk than in 2009 as well as a higher dividend in the form of equity registered in the name of members via member bonds.

### Global trends

Several global trends were taken into account when developing the strategy.

- The globalisation of markets and companies offers opportunities to carry out both consumer and ingredients activities on a global scale.
- The consolidation in the food industry offers opportunities in the countries and segments in which FrieslandCampina occupies, or could occupy, a strong market position.
- The uncertainty and volatility of prices on the market means the Company and the Cooperative's member dairy farmers must be prepared for this so that even if developments are unfavourable the highest possible added-value can be achieved.
- Economic power is shifting to Asia while the market for sales in Europe is relatively saturated.
- There is a growing demand for products with nutritional benefits. This offers opportunities for FrieslandCampina because milk and milk products are pre-eminently suited to answer this demand.
- Society's concerns regarding sustainability are resulting in ever more stringent demands which the Company and the Cooperative's member dairy farmers must be able to fulfil.

### A strong starting position

In this changeable world FrieslandCampina has a number of strengths on which to build further. The Company has strong brands and good market positions in various geographic regions and product groups including dairy-based beverages, ingredients for infant & toddler nutrition and for the pharmaceutical industry and in the field of cheese. FrieslandCampina also occupies strong market positions in specific countries and product groups including desserts, coffee enrichers, fruit drinks and various ingredients for the food industry.

FrieslandCampina has taken into account a larger supply of milk from 2015 onwards when the quota system imposed within the EU will cease to apply and dairy farmers are expected to increase their output. FrieslandCampina is obliged to purchase all the milk produced by the Cooperative's member dairy farmers.

### Value drivers

FrieslandCampina has defined six value drivers to achieve value growth.

- Worldwide growth in dairy-based beverages by increasing the share in total consumption.
- Strengthening market positions in infant nutrition, both ingredients and end products, worldwide.
- Increased market share in branded cheese, including through expanding the brand portfolio.
- Geographical growth in the above categories and improving the strong positions outside of these categories.
- Foodservice in Europe: strengthening and expanding existing strong positions in the eating-out category, partly through geographical expansion.
- Strengthening of basic products, such as standard ingredients, industrial cheese and private labels in order to reduce the share of member milk that is processed into commodities.

More than half of FrieslandCampina's investments will be related to these value-drivers and will include investments in marketing, the education and training of employees and acquisitions. Efforts in the field of marketing and innovation will be focused on the benefit platforms of growth & development, daily nutrition, health & wellness and functionality.

### Building on a firm foundation

The strategy will be built on the existing firm foundation that is reflected by the intrinsic FrieslandCampina hallmarks. Because FrieslandCampina is directly linked to the dairy cooperative it controls the entire production chain from raw milk to distribution. This means FrieslandCampina can guarantee the quality of its products. The emphasis of the cooperation with dairy farmers will, more than ever before, be on safe food and sustainable operations. Good cooperation between every part of the organisation is vital.

FrieslandCampina will strive for the climate-neutral achievement of its foreseen growth. Throughout the entire chain from cow to consumer. The Company wants to achieve this by working with the member dairy farmers and chain partners to improve energy-efficiency, reduce greenhouse gas emissions and stimulate the production of sustainable energy on dairy farms.

### The expected results of route2020

FrieslandCampina expects following route2020 to enable the following results to be achieved:

- an increase in the share of specialities and branded products in the total sales volume;
- further growth of the operating profit;
- a higher performance premium for member dairy farmers' milk and a higher pay-out in the form of equity registered in the names of members via member bonds;
- climate-neutral growth throughout the chain from cow to consumer.

## Profile and organisation

Royal FrieslandCampina N.V. plays a major role in providing healthy food to hundreds of millions of people on a daily basis. FrieslandCampina's products include dairy-based beverages, infant & toddler nutrition, cheese, butter, cream, desserts and functional dairy-based ingredients. In addition to consumer products FrieslandCampina also supplies professional customers, including bakeries and the hotel, restaurant and food service industry, with products such as cream and butter. Ingredients and half-finished products are produced for the food industry and the pharmaceutical sector.

FrieslandCampina boasts more than 130 years of dairy experience. With its annual revenue of nearly 9.0 billion euro FrieslandCampina is one of the world's largest dairy companies. FrieslandCampina carries out its commercial activities via four market-oriented business groups: Consumer Products Europe, Consumer Products International, Cheese & Butter and Ingredients. In the field of consumer products the Company is active in many European countries, in Asia and in Africa. Sales to industrial customers take place worldwide. The Company's own offices and facilities in 25 countries employ a total of over 19,000 staff. FrieslandCampina's products find their way to more than 100 countries.

### Cooperative-owned Company

Zuivelcoöperatie FrieslandCampina U.A. holds all the shares in the capital of Royal FrieslandCampina N.V. The Cooperative is formed by 20,375 member dairy farmers (14,829 dairy farms) in the Netherlands, Germany and Belgium. The member dairy farmers are, via the Cooperative, the joint owners of the Company. These members elect the Boards of the 21 districts. Together these District Boards form the Member Council which comprises 210 members. The Member Council elects the nine members of the Board of the Cooperative who, together with four external members, form the Supervisory Board of Royal FrieslandCampina N.V. The Board of the Cooperative also forms the General Meeting of Shareholders of Royal FrieslandCampina N.V. The Member Council

must approve changes to the Articles of Association and reservation policy of Royal FrieslandCampina N.V.

### Milk price determination system

The milk price FrieslandCampina paid the members of Zuivelcoöperatie FrieslandCampina U.A. for the milk supplied during the 2010 financial year comprised the guaranteed price and the performance premium. The guaranteed price is based on the milk prices of 12 German dairy companies, Arla Foods in Denmark, Bel Leerdammer, Cono Kaasmakers and DOC Kaas in the Netherlands and Milcobel in Belgium. The amount of the performance premium depends on FrieslandCampina's financial performance and the adopted reservation policy. 25% of the Company's profit based on the guaranteed price and after deduction of the profit attributable to providers of member bonds and perpetual notes and the profit attributable to minority interests is paid out to the members in cash as a performance premium. The performance premium is paid out to the Cooperative's members annually, after the financial statements have been adopted, in proportion to the value of the quantity of milk they have supplied during the year in question.

### Profit reservation

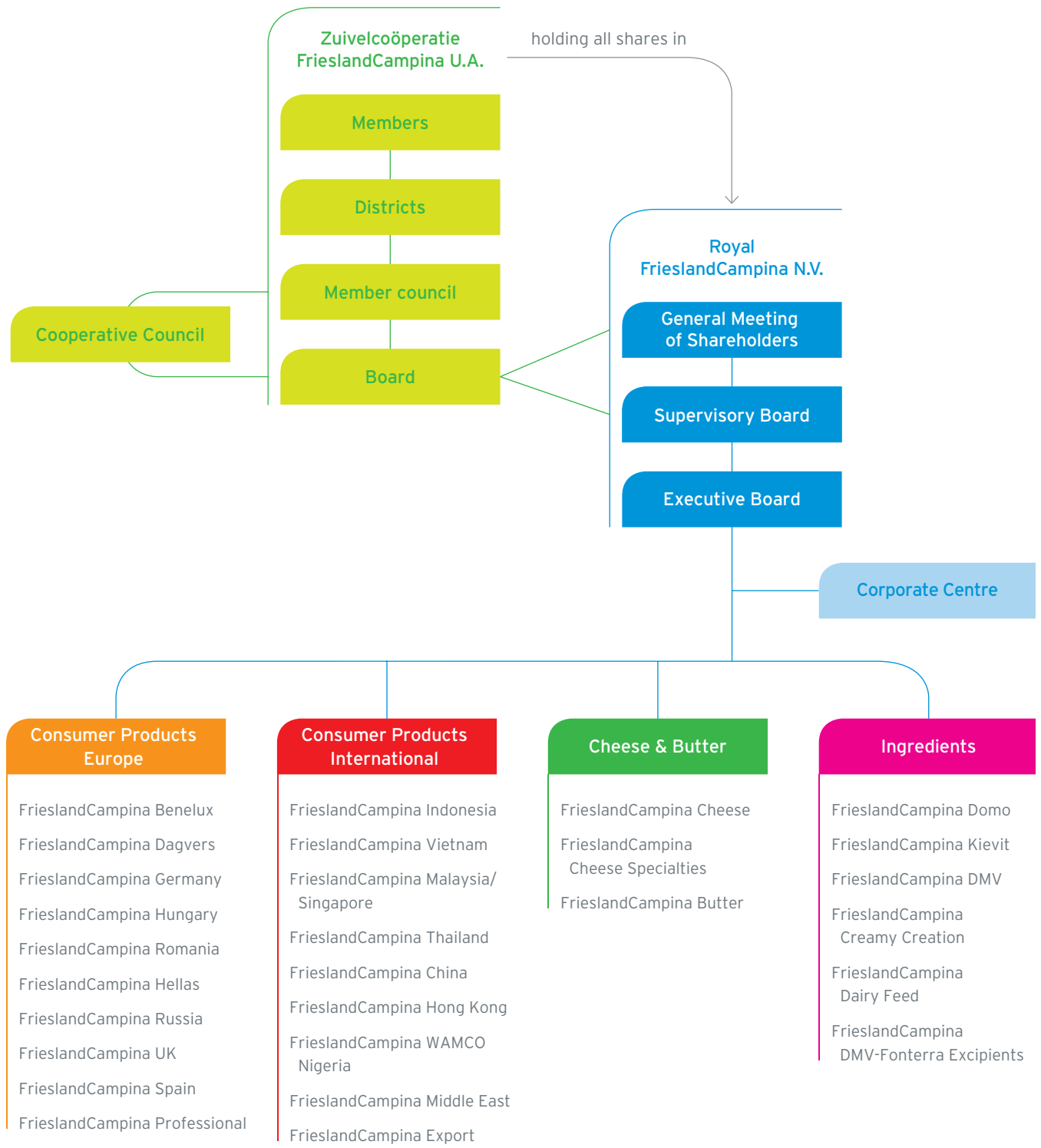
FrieslandCampina's equity increases as a result of additions from the Company's profit to the reserves. 60% of the Company's profit based on the guaranteed price and after deduction of profit attributable to providers of member bonds and perpetual notes and the profit attributable to minority interests is added to the Company's general reserves. A further 15% of the Company's profit based on the guaranteed price and after deduction of profit attributable to member bonds and perpetual notes and the profit attributable to minority interests is added to the registered reserve. This is paid out to the members dairy farmers in the form of non-negotiable member bonds - the so-called fixed member bonds.

### Changes as of January 2011

As of the 2011 financial year, 50% of the profit of Royal FrieslandCampina N.V. based on the guaranteed price and after deduction of profit attributable to member bonds and perpetual notes and the profit attributable to minority interests will be added to the Company's general reserve, 30% will be paid-out to member dairy farmers as a performance premium for the milk supplied, and 20% will be paid out to the member dairy farmers in the form of fixed member bonds.

As of 1 January 2011 the guaranteed price for the milk supplied will be equal to the weighted average annual milk prices for raw milk of the reference companies including any back-payment from the dairy companies to their dairy farmers and any formation of registered equity. The last mentioned component does not currently form part of FrieslandCampina's guaranteed price calculation.

In line with this amendment to the calculation of the guaranteed price, as of the 2011 financial year FrieslandCampina's milk price will comprise the guaranteed price, the performance premium (30% of the Company's profit based on the guaranteed price and after deduction of profit attributable to member bonds and perpetual notes and the profit attributable to minority interests) and the value of the fixed member bonds per 100 kilos of milk (20% of the profit). Currently the value of the fixed member bonds is not a component of FrieslandCampina's milk price calculation.



## Our world of brands



Branches in:

The Netherlands

Germany

Belgium

Hungary

Romania

Greece

Russia

United Kingdom

France

Spain

Italy

Austria

Saudi Arabia

United Arab Emirates

Ghana

Nigeria

China

Hong Kong

Indonesia

Malaysia

The Philippines

Singapore

Thailand

Vietnam

United States of America

Worldwide - Ingredients:



FrieslandCampina has leading brands in the fields of dairy products for consumers and professional users and functional dairy-based ingredients for the food and pharmaceutical industries.



# Foundation

Goodness of dairy



Chain advantages



Sustainable  
dairy farming &  
business operations



The way we work



The implementation of the strategy will build further on the solid foundations that are reflected in FrieslandCampina's basis hallmarks. Milk, by nature, contains many essential nutrients per calorie and is, therefore, very nutritious. Because FrieslandCampina is directly linked to the Cooperative's member dairy farmers it controls the entire production chain, from raw milk to distribution. The emphasis in the cooperation with dairy farmers is, more than ever before, on safe food and sustainable operations. To create the right working atmosphere and culture and achieve the Company's ambitions the 'The way we work' programme has been introduced.



## Composition of the Supervisory Board



### **Kees (C.H.) Wantenaar (1949)**

Chairman of the Supervisory Board of Royal FrieslandCampina N.V., Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A.

**Appointed:** 31 December 2008

**Nationality:** Dutch

**Occupation:** dairy farmer  
**Other positions held:** member of the Board of Nationale Coöperatieve Raad, Chairman of the NZO's Sustainable Milk Production Committee, member of the Board of Productschap Zuivel (Dutch Dairy Board), member of the Board of Rabobank Soest-Baarn-Eemnes



### **Piet (P.) Boer (1960)**

Vice-Chairman of the Supervisory Board of Royal FrieslandCampina N.V., Vice-Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A. since 15 December 2010

**Appointed:** 31 December 2008

**Nationality:** Dutch

**Occupation:** dairy farmer  
**Other positions held:** member of the Supervisory Board of Alfa Top-Holding B.V.



### **Peter (P.A.F.W.) Elverding (1948)**

Member of the Supervisory Board of Royal FrieslandCampina N.V.

**Appointed:** 31 December 2008

**Nationality:** Dutch

**Other positions held:** : Chairman of the Supervisory Board of ING Groep N.V., Chairman of the Supervisory Board of Océ N.V., Chairman of the Supervisory Board of Camille Oostwegel Holding b.v., member of the Supervisory Board of SHV Holdings N.V., Chairman of the Supervisory Board of Q-Park, member of the Board of Stichting Instituut Gak



### **Rob (R.) ter Haar (1950)**

Member of the Supervisory Board of Royal FrieslandCampina N.V.

**Appointed:** 31 December 2008

**Nationality:** Dutch

**Other positions held:** Chairman of the Supervisory Board of Parcom Capital B.V., Chairman of the Supervisory Board of VVAA Groep B.V., member of the Supervisory Board of Unibail-Rodamco S.A., member of the Supervisory Board of Maxeda B.V., member of the Supervisory Board of B.V. Sperwer Holding, member of the Board of Board Univar Inc.



### **Simon (S.R.F.) Ruiter (1958)**

Member of the Supervisory Board of Royal FrieslandCampina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.

**Appointed:** 31 December 2008

**Nationality:** Dutch

**Occupation:** dairy farmer  
**Other positions held:** : Provincial Manager LTO-Noord, Province of Noord-Holland, Vice-Chairman of the Supervisory Board of Rabobank Alkmaar a.e.



### **Henk (H.) Scheffers (1948)**

Member of the Supervisory Board of Royal FrieslandCampina N.V.

**Appointed:** 31 December 2008

**Nationality:** Dutch

**Other positions held:** Chairman of the Supervisory Board of Aalberts Industries N.V., member of the Supervisory Board of Royal Bam Group nv, member of the Supervisory Board of Wolters Kluwer N.V., Vice-Chairman of the Supervisory Board of Flint Holding N.V., member of the Investment Committee of NPM Capital N.V., member of the Supervisory Board of Made in Scotland, member of the Board of Stichting Administratiekantoor KAS BANK



### **Jan (J.H.G.M.) Uijttewaal (1962)**

Member of the Supervisory Board of Royal FrieslandCampina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.

**Appointed:** 31 December 2008

**Nationality:** Dutch

**Occupation:** dairy farmer  
**Other positions held:** Vice-Chairman of the Supervisory Board of Rabobank Maas en Waal



### **Ben (B.) van der Veer (1951)**

Member of the Supervisory Board of Royal FrieslandCampina N.V.

**Appointed:** 1 October 2009

**Nationality:** Dutch

**Other positions held:** member of the Supervisory Board of Reed Elsevier N.V. and non-executive director of Reed Elsevier PLC, member of the Supervisory Board of AEGON N.V., member of the Supervisory Board of TomTom N.V., member of the Supervisory Board of Siemens Nederland N.V.



**Angelique (A.A.M.) Huijben-Pijnenburg (1968)**

Member of the Supervisory Board of Royal Friesland-Campina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.

**Appointed:** 15 December 2010

**Nationality:** Dutch

**Occupation:** dairy farmer

**Other positions held:** member of the Board of AB Brabant, member of the General Management Board of the Brabantse Delta District Water Board



**Jorrit (J.) Jorritsma (1954)**

Member of the Supervisory Board of Royal Friesland-Campina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.

**Appointed:** 31 December 2008

**Nationality:** Dutch

**Occupation:** dairy farmer

**Other positions held:** Chairman of the Supervisory Board of Rabobank 'De Stellingwerven', Chairman of the Supervisory Board of AB Fryslân & Noord-Holland



**Jan (J.P.C.) Keijsers (1955)**

Member of the Supervisory Board of Royal Friesland-Campina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.

**Appointed:** 31 December 2008

**Nationality:** Dutch

**Occupation:** dairy farmer



**Frans (F.A.M.) Keurentjes (1957)**

Member of the Supervisory Board of Royal Friesland-Campina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.

**Appointed:** 31 December 2008

**Nationality:** Dutch

**Occupation:** dairy farmer

**Other positions held:** Chairman of the Supervisory Board of Rabobank Noordenveld West-Groningen, member of Grondkamer Noord (Agricultural Land Tenancies Authority North), member of Groningen Provincial Council



**Erwin (W.M.) Wunnekink (1970)**

Member of the Supervisory Board of Royal Friesland-Campina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.

**Appointed:** 16 December 2009

**Nationality:** Dutch

**Occupation:** dairy farmer

**Appointment and Remuneration Committee**

Peter Elverding, Chairman  
Kees Wantenaar  
Piet Boer

**Audit Committee**

Henk Scheffers, Chairman  
Jan Uijtewaal  
Ben van der Veer  
Erwin Wunnekink

On 15 December 2010 Mr. Sybren S.U. Attema resigned as Vice-Chairman and member of the Supervisory Board in accordance with the roster. In accordance with the Articles of Association he was not eligible for reappointment. To fill the vacancy, as of 15 December 2010 Mrs. Angelique A.M. Huijben-Pijnenburg was appointed a member of the Supervisory Board. Mr. Piet Boer was appointed Vice-Chairman of the Supervisory Board as of the same date.

## Report of the Supervisory Board

During the 2010 financial year the Supervisory Board carried out its tasks in accordance with the applicable legislation and regulations and the Articles of Association of Royal FrieslandCampina N.V. and supervised and advised the Executive Board on an ongoing basis.

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

During the Supervisory Board meeting of 4 March 2011 the Supervisory Board members and Executive Board members signed the 2010 financial statements drawn up by the Executive Board. The financial statements were audited by KPMG Accountants N.V., which then issued an unqualified auditor's report. The Supervisory Board has approved the Executive Board's proposal to add an amount of 192 million euro to the general reserve. In addition, an amount of 65 million euro has been reserved in the form of fixed member bonds registered in the names of member dairy farmers. On 24 February 2011 the Audit Committee discussed the 2010 financial statements. The 2010 financial statements will be submitted to the General Meeting of Shareholders (the Board of Zuivelcoöperatie FrieslandCampina U.A.) for adoption on 26 April 2011. In accordance with Article 21, Clause 2, Item d of the Articles of Association, during this meeting the members of the Executive Board will be discharged for their management during the 2010 financial year and, in accordance with Article 21, Clause 2, Item e of the Articles of Association the Supervisory Board will be discharged for its supervision of the Executive Board during the 2010 financial year. On 26 April 2011 the Member Council of Zuivelcoöperatie FrieslandCampina U.A. will be requested, to approve the decision of the Cooperative's Board (in its capacity as the General Meeting of Shareholders) to adopt the 2010 financial statements of Royal FrieslandCampina N.V. and approve the appropriation of profit.

### Resignation and (re)appointments

On 15 December 2010 Mr. Sybren Attema, in line with his stated intent at the time of the merger of Friesland Foods and Campina, resigned as Vice-Chairman and member of the Supervisory Board. Mr. Attema resigned in accordance with the roster and was not eligible for reappointment. With the departure of Mr. Attema FrieslandCampina lost a knowledgeable and dedicated Board member. The Company owes him a considerable debt of gratitude. During his leaving reception on 15 December Mr. Attema was made an Officer in the Order of Oranje Nassau in recognition of his exceptional services to Dutch dairy farming. To fill the vacancy arising from Mr. Sybren Attema's resignation, Mrs. Angelique Huijben-Pijnenburg was appointed a member of the Supervisory Board as of 15 December 2010. Mr. Piet Boer was appointed Vice-Chairman of the Supervisory Board as of the same date. Also on 15 December 2010 Messrs. Jan Uijtewaal, Frans Keurentjes and Henk Scheffers were re-appointed as members of the Supervisory Board for a term of four years.

As of 1 August 2010 the Supervisory appointed Mr. Kapil Garg a member of the Executive Board in the position of Chief Operating Officer of the Consumer Products International business group. As Executive Director he was already responsible for the activities of this business group. Kapil Garg has worked for FrieslandCampina in various international positions since 2001.

As of 31 December 2010 Mr. Frans Visser resigned as a member of the Executive Board and Chief Operating Officer of the Ingredients business group due to his reaching retirement age. Between 1977 and 2010 (with an interruption of 10 years) he worked for FrieslandCampina, and its predecessors, in various positions. The Board thanks Mr. Visser for his dedication and achieved results during his many years of service with the Company. His tasks have been taken over by Mr. Roelof Joosten, who was appointed as Executive Director of the Ingredients business group by the Executive Board as of 1 November 2010.

### Supervisory Board meetings and activities

During the year under review the Supervisory Board of FrieslandCampina met eight times in the presence of the Executive Board. After each meeting the Supervisory Board and Company Secretary met in closed session during which the topics discussed included the functioning of the Supervisory Board and the Executive Board.

In addition to the usual topics, such as the Company's annual report and financial statements and the audit of the financial statements (including consultations with the external auditor), the half-yearly report, financial developments, the budget, the organisation and functioning of the internal management systems, investments and disposals and the remuneration of the Executive Board members, the Supervisory Board meetings dealt primarily with the Company's strategy (*route2020*). The strategy was discussed extensively during two meetings and a further meeting was devoted entirely to the strategy. The ICT strategy and the Human resources strategy, with the emphasis on talent management, were also discussed. Finally, in the context of the 3-years cycle agreed at the time of the merger, the profit reservation policy, milk price setting system and the membership financing were evaluated and the amendments proposed by the Executive Board were discussed and approved.

In September the Supervisory Board visited China and Vietnam, where their programme included visits to the operating companies in Shanghai (China) and Hanam (Vietnam). In Vietnam the Board met with President Nguyễn Minh Triết and various government officials. During the trip there were also extensive discussions regarding developments in these, for FrieslandCampina very important, markets. The Supervisory Board was accompanied by the Chief Executive Officer, Mr. Cees 't Hart, and the Chief Operating Officer Consumer Products International, Mr. Kapil Garg.

During 2010 the Supervisory Board also attended two internal training days during which topics such as IFRS, pensions, financial instruments and Corporate Governance were dealt with in detail.

## Committees

### Audit Committee

In 2010 FrieslandCampina's Audit Committee comprised Mr. Henk Scheffers (Chairman), Mr. Piet Boer, Mr. Jan Uijtewaal and Mr. Ben van der Veer. Due to his appointment as Vice-Chairman of the Supervisory Board, on 15 December 2010 Mr. Piet Boer stepped down as a member of the Audit Committee. His place on the Committee has been taken by Mr. Erwin Wunnekink.

During the year under review the Audit Committee met four times to prepare for the Supervisory Board's decision-making process regarding the Company's annual report and financial statements and the audit of the financial statements (including consultation with the external auditor). Other topics discussed by the Audit Committee included the closure of the year, the management letter and its follow-up, the progress reports from the internal audit department, the implementation of the internal control framework (ICF), the treasury policy, the hedging policy, the external auditor's evaluation, the tax position, the profit reservation policy, the milk price setting system and membership financing, and the ICT backbone project.

An informative meeting with the Audit Committee took place in order to provide the Supervisory Board members with more information regarding developments in areas of taxation and pensions.

### Appointment and Remuneration Committee

The Appointment and Remuneration Committee comprised Mr. Peter Elverding (Chairman), Mr. Kees Wantenaar and Mr. Sybren Attema. As of 15 December 2010, Mr. Piet Boer, as Vice-Chairman of the Supervisory Board, replaced Mr. Sybren Attema.

The Appointment and Remuneration Committee met four times in 2010. During these meetings the topics discussed were the fixed and variable salaries of the Executive Board members, the remuneration for Supervisory Board members, Mr. Sybren Attema's successor(s) as member and Vice-Chairman of the Supervisory Board and his appointment as Dairy Development Manager within the Company, the resignation of Mr. Frans Visser as a member of the Executive Board as a result of his having reached (pre) retirement age and the selection process for members of the Executive Board and the Supervisory Board.

The Committee dealt with one instance involving a conflict of interest (as specified in the Supervisory Board Regulations) of a material significance in respect of a Supervisory Board member. This concerned the agreements made with Mr. Sybren Attema that after resigning as a Supervisory Board member he would be employed by the Company as Dairy Development Manager. The stipulations contained in the Supervisory Board Regulations and the Dutch Corporate Governance Code with regard to conflicting interests related to Supervisory Board members were adhered to.

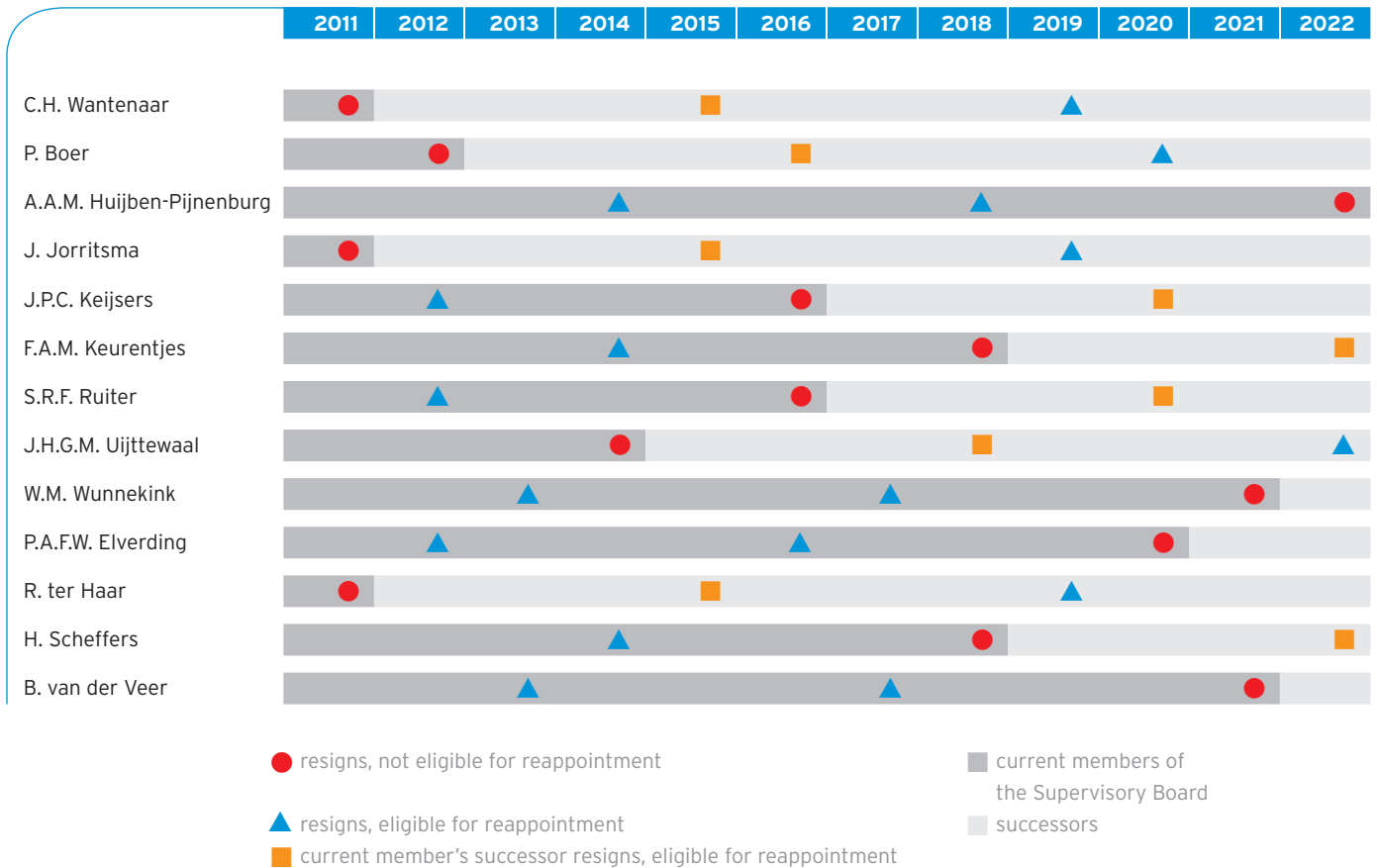
The external Supervisory Board members are independent of the Company as stipulated in the Dutch Corporate Governance Code.

The performance of the Supervisory Board as a whole and its members individually is evaluated regularly during progress discussions.

Supervisory Board

Amersfoort  
4 March 2011

Supervisory Board appointment and resignation roster



- A Supervisory Board member is appointed for a maximum term of four consecutive years.
- At the Supervisory Board's discretion, a member resigns on either:
  - a. the date that is four calendar years after the date on which they were last (re)appointed;
  - b. the date of the first Member Council meeting following the date specified under a.
- The term of office of a Supervisory Board member who is also a member of the Board of Zuivelcoöperatie FrieslandCampina U.A. ends on the termination of that Board membership.
- Unless the preceding provision is applicable, in principle, a Supervisory Board member whose term of office expires may be reappointed twice.
- The rotation schedule of the Supervisory Board of Royal FrieslandCampina N.V. geared to that of the Board of Zuivelcoöperatie FrieslandCampina U.A. (four year term of office).
- In principle the resignation and (re) appointment of Supervisory Board members takes place after the autumn Cooperative Member Council's meeting.

# Aspiration

To help people move forward in life with natural dairy nutrition



To be the most attractive dairy company for member dairy farmers



FrieslandCampina strives to help people move forward in life with natural dairy nutrition. With milk FrieslandCampina can respond to the growing demand for healthy food that has been produced in a sustainable way. Milk does, naturally, contain essential nutrients such as proteins, fats, lactose, vitamins and minerals.

FrieslandCampina also wants to be the most attractive dairy company for the Cooperative's member dairy farmers. The Company's 2020 objective is to pay-out a performance premium that is substantially higher than it was in 2009 and a dividend in the form of equity registered in the name of members via member bonds that is higher than it was in 2009.





## Composition of the Executive Board



### Cees (C.C.) 't Hart (1958)

Chief Executive Officer

**Appointed:** 1 January 2009

**Nationality:** Dutch

#### Responsible for:

- Cooperative Affairs
- Corporate Communication & Sustainability Affairs
- Corporate Human Resources
- Corporate Legal & Company Secretary
- Corporate Public Affairs & Quality Affairs
- Corporate Research & Development
- Corporate Strategy
- Centre for Dairy Nutrition

#### Other positions held:

- Chairman of the Board of the Nederlandse Zuivelorganisatie NZO (Dutch Dairy Association)
- Member of the Board of Productschap Zuivel (Dutch Dairy Board)
- Member of the General Board of VNO-NCW (Confederation of Dutch Industry and Employers)

### Kees (C.J.M.) Gielen (1959)

Chief Financial Officer

**Appointed:** 1 January 2009

**Nationality:** Dutch

#### Responsible for:

- Corporate Finance & Reporting
- Corporate ICT
- Corporate Internal Audit
- Corporate Procurement
- Corporate Tax
- Corporate Treasury
- Mergers & Acquisitions

### Kapil Garg (1964)

Chief Operating Officer

**Appointed:** 1 August 2010

**Nationality:** Indian

#### Responsible for:

- Business group Consumer Products International



**Piet (P.J.) Hilarides (1964)**

Chief Operating Officer

**Appointed:** 1 January 2009

**Nationality:** Dutch

**Responsible for:**

- Business group Cheese & Butter
- Milk Valorisation & Allocation



**Freek (F.) Rijna (1955)**

Chief Operating Officer

**Appointed:** 1 January 2009

**Nationality:** Dutch

**Responsible for:**

- Business group Consumer Products Europe
- Global Marketing
- Customer & Trade Marketing

**Other positions held:**

- Chairman of the Board of FNLI (Dutch Food Industry Federation)
- President of the Supervisory Board of Plastic Heroes B.V.
- Member of the Board of VNO-NCW

Mr. Kapil Garg was appointed as member of the Executive Board of Royal FrieslandCampina N.V. and responsible for the Consumer Products International business group as of 1 August 2010. He had, as Executive Director, been responsible for the activities of this business group since June 2009. Mr. Kapil Garg joined FrieslandCampina in 2001 since which time he has held various international positions.

Mr. Frans Visser resigned as a member of the Executive Board and responsible for the Ingredients business group as of 31 December 2010 due to his retirement. Between 1977 and 2010 (with an interruption of 10 years) he worked for FrieslandCampina Ingredients, and its predecessors, in various positions. His tasks have been taken over by Mr. Roelof Joosten, who was appointed as Executive Director of the Ingredients business group as of 1 November 2010.



# Value-drivers

Dairy-based  
beverages



Infant  
& toddler nutrition  
(B2B, B2C)



Branded cheese



Strongholds  
& geographical  
expansion



Food-service  
in Europe



Basic products



FrieslandCampina has defined six value-drivers in which it wants to achieve growth and value-creation. A major portion of investments will be concentrated on these value-drivers and will include production facilities, innovation and marketing, employee training & education, and acquisitions.

## Report of the Executive Board

### Higher operating profit thanks to good branded products performance

In 2010 both the net revenue and operating profit of Royal FrieslandCampina N.V. rose. Most of the brands succeeded in improving their market positions. Sales volumes increased and sales prices were higher. The more favourable market conditions, particularly in Asia and Africa, played a major role in these improvements. Thanks to FrieslandCampina's good results and the higher guaranteed price, the milk price for the member dairy farmers, which fell in 2009, increased by 25% in 2010.

#### Higher revenue and net profit

Compared with 2009 net revenue rose by 10% to nearly 9 billion euro. Operating profit rose by 57% to 285 million euro. The Ingredients and Consumer Products International business groups contributed towards the higher revenue and operating profit. The Cheese & Butter business group succeeded in improving its operating profit.

#### Strengthening market positions

In 2010 more was invested in the branded products. Compared with 2009 spending on advertising and promotions rose by 12% to 395 million euro. In Asia and Africa this led to both volume growth and improved market shares. In Asia the performance of Frisian Flag and Friso was outstanding. In Europe the market share of a number of brands, including Chocomel, Fristi, Landliebe, Campina, Campina Boerenland, Friso, NoyNoy Cheese, Milli Mia and Milner cheese, increased.

#### Higher milk price

The milk price for Zuivelcoöperatie FrieslandCampina's members rose by 25% to 33.62 euro (excluding VAT) per 100 kilos (at 4.41% fat and 3.47% protein). The 2010 guaranteed price was 32.39 euro, an increase of 23% compared with 2009. The performance premium FrieslandCampina paid its member dairy farmers based on the Company's result was 1.23 euro per 100 kilos of milk supplied - more than double the 0.59 euro paid in 2009. In addition, 0.73 euro per 100 kilos of milk was added to the registered reserve compared with 0.35 euro in 2009. Thanks to the higher guaranteed price and the Company's higher result, in 2010 the total payment to the member dairy farmers per kilo of milk supplied rose from 27.34 euro to 34.35 euro, an increase of 26%.

#### Improved market conditions

Compared with 2009, in 2010 the global demand for dairy products from both consumers and industrial customers recovered and, from the second quarter of the year began increasing again. This was due to a further recovery of the global economy, the low levels of stock held by various customers and the shortage of milk products on the global market due, primarily, to droughts. The picture in the different regions and between on product category and another did, however, vary. In Asia and Africa volume growth continued both for consumer products and ingredients for the food industry. The demand for milk powder and ingredients rose sharply, especially from China. In Russia the picture was a substantial growth for consumer products and a drop in milk production due to a heat wave and forest fires in the summer. In Germany and the Netherlands consumption was reasonably stable, but in countries such as Greece, Romania and Hungary economic developments put volumes under severe pressure.

The demand for dairy products on the world market exceeded the supply. This drove up the selling price of most dairy products. Demand rose by around 9% while the supply on the world market only rose by 4% compared with 2009. The causes of the less robust growth of the supply on the world market were the long winter in many European countries and North America, drought in New Zealand and South America and a lot of rain in Australia.

In the second half of 2010 the export of dairy products to countries outside Europe was stimulated by the weakening of the euro against other currencies. This improved the competitive position of European dairy products compared to those from other regions.

The price levels of the different commodities, such as skimmed and full-cream milk powder, whey powder, butter and foil cheese remained above the 2009 level for virtually



the entire year. These price levels are also guidelines for the price developments of other dairy products.

Due to the favourable market developments and the recovery of price levels there was no market support from the European Union in 2010. Almost all the butter stock built up in 2009 was put back on the market as was some of the milk powder stocks, mainly via a social food programme within the European Union. This did not have a disruptive effect on the market.

In 2010 the production of raw milk within the European Union rose by 1.2% to 135.7 billion kilos (2009: 133.7 billion kilos). In the Netherlands in the same period raw milk production

rose by around 2.1% to 11.6 billion kilos (2009: 11.4 billion kilos). The total supply of milk from FrieslandCampina's members in the Netherlands, Belgium and Germany rose by 1.6% (136 million kilos) to 8.8 billion kilos (2009: 8.7 billion kilos).

**Higher prices and increased volume**

In 2010 FrieslandCampina's net revenue rose by 10% to 8,972 million euro (2009: 8,160 million euro). Of the 812 million euro revenue increase, 470 million euro was attributed to higher prices. The increase in sales volume accounted for 213 million euro of the increased revenue and 173 million was due to the positive effect of currency exchange rate changes. On average the exchange rates against the euro of the US dollar and a

number of Asian currencies, important for FrieslandCampina, were higher than in 2009. The sale of a number of activities in 2009 as stipulated by the European Commission in relation with the merger of Friesland Foods and Campina had a negative effect on revenue.

The net revenue of the Consumer Products International business group (Asia, Africa, the Middle East and export) rose by 20.3% to 2,277 million euro (2009: 1,893 million euro). This increase was achieved through a combination of volume growth, price rises and currency effects. The net revenue of Consumer Products Europe rose by 1.5% to 3,269 million euro (2009: 3,222 million euro). In Russia growth was achieved. In most other markets volumes were lower and prices were under pressure due to increased promotional support. Despite the difficult market conditions the market share of most of the brands rose or was maintained.

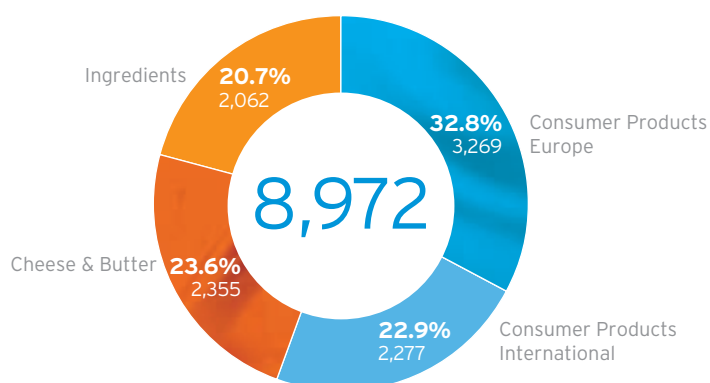
Cheese & Butter's net revenue rose by 7% to nearly 2,355 million euro (2009: 2,195 million euro). The increase was due to higher prices for both cheese and butter and the increasing export of cheese. The volume of cheese produced and sold was lower, partly due to the sale of the Bleskensgraaf cheese factory, but this was offset by the higher cheese and butter prices. The net revenue of Ingredients rose by 37% to 2,062 million euro (2009: 1,505 million euro).

**World market prices**  
in USD/100,000 kg

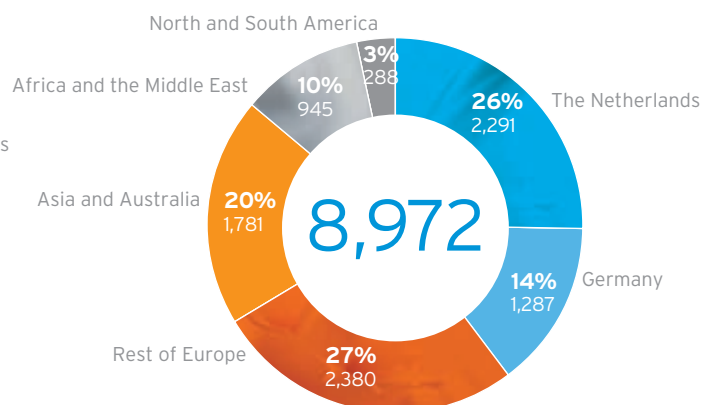


**Net revenue by business group**

in millions of euros

**Net revenue by geographic area**

in millions of euros

**Net revenue by business group**

in millions of euros

	2010		2009	
		% <sup>1</sup>		% <sup>1</sup>
Consumer Products Europe	3,269	32.8	3,222	36.6
Consumer Products International	2,277	22.9	1,893	21.4
Cheese & Butter	2,355	23.6	2,195	24.9
Ingredients	2,062	20.7	1,505	17.1
Other	-991		-655	
<b>Total</b>	<b>8,972</b>		<b>8,160</b>	

**Net revenue by geographic area**

in millions of euros

	2010		2009	
		%		%
The Netherlands	2,291	26	2,248	28
Germany	1,287	14	1,206	15
Rest of Europe	2,380	27	2,209	27
Asia and Australia	1,781	20	1,425	17
Africa and the Middle East	945	10	840	10
North and South America	288	3	232	3
<b>Total</b>	<b>8,972</b>	<b>100</b>	<b>8,160</b>	<b>100</b>

<sup>1</sup> Before Other

The higher income from special ingredients for the food industry, such as milk powder and caseinates, contributed towards the rise in revenue.

#### Improved operating profit

Operating profit before non-recurring income and expenses rose by 23% (81 million euro) to 428 million euro. The non-recurring income of 6 million euro was the result of income from the sale of assets and a release from provisions due to lower than estimated expenses related to the restructuring announced in 2009. Operating profit amounted to 434 million euro, an increase of 68% compared with the 258 million euro in 2009.

The improvement in the Ingredients business group's operating profit was extremely positive. This business group succeeded in turning a negative operating profit in 2009 into a positive contribution of 99 million euro (2009: -20 million euro). This was the result of better margins on commodities and basis products due to higher selling prices as well as good results from special ingredients. The Consumer Products International business group's operating profit rose by 23% to 356 million euro (2009: 290 million euro) mainly because it was able to amply pass on raw materials price increases to the market, especially in the first months of 2010. The business group also profited from positive currency effects.

Consumer Products Europe's operating profit fell by 26% to 126 million euro (2009: 170 million euro). The major causes were pressure on volumes due to a stable to declining demand for dairy products as a result of the bad economic conditions, increased promotional expenses and higher raw materials prices which could only partially be passed on in the market.

The Cheese & Butter business group's result improved by 36% to -63 million euro (2009: -98 million euro). Compared with 2009 the operating profit of the Cheese Specialities and Cheese operating companies improved thanks to higher selling prices and lower production costs. The Butter operating company had to cope with pressure on margins because the relatively fast price

increases for milk fat could not be sufficiently passed on to the market. This resulted in a negative operating profit for this operating company.

The cost price of the processed member milk is the milk price which comprises the guaranteed price plus the performance premium and the reserve registered in the names of the members. The performance premium and registered reserve were calculated on the basis of the operating profit of the entire company and the approved reservation policy. The performance premium and registered reserve were attributed to the different business groups in proportion to the volume of member milk received.

The cost of raw materials, consumables and goods for resale rose by 690 million euro (13.6%) to 5,779 million euro. The cost of purchasing milk from member dairy farmers rose by 674 million euro (28.3%) to 3,054 million euro (2009: 2,380 million euro) due to the higher milk price and an increase in the volume of milk produced by the Cooperative's member dairy farmers. The volume rose by 1.6% to 8.8 billion kilos (2009: 8.7 billion kilos). During the year under review the total amount of milk processed, including non-member milk was 10.3 billion kilos, 4.5% less than the 10.8 billion kilos processed in 2009.

Personnel costs remained the same at 817 million euro. The average number of employees fell by 2.7% to 19,484 (FTEs). This was due to the post-merger amalgamation of activities in both the offices and production facilities, which led to redundancies. The 6 million euro reduction in pension costs was negated by a slight increase in wages and salaries and social security charges.

Depreciation and amortisation of property, plant and equipment and intangible assets rose by 4 million euro to 210 million euro. Other operating expenses fell by 65 million euro to 1,752 million euro. Advertising and promotion expenses rose by 43 million euro to 395 million euro in order to reinforce the positions of the brands and increase market

share. Research & Development expenses rose by 6 million euro to 61 million euro. Energy costs fell by 26 million euro.

The operating profit from joint ventures and associates fell by 8 million euro to 13 million euro. Net financing expenses rose by 10 million euro to 69 million euro negative primarily. The costs of the put option related to DMV-Fonterra Excipients rose due to the higher dividend pay-out to the holder of the put option.

Profit before taxes rose 72% from 220 million euro to 378 million euro. Tax expense rose from 38 million euro to 93 million euro due to increased profit before taxes and the fact that in 2009 a one-time income resulting from the capitalisation of compensatable losses was recognised. The effective tax rate rose from 17% to 24%. After the deduction of taxes a profit of 285 million euro was achieved compared with 182 million euro in 2009.

## Milk a major source of dietary nutrients

Every calorie of milk, by nature, contains many essential nutrients. Which makes milk extremely nutritious. Scientists have discovered more than 400 components in milk that are important for the energy provision, growth, development, protection and maintenance of the human body. Two to three portions of dairy per day provide important nutrients such as protein, fats, lactose, vitamins and minerals. Every nutrient plays its own specific role in metabolism/nutrition.

Proteins deliver energy and are vital for building and maintaining tissues such as muscles, transporting substances and oxygen in the blood, and the formation of antibodies and bones. Fat delivers energy, ensures isolation in the skin and plays a role in hormone production. Milk fat also contains soluble vitamins A and D. Other important water-soluble vitamins in milk are B1 (for carbohydrate and energy combustion, B2 (for energy metabolism and a healthy skin) B6 (necessary for the nervous system, the formation of red blood cells and the immune system), B11 (folic acid) is necessary for the immune system and the production of blood and B12 (needed for the formation of red blood cells, the immune system, cell division and energy metabolism). When it comes to the minerals: calcium plays a major role in building bones and teeth, muscle function, digestion, energy metabolism and blood clotting; Phosphorous is necessary for bones and teeth, cell membranes and energy metabolism; Zink plays an important role in the immune system, a maintains bones, sight and the brain and is involved in the memory function; Lactose provides 'slow-release' energy. This is how milk provides a good balance between nutrition and energy for all ages.

### Lower cash flow

Cash flow from operating activities fell by 342 million euro to 444 million euro. Although the increased profit contributed towards the cash flow from operating activities, the increase in working capital, primarily due to price increases, meant the overall cash flow was lower than in 2009.

The total cash flow from investment activities rose by 33 million euro to 239 million euro.

In 2010 investments in property, plant and equipment and intangible assets amounted to 261 million euro compared with 231 million euro in 2009.

Compared with 2009, in 2010 the cash flow from financing activities was relatively low. This was because in 2009 the costs related to loan repayments were higher. This is reflected in the reduction of net debt which in 2009 amounted to 652 million euro and in 2010 amounted to 66 million euro.

### Financing

FrieslandCampina raises loans from different groups of lenders (member dairy farmers, banks and investors). This enhances the Company's flexibility. The major portion of the loan capital financing has been borrowed from financial institutions in and outside the Netherlands. The major portion of the bank loans comprises a committed credit facility amounting to 1 billion euro. In May 2010 agreement was reached with all the 14 banks participating in the revolving credit facility regarding improving the conditions of the facility agreed in 2009 by lowering the interest rate and extending the term to the end of August 2013. The amount of the facility remains unchanged at 1 billion euro. The amendment could be achieved on the grounds of market developments and the Company's improved creditworthiness profile.

FrieslandCampina has taken out private loans of 196 million dollar with institutional investors in the United States and 25 million euro with a European investor. The so-called Senior Notes have a term of seven to ten



years and were intended for both the refinancing of a repayment of an existing 101 million dollar in December 2010 and to replace short-term bank borrowings with long-term debt.

At the end of 2010 net debt amounted to 776 million euro, 66 million euro lower than at the end of 2009. This was primarily due to a 39 million euro reduction of the long-term interest-bearing debts and a 20 million euro increase in cash and cash equivalents. This meets the standards expressed in financial ratios applied by lenders.

#### Financial position

At the end of 2010 group equity amounted to 2,071 million euro compared with 1,749 million euro at the end of 2009. The 322 million euro increase was due primarily to the good results. The Company's equity rose by 309 million euro to 1,961 million euro.

An amount of 192 million euro was added to the Company's reserve. An amount of 65 million euro will be reserved in the form of fixed member bonds registered in the names of member dairy farmers (0.73 euro per 100 kilos of milk compared with 0.35 euro in 2009).

Solvency (group equity as a percentage of the balance sheet total) amounted to 39.1% at the end of 2010. Compared with the end of 2009 (36.7%) this was an improvement of

2.4 percentage points. The effect of the increased group equity on solvency was partially negated by the increased balance sheet total, which was mainly due to the increased working capital.

#### Pension charges and coverage ratio

In 2010 pension charges fell from 87 million euro to 81 million euro. Most of the charges were related to the Dutch pension plans. The most important pension agreements with FrieslandCampina's Dutch employees are laid down in the Collective Labour Agreement related to pensions for the dairy industry. Within the Company there are various other pension plans in place. The pension plans are administered by various external pension administrators the most important of which are Stichting Pensioenfonds Campina and Avero Achmea Pensioen.

In 2010 the pension funds were confronted with a decrease in market rate. In addition, due to the people living longer the life-expectancy tables have been adjusted. Despite this, thanks to good investment results the coverage ratio of the Campina Pension Fund only dropped from 100% at the end of 2009 to 99% at the end of 2010. At the end of 2010 the coverage ratio of the separate investment fund administered by Avero Achmea Pensioen was 117% - the same as at the end of 2009. This last coverage rate was determined on the basis of the

insurance conditions agreed with the insurance company.

Currently FrieslandCampina is in consultations with the different social partners regarding bringing the pension structure in-line with the market and the intended pension agreement of the (Dutch) Social Economic Council.

# Benefit platforms

Growth & development



Daily nutrition



Health & wellness



Functionality



Efforts in the field of innovation and marketing will focus on four benefit platforms: growth & development, daily nutrition, health & wellness and functionality (such as the taste, texture and stability of the products). Innovation programmes, through which FrieslandCampina wants to develop differentiating products, have been defined for each of these platforms.



## Consumer Products Europe

The Consumer Products Europe business group produces and sells drinking milk, dairy-based beverages, yoghurts, desserts, coffee creamers, cream products, butter specialities, soft ice-cream and milkshake mixes in Europe and fruit juices, fruit drinks and sports drinks in the Netherlands and Belgium. The business group targets both consumers and professional customers.

- Operating profit under pressure in difficult market conditions
- Market shares of the most important brands remained stable or increased
- New products with less fat or sugar
- Strong recovery in Russia

### Operating companies

FrieslandCampina Benelux  
 FrieslandCampina Dagvers  
 FrieslandCampina Germany  
 FrieslandCampina Hellas  
 FrieslandCampina Russia  
 FrieslandCampina Hungary  
 FrieslandCampina Romania  
 FrieslandCampina Spain  
 FrieslandCampina UK  
 FrieslandCampina Professional Supply Chain

### Key brands



	2010	2009
Revenue (in millions of euro)	3,269	3,222
Operating profit (in millions of euro)	126	170
Operating profit as a % of net revenue	3.9	5.3

### Market conditions

Although the economies in several European countries in which FrieslandCampina is active had made some recovery since the crisis, consumer spending remained under pressure. In most countries the demand for dairy products declined in both volume and value. Stimulating consumer demand in the highly competitive market necessitated a relatively large number of price and promotion campaigns.

### Revenue and operating profit

Thanks to the strong market positions, successful promotional campaigns and slightly higher prices, Consumer Products Europe's revenue rose to 3,269 million euro (2009: 3,222 million euro). Sales volume was, however, slightly lower. Targeted investments in advertising and promotions resulted in an improved market share for most brands. Margins were under pressure due to the increased number of promotions and because the increase in the price of milk and other raw materials could not always be passed on in the selling price. The business group succeeded in further reducing costs by lowering production costs, making better use of the purchasing advantages that are coupled with increased scale and by lowering its overheads. Operating profit fell by 26% to 126 million euro.



### Benelux

In the Netherlands and Belgium the trend of previous years continued. In the main sales volumes of dairy remained good, but consumers were more responsive to price promotions. Thanks to its strong brands and promotional support the operating company succeeded in increasing or maintaining market shares. Chocomel's market leadership was further reinforced. Campina remained the best-selling brand in Dutch supermarkets. FrieslandCampina Benelux's revenue stabilised and, as a result of price and market pressure, the operating profit was lower. The striving for more sustainability resulted in, for example, the introduction of Appelsientje in sustainable cardboard packaging and Chocomel produced from socially responsible cocoa. The Boerenland brand was successfully re-launched on the market as a new product based on organic products. A unique feature is that, with the help of a code on the packaging, consumers can trace the farm from which the milk came. Mona introduced new varieties, including several seasonal flavours, and Mona pudding XL. Numerous other adapted or new products were also introduced to the market, such as varieties of Optimel, Fristi, Vifit and DubbelFriss with less sugar and Campina Crush - yoghurt in various flavours prepared in a vending machine. Campina 0% milk and Joyvalle Cream 33% were launched on the Belgian market.

### Germany

Despite the German economy's relatively favourable development, the German dairy market was under pressure and although the market volume increased slightly market value declined. Raw materials price increases could not be passed on in full to the market, which put severe pressure on margins. The market was characterised by fierce competition between the different suppliers and the retail sector increasingly used private labels as a weapon. FrieslandCampina Germany's revenue from branded products developed positively thanks to the success of Landliebe Muesli, one of the largest dairy brands on the German market. The brand once again developed positively, partly thanks to the introduction of Landliebe Guten Morgen - a fruit yoghurt with muesli. Since mid 2010 Landliebe's range has been almost totally made up of products produced without the use of genetically modified ingredients. FrieslandCampina's range on the German market was broadened with the addition of a Schokoknack variety to the successful Puddis 'in love' series. Optiwell Schokopudding produced using an improved recipe was also launched on the market.

### Other European countries

The Russian dairy market recovered during 2010, partly due to the economic revival. Having two strong brands - Campina Fruttis and Campina Nezhny - enabled FrieslandCampina to profit from this development. Sales, especially of yoghurt and condensed milk in individual portions, developed positively. Revenue and operating profit showed a clear improvement.

In Hungary FrieslandCampina increased its market share with its Pöttyös (dairy snacks) and Milli Mia (desserts) brands, in part thanks to the introduction of new products. Pöttyös, which became the strongest brand in Hungary in 2010, introduced 'Guru' - a quark bar with nuts and caramels - with great success. Milli Mia launched a new pudding concept in two flavours. FrieslandCampina Hungary achieved higher revenue, but the operating profit was under pressure due to increased promotional activities, increased raw materials costs and a decline in consumption as a result of the economic crisis.

In Romania too revenue and operating profit were under pressure due to the factors mentioned above. Napolact held its market position, but the market share of Milli came under pressure. Pressure on revenue, primarily due to lower sales volumes, led to reduced operating profit.

## Product focus



### The Netherlands

Germany  
Belgium  
Hungary  
Romania  
Greece  
Russia  
United Kingdom  
France  
Spain  
Italy  
Austria

Saudi Arabia  
United Arab Emirates

Ghana  
Nigeria

China  
Hong Kong  
Indonesia  
Malaysia  
The Philippines  
Singapore  
Thailand  
Vietnam

United States of America

Worldwide

### Campina Boerenland FrieslandCampina Benelux

Since early 2010 Campina Boerenland has been produced from organic milk and 100% natural ingredients. At Campina Boerenland everything revolves around taste and naturalness. Campina Boerenland is aimed at the public taste is the primary concern and not just whether the product is organic. The introduction is a success. More and more often consumers are opting for honesty, purity, quality and, first and foremost, real taste. Many people want to know where their food comes from and select products they recognise. This offers opportunities for a brand that is close to its source. The Campina Boerenland range includes tasty full-fat yoghurt, creamy buttermilk, full-fat milk, fresh drinking yoghurt and yoghurt with fruit.

In Greece FrieslandCampina Hellas achieving a modest increase in revenue while maintaining its operating profit at the same level as in 2009. This was despite difficult economic conditions and the government's austerity policy which reduced consumers' spending-power. Thanks to its strong brand and market positions, successful introductions and targeted promotional campaigns the Company succeeded in increasing the market share of virtually all its product groups - yoghurt, cheese and infant & toddler nutrition.

In the United Kingdom FrieslandCampina UK increased the market share of the milk-based drink Yazoo. Several new flavours were introduced.

### Professional market

The professional market remained difficult due to consumers spending less on eating out and fierce price competition, particularly for cream and cream products. This also meant the raw materials price increases could not be fully passed on in the selling price, which put the operating profit under pressure. Nevertheless FrieslandCampina Professional succeeded in increasing its sales and revenue. A new nozzle that produces a more robust and attractive swirl of cream was developed for the Debic, Hollandia and Campina brands of squirty cream in a can.

## Consumer Products International

The Consumer Products International business group produces and sells dairy products for consumers in Southeast Asia, the Middle East and Africa (in particular in Nigeria and surrounding countries). Products are also exported around the world from the Netherlands.

	2010	2009
Revenue (in millions of euro)	2,277	1,893
Operating profit (in millions of euro)	356	290
Operating profit as a % of net revenue	15.6	15.3

### Market conditions

The Consumer Products International business group had another excellent year. The business group's largest operating territory is Asia where, in many countries, economic growth was robust and returned to pre-crisis levels. The increasing purchasing power led to a growing demand, to which the brands could respond well. In Africa growth continued, but at a slower tempo. Thanks to these developments FrieslandCampina's companies were able to increase their sales, partly thanks to investments in preceding years. There was a robust increase in revenue and operating profit, especially in the first half of the year. Development slowed slightly in the second half of the year.

### Revenue and operating profit

In 2010 the business group's revenue rose by 20.3% to 2,277 million euro of which 9% was due to higher sales volumes and 4% was due to higher average prices. The main contributors towards the revenue growth were the Frisian Flag, Friso and Peak brands. The increase in value of many local currencies against our most important purchasing currency, the US dollar, and against the euro had a positive effect of revenue and operating profit. The net currency effect on revenue was 147 million euro positive. Operating profit rose by 23% to 356 million euro. Advertising and promotion expenditure rose. The development of the operating

profit benefitted from the trend towards sales of products with a higher added-value, such as infant & toddler nutrition, and the timely passing on of price increases.

### Nigeria

In Nigeria the exchange rate of the local currency, the naira, stabilised after falling sharply in 2009. Sales prices were increased in response to higher raw materials prices. Despite some pressure on domestic purchasing power FrieslandCampina WAMCO Nigeria succeeded in further increasing sales. Revenue and operating profit increased. Sales of evaporated milk in sachets, introduced in 2009, developed so well that a second production line had to be added. Peak's position remained very strong. A second brand, Three Crowns, was reintroduced to Nigerian consumers through an extensive advertising campaign.

### Indonesia

FrieslandCampina Indonesia had an exceptionally good year. Thanks to a sharp increase in sales volume and a favourable development of the rupiah exchange rate, which led to slightly lower relative raw materials costs, revenue and operating profit increased. Virtually every product contributed toward this. Passing on the higher cost prices did, however, become more difficult as the year progressed. A new vitamin and mineral enriched variety of

- Accelerated revenue growth, primarily in Asia
- Sharp increase in operating profit partially thanks to currency developments
- Growth in infant & toddler nutrition
- Growth in revenue from and market share of most branded products

### Operating companies

FrieslandCampina Indonesia  
 FrieslandCampina Vietnam  
 FrieslandCampina Malaysia/  
 Singapore  
 FrieslandCampina Thailand  
 FrieslandCampina China  
 FrieslandCampina Hong Kong  
 FrieslandCampina WAMCO Nigeria  
 FrieslandCampina Middle East  
 FrieslandCampina Export

### Key brands





Frisian Flag Sweetened Condensed Milk (SCM) was introduced successfully. This product is offered to the premium segment of the market under the name Frisian Flag Gold. The standard product, Frisian Flag SCM, remained on the market.

#### Vietnam

The Vietnamese economy was in difficulties due to rising inflation. Despite these troublesome conditions the operating company succeeded in increasing revenue and operating profit. The activities focused on the rebuilding of trust in Dutch Lady UHT drinking milk after a product recall in 2009. By the end of 2010 the market share had recovered to the pre-recall level. The Yomost PowerFruit drinking yoghurt was well received by the Vietnamese youth and developed well. The growth of Friso infant & toddler nutrition continued. Since the end of 2010 baby food has been included in the Government's controlled-price category of products. Increased sales led to capacity in the production facility in Binh Duong being increased.

#### Thailand

In Thailand 2010 had two faces. In the first months of the year the growth of FrieslandCampina Thailand's activities continued, but from April on the market came under pressure. Domestic political unrest certainly played a role in this. Although the operating company's revenue for the year as a whole was higher its operating profit was under pressure, partly due to increasing competition and the Government's price-regulating system. In August the so-called Triplet concept, which comprises three kinds of long-life milk for children in different age groups, was introduced under the brand Foremost. The Betagen joint venture, which focuses on the production and sale of probiotic drinks, had another good year. A new product variety, Betagen Light, was introduced.

#### Malaysia/Singapore/Hong Kong

FrieslandCampina Malaysia's motto is 'All the goodness of milk': Letting milk and milk products – as an important source of nutrients – be part of the daily diet. In Singapore and Hong Kong sales of infant & toddler nutrition increased further under the premium brand Friso. In Malaysia some market share was lost because a considered decision was made to pay less attention to several non-strategic market segments. Despite this measure revenue rose slightly and operating profit improved further.

#### China

In the second year since it was established FrieslandCampina China once again achieved increased sales of Friso infant & toddler nutrition. The products were exported from the Netherlands to China. FrieslandCampina benefitted from the good image dairy products from Western Europe and, in particular from the Netherlands, have in China.

## Product focus



### The Middle East

2010 was a transition year for FrieslandCampina's activities in the Middle East due to the restructuring of the distribution network. As a result of the construction and development activities in Dubai coming to a virtual standstill, the revenue development of brands including Rainbow (evaporated milk) was disappointing, but still higher than in 2009. Operating profit fell.

### Export

After a difficult start to the year sales accelerated for FrieslandCampina Export, which exports long-life dairy products from the Netherlands around the world. This was due to faster economic growth in the various regions and intensified sales efforts. Thanks to this new markets were also penetrated. On balance revenue rose slightly although operating profit was lower due to pressure on margins.

The Netherlands

Germany

Belgium

Hungary

Romania

Greece

Russia

United Kingdom

France

Spain

Italy

Austria

Saudi Arabia

United Arab Emirates

Ghana

Nigeria

China

Hong Kong

Indonesia

Malaysia

The Philippines

Singapore

**Thailand**

Vietnam

United States of

America

Worldwide

### Foremost Triplets

### FrieslandCampina Thailand

Peoples' nutritional needs vary according to their age. With this in mind, in 2010 FrieslandCampina Thailand launched a new concept on the market under the motto: 'Three milks for three ages'. The Triplets range comprises three types of long-life milk for the age groups 1 to 3 years, 4 to 12 years and 13 years and older. Each variety includes added substances which the user needs in his or her specific age category: Omega 3, 6 and 9, calcium and various vitamins. The milk is available in both natural and chocolate flavours under the trusted brand name Foremost.

## Cheese & Butter

The Cheese & Butter business group is responsible for the worldwide sales of cheese and butter. The majority of the sales are generated in Europe. The range comprises a wide variety of cheese and butter and includes products for both the consumer market and the food industry.

- Price recovery for the most important products
- Increased sales of branded products, especially outside Europe
- Efficiency improvements due to the reorganisation of production

### Operating companies

FrieslandCampina Cheese Specialties

sales and marketing of branded cheese

FrieslandCampina Cheese

cheese production and packaging, sales of basis cheese

FrieslandCampina Butter

production, sales and marketing of butter and butter products

### Key brands

MILNER

Frico

Hollandia

Slankie 20+

HOOFS  
HOLLANDESE  
GOUDA

Valess

Botergoud

	2010	2009
Revenue (in millions of euro)	2,355	2,195
Operating profit (in millions of euro)	-63	-98
Operating profit as a % of net revenue	-2.7	-4.5

### Market conditions

After a hesitant start to the year the market for butter and cheese developed positively in 2010. Thanks to heavy demand from Asia and Russia prices rose. The butter listing showed an average increase of around 40% and in the second half of the year price development on the cheese market was also positive.

### Revenue and operating profit

The revenue of the Cheese & Butter business group rose by 7% to 2,355 million euro. Although the volume of cheese produced and sold was slightly lower than in 2009 due to sale of the Bleskensgraaf cheese facility, the drop in volume was offset by higher cheese sales prices. The gross margin showed an increase in both absolute terms and as a percentage of revenue. Operating profit amounted to 63 million euro negative compared with 98 million euro negative in 2009. The non-recurring expenses resulting from the announced restructuring amounted to 4 million euro.



#### Synergy advantages and reorganisation of production

The operating profit was influenced positively not only by higher selling prices but also by the sharp focus on cost control. Production efficiency could be improved by making optimum use of the best practices. The first reorganisation of the production facilities was implemented during 2010 (see explanation on page 53). The organisational adjustments led to a more efficient and market-oriented operation.

#### Cheese Specialties

The market for FrieslandCampina Cheese Specialties developed positively outside Europe with higher volumes, including in Russia, the Far East and Middle East and Africa. In the Netherlands Milner succeeded in increasing its market share in a declining market. The brand was launched successfully on the nationwide Spanish market. In the segment for Noord-Hollandse cheese (with the red seal), cheese with an EU-protected geographical designation, efforts to achieve growth were made in cooperation with commercial partners. Sales of branded cheese were under pressure in Europe while the share of private label cheese increased. Various cheeses, including Milner and Frico Cantenaar, won prizes in the World Championship Cheese Contest in Wisconsin (USA). The meat substitute, Valess, was introduced on the German market during 2010.

## Product focus



The Netherlands

Germany

Belgium

Hungary

Romania

Greece

Russia

United Kingdom

France

**Spain**

Italy

Austria

Saudi Arabia

United Arab Emirates

Ghana

Nigeria

China

Hong Kong

Indonesia

Malaysia

The Philippines

Singapore

Thailand

Vietnam

United States of

America

Worldwide

### Milner in Spain

#### FrieslandCampina Cheese Specialties

Full of flavour yet containing 40% less fat - that describes Milner 30+ cheese. Since 2010 Milner has also been on the shelves in the large Spanish supermarkets. This has enabled FrieslandCampina Cheese Specialties to improve its market position with cheese even more. After a successful pilot project in the province of Catalonia the decision was taken to introduce Milner all over Spain. The idea that cheese can contain less fat was new to the Spanish consumer. To make Spanish consumers aware of the advantages offered by Milner the introduction was supported by a national TV campaign and advertisements in magazines and on the internet.

### Cheese

The FrieslandCampina Cheese operating company developed positively and was able to profit well from the improved market conditions. Achieving cost-leadership through improving process efficiency, and therefore lowering production costs, is vital for maintaining the competitive position. Various measures to achieve this have been implemented successfully in the production chain. In 2010 the Gouda en Edam types of cheese, were granted the so-called 'Protected Geographical Designation' by the EU. This means that only cheeses that are produced in the Netherlands from Dutch milk and that meet the quality regulations laid-down in the BGA product file, may be labelled as *Gouda Holland* or *Edam Holland*. This will make these cheeses and their sources more recognisable.

### Butter

FrieslandCampina Butter saw the revenue from branded butter and butter for the industrial sector rise as a result of higher selling prices. In Germany the cooperative Dutch brand Frau Antje was repositioned and in the Netherlands Campina Botergoud was given a facelift. The revamping of the packaging was coupled with the introduction of new products: a new cooking butter that spits less, salted Botergoud Grasboter and a blend of butter and vegetable oil.

## Ingredients

The Ingredients business group produces ingredients based on milk, cheese whey and vegetable raw materials for industrial customers in the infant & toddler nutrition sector, the food industry, the pharmaceutical industry and the young-animal feed industry. The business group possesses considerable expertise in respect of milk and whey constituents and their application in these industries' products. The key products are nutritional and functional ingredients, special ingredients and basic powders for infant & toddler foods, total infant food formulas in consumer packaging, encapsulated nutrition ingredients, spray-dried products, caseins (milk proteins), pharmaceutical lactose, cream liqueurs and young-animal feed.

	2010	2009
Revenue (in millions of euro)	2,062	1,505
Operating profit (in millions of euro)	99	-20
Operating profit as a % of net revenue	4.8	-1.3

### Market conditions

In 2010 the key trend for the Ingredients business group was the sharp increase in the price of milk powder, caseinates and pharmaceutical lactose, which was primarily due to the increasing demand from Asia. The fact that the milk price rose less steeply than the selling prices had a positive influence on the margin. Another positive factor was the on average higher exchange rate of the US dollar, which improved the business group's competitive position on the world market.

### Revenue and operating profit

Thanks to higher volumes and selling prices and a more favourable sales mix the Ingredients business groups' revenue rose by 37% to 2,062 million euro. The gross margin more than doubled and the operating profit amounted to 99 million euro positive. In 2009 the operating profit was 20 million euro negative. The key to the improvement in profit was the greater production flexibility resulting from the merger of Friesland Foods and Campina which enabled the facilities to be utilised in a more efficient and flexible manner.

### Domo

FrieslandCampina Domo's revenue and operating profit developed favourably, primarily thanks to a steep rise in the sales of Vivinal GOS (Galacto OligoSaccharides) - a key ingredient in infant & toddler nutrition. Domo is the world leader in this market. The market position was strengthened because in 2010 a second production facility in Australia went into full operation via the Great Ocean Ingredients joint venture (not consolidated in the financial statements). This gave customers world wide greater assurance of supply. During 2010 a key area of attention was maintaining, and where possible improving, product quality. In the context of the *route2020* strategy, in which infant & toddler food is one of the value-drivers, a start was made with substantial investments in the production facilities in Bedum and Beilen.

- Higher revenue from all milk and whey powders, especially due to increased demand from Asia
- Increased operating profit from standard products, such as milk powder and caseinates
- Much improved profit achieved by FrieslandCampina Kievit due to good demand and high capacity utilisation
- FrieslandCampina Domo laid the foundation for further growth in infant & toddler nutrition

### Key brands





### Kievit

FrieslandCampina Kievit's revenue, and in particular its operating profit, improved substantially. All the product groups contributed towards the increased operating profit. The Company profited primarily from the higher demand from Asia. The merger-effects of the clustering of several similar activities were also apparent. This enabled production to be optimised. Higher sales also meant better capacity utilisation of the production facilities. The favourable business progress was also partly thanks to specialisation and good cooperation with customers. Kievit is the world market leader in the field of creamers.

### Dairy Feed

FrieslandCampina Dairy Feed achieved higher revenue and operating profit. This favourable business progress was partly thanks to higher exports of calf-rearing end products and nutritional ingredients for the healthy growth of young piglets. The increased volumes resulted in a better utilisation of production capacity. FrieslandCampina Dairy Feed developed a new nutritional end product - the Nutrifeed Porculac Booster. This innovation is a nutritional supplement to sow's milk for piglets during their first weeks of life. The Nutrifeed brand strengthened its leading position in the Dutch market for calf milk powder. To enable future-oriented added-value creation

and quality improvements to continue, in 2010 construction of a new drying tower began.

### DMV

FrieslandCampina DMV achieved substantially higher revenue and much improved operating profit. This was thanks to considerably higher selling prices for milk powder and casein as a result of an increasing demand especially from Asia. In 2010 market conditions were noticeably better than in 2009, which enabled the substantially negative result of 2009 to be turned into a modest positive operating profit. The distribution of milk across the milk powder, caseins and milk powder and caseins

#### Operating companies

**FrieslandCampina Domo**  
functional milk and whey ingredients for use in infant food, medical and cell foods

**FrieslandCampina Kievit**  
encapsulated and spray-dried composite ingredients for the food industry including creamers, fat powder, foamers, toppings and DHA powder

**FrieslandCampina DMV**  
milk and whey proteins, lactose, milk powder and milk powder replacements for the food industry

**FrieslandCampina Dairy Feed**  
nutritional and functional ingredients and products for young animals

**FrieslandCampina Creamy Creation**  
cream liqueurs and non-alcoholic beverages

**DMV-Fonterra Excipients**  
(50% joint venture with Fonterra)  
production and sales of excipients for the pharmaceutical industry

derivatives product groups, which has been possible since the merger, contributed towards the optimisation of the operating profit. A fire in the Veghel facility's components warehouse in July 2010 led to a short interruption in production and the loss of all the spare components.

#### Creamy Creation

FrieslandCampina Creamy Creation had a difficult year as a result of the disappointing economic developments in Europe and North America which affected consumption of cream liqueurs. Nevertheless revenue rose. Operating profit was, however, slightly lower than for 2009 partly due to higher raw materials prices for fat. The activities in South America were expanded with the establishment of a facility in Chile.

#### DMV-Fonterra Excipients

The DMV-Fonterra Excipients joint venture had a good year with increased sales volume and revenue. Operating profit stabilised at the level of 2009. The activities were expanded by the transfer of Domo's pharmaceutical activities. This has brought all the activities aimed at the pharmaceutical sector under a single operating company. During the year under review new machinery for potato starch-based fillers was purchased for the Foxhol production facility. This investment will be completed in 2011. Several new products were introduced including a new starch variety (super starch).

## Product focus



#### The Netherlands

Germany

Belgium

Hungary

Romania

Greece

Russia

United Kingdom

France

Spain

Italy

Austria

Saudi Arabia

United Arab Emirates

Ghana

Nigeria

China

Hong Kong

Indonesia

Malaysia

The Philippines

Singapore

Thailand

Vietnam

United States of

America

Worldwide

#### Hyvital Casein Easy-to-Digest 90

FrieslandCampina Domo

In 2010 FrieslandCampina Domo introduced a new hydrolysate for infant food on the market. A hydrolysate is a protein that has been cut into pieces. The unique characteristic of this casein-based protein, Hyvital Casein Easy-to-Digest 90, is that it makes digestion easy for infants while retaining all the nutritional characteristics of milk protein. Hyvital Casein Easy-to-Digest 90 also has a neutral taste although it is normally extremely difficult to retain a neutral taste when caseinates are broken up. Hyvital Casein Easy-to-Digest 90 answers the fast-growing demand for the premium segment worldwide.



# Capabilities

Talent management



Milk valorisation



Innovation



Business model & cost focus



Considerable attention is being paid to training and education to ensure the availability of sufficient talented employees with the right skills. The timely possession of insights into market and price development based on demographic and economic grounds is important for the optimum valorisation of the members' milk. To remain competitive a constant focus on cost control and efficiency improvements is essential. Innovation in processes, systems, products and applications for functional ingredients out of milk is the foundation for growth.

## Merger and integration

FrieslandCampina was formed at the end of 2008 through the merger of Friesland Foods and Campina. This step was prompted by the wish to be better able to anticipate and respond to the fast-changing market conditions, including a trend towards deregulation and liberalisation, sharply fluctuating prices on the global dairy market, increasing competition and an increasing worldwide consumption of dairy products. The European Commission approved the merger subject to several conditions, including the disposal of several business components and brands and making available (until 2017) of a maximum of 1.2 billion kilogram of milk to other manufacturers of fresh dairy products or naturally matured cheese. All the conditions have been met.

Under the leadership of an Integration Team more than 200 integration projects aimed at achieving the synergy targets have been carried out. In most cases the integration proceeded very smoothly and as of 1 July 2010 the Integration Team was dissolved. The remaining integration-related tasks and the achievement of synergy advantages have been transferred to the line management.

As in 2009 the advantages achieved during 2010 were greater than envisioned at the time of the merger. The initial assumption was that the total annual synergy advantages would rise to 175 million euro in 2012. Currently it is expected that this level will be reached by the end of 2011.

One major component of the synergy is being able to specify better purchasing conditions as a result of the increased scale. Considerable savings have also been achieved through greater efficiency, greater production runs, specialisation per facility and a better exchange of expertise and 'best practices'. The merger has enabled a better allocation of the milk streams to the products with the highest return and less additional milk was purchased. Other advantages that had already become evident are lower indirect costs and optimum utilisation of the merger partners' sales

channels. Amongst all these advantages there were some limited disadvantages, such as the one-off costs of the adjustments and the costs of the social plan. There was also a slight loss of milk volume because customers who purchased from both Friesland Foods and Campina wanted to continue purchasing from more than one supplier to safeguard their deliveries.

The independent Dutch Milk Foundation implements the EU condition that producers of fresh dairy products and naturally matured cheese must be able to purchase up to 1.2 billion kilos of Dutch raw milk a year from FrieslandCampina at the Friesland-Campina guaranteed price for raw milk less 1%. Arla Foods and Deltamilk have made use of this option and, via the Dutch Milk Foundation, have been guaranteed supplies until 1 January 2017. The Foundation also administers the severance scheme for FrieslandCampina's Dutch member dairy farmers. Member dairy farmers who wish to terminate their membership of Friesland-Campina and sell their milk elsewhere receive a severance premium of 5.00 euro per 100 kilos of milk. The quantity of milk that used to be supplied by the departing members is deducted from the volume of 1.2 billion kilos of milk. By the end of 2010 12 member dairy farmers had terminated their membership under the severance scheme (2009: 1). Fifteen members have announced their departure in 2011.



### Reorganisation of offices and production

In February 2010 the staff of the merger partners' former head offices and the different business groups 'set up shop' in FrieslandCampina's totally renovated and inspiring new central office in Amersfoort.

As announced in 2009, in 2010 four production facilities were closed and one activity was sold. In the Consumer Products Europe business group the production and sales facility in Oud Gastel was closed in July 2010. The manufacturing of the products previously manufactured in Oud Gastel, which included cream products, spray cans and condensed milk, was transferred to Lummen and Aalter in Belgium. The activities of Polderland Zuivel (cream products and ice-cream mixes) in Oldenzaal and FrieslandCampina Professional (cream, butter, cake fillings, desserts and sauces) were amalgamated in the Nuenen factory. In December 2010 the Elsterwerda facility in Germany was sold to ODW Frischprodukte GmbH, a subsidiary of Odenwald Früchte GmbH. In addition to the site and buildings ODW Frischprodukte also took over the 330 employees and some of the plant for manufacturing yoghurt and desserts. The announced closure of the facility in Kalkar (Germany) as of mid 2011 has been postponed to July 2012. The closure of the Packaging-Zuid department in the Leeuwarden facility, which was scheduled for

the second quarter of 2011, will now take place in December 2011. The primary reason is that the relocation of the activities to the other FrieslandCampina facilities is proving more complex than anticipated and the consultation with the participation bodies involved has needed more time.

In the Cheese & Butter business group the packaging activities in Tilburg and Drachten have been relocated to Wolvega and Leerdam. The cheese-related research activities moved from Tilburg to Wageningen in January 2011. All production activities in Tilburg stopped at the end of 2010 and the site and buildings were sold. The production and packaging of Milner cheese has been relocated to Steenderen and Wolvega. The cheese production in Dronrijp will be terminated in the second quarter of 2011. The production of butter specialities in the Klerken facility (Belgium) are scheduled to be relocated to Noordwijk (Gr.) in mid 2011.

In 2010 further decisions were announced regarding the reorganisation of the production and the related closure of production facilities and investments. The objective behind these decisions is to achieve the necessary scale and thus improve the organisation's efficiency. The cheese production facility in Varsseveld will be closed during the fourth quarter of 2012. The cheese ripening and packaging facility in

Leerbroek will be closed in mid 2011. The cheese ripening activities will be transferred to Gerkesklooster and the cheese packaging activities will move to Leerdam. During 2011 a total of 47 million euro will be invested in the cheese production facilities in Workum, Marum, Balkbrug and Gerkesklooster and the packaging facility in Leerdam. The investment will result in additional production capacity and the further automation of the cheese storage and ripening processes.

FrieslandCampina's social plan will be applicable for the Dutch employees on permanent contracts who are affected by the changes. FrieslandCampina will do its utmost to find them new jobs that suit both the employee and the employer, preferably within FrieslandCampina but, if this proves impossible within a reasonable period of time, outside the Company.

## Research & development

The goal of the Research & Development activities is to achieve improvements not only in the field of the production process but also in the development of new, healthier and improved products and the finding of new applications. The activities are aimed at consumers, professional customers (bakeries and the food service sector) and customers in the food and pharmaceutical industries. FrieslandCampina wants to offer top-quality products with outstanding characteristics which do optimum justice to 'All the goodness of milk'. In the year under review the total costs of Research & Development amounted to 61 million euro (2009: 55 million euro).

### Innovation programmes

In line with developments throughout the Company, during the first half of 2010 considerable attention was paid to the designing an R&D structure that can make an optimum contribution towards the success of the *route2020* strategy. To this end the innovation programmes are linked to international value-drivers for value creation. These programmes are, in their turn, once again linked to the four platforms FrieslandCampina has chosen as having priority: (children's) growth and develop-

ment, daily nutrition, health & welfare and functionality. These platforms are fed by the available expertise in the fields of life sciences, process technology, sensory & consumer science and food structuring. Research also delivers new insights into the nutritional characteristics of milk, the utilisation of opportunities throughout the dairy production chain and the sustainability of dairy production.

In 2010 FrieslandCampina's researchers made major contributions towards scientific research. Scientific articles were published in various research fields, such as the health aspects of milk fat, the crystallisation of lactose, microscopy in dairy applications, behaviour models of milk proteins and choice-based consumer studies. In addition, during the year under review 13 patent applications were submitted with the emphasis on functional ingredients for infant food and the protection of introduced product innovations. A number of new product variants were developed. In 2010 the Peak sachet of evaporated milk launched in Nigeria at the end of 2009 won the IDF Dairy Innovation Award.

The new R&D organisation, that went into operation on 1 January 2011, works with

inter-disciplinary teams to ensure optimum cohesion with marketing, development and operations.

### New R&D Centre in Wageningen

To create good facilities and preconditions for innovation, in 2010 it was decided to build and equip a new FrieslandCampina R&D Centre in Wageningen in which a major portion of the R&D activities can be concentrated. The Centre is scheduled for completion at the end of 2012.

In 2010 a local research facility went into operation in Nigeria and FrieslandCampina Professional's facility in Lummen (Belgium) was renovated. There are also local implementation teams in Heilbronn and Lippstadt (Germany), Debrecen (Hungary), Stupino (Russia), Delhi and Batavia (USA), Jakarta and Salatiga (Indonesia), Ho Chi Minh City (Vietnam), Kuala Lumpur (Malaysia) and Bangkok (Thailand).

## Integral quality control

Foqus is the het integral system with which FrieslandCampina safeguards quality throughout the chain. Foqus revolves around food safety, quality, security, working conditions, fire protection and the environment.

The FrieslandCampina organisation can control the entire production chain from farm to end product. The guiding principles of the quality control are the statutory stipulations, sometimes with the addition of supplementary demands (including at the customer's request). The various international standards, such as HACCP and

ISO 9001, are integrated into Foqus so that both FrieslandCampina's customers and the consumers can be assured that the products meet the highest standards and comply with the desired specifications.

FrieslandCampina strives for minimum risks in the area of safety and environment and insists that all its facilities operate in compliance with FrieslandCampina's standards. One of the minimum demands is that the operating facilities apply a safety and environment management system that at least meets the specifications of OHSAS18001 (for work safety) and ISO14001

(for environment). The management system ensures the facility meets the internal standards and external legislation.

## FrieslandCampina and its staff

FrieslandCampina's human resources policy is aimed at recruiting and retaining the right employees for the Company, motivating them and ensuring the development of sufficient talent for the higher management positions. Many employees find FrieslandCampina an attractive employer that offers its staff a challenging and inspiring working environment in which the optimum personal and career development of every employee is encouraged. In the context of *route2020* FrieslandCampina's ambition is to, within a few years, rank among the ten most attractive employers in the key countries and industries in which it is active.

The global human resources strategy is one of the cornerstones supported by the Company's *route2020* strategy. A number of guiding principles and goals for the human resources policy have been formulated and are applicable for the entire organisation worldwide. In view of the Company's enormous geographical spread and the differences between one country and another, the personnel policy is developed and implemented locally within this framework and with the support of the central office. Examples of globally applied, centrally designed HR policy components are talent management, performance management, job grading, expatriate management and the FrieslandCampina Academy.

### Organisational structure

In 2009 the main thrust of the activities was aimed at integrating the existing organisations of the merger partners, filling management positions and harmonising employment conditions. In 2010 the focus was on building-up a strong organisation, the development of a cohesive vision and related strategy for the future and the further achievement of the envisioned merger-advantages. In 2010 a new salary system was also implemented. In combination with the implemented assessment system the employee assessments and assessment-linked salary scales are very sharply focused on the performance of the employees.

### Cooperation between business groups

In the context of the achievement of the *route2020* strategy, since 1 January 2011 the cooperation between the different business groups has been intensified through the setting-up of Category Teams and Innovation Teams for dairy based beverages, infant & toddler nutrition, and branded cheese. The Category Team steers the innovation. The results are then translated per country or user category into products that meet the needs and taste of the consumer or industrial customer (infant & toddler nutrition). The cooperation and clustering of expertise and strength across the business groups must also lead to a more efficient and effective organisation in the field of customer trade marketing and marketing.

### Reorganising facilities

One of the objectives of the merger was to achieve cost-savings and greater efficiency by amalgamating and reorganising activities. In 2009 an initial start was made and in 2010 the process gained speed. As well as amalgamating offices in the new central office in Amersfoort, and other places such as Heilbronn (Germany), which has streamlined the commercial activities, plans were worked out for the concentration of production in a smaller number of facilities. This led to the decision to expand some facilities and close down, or sell, others.

During 2010 over 600 employees were made redundant as a result of the restructuring. The employees concerned were assisted with finding new jobs within or outside the organisation. Nearly 60% of the employees have a new job within FrieslandCampina.

### Talent management

The development and availability of sufficient potential leaders is essential if FrieslandCampina's strategy is to be implemented successfully in the coming years. In view of the anticipated shortfall in the labour market in the coming years and the resulting battle for scarce talent, the Company has developed an ambitious programme to recruit, identify and retain talent, give future leaders the opportunity to develop further and stimulate the performance of our staff.

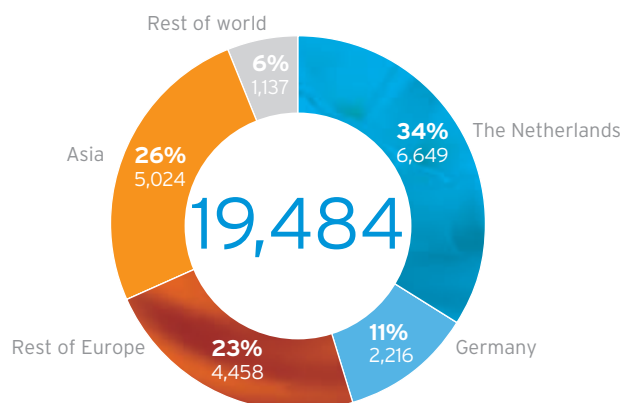
## The Way we Work

'The Way we Work' was introduced in FrieslandCampina as a guideline for creating the right working atmosphere and culture to enable the ambitions and goals of the *route2020* strategy to be achieved. The envisioned way of working has three cornerstones and is aimed at every employee in every country and at every level.

- *'Embrace challenge (together)'*, stands for an attitude of daring and doing. This clears the way for the Company to operate in a more creative way and generate more added-value with milk.
- *'Grow together'*, indicates the importance of cooperation, helping each other and learning from each other. The merger that created FrieslandCampina just a short time ago only makes cooperation and sharing knowledge even more important and valuable. It enables the Company and its employees to reach their full potential.
- *'Feel accountable (together)'*, from now on results will be the core issue rather than tasks. This approach means having clearly formulated agreements and expectations regarding each person's responsibility for achieving results. But more than that, it is having the attitude that accepts and takes the responsibility.

### Employees per region

average number of FTEs



One key component of the talent management programme is the FrieslandCampina Academy. Setting-up the Academy has created an international, innovative learning environment in which people are challenged to deliver their best performance. The programmes can be tailor-made and offered in every country in which FrieslandCampina is active. The FrieslandCampina Academy has four cornerstones: functional competencies, behavioural competencies, basic competencies and leadership competencies. In 2010 around 2,000 employees followed a course or participated in a workshop, mainly in Western Europe and Asia. The average duration of a programme was 2.8 days. The emphasis of these courses was on basic competencies, marketing and continuous improvement. In 2011 the

programme will be extended and improvements based on experience will be implemented.

### Number of employees

In 2010 the average number of employees was 19,484. The number of employees in Asia and other regions outside Europe rose as a result of growth in these regions. In Europe the number of employees fell as a result of the amalgamation of activities in both the production facilities and the offices, and due to the sale of the Elsterwerda production facility in Germany.

### Code of conduct

In 2010 a new Code of Conduct went into force. FrieslandCampina wants to treat its employees, consumers, customers, business partners and the communities in which the Company is active in an open and honest manner. The Code of Conduct describes the values, principles and guidelines that govern the way we work. FrieslandCampina wants to combat dealings such as bribery, child labour, environmental pollution and discrimination. Repeated contraventions should be signalled, possibly via the Whistle-blower's procedure.

### Employees per region

average number of FTEs	2010		2009	
		%		%
The Netherlands	6,649	34	7,103	35
Germany	2,216	11	2,208	11
Rest of Europe	4,458	23	4,659	24
Asia	5,024	26	4,975	25
Rest of world	1,137	6	1,089	5
<b>Total</b>	<b>19,484</b>	<b>100</b>	<b>20,034</b>	<b>100</b>

## Outlook

In 2011 a slight increase in the demand for dairy at a global level is anticipated, especially as a result of increasing consumption in the emerging countries. In Europe dairy consumption is expected to remain under pressure. Small fluctuations in supply and demand on the international dairy market can have major consequences for the price development of commodities like milk powder, basic cheese and butter. This also influences price levels in other product categories. If the cost of raw milk and other raw materials goes up margins could come under pressure if these price increases cannot be passed on in the selling prices in full or in time. The moment at which the price and duration of a contract are fixed can have a substantial effect on the

achieved selling price and margin development.

For FrieslandCampina 2011 will be a year of working towards the goals of the *route2020* strategy. We will strive to achieve growth in dairy based beverages, infant & toddler food, branded cheese and specialised ingredients. Investments are envisioned in the field of production capacity expansion, machinery replacement, efficiency improvement and innovation. The innovation programmes are linked to the value-drivers for value growth and the selected benefit platforms. Research & Development expenses are expected to increase slightly. FrieslandCampina's financial base is such that all the energy can be focused on achieving the plans in the

context of the *route2020* strategy. In the field of human resources demographic developments in the different regions will be the guideline for achieving the right staffing level as will staff training and education. As a result of the restructuring of several production facilities announced in 2009 and 2010, the number of employees in Europe will be reduced. A greater focus on Corporate Social Responsibility throughout the dairy production chain must contribute towards sustainable value creation for all stakeholders. No statement is being made regarding the expected result for 2011.

## Responsibility statement

The Executive Board of Royal FrieslandCampina N.V. declares that the financial statements give a true and fair view of the assets, liabilities, financial position and profit of Royal FrieslandCampina N.V. and the companies included in the consolidation. The Executive Board also declares that the annual report gives a true and fair view of the situation as at the balance sheet date, the business development during the financial year of Royal FrieslandCampina N.V. and the associated companies for which the financial information is recognised in its financial statements. The material risks with which Royal FrieslandCampina N.V. is

confronted are described in the annual report.

Executive Board

**Cees (C.C.) 't Hart**  
Chief Executive Officer

**Kees (C.J.M.) Gielen**  
Chief Financial Officer

**Kapil (K.) Garg**  
Chief Operating Officer

**Piet (P.J.) Hilarides**  
Chief Operating Officer

**Freek (F.) Rijna**  
Chief Operating Officer

Amersfoort  
4 March 2011



# Sustainability

Wind energy



Solar energy



Biogas



FrieslandCampina is striving to achieve the growth of its activities in a climate-neutral way throughout the entire chain - from cow to consumer. The Company wants to achieve this by working with the Cooperative's member dairy farmers and its partners in the chain to improve energy-efficiency, reduce greenhouse gas emissions and stimulate the production of sustainable energy on dairy farms.

## Corporate Social Responsibility

Corporate Social Responsibility and sustainability are an integral component of FrieslandCampina's operations. FrieslandCampina enacts its Corporate Social Responsibility in a practical and relevant way without losing sight of economic return. The Company attaches a great deal of value to sound relationships with consumers, customers, employees, business partners, social organisations and the communities in which FrieslandCampina is active. Cooperation and consultation with these stakeholders is important if the ambitions in the field of sustainability are to be realised. Corporate Social Responsibility is, therefore, also a key component of the *route2020* strategic plan. FrieslandCampina is convinced that the consistent application of the guiding principles of Corporate Social Responsibility in the strategy will make a substantial contribution towards sustainable value creation for all stakeholders.

### Actions

FrieslandCampina has developed action plans focused on the five themes of Corporate Social Responsibility on the basis of *route2020*:

- health & nutrition;
- care for the environment;
- sustainable agriculture;
- motivated employees;
- FrieslandCampina in the community.

All the action plans are carried out within a framework that complies with several standards and guidelines the most important of which are:

- ISO 26000. This international standard for Corporate Social Responsibility became definitive in 2010;
- the Code of Conduct for employees. This contains the standards for employees' conduct.

A start was made on the implementation of these action plans in 2010 and will be continued in the coming years.

### Health & nutrition

Every day FrieslandCampina caters to the needs and wishes of consumers and professional customers, from different cultures and with different dietary needs and patterns, by offering a wide range of food articles. Key focal areas are healthy products, combating obesity, helping to reduce malnutrition and hunger, food availability and quality control.

### Assortment choice

FrieslandCampina offers consumers in many countries the opportunity to select the products that best suit their needs from a wide range. Choices are offered in respect of energy content (through less fat and added sugars) and added vitamins and minerals.

### Less sugar

In a number of countries the policy is to gradually reduce sugar levels. FrieslandCampina is one of the initiators of the 'Ik Kies Bewust' logo in the Netherlands and the 'Choices' logo internationally (labelling on products with less fat, salt and sugar).



#### JOGG initiative

FrieslandCampina is an active contributor towards the JOGG (Young people at a healthy weight) initiative that was launched in the Netherlands in 2010. The objective of JOGG is for regular exercise and more healthy eating habits to become the norm. The JOGG approach campaigns focus attention on the core issues of food and exercise in schools, better sports and play facilities and information for parents.

#### Care for the environment

FrieslandCampina's key objective is the climate-neutral achievement of growth in production. In this context FrieslandCampina is working actively to improve energy-efficiency, reduce air pollution and reduce CO<sub>2</sub> emissions in its production facilities. FrieslandCampina is also working to optimise water usage, reduce water pollution and reduce the weight and size of packaging.

#### Agreements

Under the auspices of the Dutch Dairy Association (NZO) FrieslandCampina has signed agreements with the Minister of Housing, Spatial Planning and the Environment and the Minister of Economy, Agriculture and Innovation. These agreements have been laid down in the Sustainability Agreement on Clean and Energy-efficient Agricultural Sectors. FrieslandCampina has also signed the Long-term Agreement for the Improvement of Energy-efficiency in Industry (MJA-3). The objective of this agreement is to achieve an annual improvement in energy-efficiency of at least 2%. In the Netherlands the Company is also a signatory of the Integral Environment Terms of Reference (IMT) in which new environmental and energy targets will be

formulated every four years. In Belgium FrieslandCampina is a participant in a number of energy-saving agreements including the Benchmarking Covenant and the Audit Covenant.

#### ISO 14001 and OHSAS 18001

FrieslandCampina's policy is the systematic implementation and improvement of the environment and safety policies for staff. A FrieslandCampina environment and safety management programme (Foqus SHE) has been implemented in every production facility. In 2010 considerable attention was also paid to safety awareness in the facilities. In the field of employee safety many facilities are working in accordance with the approach as laid down in OHSAS 18001. All the production facilities in the Netherlands, Belgium and Germany have implemented an environment and work safety system that meets the demands of ISO 14001 (environment) and OHSAS 18001. In 2010 all the facilities in Germany were ISO 14001 and OHSAS 18001 certificated. In Vietnam, Malaysia and Indonesia the production facilities are ISO 14001 certificated. The intention is for all the production facilities in Russia, South-east Asia and the United States of America to be brought to ISO 14001 level.

#### Packaging

To reduce pressure on the environment from packaging, programmes have been implemented to reduce the weight of packaging and the use of mono-material and recyclable material. FrieslandCampina is also striving to eliminate undesirable materials. In 2010 in the Benelux a start was made on using FSC certificated paper for drinks cartons.

FSC (Forest Stewardship Council) is a hallmark for sustainable forest management. By the end of 2011 all FrieslandCampina's drinks cartons in the Benelux will be made of FSC certificated cardboard.

#### **Other programmes.**

In 2010 FrieslandCampina won the Lean & Green award for its CO<sub>2</sub> reduction plan for its logistics activities in the Netherlands. Reducing water usage and the reuse of water is being worked on in various places.

#### **Sustainable agriculture**

Making FrieslandCampina's products more sustainable is partially dependent of making the raw materials more sustainable. As a business, and as part of the dairy chain, FrieslandCampina feels co-responsible for reducing the environmental impact throughout the chain. Climate-neutral growth of milk production in the primary sector will be achieved through a combination of energy-savings and sustainable energy generation.

#### **Installation of fermentation plants**

In 2010 plans to construct fermentation plants at a farm level were drawn up in cooperation with the Dutch Agriculture and Horticulture Organisation (LTO) and member dairy farmers.

#### **Sustainable energy generation**

In addition to energy-savings FrieslandCampina is actively stimulating the sustainable generation of energy. In 2010 an energy liaison office was set up as a contact point for member dairy farmers with questions about sustainable energy. To support Zuivelcoöperatie FrieslandCampina's member dairy farmers a cooperation agreement has been signed with energy supplier Essent for the generation and supply of sustainable energy. Member dairy farmers are assisted with projects in the field of solar, wind and biomass (for example slurry fermentation) energy.

#### **Dairy Development programme**

In 2010 plans for the further extension and expansion of the Dairy Development Programme were developed for the dairy farmers in Asia and Africa who supply FrieslandCampina with milk. The Programme supports dairy farmers with improving the quality of raw milk, hygiene and production sustainability.

#### **'Cows in the meadow'**

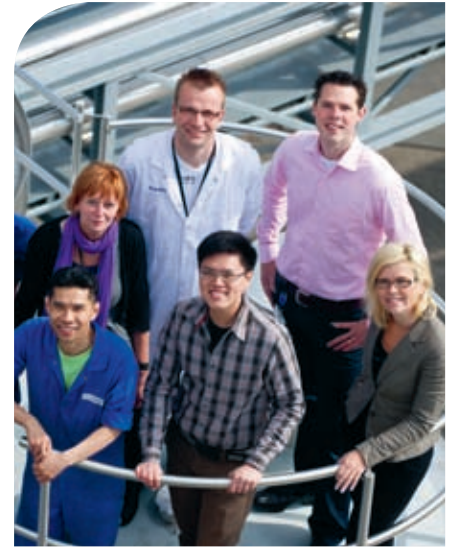
'Cows in the meadow' is a socially relevant topic in the Netherlands. Zuivelcoöperatie FrieslandCampina supports its member dairy farmers in making a considered choice to put their cows out to pasture to increase the visibility of cows in the landscape. Since 1 January 2010 cows in the meadow has been an optional component of FrieslandCampina's Foqus quality system.

#### **Socially Responsible soya**

Soya is a minor ingredient in cattle feed. FrieslandCampina wants to contribute towards socially responsible soya production and making the soya chain more sustainable. FrieslandCampina is, therefore, working with various organisations to make soya production more sustainable in countries such as India and Brazil. Agreement has been reached with the cattle feed industry that from 2015 on only sustainably grown soya will be used in concentrates.

#### **Responsible cocoa**

Cocoa is an important ingredient in a number of FrieslandCampina's products. To make the cocoa stream more sustainable FrieslandCampina Benelux has gone into partnership with UTZ CERTIFIED, a certifying organisation aimed at improving the position of farmers in the countries of origin. In 2010 FrieslandCampina Benelux began purchasing responsible cocoa for Chocomel. The target is for Chocomel to be produced entirely from sustainable cocoa in 2014. Cocoa for other chocolate products produced by FrieslandCampina Benelux have to be purchased from sustainable sources in 2020.



#### Palm oil

Since the beginning of 2011 FrieslandCampina has purchased sustainable palm oil. Palm oil and palm oil products are ingredients in a number of products including coffee creamers and fat powders for the food industry. This procurement policy is contributing towards making the production of agricultural raw materials more sustainable and preserving tropical rain forests and biodiversity. The sustainable palm oil is certificated in accordance with the Round Table for Sustainable Palm Oil (RSPO) principles and criteria. Social organisations, such as Solidaridad and the WWF (World Wide Fund For Nature) are closely involved in drawing-up these sustainability criteria. FrieslandCampina has been associated with the RSPO since 2007.

#### Involved employees

FrieslandCampina wants to be a challenging employer that respects its employees and inspires them to give of their best. Areas for attention are training, the remuneration system, performance-oriented management, safety in the workplace and the roll-out of the new *route2020* strategy. Further information is included in the 'FrieslandCampina and its staff' section. The goal is the optimum involvement of employees in Corporate Social Responsibility so this is implemented throughout the organisation.

#### FrieslandCampina in the community

Cooperation and consultation with all its stakeholders are the foundations for realising FrieslandCampina's sustainability ambitions. In 2010 considerable attention was paid to the implementation of the sustainability policy. A major role was played by the CSR Board that supervises the implementation. In 2010 the Code of Conduct for employees was drawn up and communicated as was a Whistle-blower's procedure.

FrieslandCampina has drawn up Business Practices for its suppliers. All the relevant suppliers have now endorsed these Business Practices.

FrieslandCampina sets great store by cooperation with social organisations (NGOs). In 2010 there was regular consultation with a number of these organisations including the WWF, Solidaridad, Dierenbescherming (animal protection) and Natuurmonumenten (nature reserves).

FrieslandCampina pays attention to the development of local communities in areas in which the Company is active and in a number of countries, including Vietnam, Indonesia and Nigeria, FrieslandCampina operates programmes that help improve local dairy farming.

In the field of transparency in 2010 the first FrieslandCampina Corporate Social Responsibility report was published.

FrieslandCampina's 2010 Corporate Social Responsibility Report will be published in mid 2011.

## Corporate governance

From a corporate governance point of view the bodies that are relevant for Royal FrieslandCampina N.V. are the General Meeting of Shareholders, the Supervisory Board and the Executive Board. All the Company's shares are held by Zuivelcoöperatie FrieslandCampina U.A. The Company is an exempted structural statutory two tier company, but has opted to apply the two-tier management structure voluntarily.

### The Company's General Meeting of Shareholders

The Cooperative is the Company's sole shareholder, which means the Cooperative has total control of the Company's General Meeting of Shareholders. During the Company's General Meeting of Shareholders the Board of the Cooperative exercises its voting rights on behalf of the Cooperative, in certain instances subject to the prior approval of the Cooperative's Member Council. During the Company's Annual General Meeting of Shareholders the company's financial statements are submitted to the Meeting for adoption and the decision regarding the appropriation of profit is also taken. The Company's General Meeting of Shareholders has the authority to approve certain Executive Board decisions. These decisions, which are stipulated in the Articles of Association, are major decisions relating to the operations, legal structure and financial structure of the Company (and the companies in which it holds shares) as well as decisions related to major investments.

### The Company's Executive Board

The Executive Board is responsible for the policy and business operations within the Company. The Executive Board members are appointed for an indefinite period. Their employment conditions, including remuneration, are determined by the Supervisory Board.

### The Company's Supervisory Board

The Supervisory Board supervises the Executive Board and has the authority to approve certain decisions of the Executive Board as stipulated in the Articles of Association. The powers of the Supervisory Board are as laid down in the provisions of Book 2 of the Dutch Civil Code in respect of companies with a two-tier management structure. These powers include the appointment of the Executive Board members, the determination of the number of members of the Executive Board and the approval of a number of other statutory decisions of the Executive Board. In the performance of their duties the Supervisory Board must be led by the interests of the Company and taking into account the interests of all stakeholders. Agreement has been reached with the Central Works Council regarding the composition of the Supervisory Board, the required profile of the members of the Supervisory Board, the strengthened rights of the Central Works Council in respect of recommendations for the appointment of Supervisory Board members, and the way in which the Central Works Council

exercises these rights. These agreements have been laid down in a Charter. On the basis of the agreement the Supervisory Board is composed properly if two-thirds of its members are members of the Board of the Cooperative (the internal members) and one-third of its members are recruited from outside (the external members).

The chosen composition reflects the two-thirds to one-third 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. The external members of the Supervisory Board are selected and appointed on the basis of the following criteria: social experience involving the practical aspects of being a Supervisory Board member, an understanding of international commerce, general social background and specific affinity with social relationships, human resources and organisation, and experience of the multinational business world. One of the Supervisory Board members is a so-called financial expert, which means he or she has acquired relevant expertise and experience in the field of financial administration/accounting with a large legal entity.

Supervisory Board members are appointed for a term of four years. External Supervisory Board members step down after twelve years. The term of office of a Supervisory Board member who is also a member of the Board of the Cooperative always ends upon the termination of the Board of the Cooperative membership.

The Supervisory Board has an Appointment and Remuneration Committee and an Audit Committee. The Appointment and Remuneration Committee comprises the Supervisory Board member with the social profile plus the Chairman and Vice-Chairman of the Supervisory Board. The Appointment and Remuneration Committee provides the input for the Supervisory Board's decisions regarding the selection and appointment of Executive Board members and Supervisory Board members, the Executive Board remuneration policy, the remuneration of the individual Executive Board members and the remuneration policy for senior management.

The Audit Committee comprises the financial expert plus one other external Supervisory Board member and two Supervisory Board members who are also members of the Board of the Cooperative. The duties of the Audit Committee are of a preparatory nature and relate to the accuracy and completeness of the

financial reporting, the administrative organisation, the internal audit, risk management, compliance with regulations and the appointment and working method of the external auditor.

Neither the Appointment and Remuneration Committee nor the Audit Committee is authorised to make decisions independently and both Committees report to the full Supervisory Board.

#### The Dutch Corporate Governance Code

Although the Dutch Corporate Governance Code and the Order in Council are not directly applicable to the Company, the Company will actively apply the principles and best practice provisions of the Code and the Order in Council with the exception of those principles and best practices the Company deems inapplicable due to the cooperative nature of its business and its private character. Several other principles and best practices are also deemed inappropriate on the grounds of the Company's policy decisions. Within FrieslandCampina the Cooperative's Member Council is the body to which an account is submitted each year regarding the main lines of the organisation's structure and compliance with the Corporate Governance Code, and any substantial changes to either the structure or the compliance. FrieslandCampina has a Code of Conduct and a Whistle-blower's procedure. It goes without saying that FrieslandCampina will, in the future, continue devoting attention to the principles and provisions of the Corporate Governance Code.

#### Deviations from the Code resulting from the Company's special structure

Due to the special structure of FrieslandCampina and the resulting dominance of the Supervisory Board by members, compliance with the Code's best practice provision III.2.1, which stipulates that all Supervisory Board members, with the exception of a maximum of one, must be independent, is impossible. This best practice provision will only be applied to the external Supervisory Board members. The selected control structure means that final control rests, indirectly, with the Cooperative's Member Council. The business activities are carried out by the Company. Within this framework the Cooperative is involved in defining the Company's strategy and related policy principles. The Cooperative's Member Council should approve the resolution of the Board of the Cooperative, in its capacity as General Meeting of Shareholders, to adopt the financial statements and profit appropriation.

#### Deviations from the Code resulting from the Company's private character

The private character of the Company means that the remuneration of individual Executive Board members and other major components of their employment contracts are not published (best practice provision II.2). FrieslandCampina does not grant share options to its employees. In this context there have also been no regulations drawn up regarding private investment in other companies by Executive Board and Supervisory Board members (best practice provisions II.3 and III.2 respectively). FrieslandCampina does have a Prevention of Insider Trading regulation in place in respect of the bonds issued by the company.

#### Deviations from the Code resulting from the Company's policy decisions

Members of the Company's Executive Board are appointed for an indefinite period. The Cooperative's influence on the functioning of the Executive Board members is intrinsic due to the overlap of membership of the Board of the Cooperative, the General Meeting of Shareholders of the Company and the internal members of the Supervisory Board. For this reason, and due to the possible upward pressure on remuneration, the Company does not comply with the best practice provision of appointing Executive Board members for a period of four years (best practice provision II.1.1). For practical reasons, FrieslandCampina has placed the duties the Corporate Governance Code confers on the Appointment Committee and the Remuneration Committee in the hands of a single committee: the Appointment and Remuneration Committee. The membership of other Supervisory Boards and the holding of other positions by both Supervisory Board members and Executive Board members is evaluated by the Supervisory Board on a case by case basis, taking into consideration the nature of the membership or position and the demands it would place on the time of the member concerned. Every member of the Supervisory Board and the Executive Board must ensure he or she devotes sufficient time and attention to the Company to guarantee his or her duties are fulfilled properly.

## Risk management

The achievement of business objectives goes hand-in-hand with risks. These risks include external economic factors, the unpredictability of market developments, calamities and human factors. FrieslandCampina's risk management systems are aimed at managing and reducing the risk that it will not achieve its objectives. In 2010 further attention was paid to improving the structure and functioning of the internal risk management system and a start was made on a more integrated approach to the management of risks inherent to the Company's objectives.

### Risk management structure

The ultimate responsibility for the management of the risks inherent to achieving the Company's objectives and for the reliability of the internal and external (financial) reports rests with the Executive Board. The responsibility for designing and embedding the measures to manage risks is delegated to corporate staff departments. These departments are also responsible for monitoring and evaluating the application of the measures.

The primary responsibility for the correct (day-to-day) application, compliance and monitoring of the systems that have been put in place to adequately manage the relevant risks rests with the managements of the business groups and operating companies. The managements of the business groups and operating companies are required to carry out a self-assessment of the application of and compliance with the risk management measures and submit their findings to the Executive Board in the form of a Statement of Internal Control.

In 2010 the Corporate Internal Audit department carried out independent audits to ascertain the effectiveness of the implemented risk management measures. The audits were carried out in accordance with a programme drawn up in consultation with the Supervisory Board's Audit Committee. The acquired information was used to improve the internal risk management and control systems. The department also carried out specific assignments. The resulting findings and recommendations were agreed with the management responsible and reported to the Executive Board and the Audit Committee.

### Characteristics of the internal risk management and control systems

#### Internal Control Framework

The reference guide for the design and evaluation of FrieslandCampina's risk management and control systems is the internationally renowned COSO framework for internal control. This has been taken shape in the FrieslandCampina Internal Control Framework - a shared risk-based framework of internal controls. The Internal Control Framework, which is currently being rolled-out, supports a continuous

process of significant risk area identification, analysis, validation, monitoring and evaluation, improvement of the controls and communication and reports regarding the risks and controls.

#### **Business planning and review**

The Company has implemented procedures for strategic planning, budgeting and internal management (and financial) reporting and produced detailed guidelines for the content and preparation of the relevant reports.

The Executive Board regularly consults the managements of the business groups and operating companies regarding the achievement of the strategic and operational (financial and non-financial) goals, in part as a result of the regular financial and operational reports and the annual budget cycle and risk analysis.

#### **Other general control measures**

The general guidelines, procedures and organisational measures FrieslandCampina has in place to control its business processes include:

- a Corporate Manual - containing the most important policy principles, responsibilities and authorities relating to the main functions and processes;
- a Code of Conduct - applicable to every FrieslandCampina employee. Awareness of the Code is increased through internal communication and initiatives;
- a Whistle-blowers procedure for the reporting of deviations from conduct standards;
- guidelines for the continuity and reliability of electronic data processing.

In addition to the general control measures listed above FrieslandCampina implements the following specific measures to prevent or reduce business risks.

#### **Risk inventory and evaluation 2010**

In 2010 the Executive Board, together with the corporate staff departments and an external advisor, inventoried and evaluated the business risks linked to the *route2020* strategy. The measures aimed at managing and reducing these business risks were evaluated and, where necessary, initiatives to improve the management of these risks were determined.

This integral evaluation showed that, two years after the formation of FrieslandCampina, considerable progress has been made with the achievement and/or harmonisation of the various risk management programmes. The most important improvement initiatives for 2011 are aimed at the further embedding of risk management within the regular business processes, the integration of the risk management measures into the Internal Control Framework and the exchange of best practices. During the year the progress of these initiatives will be assessed regularly by the Executive Board.

#### **Operating risks**

Several of the significant business risks incurred by FrieslandCampina and the related specific controls are described below.

#### **Personnel and organisation**

The ability to recruit, retain and develop the right people is a key factor for the achievement of FrieslandCampina's objectives. In 2010 the *route2020* strategy was developed and the core values applicable to the organisation and its employees were defined: embrace challenge, grow together and feel accountable. These core values were worked out in more detail and integrated into the employee assessment system. Senior staff function scales, including the related primary and secondary employment benefits, were classified and harmonised. To enable the strategy to be implemented successfully, in 2010 organisational changes were announced and set in motion. Programmes for talent and career development and project management were also introduced. During 2011 the Executive Board will evaluate the progress of these measures, and the appointment of staff in key positions, on a regular basis.

**Calamities including livestock diseases**

FrieslandCampina works with natural products. An extensive or long-term outbreak of (contagious) animal diseases, especially in cattle, would adversely affect the production and sales of dairy products and, therefore, FrieslandCampina's results. The Company cannot (entirely) rule out such risks.

Foqus - the Company's own quality assurance system for the production and processing of raw milk - enables the products to be tracked at every step throughout the entire production chain. The effectiveness of and compliance with the quality system is evaluated regularly by means of internal and external verification. In part for other calamities FrieslandCampina has taken out appropriate damages, consequential loss and liability insurance.

Operating policy also includes educating and training employees, maintaining and updating the crisis management organisation and manuals, evaluating product variances and implementing measures to prevent such variances.

**Product innovation**

A timely response to consumers' and suppliers' needs through successful product and process innovations in strategic categories is essential for the achievement of the Company's objectives. In 2010 an Innovation Governance Board was set up and a system for managing the innovation portfolio was introduced. Currently the Research & Development function is being integrated and focused more on the strategic categories in *route2020*. In 2011 a revised and standardised innovation process will be introduced. The changes that this will bring will be closely followed by the Executive Board.

The Company has the required organisation and processes to protect brands and intellectual property, for example through patents.

**Financing risks**

Global economic developments have had major adverse economic consequences, including for bank lending. This has led, and could continue to lead, to adverse consequences for the economies in the countries in which FrieslandCampina is active. The economic developments could also affect FrieslandCampina's ability to fulfil its agreements with lenders, arrange additional credit facilities and be able to satisfy the conditions attached to such credit facilities. In the short, medium and long term this could have an adverse effect on FrieslandCampina's operating profit, financial position and the value of its assets. To limit these negative consequences as far as is possible, FrieslandCampina's policy in respect of the credit providers is diversification and, in 2010, the Executive Board implemented measures in the area of cost control and production efficiency. The Company is confident that the strategic plans laid down in *route2020* can be financed satisfactorily.

**Customer credit risks**

Although FrieslandCampina regularly reviews the creditworthiness of its customers, this does not provide an absolute guarantee that customers will always (be able to) fulfil their obligations. Customers' failure to fulfil their obligations, or to be late fulfilling them, adversely affects FrieslandCampina's operating profit and financial position. FrieslandCampina's activities are spread across a large number of sectors and (geographic) regions. This diversity protects the Company as a whole; there are no customers that account for more than five percent of the total revenue. Certain customers can, however, account for a significant portion of the activities of one operating company. The loss of such a customer could, therefore, have a considerable effect on the activities, financial position and profit development of the operating company concerned. A portion of the receivables from customers is insured with a reputable insurance company.

**Currency risks**

As FrieslandCampina is active in various countries around the world and purchases raw materials on the global market, a substantial portion of its assets, liabilities and results is sensitive to currency fluctuations. This can also affect the Company's competitive strength. This means that, for example, changes in the exchange rates of foreign currencies such as the US dollar, the Indonesian rupiah and the Nigerian naira against the euro could adversely affect FrieslandCampina's operating profit and financial position. The aim of FrieslandCampina's management of currency risks is to prevent undesirable fluctuations in the operating profit due to these currency fluctuations. When hedging currency risks related to operational transactions specific product and market conditions are taken into account. Some of the transaction risks are hedged. For additional information regarding the management of financial risks, including sensitivities, please see Note 32 in the 'Notes to the consolidated financial statements'.

**Interest rate risks**

FrieslandCampina can face the risk of interest rate fluctuations in respect of its non-current and current liabilities with variable interest rates. In the case of a portion of these liabilities (for example the subordinated bond loans and amounts owed to banks), FrieslandCampina has entered into interest rate swaps so that, on balance, it pays a fixed interest rate. As a result, at the end of 2010 only around 1% of FrieslandCampina's net debt was sensitive to interest rate fluctuations. Interest rate fluctuations can have a negative or positive effect on FrieslandCampina's operating profit and financial position.

Guidelines and procedures have been drawn up to manage financing, liquidity, customer debt, currency and interest rate fluctuation risks. The Company is improving the reporting related to these risks. In 2010 an internal Treasury Committee was set up and charged with the regular assessment of the risk policy and evaluation of the risk management system.

**Pension plan risks**

The principle pension plans for Dutch FrieslandCampina employees are administered by a Company pension fund and an insurance company. Under the pension plan administered by the insurance company any returns on the plan assets, which are held by a separate investment fund, are shared. Developments in interest rates and on the global capital market and other factors which are beyond FrieslandCampina's control, could have an adverse effect on the equity position (coverage ratio) of the pension fund and/or the separate investment fund and could result in FrieslandCampina having to make additional payments. In the case of the Company pension fund such payments have been limited and capped in conformance with agreements made with the fund. In the case of the plan administered by the insurance company a minimum coverage ratio must be maintained. As a result of the market developments previously mentioned, the value of plan assets and the scope of the liabilities in accordance with IFRS (IAS 19) could also have an adverse effect on FrieslandCampina's operating profit and financial position. For additional information please see Note 19 in the 'Notes to the consolidated financial statements'.

**Acquisitions and disposals**

If FrieslandCampina is to retain and expand its market positions, successfully completing major projects, such as acquisitions, the setting-up of joint-ventures and large investments is vital. Carrying out this type of large project involves risks, for example when adjusting and integrating the business activities or differences in corporate culture. FrieslandCampina believes that its customers will benefit from these projects. Some customers could, however, look for alternative suppliers, which would mean the envisaged benefits of particular projects may not be achieved or may only partially be achieved.

In 2010 FrieslandCampina set-up a Corporate Mergers & Acquisitions department and introduced a procedure for the successful execution of mergers and acquisitions. Project reports ensure that the Executive Board is kept up-to-date with the status and progress of a project.

**Milk volume and production**

In June 2008 the EU Ministers for Agriculture decided that the milk quotas would remain in place until 2014/2015. In the meantime an annual increase of 1% of the milk quota will be implemented. From 2015 on FrieslandCampina will also be obliged to process all the milk produced by the Cooperative's member dairy farmers. FrieslandCampina must adjust its processing capacity to match the supply of raw milk.

**Price fluctuations and reduced assurance of supply**

In a number of markets FrieslandCampina is both the buyer and the seller of dairy products and non-dairy based products (such as fruit juices and ingredients). For instance, FrieslandCampina sells products such as cheese, butter, infant food, milk powder and fresh and long-life dairy products that are traded on the consumer markets in various countries. These products are subject to price fluctuations. FrieslandCampina also purchases products such as unprocessed raw milk, dairy-related raw materials, milk powder, fruit concentrates, fruit preparations, sugar, cocoa, vegetable oil, energy, ingredients and (raw materials for) packaging, such as tin, cardboard and plastic, from third parties. FrieslandCampina's operating profit and financial position can be affected by price fluctuations due to changes in the supply and availability of these products (for example due to weather conditions). Substantial price increases that cannot, or can only partially, be passed on to customers, or a continuing shortage in the supply of certain products, can adversely affect FrieslandCampina's operating profit and financial position. To limit these risks FrieslandCampina's strategy is aimed at increasing the share of products with added-value in the total revenue and minimising costs by working as efficiently as possible. The risk of price fluctuations is also limited by concluding (long-term) forward contracts. In addition, assurance of continued supply is also improved by the acquisition of a preferred customer status, which means FrieslandCampina has priority in times of shortage.

**Information and Communication Technology (ICT)**

If the Company's *route2020* objectives are to be achieved successfully, its current and future information and communication requirements must be supported in an effective, reliable and efficient manner both through the availability of infrastructure, technology and well-qualified people, and through the setting-up of good operating processes and systems. In the first two years after the formation of FrieslandCampina the focus was primarily on the development of a new ICT strategy, guidelines and procedures and a new ICT organisation and service processes. In 2010 a start was made on the implementation of the Summit project. The aim of this project is a far-reaching global harmonisation of the operating systems based on SAP technology. To date the project organisation has been set-up and the design of the new operating systems is being developed. This project will not be fully implemented until 2015. In organising the project, standard methods have been used to ensure proper project management and quality control. The execution and implementation of this project will be monitored by a Steering Group with a broad and senior composition. The Executive Board will also evaluate the progress, risks and results of this project on a regular basis.

**Competition**

The dairy sector is undergoing rapid change. Customers are tightening the conditions for purchasing FrieslandCampina's products. Consumers have increasingly high expectations regarding the products and the ways they can be used. Consumer preferences are also changing. In addition there are major differences between the various countries in which FrieslandCampina is active. In its key sales markets FrieslandCampina has to compete not only against a large number of smaller (local) producers, but also against large multinationals. These companies, some of which are listed, have the financial resources to capitalise on specific trends and/or to develop and market (new) products. If FrieslandCampina was unable to respond to changes in the market and to be innovative, this could have an adverse effect on its competitive position and, therefore, on its operating profit and financial position.

Responding to these changes and regularly reviewing its competitive position are priorities in the Company's *route2020* strategy, organisational structure, annual planning and operations.

The information gathered in respect of developments in the dairy market and related to its competitors is collated in a Dairy News Analysis system. The use of this system was improved still further in 2010. The Executive Board and the business group managements are kept informed of the most important market and competitive developments on a regular basis.

#### **Political risks**

FrieslandCampina occupies strong market and brand positions in many regions including Asia, West Africa, Eastern and Central Europe and the Middle East. Political or economic changes in these regions could have consequences for the market positions in these countries and could, therefore, affect FrieslandCampina's financial performance and position. Public statements and developments in the Netherlands or other countries in Western Europe could also have an adverse effect on FrieslandCampina's operating profit and financial position, for example due to a boycott of our products. Despite the fact that some of the countries in which FrieslandCampina operates have undergone major political and economic changes in recent years, our position in the different regions has remained relatively stable. The Company responds to changes by adapting its product range and pricing, implementing organisational measures and by embedding the Company in the local environment. The diversity of the FrieslandCampina's activities in terms of both products and geographical regions means the risks are spread.

#### **Product quality**

FrieslandCampina's business activities involve many risks that could lead to variances in products and/or service. Examples include interruption of production, contamination of products and raw materials, products and deliveries that do not comply with specifications and disruption of the logistics services provision. FrieslandCampina responds to these risks by complying with various safeguarding systems, such as HACCP, ISO and through external monitoring. In addition to these external quality-control systems, every FrieslandCampina company applies the internal quality system, Foqus. In 2010 a group of 35 internal specialists were trained as Food Safety Auditors. Within the organisation a start has been made on carrying out internal audits so the Foqus quality system and compliance with the system can be evaluated on a regular basis. In 2012 the remaining initial audits will be completed. It is also FrieslandCampina's policy to organise its liability and recall insurance in such a way that it suits the activities. Educating and training employees, using and updating crisis management manuals, evaluating variances and instigating measures to prevent variances are all components of FrieslandCampina's business operations.

#### **Safety and environment**

FrieslandCampina strives for minimum risks in the area of safety and environment. All the business locations are expected to operate in accordance with the FrieslandCampina standards. One of the minimum requirements is that the business locations implement a safety and environment management system that at least complies with the specifications of OHSAS 18001 (for work safety) and ISO 14001 (for environment). The management system determines whether the location complies with the internal standards and external legislation. The standard also includes a comprehensive risk analysis of every location. In 2010 a start was made on implementing the standards at every location. The total implementation of these standards is planned for 2011. Many of the locations are already externally certificated. An internal audit system has been set-up to monitor the systems and their application. This audit system will be fully implemented in 2011. FrieslandCampina has also set-up an international Safety, Health and Environment Council. This Council prepares policy

for the Executive Board, supervises the implementation of the risk management programmes and ensures expertise and experience is shared.

#### **In conclusion**

The above information is not necessarily exhaustive and is not listed in order of priority. It is possible that risks that have not, as yet, been recognised, or have not been considered substantial, could in the future have a significant adverse effect on FrieslandCampina's ability to achieve its business objectives. FrieslandCampina's internal reporting systems, budget cycle and guidelines procedures, systems and organisational measures are geared, in part, to the timely identification of these risks.

#### **Management statement**

The Executive Board is ultimately responsible for the management of the risks that are coupled with the Company's objectives and the reliability of the internal and external (financial) reporting. The Executive Board is also responsible for evaluating the effectiveness of the measures to prevent or mitigate these risks. By means of the measures described above the Executive Board has fulfilled its responsibilities in the year under review.

Taking into account the limitations that are inevitably inherent in any risk management and internal control system, and the possibilities for improving the system, the Company's internal management and control systems provide a reasonable degree of assurance that:

- the Executive Board will be informed, in good time, of the degree to which the Company's strategic, operational and financial objectives are being achieved;
- the internal and external (financial) reporting does not contain any material misstatement and that the management and control systems functioned properly during 2010;
- the Company has complied with the relevant legislation and regulations.

The phrase 'reasonable assurance' is understood to mean the level of assurance that would be provided by a Director acting with due care and attention under the given circumstances. However professional the systems mentioned above may be they can neither provide absolute assurance that the operational and financial objectives will be achieved, nor entirely prevent all misstatements, errors or contraventions of legislation and regulations.

All the procedures relating to the internal risk management and control systems and the resulting findings, recommendations and measures have been discussed with the Audit Committee, the Supervisory Board and the external auditor.





# Financial statements 2010

Royal FrieslandCampina N.V.

## Consolidated income statement

In millions of euros, unless stated otherwise

	Note	2010	2009
<b>Revenue</b>	(3)	8,972	8,160
Other operating income	(4)	20	27
<b>Operating income</b>		<b>8,992</b>	<b>8,187</b>
Cost of raw materials, consumables and goods for resale	(5)	- 5,779	- 5,089
Employee benefit expense	(6)	- 817	- 817
Depreciation and amortisation	(11) (12)	- 210	- 206
Other operating expenses	(7)	- 1,752	- 1,817
Operating expenses		<b>- 8,558</b>	<b>- 7,929</b>
<b>Operating profit</b>		<b>434</b>	<b>258</b>
Share of profit of joint ventures and associates		13	21
Finance income	(8)	40	15
Finance cost	(8)	- 109	- 74
<b>Profit before tax</b>		<b>378</b>	<b>220</b>
Income tax expense	(9)	- 93	- 38
<b>Profit for the year</b>		<b>285</b>	<b>182</b>
Profit attributable to:			
- providers of member bonds		29	40
- providers of perpetual notes		9	9
- shareholder of the company	(10)	192	87
- shareholder and other providers of capital of the company		230	136
- non-controlling interests		55	46
		<b>285</b>	<b>182</b>

## Consolidated statement of comprehensive income

In millions of euros, unless stated otherwise

	2010			2009		
	Attributable to shareholder of the company and other providers of capital	Non-controlling interests	Total	Attributable to shareholder of the company and other providers of capital	Non-controlling interests	Total
Profit for the year	230	55	285	136	46	182
Effective portion of cash flow hedges	15		15	- 2		- 2
Tax on perpetual notes and member bonds	7		7	7		7
Currency translation differences	30	7	37	- 8	- 2	- 10
Other comprehensive income	52	7	59	- 3	- 2	- 5
<b>Total comprehensive income</b>	<b>282</b>	<b>62</b>	<b>344</b>	133	44	177

## Consolidated statement of financial position

At 31 December, before appropriation of profit, in millions of euros, unless stated otherwise

	Note	2010	2009
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	(11)	1,495	1,463
Intangible assets	(12)	903	910
Deferred tax assets	(20)	233	193
Investment in joint ventures and associates	(13)	103	90
Pensions and other long-term employee benefits	(19)	61	43
Derivative financial instruments	(31)	12	
Other financial assets	(14)	58	55
		<b>2,865</b>	2,754
<b>Current assets</b>			
Inventories	(15)	1,005	817
Trade and other receivables	(16)	1,088	892
Income tax receivable		12	11
Derivative financial instruments	(31)	2	3
Receivable from affiliated companies		22	17
Cash and cash equivalents	(17)	292	272
		<b>2,421</b>	2,012
Assets held for sale	(18)	13	4
<b>Total assets</b>		<b>5,299</b>	4,770
<b>Equity and liabilities</b>			
<b>Group Equity</b>			
Issued capital		370	370
Share premium reserve		113	110
Perpetual notes		130	130
Member bonds		931	868
Cash flow hedge reserve		- 14	- 29
Currency translation reserve		- 29	- 59
Retained earnings		460	262
Equity attributable to shareholder of the company and other providers of capital		<b>1,961</b>	1,652
Non-controlling interests		110	97
<b>Group equity</b>		<b>2,071</b>	1,749
<b>Non-current liabilities</b>			
Pensions and other long-term employee benefits	(19)	263	221
Deferred tax liabilities	(20)	35	27
Provisions	(21)	45	53
Derivative financial instruments	(31)	38	67
Zuivelcoöperatie FrieslandCampina U.A. borrowing	(22)	290	290
Non-current interest-bearing borrowings	(23)	486	525
Other long-term debts	(24)	0	93
		<b>1,157</b>	1,276
<b>Current liabilities</b>			
Current borrowings	(25)	314	309
Trade and other payables	(26)	1,633	1,349
Income tax payable		82	49
Provisions	(21)	39	26
Derivative financial instruments	(31)	3	4
Payable to affiliated companies	(27)	0	8
		<b>2,071</b>	1,745
<b>Total equity and liabilities</b>		<b>5,299</b>	4,770

## Consolidated statement of cash flows

In millions of euros, unless stated otherwise

	Note	2010	2009
<b>Cash flows from operating activities</b>			
Profit before tax		378	220
Adjustments for:			
- Interest	(8)	44	51
- Depreciation and amortisation of property, plant and equipment and intangible assets		210	206
- Impairment of property, plant and equipment, intangible assets and assets held for sale		28	27
- Reversal of impairment of property, plant and equipment, intangible assets and assets held for sale		- 7	
- Share of profit of joint ventures and associates	(13)	- 13	- 21
- Put option costs	(8)	25	11
- Revaluation result of derivative financial instruments		1	4
- Addition member bonds		65	31
Total adjustments		<b>353</b>	309
Movements:			
- Movements in the measurement of securities	(14)	- 8	- 4
- Movements in inventories	(37)	- 171	141
- Movements in receivables	(37)	- 184	157
- Movements in liabilities	(37)	173	26
- Movements in pensions and other long-term employee benefits	(19)	20	19
- Movements in provisions	(21)	5	58
Total movements		<b>- 165</b>	397
Cash flow from operating activities		<b>566</b>	926
Dividend received	(13)	12	7
Income tax paid		- 91	- 97
Interest paid		- 60	- 58
Interest received		17	8
<b>Net cash from operating activities</b>		<b>444</b>	786
<b>Cash flows from investing activities</b>			
Investment in property, plant and equipment and intangible assets		- 261	- 231
Disposals of property, plant and equipment, intangible assets and assets held for sale		18	11
Transactions related to loans provided		4	- 10
Acquisitions	(33)		- 15
Disposals of business activities			39
<b>Net cash used in investing activities</b>		<b>- 239</b>	- 206
<b>Cash flows from financing activities</b>			
Disposal of non-controlling interests	(37)	17	
Dividends paid to non-controlling interests		- 66	- 30
Amounts paid to providers of perpetual notes		- 9	- 9
Amounts paid to providers of member bonds		- 31	- 34
Non-current interest-bearing borrowings drawn	(23)	218	390
Repayment of interest-bearing borrowings		- 270	- 795
Paid to holder of put option		- 42	- 6
Repayment of derivative financial instruments		- 15	
<b>Net cash used in financing activities</b>		<b>- 198</b>	- 484
<b>Net cash flow</b>		<b>7</b>	96
Cash and cash equivalents at 1 January	(17)	272	180
Net cash flows		7	96
Translation differences in cash and cash equivalents		13	- 4
<b>Cash and cash equivalents at 31 December</b>	(17)	<b>292</b>	272

The comparable figures in the statement of cash flows differ in specification from the figures as presented in the 2009 financial statements. The adjustments listed below have been made to the comparable figures.

- The share in the result of joint ventures and associates and the dividends received are presented separately.
- The repayment of the loan from Zuivelcoöperatie FrieslandCampina U.A. and the related payment of capital into the share premium reserve by Zuivelcoöperatie FrieslandCampina U.A. are no longer presented separately.
- In the 2009 financial statements only the cash flow from interest paid is shown separately in the statement of cash flows. As of 2010 the interest income and expense are included in the adjustment of the profit before tax and interests paid and received are shown separately.
- In 2009 the addition to member bonds and the profit on the revaluation of derivative financial instruments were recognised in the cash flow from financing activities. As of 2010 they are recognised as adjustments to profit before tax in the cash flow from operating activities.
- In 2009 transactions related to loans granted to third parties were recognised in cash flow from financing activities. As of 2010 they are recognised in cash flow from investing activities.

## Consolidated statement of changes in equity

In millions of euros, unless stated otherwise

	2010									
	Issued capital	Share premium reserve	Perpetual notes	Member bonds	Cash flow hedge reserve	Currency translation reserve	Retained earnings <sup>1</sup>	Equity <sup>2</sup>	Non-controlling interests	Total
<b>At 1 January</b>	370	110	130	868	- 29	- 59	262	1,652	97	1,749
Comprehensive income:										
- profit for the year			9	29			192	230	55	285
- other comprehensive income					15	30	7	52	7	59
<b>Total comprehensive income</b>			9	29	15	30	199	282	62	344
Transactions with shareholder and other providers of capital:										
- dividends paid to non-controlling interests									- 66	- 66
- amounts paid to providers of perpetual notes			- 9					- 9		- 9
- amounts paid to providers of member bonds				- 31				- 31		- 31
- addition member bonds for the year				65				65		65
- capital contribution by Zuivelcoöperatie FrieslandCampina U.A.		3						3		3
- transactions with owners of non-controlling interests									17	17
- leaving premium to member dairy farmers Zuivelcoöperatie FrieslandCampina U.A.							- 1	- 1		- 1
<b>Total transactions with shareholder and other providers of capital</b>		3	- 9	34			- 1	27	- 49	- 22
<b>At 31 December</b>	370	113	130	931	-14	- 29	460	1,961	110	2,071

<sup>1</sup> Including the appropriation of profit of prior years and the undistributed profit for the year 2010.

<sup>2</sup> Equity attributable to shareholder of the company and other providers of capital.

2009

	Issued capital	Share premium reserve	Perpetual notes	Member bonds	Cash flow hedge reserve	Currency translation reserve	Retained earnings <sup>1</sup>	Equity <sup>2</sup>	Non-controlling interests	Total
<b>At 1 January</b>	370		130	799	- 27	- 51	174	1,395	85	1,480
Comprehensive income:										
- profit for the year			9	40			87	136	46	182
- other comprehensive income					- 2	- 8	7	- 3	- 2	- 5
<b>Total comprehensive income</b>			9	40	- 2	- 8	94	133	44	177
Transactions with shareholder and other providers of capital:										
- dividends paid to non-controlling interests									- 30	- 30
- amounts paid to providers of perpetual notes			- 9					- 9		- 9
- amounts paid to providers of member bonds				- 34				- 34		- 34
- addition member bonds for the year				31				31		31
- conversion of subordinated notes into member bonds				32				32		32
- capital contribution by Zuivelcoöperatie FrieslandCampina U.A.		110						110		110
- transactions with owners of non-controlling interests							- 6	- 6	- 2	- 8
<b>Total transactions with shareholder and other providers of capital</b>		110	- 9	29			- 6	124	- 32	92
<b>At 31 December</b>	370	110	130	868	- 29	- 59	262	1,652	97	1,749

<sup>1</sup> Including the appropriation of profit of prior years and the undistributed profit for the year 2009.

<sup>2</sup> Equity attributable to shareholder of the company and other providers of capital.

## Notes to the consolidated financial statements

In millions of euros, unless stated otherwise

### General and basis of consolidation

Royal FrieslandCampina N.V. has its registered office in Amersfoort, the Netherlands. The address is: Stationsplein 4, 3818 LE, Amersfoort, the Netherlands. The consolidated financial statements for the year ended 31 December 2010 comprise the financial statements of Royal FrieslandCampina N.V. and its subsidiaries (jointly referred to as FrieslandCampina).

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

FrieslandCampina processes over 10 billion kilograms of milk per year into a very varied range of nutritious, tasty and healthy food products for consumers. In the professional market, FrieslandCampina is a key supplier of dairy products to bakeries, restaurants and bars and fast-food chains. In addition, FrieslandCampina also supplies high-quality ingredients to producers of foodstuffs and pharmaceuticals.

FrieslandCampina N.V.'s consolidated financial statements as at 31 December 2010 will be authorised for publication by the Executive Board on 16 March 2011. On 26 April 2011 the financial statements will be submitted for approval to the Board of Zuivelcoöperatie FrieslandCampina U.A. in its role as the General Meeting of Shareholders of Royal FrieslandCampina N.V.

Subsidiaries are fully consolidated and all intra-group balances, transactions, income and expenses are eliminated in full. The financial statements of the subsidiaries are prepared for the same financial year as the parent company and using the same accounting policies. Subsidiaries are consolidated from the date on which FrieslandCampina obtains control, and continue to be consolidated until the date that control ceases. Non-controlling interests in subsidiaries are presented separately in the statement of financial position and the income statement. FrieslandCampina's interests in joint ventures are recognised as investments in joint ventures and associates.

### Accounting policies

#### General

The consolidated financial statements have been prepared in accordance with IFRS as endorsed by the European Union, and their interpretations as adopted by the International Accounting Standards Board (IASB).

Unless stated otherwise, the financial statements have been prepared on a historical cost basis, except for securities, derivative financial instruments and employee-related obligations arising from defined benefit plans, which have been measured at fair value.

### Effect of new and amended IFRS standards

The accounting policies applied in 2010 are consistent with those of the previous financial year. Where applicable, changes and future changes in disclosures as a result of new and/or amended standards and interpretations have been incorporated in the 2010 financial statements. The company has applied the following new or amended IFRS and IFRIC interpretations:

- IAS 27 Consolidated and Separate Financial Statements;
- IAS 39 Financial Instruments: Recognition and Measurement;
- IFRS 2 Share-based payment - Group Cash-settled share-based Payment Transactions;
- IFRS 3 Business Combinations;
- IFRIC 17 Distribution of Non-cash Assets to Owners;
- IFRIC 18 Transfers of Assets from Customers;
- Improvements to IFRSs (April 2009) and (May 2008).

The application of IAS 27 and IFRIC 3 could, in the future, have a material effect on the financial statements. Because no transactions of a material character took place in 2010, these changes have had no effect on the 2010 financial statements of FrieslandCampina. The other new or amended IFRS and IFRIC interpretations do not affect the company.

#### IAS 27 Consolidated and Separate Financial Statements

The revised standard requires that changes in the participation in a subsidiary that do not result in a loss of control are recognised as transactions with equity holders within equity. If changes result in the loss of control any remaining non-controlling interest in the former subsidiary is valued at fair value with the profit or loss recognised in the income statement.

The revision of IAS 27 has been implemented by FrieslandCampina since 1 January 2010 and, in combination with the revised IFRS 3, is expected to affect the result in the case of transactions of a material nature with holders of non-controlling interests in the future. This did not occur in 2010.

#### IFRS 3 Business Combinations

This revised standard has resulted in a number of major changes, such as the calculation of consideration transferred related to an acquisition: this must be recognised at fair value on the acquisition date, with conditional payments recognised as debt, with valuation changes through the income statement. In addition, acquired parties' non-controlling interests may be valued against either the proportional portion of the non-controlling interest in the net assets or at fair value. The acquisition costs must be recognised in the income statement. During 2010 no significant acquisitions took place and this revision did not have any effect on the financial statements of FrieslandCampina.

### Future changes

The IASB regularly publishes new standards, revisions to existing standards and interpretations. These new standards, revisions to existing standards and interpretations then have to be endorsed by the European Union. The following new standards, revisions to existing standards and interpretations published by the IASB will apply from 1 January 2011 or later:

- IFRS 9 Financial Instruments: Reassessment of Embedded Derivatives;
- IAS 24 Related Party Disclosures;
- IAS 32 Financial Instruments: classification of right issues;
- IFRIC 13 Customer Loyalty Programmes;
- IFRIC 14 The Limit on a Defined Benefits Asset, Minimum Funding Requirements and their interaction;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments;
- annual improvements to IFRSs (May 2010).

These new standards, revisions to existing standards and interpretations are not expected to have any impact on equity and the result but could lead to amendments to the Notes to the financial statements.

### Judgements, estimates and assumptions

In preparing the financial statements, management used judgements, estimates and assumptions based on historical experience and various other factors which it believed to be reasonable, under the circumstances, for the purpose of making judgements about the carrying values of assets and liabilities. The actual results may differ from management's estimates. When making these judgements and estimates, FrieslandCampina partly relied on the opinions and recommendations of internal and external experts. The judgements, estimates and assumptions for various items (including intangible assets and pensions and other long-term employee benefits) are explained more fully below. Please see the Notes to the financial statements for further information on the recognition of these items in the financial statements.

### Foreign currency translation

The consolidated financial statements are presented in euros, which is FrieslandCampina's functional currency. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates at the balance sheet date. Income and expenses denominated in foreign currencies are translated at the exchange rate at the date of the transaction. All differences are recognised through the income statement with the exception of differences in foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognised directly in equity until the disposal of the net investment, at which time they are recognised through the income statement.

Non-monetary items that are valued at historical cost in foreign currencies are translated at the exchange rates at the date of the initial transaction.

Non-monetary items valued at fair value in foreign currencies are translated using the exchange rates at the date on which the fair value was determined.

Assets and liabilities of foreign subsidiaries are translated at the exchange rates on the balance sheet date; their income and expenses are translated at the exchange rates on the date of the transaction. Translation differences on the profit of the foreign subsidiaries arising from differences between the average exchange rate and the year-end exchange rate are recognised directly in group equity. Similarly, differences in the currency translation of the equity of foreign subsidiaries and related to receivables from and payables to subsidiaries that qualify as net investments in a foreign operation and where settlement is not expected in the near future are also recognised in group equity.

Translation differences relating to foreign subsidiaries are recognised in the currency translation reserve in group equity. When a foreign subsidiary is sold, the cumulative gain or loss previously recognised in equity for that subsidiary is recognised through the income statement.

### Segment information

The identified operating segments are the separate segments within FrieslandCampina for which financial information is available that is frequently evaluated by the highest decision-making body (Executive Board) in order to come to decisions regarding the attributing of the available means to the segment and to determine the performance of the segment. FrieslandCampina has divided the operating segments into business units: Consumer Products Europe, Consumer Products International, Cheese & Butter and Ingredients. FrieslandCampina charges sales between segments on an arm's length basis. Secondary information is reported by geographical area based on the location of the assets. Segment assets and liabilities disclose the situation at year end. Eliminations show inter-segment balances.

### Revenue recognition

Costs are determined with due observance of the accounting policies related to the valuation of assets and liabilities. Revenue is recognised to the extent that, and in the year in which, the economic benefits will accrue to FrieslandCampina and the revenue can be reliably measured. Losses are accounted for in the year in which they are foreseen.

### Revenue

This relates to the sale of goods to customers, excluding VAT or sales taxes, less any discounts and suchlike. Export and other sales-related subsidies are recognised as revenue when they form part of transactions arising from ordinary activities. Sales are recognised at the moment the significant risks and rewards of ownership of the goods have been transferred to the buyer.

FrieslandCampina has customer loyalty programmes in place in which customers can earn points when they purchase certain products from the company. When a minimum number of points has been earned, they can be exchanged for discounts on third-party goods or services. The proceeds are allocated to the

products sold and the points granted, with the value attributed to the points being their fair value. Recognition of the fair value of the points granted is deferred and the fair value is recognised as revenue when points are redeemed.

#### **Government grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all related conditions will be complied with. When a grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When a grant relates to an asset, it is deducted from the carrying amount of the asset and is released to the income statement over the expected useful life of the relevant asset through the lower depreciation charge.

#### **Cost of raw materials, consumables and goods for resale**

This item represents the cost of raw materials and consumables or the purchase price of products sold. The cost of raw materials and consumables is calculated on a first-in, first-out basis. These costs include translation gains and losses on trade receivables and trade payables and changes in the value of derivative financial instruments relating to them.

#### **Finance income and cost**

Finance income comprises interest received on loans to, and other interest-bearing receivables from, third parties. Finance cost comprise interest paid on borrowings and other interest-bearing borrowings from third parties. Currency translation gains and losses on financial assets and liabilities, as well as differences in the value of derivative financial instruments, except those relating to trade receivables and trade payables, are included in the item 'other'.

#### **Dividends**

Dividends distributed by Royal FrieslandCampina N.V. are treated as an appropriation of profit in the year in which they are approved by the General Meeting of Shareholders and are subsequently distributed. Other dividends are carried as liabilities in the period in which they are declared.

#### **Property, plant and equipment**

Property, plant and equipment are stated at the lower of cost, net of depreciation on a straight-line basis over the estimated useful lives of the assets, taking into account any residual value, excluding the costs of day-to-day servicing, and recoverable amount. Cost is stated net of investment grants where applicable. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met. Financing costs that are directly attributable to the acquisition, construction or manufacture of eligible assets are capitalised.

Property, plant and equipment also include assets of which FrieslandCampina has acquired beneficial ownership under finance lease agreements.

Leased assets are capitalised at the inception of the lease at the lower of fair value of the leased property and the present value of the minimum lease payments. Capitalised leased assets are depreciated over the estimated useful life of the asset or valued at the lower recoverable amount.

Annual depreciation is calculated at a fixed percentage of cost. Land is not depreciated. The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If there is an indication that the carrying amount of a cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The recoverable amount of property, plant and equipment is based on the higher of an asset's fair value less costs to sell and its value in use. In value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not independently generate cash inflows, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

Impairment losses are recognised through the income statement. If an item of property, plant and equipment has been impaired, at the end of the following reporting period there is an assessment of whether the events and circumstance that led to impairment no longer exist or have changed sufficiently that all or part of the impairment can be reversed. Reversal may not increase the carrying value to above the carrying value that would have been reached (net of depreciation) had the impairment not been recognised. Reversals are recognised through the income statement.

An asset's residual value and useful life are reviewed, and if appropriate adjusted, at the end of each financial year. An item of property, plant and equipment is no longer recognised in the statement of financial position when it is disposed of or when no future economic benefits are expected from its use or disposal. Any gain or loss is included in the income statement in the year the asset is no longer recognised.

#### **Intangible assets**

Intangible assets are separately identifiable, non-financial assets that have no physical substance, for example goodwill and computer software.

Goodwill resulting from an acquisition is capitalised. Goodwill is calculated as the difference between the purchase price and the fair value of the assets, liabilities and contingent liabilities of the acquired operating activities. On the date of acquisition the goodwill is attributed to every cash-generating unit that is expected to benefit from the synergies of the combination.

Goodwill is not systematically amortised. Goodwill is reviewed for impairment annually. For the purpose of impairment testing, goodwill resulting from a business combination is allocated from the acquisition date to each of FrieslandCampina's cash-generating units, or groups of cash-generating units, that are expected to

benefit from the synergies of the combination, irrespective of whether other assets or liabilities of FrieslandCampina are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within FrieslandCampina at which goodwill is monitored for internal management purposes; and
- is not larger than a business group segment determined in accordance with IFRS 8 Operating segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill relates. An impairment loss is recognised if the recoverable amount of the cash-generating unit is lower than the carrying amount. In assessing the recoverable amount, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash-generating unit.

An impairment loss is recognised through the income statement if the recoverable amount of the cash-generating unit is lower than the carrying amount.

If the goodwill forms part of a cash-generating unit and part of the operating activities within that unit is disposed of, the goodwill associated with the disposed of operating activities is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed of operating activities and the portion of the cash-generating unit retained.

If shares are acquired from holders of non-controlling interests, the difference between the consideration and the carrying amount of the non-controlling interest is recognised directly in equity.

The useful lives of intangible assets other than goodwill are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the asset may be impaired.

The amortisation period and method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Computer software is recognised at cost less amortisation over the useful life of the asset, taking into account any impairment losses. The asset's residual value and useful life are reviewed and adjusted if appropriate, at the end of each financial year. An impairment loss is recognised where the recoverable amount of computer software is lower than the carrying amount.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally-generated intangible assets, excluding capitalised development costs, are not capitalised and the expenditure is recognised through the income statement in the year in which it is incurred.

Licences and intellectual property, including patents and trademarks, obtained from third parties are capitalised at cost.

Research costs are expensed as incurred. An intangible asset arising from development expenditure related to an individual project is only recognised if FrieslandCampina can demonstrate:

- the technical feasibility of completing the intangible asset;
- it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to measure reliably the expenditure during the development.

Following the initial recognition of the development expenditure, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Any capitalised expenditure is amortised over the period of expected future sales from the related project. The carrying value of development costs is reviewed for impairment annually if the asset is not yet in use or if an indication of impairment arises during the year under review.

If an intangible asset other than goodwill has been impaired, at the end of the following reporting period there is an assessment of whether the events and circumstances that led to impairment no longer exist or have changed sufficiently that all or part of the impairment can be reversed. Reversal may not increase the carrying value to above the carrying value that would have been reached (net of amortisation) had the impairment not been applied. Reversals are recognised through the income statement.

### Income tax

Tax assets and liabilities for current and previous years are valued at the amount that is expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted at the balance sheet date.

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 affects neither accounting nor 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 reversed in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income 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.

Deferred income tax assets and liabilities are valued at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Income tax relating to items recognised directly in equity is recognised directly in equity and not through the income statement.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied on the taxable entity by the same taxation authority.

### Investments in joint ventures and associates

FrieslandCampina recognises its interests in joint ventures using the equity method. Unconsolidated associates are accounted for using the equity method of accounting. An associate is an entity for which FrieslandCampina has significant influence rather than control of its financial and commercial policies.

### Other financial assets

Other financial assets are valued at the amortised cost, taking into account any provision deemed necessary to cover the risk of doubtful debts. Securities are valued at fair value. In this context listed securities are valued at the market value applicable at the balance sheet date. Unlisted securities whose value cannot be reliably determined are carried at the lower of cost and market value.

### Inventories

Raw materials and consumables are valued at the lower of cost on a first-in, first-out basis or the net recoverable amount. Finished goods are valued at the lower of the integrated manufacturing cost and the net recoverable amount. The integrated manufacturing cost comprises the cost of direct materials and other production costs based on normal operating capacity. The net recoverable amount is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. Inventories are stated net of unrealised gains on transactions between group companies.

### Trade and other receivables

Trade and other receivables are valued at the amortised cost less a provision for doubtful debts. Such a provision is formed if there is objective evidence that FrieslandCampina will not be able to collect the debts. Doubtful debts are written off when they are deemed to be uncollectable.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits and are valued at fair value.

### 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.

#### Other financial instruments

Other financial instruments are classified as equity if the instruments do not have a maturity date and the Company can defer the interest payments.

### Pensions and other long-term employee benefits

The pension plans are defined benefit and defined contribution plans. Obligations in respect of contributions towards defined contribution plans are recognised as an expense in the income statement when they fall due. The pension obligations in respect of defined benefit plans are calculated annually on the basis of expected future developments in discount rates, salaries and life expectancy. The present value of the obligations is calculated actuarially using the projected unit credit method. The present value of the obligations less the fair value of the plan assets, taking into account unrecognised actuarial results and unrecognised past-service costs, is recognised as the pension obligation or as a pension asset under non-current financial assets. 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.

Actuarial gains and losses resulting from changes in assumptions for calculating the pension obligations or differences between the expected and actual return on plan assets are determined separately for each plan and recognised through the income statement over the expected average remaining service period. This only applies if and to the extent that the actuarial gains or losses exceed 10 percent of the higher of the pension obligations and the fair value of the plan assets at the beginning of the financial year.

If the calculation of the net pension obligations results in a positive balance, the asset recognised is limited to the sum of any unrecognised actuarial losses and past-service costs and the present value of any future repayments by the fund or lower future pension contributions. If plan benefits are changed on the basis of a regulation, the portion of the changed benefits relating to past service is recognised in the income statement on a straight-line basis and over the average period until the benefits become unconditional. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

The net obligation for other deferred employee remuneration is recognised in the same way as for defined benefit plans, except for the actuarial gains and losses which are recognised immediately in the income statement.

FrieslandCampina has insured certain pension obligations with industry-wide pension funds in the Netherlands. Although these plans have the characteristics of defined benefit plans, the funds have stated that they are unable to provide the information necessary for the calculations and so these plans are treated as defined contribution plans in the financial statements.

### Provisions

Provisions are recognised when FrieslandCampina has a present obligation (legal or constructive) as a result of a past event, it is probable that settling the obligation will require an outflow of resources and a reliable estimate of the necessary outflow can be made. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects, if necessary, the risks specific to the liability.

Provisions for restructuring are formed when FrieslandCampina has formalised a detailed formal plan for the restructuring and has started to implement the restructuring plan or has raised a valid expectation in those affected that it will carry out the restructuring by announcing its main features to those affected by it.

If it is expected that all or part of a provision will be reimbursed, for example as a consequence of an insurance policy, the reimbursement is recognised as a separate asset. The charges associated with a provision, less any reimbursement, are recognised through the income statement.

### Non-current interest-bearing borrowings

Non-current borrowings are initially valued at the fair value of the consideration received, less directly attributable transaction costs. Subsequently, non-current borrowings are valued at amortised cost using the effective interest method.

When calculating the amortised cost, all costs and, if applicable, any premiums or discounts related to the issue of the borrowing are taken into account.

If hedge accounting is used for derivative financial instruments to hedge the fair value of non-current interest-bearing borrowings, the liability in question is valued at amortised cost adjusted for the value of the effective portion of the derivative financial instrument.

### Lease obligations

Financial leases are recognised at the present value of the lease payments. Lease payments are divided into finance charges and the reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised directly in the income statement. The amounts for the reduction of the outstanding liability due in the next financial year are recognised as current liabilities. Issue costs, if any, are deducted from the payments qualifying as non-current liabilities and recognised as an expense in the income statement on a straight-line basis over the lease term.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that FrieslandCampina will obtain ownership at the end of the lease term.

Leases which are not regarded as finance leases are recognised as operating leases. Operating lease payments are recognised as an expense in the income statement in the year to which they relate.

### Financial assets and liabilities no longer recognised in the statement of financial position

If FrieslandCampina has transferred all (future) economic benefits and risks relating to a financial asset to a third party and is no longer actively involved with the asset the asset ceases to be recognised in the statement of financial position. A financial liability is no longer recognised when the performance related to the liability has been fulfilled (or if the liability has been terminated or has lapsed). If an existing financial liability is replaced by another from the same lender on substantially the same terms and conditions, or if the terms and conditions of an existing liability are considerably altered, such replacement or alteration is dealt with by ceasing to recognise the original liability and recognising a new liability. The gain or loss on the carrying amounts is recognised through the income statement.

### Derivative financial instruments

FrieslandCampina uses derivative financial instruments such as forward currency contracts, interest rate swaps and forward rate agreements (FRAs) to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are recognised at fair value in the statement of financial position.

IFRS 7 uses a hierarchy of levels for fair value:

- level 1: Fair value measured using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2: Fair value measured using inputs other than those in level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices);
- level 3: Fair value measured using inputs that are not based on observable market data.

The fair value of the financial instruments recognised at fair value in the financial statements are classified as level 2 in conformance with the fair value hierarchy stated in IFRS 7 as described above.

Where applicable further information regarding the accounting policies for measuring the fair value are disclosed in the section of these notes relating specifically to the assets or liabilities concerned. The fair value of forward currency contracts is determined by comparison with the current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by referring to market values for similar instruments or by calculating their present value based on current market information.

For the purposes of hedge accounting, hedges are classified as fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or contractual obligation. They are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or to a currency risk associated with a contractual obligation denominated in a foreign currency, or to a forecast transaction.

For fair value hedges that qualify for hedge accounting, any changes in the fair value of the derivative financial instrument are recognised through the income statement. Changes to the value of the hedged item or hedged contractual obligation that can be attributed to the hedged risk are recognised as adjustments to the carrying value of the hedged asset or liability or contractual obligation and added to or deducted from the income statement. Any adjustment to the carrying amount of a hedged financial instrument stated at amortised cost for which the effective interest method is used is amortised through the income statement.

Gains or losses from hedges of investments in foreign operations are recognised directly in equity.

With regard to cash flow hedges that qualify for hedge accounting, the effective portion of the gain or loss on the derivative financial instrument is recognised directly in equity, while the ineffective portion is recognised through the income statement.

Any accumulated changes in the value of a hedged financial instrument recognised in equity are subsequently transferred to the income statement in the same period as the period in which the hedged future cash flows, forecast future transaction or contractual obligation affect the income statement, such as when a forecast sale actually takes place. If, however, a hedged forecast future transaction subsequently results in the recognition in the statement of financial position of a non-financial asset or liability, or an anticipated future transaction regarding a non-financial asset or liability is reclassified as a contractual obligation subject to fair value hedge accounting, any amounts recognised in equity are added to the original cost or other carrying amount of the asset or liability or of the contractual obligation.

Derivative financial instruments that do not qualify for hedge accounting are classified as financial assets and liabilities, measured at fair value through the income statement.

Hedge accounting is discontinued if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. Any accumulated changes in value of hedged financial instruments previously recognised in equity remain in equity until the forecast transaction occurs. If the hedged transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement for that period.

A hedging relationship qualifies for hedge accounting if there is formal documentation of the hedging relationship and if the hedge is determined actually to have been effective throughout the financial reporting periods for which the hedge was designated.

**Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the company's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property, which continue to be measured in accordance with the company's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised through the income statement. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

**Cash flows**

The statement of cash flows shows the cash flow generated by FrieslandCampina, translated into euros where applicable. Cash flows denominated in foreign currencies are translated into euros at the exchange rates prevailing on the transaction date. The statement of cash flows was prepared using the indirect method.

## 1 Segmentation

	2010					
	Consumer Products Europe	Consumer Products International	Cheese & Butter	Ingredients	Eliminations and Corporate & Support	Total
<b>Segmentation by business groups</b>						
<b>Sales to external customers</b>	2,839	2,276	2,229	1,373	255	8,972
Inter-segment sales	430	1	126	689	- 1,246	
Total revenue	3,269	2,277	2,355	2,062	- 991	8,972
Other operating income	8	4	2	1	5	20
Total operating income	3,277	2,281	2,357	2,063	- 986	8,992
<b>Operating profit</b>	126	356	- 63	99	- 84	434
Share of profit of joint ventures and associates	1	6	3	3		13
Finance income and cost					- 69	- 69
Income tax expense					- 93	- 93
<b>Profit for the year</b>						285
Operating profit as a % of revenue	3.9	15.6	- 2.7	4.8		4.8
Carrying amounts of assets employed in operating activities <sup>1</sup>	1,859	653	927	1,063	64	4,566
Carrying amounts of other assets						733
						5,299
Liabilities resulting from operating activities <sup>2</sup>	611	424	305	413	268	2,021
Other liabilities						1,207
						3,228
Investments in property, plant, equipment and intangible assets	67	48	50	76	20	261
Depreciation and amortisation of property, plant, equipment and intangible assets	- 84	- 26	- 44	- 49	- 7	- 210
Impairment and reversal of impairment of property, plant and equipment, intangible assets and assets held for sale	2	- 5	- 11	- 1	- 6	- 21
Additions to and releases from provisions and non-cash expense pension costs	13	3	- 4	4	79	95
Investments in joint ventures and associates	3	66	15	13	6	103

	2010						
	The Netherlands	Germany	Rest of Europe	Asia	Other	Eliminations	Total
<b>Segmentation by geographical location of assets</b>							
Sales to external customers <sup>3</sup>	4,507	989	1,382	1,486	608		8,972
Carrying amount of assets employed in operating activities <sup>1</sup>	2,787	536	797	490	223	- 267	4,566
Investments in property, plant, equipment and intangible assets	165	20	24	39	13		261
Depreciation, amortisation and impairment and reversal of impairment of property, plant, equipment, intangible assets and assets held for sale	- 137	- 31	- 29	- 27	- 7		- 231

'Other' relates mainly to West Africa, the Middle East and the United States of America.

<sup>1</sup> Excluding deferred tax assets, investments in joint ventures and affiliated companies, other financial assets, income tax receivables, receivables from affiliated companies, cash and cash equivalents and assets held for sale.

<sup>2</sup> Pensions and other long-term employee benefits, provisions, trade and other payables and derivative financial instruments.

<sup>3</sup> Please see page 92 for a breakdown of revenue according to the customer's geographical location.

	2009					
	Consumer Products Europe	Consumer Products International	Cheese & Butter	Ingredients	Eliminations and Corporate & Support	Total
<b>Segmentation by business group</b>						
<b>Sales to external customers</b>	2,852	1,889	2,099	1,149	171	8,160
Inter-segment sales	370	4	96	356	- 826	
Total revenue	3,222	1,893	2,195	1,505	- 655	8,160
Other operating income	8	4	1	2	12	27
Total operating income	3,230	1,897	2,196	1,507	- 643	8,187
<b>Operating profit</b>	170	290	- 98	- 20	- 84	258
Share of profit of joint ventures and associates	3	5	3	2	8	21
Finance income and cost					- 59	- 59
Income tax expense					- 38	- 38
<b>Profit for the year</b>						182
Operating profit as a % of revenue	5.3	15.3	- 4.5	- 1.3		3.2
Carrying amounts of assets employed in operating activities <sup>1</sup>	1,856	490	853	919	10	4,128
Carrying amounts of other assets						642
						4,770
Liabilities resulting from operating activities <sup>2</sup>	664	310	341	249	156	1,720
Other liabilities						1,301
						3,021
Investments in property, plant, equipment and intangible assets	71	47	37	74	7	236
Depreciation and amortisation of property, plant, equipment and intangible assets	- 86	- 21	- 46	- 46	- 7	- 206
Impairment of property, plant and equipment, intangible assets and assets held for sale	- 16		- 10	- 1		- 27
Additions to and releases from provisions and non-cash expense pension costs	51	11	18	2	57	139
Investments in joint ventures and associates	4	56	12	8	10	90

	2009						
	The Netherlands	Germany	Rest of Europe	Asia	Other	Eliminations	Total
<b>Segmentation by geographical location of assets</b>							
Sales to external customers <sup>3</sup>	4,156	945	1,352	1,194	513		8,160
Carrying amount of assets employed in operating activities <sup>1</sup>	2,524	566	791	377	163	- 293	4,128
Investments in property, plant, equipment and intangible assets	127	27	32	36	14		236
Depreciation, amortisation and impairment of property, plant, equipment, intangible assets and assets held for sale	- 125	- 45	- 38	- 20	- 5		- 233

'Other' mainly relates to West Africa and the Middle East.

<sup>1</sup> Excluding deferred tax assets, investments in joint ventures and affiliated companies, other financial assets, income tax receivables, receivables from affiliated companies, cash and cash equivalents and assets held for sale.

<sup>2</sup> Pensions and other long-term employee benefits, provisions, trade and other payables and derivative financial instruments.

<sup>3</sup> Please see page 92 for a breakdown of revenue according to the customer's geographical location.

## 2 Exchange rates

	2010		2009	
	At year-end	Average	At year-end	Average
<b>Principal exchange rates</b>				
US dollar	1.34	1.32	1.43	1.39
Australian dollar	1.31	1.45	1.60	1.78
Pound sterling	0.86	0.86	0.89	0.89
Hungarian forint (100)	2.78	2.76	2.71	2.81
Hong Kong dollar	10.39	10.29	11.10	10.81
Indonesian rupiah (10,000)	1.20	1.21	1.35	1.45
Malaysian ringgit	4.13	4.28	4.90	4.90
Nigerian naira (100)	2.03	2.00	2.14	2.08
Romanian leu	4.24	4.22	4.24	4.23
Russian rouble (1,000)	4.09	4.04	4.34	4.43
Thai baht (100)	0.40	0.42	0.48	0.48
Vietnamese dong (10,000)	2.61	2.54	2.65	2.49

The exchange rate of 1 euro is expressed in the currency listed.

## 3 Revenue

	2010		2009	
		%		%
<b>Revenue by geographical sales market</b>				
The Netherlands	2,291	26	2,248	28
Germany	1,287	14	1,206	15
Rest of Europe	2,380	27	2,209	27
Asia and Australia	1,781	20	1,425	17
Africa and the Middle East	945	10	840	10
North and South America	288	3	232	3
	<b>8,972</b>	<b>100</b>	8,160	100

Differences between the breakdown of sales to external customers by geographical location of the assets as presented in Note 1 and the breakdown in Note 3 arise from the classification according to the area where the sales were generated.

Revenue includes EUR 10 million (2009: EUR 40 million) of government grants (temporary export grants were issued in 2009) relating principally to cheese, butter and milk powder exports, and to butter processing. The conditions for these grants have been met and the related obligations have been fulfilled.

## 4 Other operating income

Other operating income includes proceeds from services provided to external customers, rental income and the sale of property, plant and equipment and business activities.

During the financial year the sale of business activities did not generate any book profit (2009: EUR 3 million). These transactions involved a net amount of EUR 17 million (2009: EUR 25 million) in assets and liabilities.

## 5 Cost of raw materials, consumables and goods for resale

	2010		2009	
		%		%
Milk from member dairy farmers	- 3,054	53	- 2,380	47
Cost of other raw materials, consumables and goods for resale	- 2,725	47	- 2,709	53
	<b>- 5,779</b>	<b>100</b>	- 5,089	100

## 6 Employee benefits expense

	2010		2009	
		%		%
Wages and salaries	- 627	77	- 625	76
Social security charges	- 109	13	- 105	13
Pension costs	- 81	10	- 87	11
	<b>- 817</b>	<b>100</b>	- 817	100

### Employees by business group (average number of FTEs)

Consumer Products Europe	8,008	41	8,455	43
Consumer Products International	5,938	30	5,855	29
Cheese & Butter	2,372	12	2,572	13
Ingredients	2,505	13	2,454	12
Other	661	4	698	3
	<b>19,484</b>	<b>100</b>	20,034	100

### Employees by geographical region (average number of FTEs)

The Netherlands	6,649	34	7,103	35
Germany	2,216	11	2,208	11
Rest of Europe	4,458	23	4,659	24
Asia	5,024	26	4,975	25
Other	1,137	6	1,089	5
	<b>19,484</b>	<b>100</b>	20,034	100

## 7 Other operating expenses

	2010	2009
Transport	- 404	- 397
Advertising and promotions	- 395	- 352
Work contracted out and temporary staff	- 250	- 245
Utilities	- 192	- 218
Maintenance and repairs	- 137	- 136
Other	- 374	- 469
	<b>- 1,752</b>	- 1,817

The other expenses are lower than in the preceding year due to lower merger costs and include:

- research and development expense of EUR 61 million (2009: EUR 55 million);
- leasing charges qualifying as operational lease payments amounting to EUR 16 million (2009: EUR 16 million);
- various government grants amounting to EUR 5 million (2009: EUR 7 million). The conditions for these grants have been met and the related obligations fulfilled;
- impairment of property, plant and equipment and software amounting to EUR 28 million (2009: EUR 27 million) and income in respect of the reversal of impairment of property, plant and equipment and assets held for sale amounting to EUR 7 million (2009: nil);
- audit fees amounting to EUR 2.9 million (2009: EUR 3.4 million).

	2010	2009
<b>Specification audit fees</b>	<b>Total KPMG network</b>	<b>Total KPMG network</b>
Audit of the financial statements	- 2.0	- 1.8
Other audit engagements	- 0.3	- 0.3
Tax consultancy	- 0.3	- 0.5
Other non-audit-related services	- 0.3	- 0.8
	<b>- 2.9</b>	- 3.4

## 8 Finance income and cost

	2010	2009
Interest income	27	8
Interest expense	- 71	- 59
Put option cost	- 25	- 11
Other finance income	13	7
Other finance cost	- 13	- 4
	<b>- 69</b>	- 59

Interest expenses includes EUR 8 million (2009: EUR 10 million) resulting from financing by Zuivelcoöperatie FrieslandCampina U.A. of Royal FrieslandCampina N.V.

Other finance income includes EUR 9 million (2009: EUR 4 million) in income from securities. Other finance cost includes amortisation of transaction costs of EUR 4 million (2009: EUR 1 million) and EUR 6 million (2009: nil) arising from the lowering of the discount rate for provisions.

## 9 Income tax expense

	2010		2009	
<b>Breakdown of tax expense</b>				
Current tax expense, current financial year		- 127		- 123
Deferred tax expense		34		85
		<b>- 93</b>		- 38
<b>Effective tax rate</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Theoretical tax rate in the Netherlands	96	25.5	56	25.5
Effect of different tax rates in other countries	5	1.2	7	3.2
Effect of change in tax rate	- 9	- 2.4	- 5	- 2.3
Share of result of joint ventures and associates	- 4	- 1.0	- 3	- 1.4
Withholding tax on dividends	8	2.1	4	1.8
Non-deductible expenses	7	1.8	17	7.7
Tax exempt income	- 8	- 2.1	- 13	- 5.9
Recognition of tax losses	- 6	- 1.6	- 29	- 13.2
Adjustments to estimates relating to prior years	3	0.8	1	0.5
Other non-deductible amounts	5	1.2		
Evaporation of losses and tax credits	4	1.0		
Tax credits employed	- 8	- 2.1		
Other			3	1.4
<b>Effective tax rate</b>	<b>93</b>	<b>24.4</b>	38	17.3

The theoretical tax rate is calculated by applying the tax rate in the Netherlands of 25.5% to the result before tax.

**10 Proposed appropriation of profit attributable the share holder of the company**

The Executive Board, with the approval of the Supervisory Board, has proposed that the entire profit attributable to the shareholder of the company will be added to the retained earnings.

**11 Property, plant and equipment**

	2010				
	Land and buildings	Plant and equipment	Other non-current assets	Not employed in business operations	Total
Carrying amount at 1 January	464	913	72	14	1,463
Additions	49	175	27		251
Disposals	- 12	- 1	- 4	- 1	- 18
Currency translation differences	6	16	2		24
Transfers		2	- 1	- 1	
Transfer to assets held for sale	- 8				- 8
Depreciation	- 35	- 140	- 20		- 195
Impairment	- 2	- 18		- 7	- 27
Reversal of impairment	5				5
<b>Carrying amount at 31 December</b>	<b>467</b>	<b>947</b>	<b>76</b>	<b>5</b>	<b>1,495</b>
Cost	1,021	2,740	287	23	4,071
Accumulated depreciation and impairment	- 554	- 1,793	- 211	- 18	- 2,576
<b>Carrying amount at 31 December</b>	<b>467</b>	<b>947</b>	<b>76</b>	<b>5</b>	<b>1,495</b>
	2009				
	Land and buildings	Plant and equipment	Other non-current assets	Not employed in business operations	Total
Carrying amount at 1 January	468	915	73	15	1,471
Consolidation and deconsolidation	6	3			9
Additions	34	159	20	1	214
Disposals		- 7	- 1	- 2	- 10
Currency translation differences	- 1				- 1
Transfers	- 1	- 1			
Transfer to assets held for sale				2	
Depreciation	- 37	- 134	- 20	- 2	- 191
Impairment	- 5	- 22			- 27
<b>Carrying amount at 31 December</b>	<b>464</b>	<b>913</b>	<b>72</b>	<b>14</b>	<b>1,463</b>
Cost	1,004	2,727	273	43	4,047
Accumulated depreciation and impairment	- 540	- 1,814	- 201	- 29	- 2,584
<b>Carrying amount at 31 December</b>	<b>464</b>	<b>913</b>	<b>72</b>	<b>14</b>	<b>1,463</b>

The annual depreciation rates vary between 4% and 10% for buildings, between 5% and 20% for plant and equipment and between 5% and 33% for other non-current assets.

Impairment relates mainly to the downward revaluation of the appraised net recoverable amount of property, plant and equipment affected by proposed restructuring decisions. Impairment is classified as other operating expenses in the income statement.

The reversal of impairment relates to the sale of the assets of the production location in Elsterwerda in December 2010.

The carrying amount of buildings, plant and equipment for which financial lease agreements apply was EUR 17 million (2009: EUR 19 million). The carrying amount at 31 December included EUR 159 million (2009: EUR 119 million) non-current assets under construction.

At the end of the financial year FrieslandCampina was committed to investments in property, plant and equipment amounting to EUR 40 million (2009: EUR 25 million).

Additions include capitalised interest amounting to EUR 1 million (2009: EUR 1 million). The applicable interest rate is 4.3% (2009: 4.0%).

## 12 Intangible assets

	2010			
	Goodwill	Software	Other	Total
Carrying amount at 1 January	839	39	32	910
Additions		10		10
Currency translation differences	- 5			- 5
Amortisation		- 12	- 3	- 15
Impairment		- 1		- 1
Change in value in connection with put option	4			4
<b>Carrying amount at 31 December</b>	<b>838</b>	<b>36</b>	<b>29</b>	<b>903</b>
Cost	1,067	128	42	1,237
Accumulated depreciation and impairment	- 229	- 92	- 13	- 334
<b>Carrying amount at 31 December</b>	<b>838</b>	<b>36</b>	<b>29</b>	<b>903</b>

	2009			
	Goodwill	Software	Other	Total
Carrying amount at 1 January	850	38	21	909
Consolidation and deconsolidation			4	4
Additions	5	13	4	22
Transfers	- 6		6	
Disposals	- 8			- 8
Currency translation differences	- 4			- 4
Amortisation		- 12	- 3	- 15
Change in value in connection with put option	2			2
<b>Carrying amount at 31 December</b>	<b>839</b>	<b>39</b>	<b>32</b>	<b>910</b>
Cost	1,067	142	46	1,255
Accumulated depreciation and impairment	- 228	- 103	- 14	- 345
<b>Carrying amount at 31 December</b>	<b>839</b>	<b>39</b>	<b>32</b>	<b>910</b>

The annual amortisation rates are 20% to 33% for software and 5% to 10% for other intangible assets.

See Note 24 for the change in value in connection with the put option.

The goodwill per business group is as follows:

	2010	2009
Consumer Products Europe	772	777
Cheese & Butter	4	4
Ingredients	62	58
	<b>838</b>	<b>839</b>

Goodwill and other intangible assets with indefinite useful lives are tested for the recoverable amount of each cash-generating unit or group of cash-generating units annually during the fourth quarter or at any other time if there is an impairment trigger. Goodwill is monitored and tested at the business group level (groups of cash-generating units).

The principle assumptions applied when calculating the business value per segment are:

Segment	%	%	%
	Revenue growth	Operating profit/revenue	Pre-tax discount rate
Consumer Products Europe	2 - 14	3 - 6	10 - 20
Cheese & Butter	2 - 6	3	11
Ingredients	2 - 4	11 - 12	12

Future revenue growth in revenue and gross margin are based on current experience, specific expectations for the near future and market-based growth rates. The discount rates are based on statements from financial advisers. The discount rates (pre-tax, in accordance with IAS 36.55) are set for each cash-generating unit and were 10.1% to 20.4% (2009: 9.9% to 17.0%).

The recoverable amounts of the groups of cash-generating units were determined on the basis of the 2011 budget and extrapolations for the subsequent four years. For the period after 2015, a growth rate has been used that is equal to expected long-term inflation rates of up to 2%.

The outcome of the impairment tests is that the recoverable amounts exceed the carrying amounts of the cash-generating units. In addition to the impairment test the principal assumptions were subject to sensitivity analyses, which led to the conclusion that no impairments would arise from reasonable possible changes to key assumptions.

### 13 Investments in joint ventures and associates

	2010	2009
Carrying amount at 1 January	90	79
Additions		3
Transfers to subsidiaries		- 5
Currency translation differences	12	- 1
Profit for the year	13	21
Dividends received	- 12	- 7
<b>Carrying amount at 31 December</b>	<b>103</b>	90
Financial data of joint ventures and associates:		
Share of profit	13	21
Share of revenue	69	136
Share in balance sheet:		
Non-current assets	80	73
Current assets	47	47
Equity	71	65
Non-current liabilities	25	22
Current liabilities	31	33

Please see the list of Principal subsidiaries, joint ventures and associates on pages 117 and 118 for the names of joint ventures and associates.

**14 Other financial assets**

	2010	2009
Loans	39	43
Securities	16	8
Long-term receivables	3	4
	<b>58</b>	55

Loans concerns a loan to the Great Ocean Ingredients Pty.Ltd. joint venture and loans to other third parties. The average interest rate on the loans at the end of 2010 was 5.7% (2009: 5.5%).

**15 Inventories**

	2010	2009
Raw materials and consumables	323	224
Finished goods and goods for resale	682	593
	<b>1,005</b>	817

Inventories of finished goods and goods for resale included EUR 158 million (2009: EUR 242 million) valued at lower market value. The total downward revaluation to market value of inventories of finished goods and goods for resale was EUR 15 million (2009: EUR 29 million).

**16 Trade and other receivables**

	2010	2009
Trade receivables	926	794
Provision for doubtful debts	- 17	- 19
Prepayments	21	26
Other receivables	64	41
	<b>994</b>	842
Receivables related to tax (excluding income tax) and social security contributions	94	50
	<b>1,088</b>	892

**Provision for doubtful debts**

At 1 January	- 19	- 18
Currency translation differences	- 1	
Charged to the income statement	- 8	- 7
Released to the income statement	2	2
Trade receivables written off	8	3
Recovered on written off trade receivables	1	1
<b>At 31 December</b>	<b>- 17</b>	- 19

**Payment term exceeded: trade and other receivables**

	Gross	Impairment	Net
Within payment term	900	- 4	<b>896</b>
Overdue by less than 3 months	97	- 2	<b>95</b>
Overdue by 3 and 6 months	4	- 1	<b>3</b>
Overdue by more than 6 months	10	- 10	
	<b>1,011</b>	<b>- 17</b>	<b>994</b>

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

In various countries FrieslandCampina has taken out credit insurance to mitigate the credit risk related to customers. At the end of 2010 this insured position amounted to EUR 380 million (2009: EUR 316 million).

## 17 Cash and cash equivalents

	2010	2009
Deposits	116	88
Other cash and cash equivalents	176	184
	<b>292</b>	<b>272</b>

Cash and cash equivalents up to an amount of EUR 2 million (2009: EUR 3 million) are not at FrieslandCampina's free disposal. These amounts are totally related to bank guarantees.

## 18 Assets and liabilities held for sale

Assets held for sale are property, plant and equipment of EUR 13 million (2009: EUR 3 million) and no current assets (2009: EUR 1 million). At the end of 2010 and 2009 no liabilities related to current and non-current liabilities were held for sale. These assets and liabilities are expected to be sold within one year.

The assets held for sale in 2010 included the facility in Oud Gastel, which is expected to be sold to a third party in early 2011. During 2010 three facilities in Cheese & Butter were classified as assets held for sale. These were the facilities in Drachten, Tilburg and Klerken.

	2010	2009
At 1 January	4	73
Consolidation and deconsolidation of property, plant and equipment		- 53
Consolidation and deconsolidation of other assets		- 4
Transfer of property, plant and equipment	8	2
Movements of current assets	- 1	1
Disposals		- 1
Reversal of impairment	2	- 14
<b>At 31 December</b>	<b>13</b>	<b>4</b>

## 19 Pensions and other long-term employee benefits

FrieslandCampina operates a number of defined benefit plans with obligations that relate primarily to the Dutch and German divisions. These plans are principally an indexed average salary plan. FrieslandCampina also has a number of defined contribution plans for its Dutch and foreign activities. The average salary plan for the Dutch employees is insured with a company pension fund and an insurance company. The plan insured with the insurance company has a profit-sharing agreement based on a segregated investment fund and has a required coverage ratio (the ratio of plan assets to the pension obligation calculated under the conditions of the insurance contract) of at least 115%.

At the end of 2010 the coverage ratio of the pension plan insured with the insurance company was 117% (2009: 117%) and thus fulfilled the contractual obligation towards the insurance company.

In 2009, additional pension entitlements were purchased for EUR 3 million in connection with the sale of business units. The tables below summarise the assumptions used in determining the present value and movements in the present value of the pension obligation and plan assets and the components of the net benefit expense recognised in the consolidated statement of financial position and consolidated income statement.

	2010	2009
<b>Assumptions</b>		
	%	%
Discount rate <sup>1</sup>	5.1 / 5.3	4.8 / 5.0
Age-related salary increases	0.0 - 1.5	0.0 - 1.4
Wage inflation	2.5	2.6
Price inflation	2.0	2.1
Indexation		
- active	2.5	2.6
- non-active and retired	0.0 - 2.0	0.0 - 2.1
Increase in contribution-free salary	2.0	2.1
	<b>AG forecast table 2010 - 2060</b>	Pensiontable 2006
	%	%
<b>Mortality tables</b>		
Expected rate of return on plan assets in the financial year <sup>1</sup>	5.5 / 5.7	5.4 / 5.7
Expected rate of return on plan assets in the following financial year <sup>1</sup>	4.6 / 5.1	5.5 / 5.7

In 2010 there was a switch to a different way of determining the current value. The new method more accurately reflects the market for high-quality bonds and takes into account in a correct way the mobility of the interest on loans with a longer term.

	2010	2009
<b>Breakdown of pension costs payable at 31 December</b>		
Present value of pension benefits	2,176	2,221
Fair value of plan assets	1,893	1,745
Deficit of cover	283	476
Unrecognised actuarial gains and losses at 31 December	- 67	- 283
Past-service costs not yet recognised	- 14	- 15
Pension costs payable	202	178
<b>Movement in the pension costs payable</b>		
At 1 January	178	161
Consolidation and deconsolidation	1	- 3
Pension costs of defined benefit plans	67	74
Contributions paid	- 47	- 55
Currency translation differences	3	1
Pension costs payable	202	178
Classified as non-current assets	61	43
<b>Classified as non-current liabilities</b>	263	221
<b>Present value of pension benefits</b>		
At 1 January	2,221	1,862
Consolidation and deconsolidation	1	- 3
Increase in present value of pension benefits	49	55
Interest	107	103
Benefits paid	- 78	- 75
Currency translation differences	3	1
Actuarial gains and losses	- 127	278
<b>At 31 December</b>	2,176	2,221
Funded pension benefits	1,977	2,031
Pension benefits not yet funded	199	190
<b>At 31 December</b>	2,176	2,221

<sup>1</sup> The percentages shown relate to the Dutch pensions mentioned above.

	2010	2009
<b>Movement in the fair value of plan assets</b>		
At 1 January	1,745	1,569
Expected return on plan assets	97	87
Contributions received from the employer	47	55
Benefits paid	- 78	- 75
Actuarial gains and losses	82	109
<b>At 31 December</b>	<b>1,893</b>	<b>1,745</b>
The actual income from investments in the financial year was EUR 179 million (2009: EUR 196 million).		
<b>Unrecognised actuarial gains and losses</b>		
At 1 January	- 283	- 115
Actuarial gain related to awarded pension benefits	127	- 278
Actuarial result from plan assets	82	109
Actuarial gains and losses	7	1
<b>At 31 December</b>	<b>- 67</b>	<b>- 283</b>
<b>Past-service costs not yet recognised</b>		
At 1 January	- 15	- 17
Amortisation	1	2
<b>At 31 December</b>	<b>- 14</b>	<b>- 15</b>
Pension costs recognised through the income statement		
Increase in present value of pension benefits	49	55
Interest	107	103
Expected return on plan assets	- 97	- 87
Amortisation of past-service costs	1	2
Actuarial gains and losses	7	1
Expense recognised in the income statement for IAS 19-based defined benefit plans	67	74
Pension costs for defined contribution plans and contributions to multi-employer pension plans	19	18
Employees' share in pension costs	- 5	- 5
<b>Pension costs recognised through the income statement</b>	<b>81</b>	<b>87</b>

The multi-employer plans are defined benefit plans. As the funds are unable to provide FrieslandCampina with the required information, the contributions towards these plans are recognised as being for defined contribution plans.

FrieslandCampina expects to contribute EUR 75 million towards its defined benefit plans in 2011 and EUR 1 million towards the multi-employer plans.

	2010	2009
<b>Principal investment categories, by percentage of fair market value of the total investment</b>		
	%	%
Equity securities	37	36
Fixed-income securities	59	58
Property	2	2
Other	2	4

The expected return on plan assets is based on the expected long-term return on the basis of the long-term investment strategy and the different investment categories. A long-term return is assumed for each long-term investment category taking into account the long-term risk of the investment, historical returns and market expectations. A weighted average expected long-term return is determined from the long-term return from each investment category and the strategic asset allocation.

	2010	2009	2008	2007
<b>Financial history</b>				
Present value of pension benefits	2,176	2,221	1,862	1,876
Fair value of plan assets	1,893	1,745	1,569	1,863
<b>Deficit of cover</b>	283	476	293	13

#### Actuarial gains and losses related to adjustments of assumptions or bases on experience

##### Obligation pension benefits

Actuarial gains and losses due to assumption changes	71	- 282	82	318
Actuarial gains and losses due to experience changes	56	4	21	19
<b>Total</b>	127	- 278	103	337

##### Plan assets

Actuarial gains and losses due to experience changes	82	109	- 405	- 63
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## 20 Deferred tax assets and liabilities

	2010						
<b>Assets and liabilities per type of temporary difference</b>	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, receivables, derivative financial instruments, liabilities and provisions	Unused tax losses and relief facilities	Other	Total
At 1 January	- 37	20	18	9	167	- 11	166
Recognised through the income statement	9	102	- 8	11	- 90	10	34
Recognised in equity				- 3			- 3
Currency translation differences	- 1	1		1			1
<b>At 31 December</b>	- 29	123	10	18	77	- 1	198

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

	Receivables	Liabilities	Net
Property, plant and equipment	5	34	- 29
Intangible assets	146	23	123
Employee benefits	24	14	10
Inventories, receivables, derivative financial instruments, debts and provisions	26	8	18
Unused tax losses and relief facilities	77		77
Other		1	- 1
Netting	- 45	- 45	
<b>Net deferred tax asset</b>	233	35	198

2009

<b>Assets and liabilities by type of temporary difference</b>	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, receivables, derivative financial instruments, debts and provisions	Unused tax losses and relief facilities	Other	Total
At 1 January	- 35	9	3	6	101	- 11	73
Recognised through the income statement	- 2	11	15	- 4	66	- 1	85
Recognised in equity				7			7
Currency translation differences						1	1
<b>At 31 December</b>	<b>- 37</b>	<b>20</b>	<b>18</b>	<b>9</b>	<b>167</b>	<b>- 11</b>	<b>166</b>

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

	Receivables	Liabilities	Net
Property, plant and equipment	3	40	- 37
Intangible assets	54	34	20
Employee benefits	26	8	18
Inventories, receivables, derivative financial instruments, debts and provisions	17	8	9
Unused tax losses and relief facilities	167		167
Other		11	- 11
Netting	- 74	- 74	
<b>Net deferred tax asset</b>	<b>193</b>	<b>27</b>	<b>166</b>

On the basis of long-term plans, FrieslandCampina expects to be able to offset unused tax losses and facilities against future profits.

At the end of 2010 unrecognised tax losses and facilities available for relief amounted to EUR 98 million (2009: EUR 102 million). These losses and facilities expire as follows: EUR 9 million within 5 years, EUR 22 million between 5 and 10 years and EUR 67 million after more than 10 years.

## 21 Provisions

2010

2009

	Restructuring	Other provisions	Total	Restructuring	Other provisions	Total
At 1 January	60	19	79	12	9	21
Additions charged to the income statement	14	30	44	61	16	77
Released to the income statement	- 12	- 6	- 18	- 9	- 3	- 12
Utilised	- 13	- 8	- 21	- 4	- 3	- 7
<b>At 31 December</b>	<b>49</b>	<b>35</b>	<b>84</b>	<b>60</b>	<b>19</b>	<b>79</b>
Non-current provisions	35	10	45	48	5	53
Current provisions	14	25	39	12	14	26
	<b>49</b>	<b>35</b>	<b>84</b>	<b>60</b>	<b>19</b>	<b>79</b>

### Restructuring provisions

The restructuring provision relates to the reorganisation of production and packaging facilities during the coming years. During 2010 part of the provision formed in 2009 was used. An additional provision was also formed for the cheese production facilities in Varsseveld and Marum in the Netherlands. At the end of 2010 the restructuring provision for Consumer Products Europe concerned primarily the Elsterwerda and Kalkar facilities in Germany and the Oud Gastel and Oldenzaal facilities and part of the Leeuwarden facility in the Netherlands. For Cheese and Butter, the reorganisation affects mainly the production facilities in Tilburg, Dronrijp and Varsseveld. In addition, the production site for butter oil and cream products in Klerken in Belgium will be closed.

The restructuring provision will result in future cash outflows.

**Other provisions**

These provisions are formed for obligations of which the extent or likelihood is uncertain at the balance sheet date. The timing of the outflow of resources for these provisions is uncertain. These provisions are stated at nominal value as their present value is not materially different. Non-current provisions are mainly medium-term in nature.

Other provisions included EUR 21 million (2009: EUR 11 million) for onerous contracts.

**22 Zuivelcoöperatie FrieslandCampina U.A. borrowings**

This subordinated borrowing is to finance the assets of Royal FrieslandCampina N.V. The average interest rate for this borrowing was 2.6% (2009: 3.1%). This loan matures at the end of 2014.

**23 Non-current interest-bearing borrowings**

	2010				
	Amounts owed to syndicate of credit institutions	Amounts owed to institutional investors	Amounts owed to credit institutions	Other debts	Total
At 1 January	394	84	23	24	525
Additions		163	7	48	218
Transaction costs	- 3				- 3
Repayments	- 105			- 4	- 109
Amortisation of transaction costs	4				4
Transfer to/from current borrowings	- 145		- 18		- 163
Currency translation differences		11	2	1	14
<b>At 31 December</b>	<b>145</b>	<b>258</b>	<b>14</b>	<b>69</b>	<b>486</b>

**Repayment schedule and interest rates**

	2012 - 2015	After 2015	Total repayment	Year-end interest rate (%)
Amounts owed to syndicate of credit institutions	145		145	5.4
Amounts owed to institutional investors	84	174	258	4.4
Other amounts owed to credit institutions	8	6	14	2.7
Other debts	36	33	69	3.2
<b>Total</b>	<b>273</b>	<b>213</b>	<b>486</b>	<b>4.5</b>

2009

	Amounts owed to syndicate of credit institutions	Amounts owed to institutional investors	Amounts owed to credit institutions	Other debts	Total
At 1 January	350	168	17	25	560
Consolidation and deconsolidation			5	2	7
Additions	400		1		401
Transaction costs	- 11				- 11
Repayments	- 350			- 3	- 353
Amortisation of transaction costs	1				1
Transfer to/from current borrowings	4	- 73		- 1	- 70
Currency translation differences				1	1
Adjustment for currency/interest rate swap		- 11			- 11
<b>At 31 December</b>	<b>394</b>	<b>84</b>	<b>23</b>	<b>24</b>	<b>525</b>

	2011 - 2014	After 2014	Total repayment	Year-end interest rate (%)
<b>Repayment schedule and interest rates</b>				
Amounts owed to syndicate of credit institutions	394		394	6.2
Amounts owed to institutional investors	84		84	3.5
Other amounts owed to credit institutions	23		23	3.7
Other debts	10	14	24	4.8
<b>Total</b>	<b>511</b>	<b>14</b>	<b>525</b>	<b>5.6</b>

#### Owed to syndicate of credit institutions

In 2009, agreement was reached with a syndicate of credit institutions regarding a EUR 1 billion refinancing of the credit facility with a term until August 2012. In 2010 the term of the credit facility was extended to August 2013 and the interest rate was reduced. On 31 December 2010 EUR 295 million of the credit facility had been utilised (2009: EUR 520 million).

The principal terms and conditions of the credit facility are:

- the ratio of senior net debt to EBITDA must not exceed 3:1. EBITDA is the operating profit before depreciation and amortisation plus dividends from joint ventures and associates, and excluding exceptional items, plus the performance premium;
- the ratio of EBITDA to interest must be at least 3.5:1.

The senior net debt is non-current interest-bearing borrowings, current borrowings, the net amount payable to and receivable from affiliated companies less cash and cash equivalents. The senior net debt was EUR 486 million (2009: EUR 552 million).

#### Borrowings from institutional investors

In December 2009 and February 2010 FrieslandCampina took out a private loan with institutional investors in the United States amounting to USD 196 million and a private loan with a European investor amounting to EUR 25 million. The so-called Senior Notes have a term of seven or ten years and are intended to replace current borrowings from banks with non-current borrowings. The financing was received in April 2010.

Cross-currency swaps have been used to convert the USD repayment and interest obligations related to these borrowings into EUR obligations at fixed interest rates. In order to hedge cash flows, the cross-currency swaps were entered into. Cash flow hedging has been applied to them. The cross-currency swaps have been recognised at fair value. The portion of the gains and losses made on these hedge instruments regarded as effective is recognised directly in equity. The borrowings of USD 308 million (2009: USD 112 million) have been fixed at EUR 233 million (2009: EUR 95 million) through these swaps.

The financial covenants for the private placements are the same as for the credit facility with the syndicate of credit institutions, plus the addition that the ratio of net debt to EBITDA must not exceed 3.5:1. EBITDA is the operating profit before depreciation and amortisation plus dividends from joint ventures and associates, and excluding exceptional items, plus the performance premium.

The net debt is the senior net debt plus the subordinated borrowing from Zuivelcoöperatie FrieslandCampina U.A. The net debt amounts to EUR 776 million (2009: EUR 842 million).

The above terms and conditions have been met. The amounts drawn under the credit facility and the private placements become repayable on demand if the above terms and conditions cease to be met.

At the end of 2010 an amount of EUR 15 million (2009: EUR 17 million) was recognised as long-term financial lease liabilities in 'Other debts'.

	2010	2009
<b>Financial lease liabilities</b>		
Total lease instalments payable	<b>23</b>	27
Present value of lease instalments	<b>17</b>	19
Recognised in current borrowings	<b>- 2</b>	- 2
	<b>15</b>	17

EUR 7 million will be repaid in the years 2012 to 2015 and EUR 8 million in subsequent years. The average interest rate on these debts at the end of 2010 was 6.2% (2009: 6.1%).

The lease instalments payable in 2010 included EUR 19 million (present value EUR 14 million) for a joint venture agreement with a third party for ripening, storing and packaging cheese. This agreement expires in 2015.

#### 24 Other long-term debts

Other long-term debts are a liability in connection with the put option relating to DMV Fonterra Excipients GmbH & Co. KG.

	2010	2009
At 1 January	<b>93</b>	
Accrued interest	<b>4</b>	4
Change in value recognised via goodwill	<b>4</b>	2
Partial repayment	<b>- 21</b>	
Transfers to/from current liabilities	<b>- 80</b>	87
<b>At 31 December</b>	<b>0</b>	93

The liability in connection with the put option is recognised under the terms of the agreement with Fonterra Co-operative Group Ltd in respect of DMV Fonterra Excipients. If Fonterra exercises the put option, FrieslandCampina is obliged to buy the 50% interest in DMV Fonterra Excipients currently held by Fonterra, for at least the value of Fonterra's contribution at the commencement of the joint venture in 2006. The joint venture partner may exercise this option in June 2011 or June 2013. As the option can be exercised in 2011, it was classified as current at the end of 2010.

This option is treated on the basis that Fonterra will exercise the option, thus creating a liability which is determined in accordance with the conditions related to the agreement. The present value of this liability is calculated as at the balance sheet date. Changes in the value of the liability are recognised via goodwill.

As a result of the use of the anticipated acquisition method, DMV Fonterra Excipients is fully consolidated without recognition of a non-controlling interest being recognised in the statement of financial position and income statement. Dividends paid to Fonterra are recognised as finance expense, as a compensation to the holder of the put option.

At the time of preparing the financial statements, FrieslandCampina's management had no indication that Fonterra wishes to exercise the option.

**25 Current borrowings**

	2010	2009
Current portion of non-current interest-bearing borrowings	21	70
Bank overdrafts	293	239
	<b>314</b>	309

In December 2010 a private loan of USD 101 million was repaid.

At the end of 2010, 'Bank overdrafts' included an amount of EUR 145 million (2009: EUR 120 million) in the form of a current drawing on the unconditional EUR 1 billion multi-currency credit facility disclosed in 'Non-current interest-bearing borrowings'.

The remaining portion of 'Bank overdrafts' relates mainly to conditional credit facilities.

The average interest rate on current borrowings at the end of 2010 was 5.2% (2009: 3.8%).

**26 Trade and other payables**

	2010	2009
Amounts owed to member dairy farmers	417	345
Trade creditors	738	604
Payables related to tax (excluding income tax) and social security contributions	37	34
Liabilities in connection with put options	86	6
Other payables	355	360
	<b>1,633</b>	1,349

Please see Note 24 for information regarding the liability in connection with the put option relating to DMV Fonterra Excipients.

**27 Payable to affiliated companies**

The current payable was a current account which did not bear interest.

**28 Securities**

No security has been provided for current and non-current borrowings except as reported under finance lease obligations (Note 23).

**29 Commitments and contingencies**

	2010			
	2011	2012 - 2015	After 2015	Total
Guarantees to third parties	8			8
Operational lease obligations	29	65	16	110
Purchase commitments for non-current assets	28	11	1	40
Other liabilities	22	46		68
	<b>87</b>	<b>122</b>	<b>17</b>	<b>226</b>

	2009			
	2010	2011 - 2014	After 2015	Total
Guarantees to third parties	35	1	4	40
Operational lease obligations	28	59	15	102
Purchase commitments for non-current assets	25			25
Other liabilities	6	6	2	14
	94	66	21	181

FrieslandCampina has granted a third party the right, subject to certain conditions, to acquire 4% of the shares in PT Frisian Flag Indonesia indirectly in the period from 2007 to 2011, and an additional 4% indirectly in the period 2012 to 2015. The option was not exercised between 2007 and 2010.

In the context of the merger, Friesland Foods and Campina made two commitments to the European Commission.

The first commitment requires member dairy farmers of Zuivelcoöperatie FrieslandCampina U.A. who terminate their membership to be paid a lump-sum leaving premium of 5 euros per 100 kilograms of milk delivered in the year preceding the year in which the application for eligibility for the lump-sum leaving premium is made. The eligibility requirement for the lump-sum leaving premium is that the dairy farmer must become a supplier to another purchaser of raw milk in the Netherlands.

The second commitment is that a maximum of 1.2 billion kilograms raw milk per annum must be made available to purchasers who have a dairy plant and who produce fresh dairy products or naturally ripened Dutch cheese, or either of them in combination with other dairy products. Purchasers may only obtain this milk to expand production in existing plants, for production in new plants or for production in the plants in Nijkerk (fresh dairy products) and Bleskensgraaf (cheese) disposed of by FrieslandCampina in accordance with the agreement with the European Commission.

The milk is to be made available through an independent foundation. The price of the milk is the guaranteed milk price (paid by FrieslandCampina for milk delivered by its member dairy farmers) applicable in the month of delivery. There will be a discount of 1% on this price for the first five years after the commitment takes effect. The commitments will remain in force until member dairy farmers with a milk volume of totaling 1.2 billion kilograms have left FrieslandCampina or until the requirement is withdrawn by the European Commission when it is convinced that sufficient Dutch raw milk is available for the aforementioned purchasers.

### 30 Related parties

Zuivelcoöperatie FrieslandCampina U.A., the shareholder of the company, and FrieslandCampina Nederland B.V., a subsidiary of the company, have agreed that the latter will purchase the milk supplied by the cooperative its members. In 2010 this was 8.8 billion kilograms (2009: 8.7 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 46 billion kilograms of milk in total. The milk price calculated in this way is guaranteed and, therefore, referred to as the guaranteed price. Based on the current profit appropriation policy the members also receive a premium on the guaranteed milk price equal to 25% of the profit calculated using the guaranteed price as the basis for the cost of the milk, after deduction of profit attributable to providers of member bonds, providers of perpetual notes and non-controlling interests. A further 15% of that result is appropriated as an addition to member bonds.

Royal FrieslandCampina N.V. has granted a loan of EUR 25 million to the Great Ocean Ingredients Pty.Ltd. joint venture.

See Note 35 for the remuneration of the Executive Board and the Supervisory Board.

See Note 19 for pension costs.

FrieslandCampina regularly purchases goods from and sells goods to associates in which FrieslandCampina holds an interest of 50% or less and can exercise significant influence. The conditions under which these transactions can take place are the same as for transactions with third parties.

	2010	2009
Purchase of raw materials, consumables and goods for resale	22	61
Sale of raw materials, consumables and goods for resale	57	57
Receivable from related party	34	33
Payable to related party	4	3

**31 Financial instruments and derivative financial instruments**

Please see Note 32 for the objectives, guidelines and policies related to the use of derivative financial instruments and other financial instruments in FrieslandCampina's activities.

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Carrying amounts and fair values of financial instruments</b>				
<b>Assets</b>				
<b>Assets valued at fair value</b>				
Other financial assets	16	16	8	8
Derivative financial instruments	14	14	3	3
<b>Total assets valued at fair value</b>	<b>30</b>	<b>30</b>	11	11
<b>Assets valued at amortised cost price</b>				
Trade and other receivables	1,085	1,085	886	886
Receivable from affiliated companies	22	22	17	17
Other financial assets	42	42	47	47
Cash and cash equivalents	292	292	272	272
<b>Total assets valued at amortised cost price</b>	<b>1,441</b>	<b>1,441</b>	1,222	1,222
<b>Liabilities</b>				
<b>Liabilities valued at fair value</b>				
Derivative financial instruments	41	41	71	71
Put option in respect of DMV Fonterra Excipients	80	80	93	93
<b>Total liabilities valued at fair value</b>	<b>121</b>	<b>121</b>	164	164
<b>Liabilities valued at amortised cost price</b>				
Zuivelcoöperatie FrieslandCampina U.A. borrowing	290	290	290	290
Non-current interest-bearing borrowings	486	491	525	529
Current borrowings	314	314	309	313
Trade and other payables	1,553	1,553	1,349	1,349
Payable to affiliated companies			8	8
<b>Total liabilities valued at amortised cost price</b>	<b>2,643</b>	<b>2,648</b>	2,481	2,489

The fair value is the amount that would have been received or paid had the assets or liabilities been settled at the balance sheet date without further obligations. The fair value of the financial instruments in the above table recognised via the income statement is valued using level 2 valuation methods, with the exception of the put option in respect of DMV Fonterra Excipients. The fair value of all items is determined on the basis of the discounted value method using current market information and the future cash flows. The future cash flows are discounted at the prevailing discount rate. The fair value of the put option in respect of DMV Fonterra Excipients is classified as a level 3 valuation method, see Note 24 for the movements during the year and the principles of valuation and determination of result for the valuation method.

	2010		2009	
	Contract volume at 31 December	Fair value at 31 December	Contract volume at 31 December	Fair value at 31 December
<b>Hedging activities</b>				
<b>Cash flow hedges</b>				
Cross currency swaps for fixing interest on non-current liabilities (carried as assets)	138	12	289	- 28
Cross currency swaps for fixing interest on non-current liabilities (carried as liabilities)	95	- 8		
Interest rate swaps for fixing interest on interest-bearing liabilities	400	- 29	600	- 37
Constant maturity swap for fixing interest on non-current liabilities			100	- 2
Currency derivatives carried as assets	21	1	89	3
Currency derivatives carried as liabilities	46	- 1	71	- 2
<b>Derivative financial instruments not subject to hedge accounting</b>				
Constant maturity swaps for fixing interest on non-current liabilities	100	- 2		
Currency derivatives carried as assets	99	1	14	
Currency derivatives carried as liabilities	50	- 1	58	- 2
<b>Total derivative financial instruments</b>				
Carried as assets		14		3
Carried as liabilities		41		71
<b>Hedges of a net investment in a foreign operation</b>				
Bank overdraft liability	15	- 15	9	- 9

**Cash flow hedges**

Cross-currency interest rate swaps have been contracted for borrowings of USD 308 million, as a result of which the USD repayment and interest obligations to institutional investors have been converted into EUR liabilities.

The interest rate swaps have been contracted to convert the floating-interest obligations on the interest-bearing liabilities into fixed-interest liabilities.

Of the other derivative financial instruments carried as assets, USD 68 million (2009: USD 195 million) relates to the hedging of estimated future cash flows from export income and HKD 84 million (2009: HKD 258 million) from payments for imports.

The hedges to which hedge accounting is applied meet the documentation requirements for hedge accounting in IAS 39 and are tested for effectiveness prior to and during their term. These hedges were effective as a result of which, at 31 December 2010 EUR - 14 million in the hedge flow coverage reserve was recognised in equity. Of this sum, EUR 6 million relates to the cross currency swaps, EUR - 21 million to the interest rate swaps and EUR 1 million to the currency derivatives.

**Derivative financial instruments not subject to hedge accounting**

Derivative financial instruments not subject to hedge accounting relate to contracted sales and purchases, outstanding receivables and payables, and bank balances. The changes in the value of these derivatives are largely offset by countervailing value changes in receivables, payables and bank balances. These qualify as natural hedges rather than as speculative instruments.

**Hedges of a net investment in a foreign operation**

To hedge the currency risk related to the net investment in a foreign subsidiary, bank overdraft financing in the currency of the net investment has been drawn. Hedge accounting is applied, the documentation requirements for hedge accounting specified in IAS 39 are met and the hedges are tested for effectiveness prior to and during their term.

Maturity schedule of derivative financial instruments	2010			2009		
	Contract volume at 31 December			Contract volume at 31 December		
	2011	2012 - 2015	After 2015	2010	2011 - 2014	After 2014
<b>Cash flow hedges</b>						
Cross currency swaps for fixing interest on non-current liabilities		95	138	86	95	108
Interest rate swaps for fixing interest on liabilities		400		200	400	
Constant maturity swap for fixing interest on non-current liabilities					100	
Currency derivatives carried as assets	21			89		
Currency derivatives carried as liabilities	46			71		
<b>Derivative financial instruments not subject to hedge accounting</b>						
Constant maturity swap for fixing interest on non-current liabilities		100				
Carried as assets		99		14		
Carried as liabilities		50		58		

Derivative financial instruments relating to foreign currency risks	2010		2009	
	Forward bought currencies EUR	Forward sold currencies	Forward bought currencies EUR	Forward sold currencies
	<b>Contract volumes</b>			
US dollar	168	222	165	237
Hong Kong dollar	8	84	24	258
Pound sterling	35	30	17	15
Australian dollar	5	7		
	<b>216</b>		<b>206</b>	

Derivative financial instruments hedging interest rate and currency risks on other non-current borrowings	2010	2009
	Contract volume in EUR	
Euro	500	700
US dollar	233	289

### 32 Financial risk management: objectives and policy

FrieslandCampina's principal financial instruments, besides derivative financial instruments, are borrowings from credit institutions and institutional investors, perpetual notes and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for FrieslandCampina's operations from a variety of markets and investors. FrieslandCampina has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. FrieslandCampina monitors the market risks relative to all financial derivative instruments very closely.

FrieslandCampina also enters into derivative transactions, primarily forward currency contracts and interest rate swaps, in order to manage the interest rate and currency risks arising from its operations and the financing of its operations. FrieslandCampina's policy is, and has been throughout the year under review, that no trading takes place for speculative purposes. The main risks arising from FrieslandCampina's financial instruments are foreign currency risks, interest rate risks, liquidity risks and credit risks. FrieslandCampina has policies in place to manage these risks.

### Currency fluctuations

Since FrieslandCampina conducts business worldwide, a considerable share of its assets, liabilities and results are sensitive to currency fluctuations. The purpose of the policy for managing transaction risks is to limit the effect of currency fluctuations on financial performance. Although, in principle, transaction risks are hedged, specific product and market circumstances may mean that this is not done. Currency risks resulting from investments in foreign subsidiaries and joint ventures and associates, other than an investment in a subsidiary in Greece, are not hedged. Although the risk associated with currency mismatches between assets and liabilities is mitigated by funding foreign subsidiaries in local currencies where possible, the solvency requirements that FrieslandCampina imposes on foreign subsidiaries do result in a degree of currency risk.

	2010		2009	
	Receivables and cash and cash equivalents	Liabilities	Receivables and cash and cash equivalents	Liabilities
<b>Receivables and liabilities denominated in currencies other than the local currency</b>				
US dollar	51	42	34	34
Euro	24	34	23	32
Japanese yen	5			
Pound sterling	4		5	
Singapore dollar	1	2		
New Zealand dollar	1			
Indonesian rupiah		1	3	
Hungarian forint		1		1

The disclosed amounts are cash and cash equivalents, receivables and liabilities denominated in currencies other than the local reporting currency, net of the amounts for which the currency risk has been hedged by means of derivative financial instruments.

FrieslandCampina is primarily sensitive to fluctuations in the US dollar/euro exchange rate due to its sales in dollars. The breakdown below summarises the impact of a 10% strengthening of the US dollar exchange rate on the valuation as at 31 December of monetary assets and liabilities denominated in US dollars. A 10% change in the exchange rate is assumed to be a realistic possibility.

The impact is apparent from a change in profit and equity. A positive figure means an increase in profit and in the amount of the cash flow hedge reserve, while a negative figure means a decrease.

	2010	2009
Impact on:		
profit before tax	1	0
equity component of the Cash flow hedge reserve	- 5	- 10

A 10% weakening in the US dollar/euro exchange rate meant the above amounts for 2010 were EUR - 1 million (2009: EUR nil) and EUR 4 million (2009: EUR 8 million) respectively. The impact on the profit for the year was due primarily to movements in the fair value of monetary assets and debts. The impact on the cash flow hedge reserve concerned the valuation of derivative financial instruments for cash flow hedges.

The 2009 figure for the effect on the equity component 'Cash flow hedge reserve' differs from that stated in the 2009 financial statements because the tax component has been included in the calculation.

### 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 borrowings to the intended interest rate risk profile.

	2010		2009	
	Carrying amount excluding hedging	Carrying amount including hedging	Carrying amount excluding hedging	Carrying amount including hedging
<b>Interest on borrowings</b>				
Fixed rate	273	773	192	893
Floating rate	817	317	940	239
	<b>1,090</b>	<b>1,090</b>	1,132	1,132

The sensitivity analysis below was carried out on the basis of the effect of interest rates on derivative financial instruments and other financial instruments as at 31 December. The analysis of cash and cash equivalents and floating-rate debts assumed that the amount outstanding at 31 December had been outstanding for the entire year. In the analysis, an increase or decrease of 50 basis points is taken as a realistic possible change in the interest rates. An increase or decrease of 50 basis points has the impact as set out below, with an increase in the rates having a negative impact on profit and a decrease having a positive impact.

	2010	2009
Impact on: profit before tax	0	0

The impact on profit before tax is limited for both 2010 and 2009 (rounded-off less than EUR 1 million). This is caused by the offsetting of liabilities with floating interest rates against cash and cash equivalents with floating interest rates.

### 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 largely hedged by long-term borrowings and unconditional credit facilities. At the end of 2010, this hedging was complete. FrieslandCampina manages its liquidity risk mainly by keeping available a significant amount of the unconditional credit facilities of EUR 1,258 million (2009: EUR 1,181 million), the majority of which expire in the third quarter of 2013 and the second quarter of 2010. Of these facilities EUR 705 million (2009: EUR 480 million) was unused at the end of 2010.

The table below sets out the maturity dates of borrowings according to the nominal amounts in the contract, including related interest obligations.

	2010			
	2011	2012 - 2015	After 2015	Total
<b>Cash flows on current borrowings</b>				
Zuivelcoöperatie FrieslandCampina U.A. borrowing	- 8	- 312		- 320
Non-current interest-bearing borrowings	- 26	- 344	- 229	- 599
Current borrowings	- 314			- 314
Trade and other payables	- 1,633			- 1,633
Operational lease liabilities	- 29	- 65	- 16	- 110
Investment commitments	- 28	- 11	- 1	- 40
Other debts	- 22	- 46		- 68
	<b>- 2,060</b>	<b>- 778</b>	<b>- 246</b>	<b>- 3,084</b>
				2009
	2010	2011 - 2014	After 2014	Total
Zuivelcoöperatie FrieslandCampina U.A. borrowing	- 9	- 326		- 335
Non-current interest-bearing borrowings	- 55	- 557	- 10	- 622
Other long-term debts		- 93		- 93
Current borrowings	- 309			- 309
Trade and other payables	- 1,349			- 1,349
Payable to affiliated companies	- 8			- 8
Operational lease liabilities	- 28	- 59	- 15	- 102
Investment commitments	- 25			- 25
Other debts	- 6	- 6	- 2	- 14
	<b>- 1,789</b>	<b>- 1,041</b>	<b>- 27</b>	<b>- 2,857</b>

**Credit risk**

FrieslandCampina is exposed to credit risks associated with its trade receivables, cash and cash equivalents and derivative financial instruments. FrieslandCampina manages credit risk by systematically monitoring the credit ratings of its customers at a decentralised level and financial counterparties at a central level. FrieslandCampina generally trades with reputable third parties with whom it maintains long-standing trading relationships. The credit position of customers deemed less creditworthy or subject to political transfer risks is covered by documentary credit or credit insurance in accordance with FrieslandCampina's financial risk management policy. Thanks to the spread of geographical areas and business groups, there is no significant concentration of credit risk in FrieslandCampina's trade receivables. Please see Note 16 for further information on trade receivables.

Whenever possible, cash and cash equivalents have been deposited with first-class international banks, i.e. those with at least 'single A' credit ratings. Cash and cash equivalents held by subsidiaries in relatively unstable political climates are, however, subject to local country risks. To limit these risks as far as possible, FrieslandCampina follows an active dividend policy in relation to these subsidiaries. Derivative financial instruments are traded only with financial institutions with good credit ratings, i.e. at least 'single A'. FrieslandCampina's risk exposure on these instruments is not greater than the current carrying amount.

**Management of risks relating to assets**

FrieslandCampina manages its assets so as to maintain a good credit standing (investment grade according to relevant financial parties) and to safeguard the continuity of the subsidiaries as going concerns. In this context, FrieslandCampina applies guidelines for the solvency ratios of different types of subsidiary.

FrieslandCampina's capital structure comprises debt, including non-current interest-bearing borrowings and current borrowings as well as equity in the form of equity attributable to the shareholder of the company, member bonds, the perpetual notes and non-controlling interests.

Please see Note 23 for the financial covenants.

**33 Acquisitions**

	2010	2009
<b>Fair value of acquired net asset value</b>		
Goodwill		10
Acquisition of shares	3	
Acquisition of shares from non-controlling interests		2
Investments in other joint ventures and associates		3
	3	15
Cash flows from acquisitions		
Cash payments	0	- 15

In 2010 Royal FrieslandCampina N.V. acquired the shares of Milchverwaltung FrieslandCampina Germany GmbH and CV Campina from Zuivelcoöperatie FrieslandCampina U.A. This transaction was settled via a capital contribution towards the intrinsic value of the acquired assets and did not, therefore, lead to cash flow.

**34 Consolidated statement of changes in equity****Cash flow hedge reserve**

The cash flow hedge reserve concerns changes in the fair value of interest rate swaps, cross currency swaps and forward currency contracts that are recognised in an effective hedge relationship.

**Currency translation reserve**

The currency translation reserve concerns accrued gains and losses on foreign currency translation at subsidiaries, and currency valuation gains and losses on loans of a permanent nature granted to subsidiaries.

**Retained earnings**

Retained earnings concerns the balance of accrued profits which have not been distributed to the shareholder.

Pursuant to the Articles of Association, a dividend may be distributed if and to the extent that equity exceeds the issued share capital plus the reserves that have to be held by law.

**Perpetual notes**

In 2003, FrieslandCampina issued a 7.125% perpetual cumulative subordinated loan with a nominal value of EUR 125 million. The effective interest rate is 7.33% based on amortised issue costs and share premium received. The interest is recognised as profit attributable to providers of perpetual notes. The notes are listed on Euronext Amsterdam. There is no repayment commitment, but the notes can be repaid in full on 2 June of each year. Royal FrieslandCampina N.V. must notify holders of the notes no less than 30 days and no more than 60 days in advance of any repayment. The notes are subordinated to the claims of all present and future creditors, to the extent that these are not subordinated. Interest payments may be deferred, provided that Royal FrieslandCampina N.V. has not distributed any performance premium in the 12 months prior to the annual coupon date. Deferred interest becomes payable on the date on which a performance premium is next distributed.

**Member bonds**

Member bonds were issued to Zuivelcoöperatie FrieslandCampina U.A. and its members. The member bonds are perpetual and have no expiry date. The bonds are subordinated to the claims of all other existing and future creditors to the extent that these are not subordinated. Interest payment may be deferred provided that Royal FrieslandCampina N.V. has not distributed any performance premium in the 12 months prior to the annual coupon date. Deferred interest becomes payable on the date on which a performance premium is next distributed.

	2010			2009		
<b>Breakdown of member bonds</b>	Excluding interest for the year	Interest for the year	Total	Excluding interest for the year	Interest for the year	Total
Member bonds member dairy farmers	599	18	617	491	19	510
Zuivelcoöperatie FrieslandCampina U.A. member bonds	303	11	314	337	21	358
	<b>902</b>	<b>29</b>	<b>931</b>	828	40	868

**35 Remuneration of members of the Supervisory Board and the Executive Board**

	2010	2009
<b>Supervisory Board</b>		
Short-term remuneration	1.0	0.9
Severance pay		0.1
	<b>1.0</b>	1.0
<b>Executive Board</b>		
Short-term remuneration	4.9	4.4
Long-term remuneration	1.3	1.2
Severance pay		1.1
Pension plans	0.8	0.1
	<b>7.0</b>	6.8

**36 Subsequent events**

No events that must be included in the 2010 financial statements have occurred since the balance sheet date.

**37 Cash flow statement**

The disposal of non-controlling interests in the statement of cash flows relate to the sale of 5% of the shares in CMG Grundstücksverwaltungs- und Beteiligungs -AG to Zuivelcoöperatie FrieslandCampina U.A.

The statement of cash flows has been prepared in accordance with the indirect method. The majority of the movements in the statement of cash flows can be linked with the underlying movement overviews of the statement of the financial position. For the movements that cannot be linked the table below shows the underlying relationships between the movement in the statement of the financial position and the statement of cash flows for 2010.

	2010		
	Inventories	Receivables	Liabilities
At 31 December 2009	817	892	1,349
At 31 December 2010	1,005	1,088	1,633
<b>Balance sheet movement</b>	<b>188</b>	<b>196</b>	<b>284</b>
Adjustments			
Currency translation effect	17	15	- 24
Consolidation and deconsolidation		- 10	12
Interest movement financial position		10	- 11
Movement related to put option liability			- 80
Affiliated companies		- 5	- 8
Other movements		2	
<b>Movements in cash flow</b>	<b>- 171</b>	<b>- 184</b>	<b>173</b>

## Principal subsidiaries, joint ventures and associates<sup>1</sup>

### The Netherlands

DMV-Fonterra Excipients B.V., Rosmalen (50%)<sup>2</sup>  
 Friese Ekologische Zuivel B.V., Drachten  
 Friesland Brands B.V., Leeuwarden  
 FrieslandCampina Cheese & Butter B.V., Amersfoort  
 FrieslandCampina Consumer Products Europe B.V., Amersfoort  
 FrieslandCampina Consumer Products International B.V.,  
 Amersfoort  
 FrieslandCampina Creamy Creation B.V., Amersfoort  
 FrieslandCampina Dairy Feed B.V., Amersfoort  
 FrieslandCampina DMV B.V., Amersfoort  
 FrieslandCampina Domo B.V., Amersfoort  
 FrieslandCampina International Holding B.V., Amersfoort  
 FrieslandCampina Kaaspakhuizen B.V., Amersfoort  
 FrieslandCampina Kievit B.V., Meppel  
 FrieslandCampina Nederland B.V., Amersfoort  
 FrieslandCampina Nederland Holding B.V., Amersfoort  
 FrieslandCampina Riedel B.V., Amersfoort  
 FrieslandCampina Valess B.V., Amersfoort  
 FrieslandCampina Werknemers B.V., Amersfoort  
 K.H. de Jong's Exporthandel B.V., Leeuwarden  
 Kaashandel Culemborg B.V., Hardinxveld-Giessendam

### Belgium

FrieslandCampina Belgium N.V., Aalter  
 Friesland Foods België/Belgique N.V./S.A., Bornem  
 Campina Milk Fat Products N.V., Houthulst  
 FrieslandCampina Cheese N.V., Aalter  
 FrieslandCampina Professional N.V., Lummen  
 FrieslandCampina Finance N.V., Lummen  
 CV Campina, Ravels

### Germany

CMG Grundstücksverwaltungs- und Beteiligungs -AG, Heilbronn  
 (89.6%)  
 DMV-Fonterra Excipients GmbH & Co. KG, Heilbronn (50%)<sup>2</sup>  
 Friesland Foods Deutschland GmbH, Kalkar (94.9%)  
 FrieslandCampina Cheese GmbH, Essen  
 FrieslandCampina Germany GmbH, Heilbronn (94.9%)  
 FrieslandCampina Professional GmbH, Aken  
 Sahnemolkerei Hubert Wiesehoff GmbH, Schoppingen (49%)  
 Satro GmbH, Lippstadt  
 DMV- Fonterra Excipients Technology GmbH, Goch (50%)<sup>2</sup>  
 Milchverwaltung FrieslandCampina Germany GmbH, Köln

### France

France Crème S.A.S., Saint-Paul-en-Jarez  
 FrieslandCampina Cheese France S.A.S., Sénas  
 FrieslandCampina France S.A.R.L., Saint-Paul-en-Jarez  
 Société Industrielle Fromagère S.A.S.U., Charmoille

### Greece

FrieslandCampina Hellas S.A., Maroussi, Athens

### United Kingdom

Campina UK Ltd., Horsham

### Hungary

FrieslandCampina Hungária zRt, Debrecen

### Italy

FrieslandCampina Italy S.r.l., Calderara di Reno (BO)

### Austria

FrieslandCampina Austria GmbH, Stainach

### Romania

Napolact S.A., Cluj-Napoca (91.4%)  
 Friesland Romania S.A., Satu Mare (99.9%)  
 Industrializarea Laptelui Mures S.A., Tirgu-Mures (90.3%)

### Russia

Campina OOO, Moscow

### Spain

FrieslandCampina Iberia S.L., Barcelona  
 FrieslandCampina Canarias S.A., Las Palmas

### China

DMV International Ltd., Hong Kong  
 FrieslandCampina (Hong Kong) Ltd., Hong Kong  
 Friesland Foods Trading (Shanghai) Co. Ltd., Shanghai

### Indonesia

PT Frisian Flag Indonesia, Jakarta (78.1%)  
 PT Kievit Indonesia, Jakarta

### Malaysia/Singapore

Dutch Lady Milk Industries Berhad, Petaling Jaya (50.96%)  
 FrieslandCampina (Singapore) Pte. Ltd., Singapore

### Saudi Arabia

Friesland Arabia Ltd., Jeddah

### Thailand

Campina (Thailand) Ltd., Bangkok (100%)  
 Foremost Dairies Co (Bangkok) Ltd., Bangkok (99.71%)  
 Friesland Foods Foremost (Thailand) Public Company Ltd., Bangkok  
 (99.71%)

### Vietnam

FrieslandCampina HaNam Co. Ltd., Phu Ly (70%)  
 FrieslandCampina Vietnam Co. Ltd., Binh Duong Province (70%)

### Ghana

FrieslandCampina West Africa Ltd., Accra

### Nigeria

FrieslandCampina WAMCO Nigeria Plc., Lagos (54.5%)

### USA

FrieslandCampina USA LP, Wilmington Delaware

<sup>1</sup> Wholly-owned unless stated otherwise.

<sup>2</sup> FrieslandCampina has control over these entities

**Joint ventures and associates**<sup>3</sup>

Betagen Holding Ltd., Hong Kong, China (50%)

Coöperatieve Zuivelinvesteerders U.A., Oudendoorn,  
The Netherlands (49%)

CSK Food Enrichment B.V., Leeuwarden, The Netherlands (82.33%)

El Castillo Debic Food Service S.L., Barcelona, Spain (50%)

Great Ocean Ingredients Pty.Ltd., Allansford, Victoria, Australia  
(50%)

Het Kaasmerk B.V., Leiden, The Netherlands (74.48%)

Unifine Debic - Ingredientes de Pastelaria S.A., Lisbon, Portugal  
(50%)

ATF Management Ltd., Bangkok, Thailand (49%)

<sup>3</sup> FrieslandCampina does not have control over these joint ventures and associates.

## Company balance sheet

At 31 December, before appropriation of profit, in millions of euros, unless stated otherwise

	Note	2010	2009
<b>Assets</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	(2)	1,787	1,481
Loans to subsidiaries	(3)	551	797
Deferred tax assets	(4)	3	7
Derivative financial instruments	(10)	12	
		<b>2,353</b>	2,285
<b>Current assets</b>			
Amounts due from subsidiaries	(5)	1,110	772
Derivative financial instruments	(10)	14	6
Cash and cash equivalents		0	9
		<b>1,124</b>	787
<b>Total assets</b>		<b>3,477</b>	3,072
<b>Equity and liabilities</b>			
<b>Equity</b>			
Equity attributable to the shareholder of the company and other providers of capital	(6)	1,961	1,652
<b>Non-current liabilities</b>			
Derivative financial instruments	(10)	36	31
Zuivelcoöperatie FrieslandCampina U.A. borrowing	(7)	290	290
Non-current interest-bearing borrowings	(8)	432	478
		<b>758</b>	799
<b>Current liabilities</b>			
Current borrowings		161	223
Trade and other payables		5	2
Borrowings from subsidiaries	(9)	586	390
Derivative financial instruments	(10)	6	6
		<b>758</b>	621
<b>Total equity and liabilities</b>		<b>3,477</b>	3,072

## Company income statement

In millions of euros, unless stated otherwise

	2010	2009
Share of profit of subsidiaries	246	144
Finance income and costs	- 23	- 9
Other results	7	1
<b>Profit for the year</b>	<b>230</b>	136

## Notes to the company financial statements

In millions of euros, unless stated otherwise

### 1 General

#### Accounting policies and notes

These financial statements were prepared in accordance with Dutch statutory provisions and regulations. The financial statements are presented in accordance with the provisions of Section 362(8) of Part 9 of Book 2 of the Dutch Civil Code, which stipulates the application of consistent accounting policies in the company and consolidated financial statements. Please see the accounting policies on pages 82 to 89 for the accounting policies for the valuation of assets and liabilities, and the presentation of the income statement. Please see the notes to the consolidated financial statements for items not dealt with in the notes to the company financial statements. Consolidated subsidiaries are valued using the equity method.

A statutory reserve has been formed for the retained earnings of subsidiaries where distribution is subject to restrictions.

A list of subsidiaries, branches and associates, and interests in joint ventures, prepared in accordance with statutory provisions, is available for inspection at FrieslandCampina's offices and has been filed with the Trade Registry in Almere, the Netherlands.

The company income statement is presented in accordance with the provisions of Section 402 of Part 9 of Book 2 of the Dutch Civil Code.

### 2 Investments in subsidiaries

	2010	2009
At 1 January	1,481	1,096
Capital contribution	182	340
Profit for the year	246	144
Other comprehensive income	56	- 10
Dividend	- 178	- 89
<b>At 31 December</b>	<b>1,787</b>	<b>1,481</b>

### 3 Loans to subsidiaries

	2010	2009
At 1 January	797	1,483
Transferred to current	- 246	- 436
Repayments		- 250
<b>At 31 December</b>	<b>551</b>	<b>797</b>

	2010			2009		
Repayment schedule	2012 - 2015	After 2015	Total repayment	2011 - 2014	After 2014	Total repayment
Loans to subsidiaries	1	550	551	247	550	797

The loans granted serve primarily to finance subsidiaries. The average interest rate at the end of the year was 3.5% on EUR 551 million (2009: 1.5% on EUR 247 million and 0% on EUR 550 million).

### 4 Deferred tax assets

The Company is part of the fiscal unit Zuivelcoöperatie FrieslandCampina U.A.. On these grounds the Company is severally liable for the income tax debts of the fiscal unit as a whole.

### 5 Amounts due from subsidiaries

The amounts due from subsidiaries relate to loans granted to subsidiaries.

The average interest rate at the end of 2010 was 2.3% on an amount of EUR 678 million, 1.5% on an amount of EUR 246 million and 0% on an amount of EUR 186 million (2009: 1.9% on EUR 582 million and 0% on EUR 190 million).

## 6 Equity attributable to the shareholder of the company and other providers of capital

The authorised capital amounts to EUR 1,000 million, divided into 10,000,000 shares with a nominal value of EUR 100. The shares are held by Zuivelcoöperatie FrieslandCampina U.A.

The number of shares in issue at both the start and the end of the year was 3,702,777. EUR 370 million has been paid up on these shares.

	2010							
	Issued capital	Share premium	Perpetual notes	Member bonds	Cash flow hedge reserve	Currency translation reserve	Retained earnings <sup>1</sup>	Total
At 1 January	370	110	130	868	- 29	- 59	262	1,652
Comprehensive income:								
- profit for the year			9	29			192	230
- other comprehensive income					15	30	7	52
<b>Total comprehensive income</b>			<b>9</b>	<b>29</b>	<b>15</b>	<b>30</b>	<b>199</b>	<b>282</b>
Transactions with shareholder and other providers of capital:								
- amounts paid to providers of perpetual notes			- 9					- 9
- amounts paid to providers of member bonds				- 31				- 31
- addition member bonds for the year				65				65
- capital contribution by Zuivelcoöperatie FrieslandCampina U.A.		3						3
- leaving premium to Zuivelcoöperatie FrieslandCampina U.A. member dairy farmers							- 1	- 1
<b>Total transactions with shareholder and other providers of capital</b>		<b>3</b>	<b>- 9</b>	<b>34</b>			<b>- 1</b>	<b>27</b>
<b>At 31 December</b>	<b>370</b>	<b>113</b>	<b>130</b>	<b>931</b>	<b>- 14</b>	<b>- 29</b>	<b>460</b>	<b>1,961</b>

The cash flow hedge reserve and the currency translation reserve are statutory reserves and as such cannot be distributed.

<sup>1</sup> Including the appropriation of profit of prior years and the undistributed profit for the current year.

	2009							
	Issued capital	Share premium	Perpetual notes	Member bonds	Cash flow hedge reserve	Currency translation reserve	Retained earnings <sup>1</sup>	Total
At 1 January	370		130	799	- 27	- 51	174	1,395
Comprehensive income:								
- profit for the year			9	40			87	136
- other comprehensive income					- 2	- 8	7	- 3
<b>Total comprehensive income</b>			9	40	- 2	- 8	94	133
Transactions with shareholder and other providers of capital:								
- amounts paid to providers of perpetual notes			- 9					- 9
- amounts paid to providers of member bonds				- 34				- 34
- addition member bonds for the year				31				31
- conversion of subordinated notes into member bonds				32				32
- capital contribution by Zuivelcoöperatie FrieslandCampina U.A.		110						110
- transactions with owners of non-controlling interests							- 6	- 6
<b>Total transactions with shareholder and other providers of capital</b>		110	9	29			- 6	124
<b>At 31 December</b>	370	110	130	868	- 29	- 59	262	1,652

The cash flow hedge reserve and the currency translation reserve are statutory reserves and as such cannot be distributed.

## 7 Zuivelcoöperatie FrieslandCampina U.A. borrowing

The purpose of this subordinated borrowing is to finance the assets of Royal FrieslandCampina N.V. The average interest rate on this borrowing is 2.6% (2009: 3.1%).

<sup>1</sup> Including the appropriation of profit of prior years and the undistributed profit for the current year.

**8 Non-current interest-bearing borrowings**

	2010				
	Amounts owed to syndicate of credit institutions	Amounts owed to institutional investors	Amounts owed to credit institutions	Other debts	Total
At 1 January	394	84			478
Additions		163	5	24	192
Transaction costs	- 3				- 3
Repayments	- 105				- 105
Amortisation of transaction costs	4				4
Transfer to/from current borrowings	- 145				- 145
Currency translation differences		11			11
<b>At 31 December</b>	<b>145</b>	<b>258</b>	<b>5</b>	<b>24</b>	<b>432</b>

**Repayment schedule and interest rates**

	2012 - 2015	After 2015	Total Repayment	Interest rate at 31 December (%)
Amounts owed to syndicate of credit institutions	145		145	5.4
Amounts owed to institutional investors	84	174	258	4.4
Amounts owed to credit institutions		5	5	2.0
Other debts	24		24	2.0
<b>Total</b>	<b>253</b>	<b>179</b>	<b>432</b>	<b>4.6</b>

2009

	Amounts owed to syndicate of credit institutions	Amounts owed to institutional investors	Amounts owed to credit institutions	Total
At 1 January	350	168	1	519
Additions	400			400
Transaction costs	- 11			- 11
Repayments	- 350			- 350
Amortisation of transaction costs	1			1
Transfer to/from current borrowings	4	- 73	- 1	- 70
Adjustment for currency/interest rate swap		- 11		- 11
<b>At 31 December</b>	<b>394</b>	<b>84</b>		<b>478</b>

**Repayment schedule and interest rates**

	2011 - 2014	After 2014	Total Repayment	Interest rate at 31 December (%)
Amounts owed to syndicate of credit institutions	394		394	6.2
Amounts owed to institutional investors	84		84	3.5
<b>Total</b>	<b>478</b>		<b>478</b>	<b>5.7</b>

Please see Note 23 of the consolidated financial statements for amounts owed to syndicate of credit institutions and amounts owed to institutional investors.

**9 Borrowings from subsidiaries**

The interest rate at the end of 2010 was 0% on EUR 586 million (2009: 1.0% on EUR 173 million and 0% on EUR 217 million).

**10 Derivative financial instruments**

The difference compared with the amount in the consolidated financial statements is the fair value of derivative financial instruments transacted with subsidiaries.

**11 Commitments and contingencies**

Royal FrieslandCampina N.V. has issued a statement of liability for the Dutch group company, Friesland Brands B.V., pursuant to Section 403 of Part 9 of Book 2 of the Dutch Civil Code.

**12 Remuneration of the Supervisory Board and the Executive Board**

The remuneration of members of the Supervisory Board and the Executive Board is disclosed in Note 35 of the consolidated financial statements. During the year under review no employees were employed by the company.

Amersfoort, 4 March 2011

**Executive Board****Royal FrieslandCampina N.V.**

C.C. 't Hart, CEO  
C.J.M. Gielen  
K. Garg  
P.J. Hilarides  
F. Rijna

**Supervisory Board****Royal FrieslandCampina N.V.**

C.H. Wantenaar, Chairman  
P. Boer, Vice-chairman  
P.A.F.W. Elverding  
R. ter Haar  
A.A.M. Huijben-Pijnenburg  
J. Jorritsma  
J.P.C. Keijsers  
F.A.M. Keurentjes  
S.R.F. Ruiten  
H. Scheffers  
J.H.G.M. Uijttewaal  
B. van der Veer  
W.M. Wunnekink

# Independent auditor's report

**To: the shareholder of Royal FrieslandCampina N.V.**

## Report on the financial statements

We have audited the accompanying financial statements 2010 of Royal FrieslandCampina N.V., Amersfoort. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2010, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

## Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Royal FrieslandCampina N.V. as at 31 December 2010 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

## Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Royal FrieslandCampina N.V. as at 31 December 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Executive Board, to the extent we can assess, has been prepared in accordance with part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the report of the Executive Board, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amstelveen, the Netherlands, 4 March 2011

**KPMG ACCOUNTANTS N.V.**

E.H.W. Weusten

## Provisions of the Articles of Association governing profit appropriation

The provisions on 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.

# Financial history

In millions of euros, unless stated otherwise

	2010	2009	2008	2007 <sup>1</sup>
<b>Headlines</b>				
<b>Income statement</b>				
Revenue	8,972	8,160	9,454	9,008
Operating profit <sup>2</sup>	428	347	276	
Operating profit	434	258	248	373
Profit for the year	285	182	135	256
Guaranteed price	32.39	26.40	35.89	
Performance premium in euros per 100 kilograms	1.23	0.59	0.48	
Milk price in euros per 100 kilograms (excl. VAT, 4,41% fat, 3,47% protein)	33.62	26.99	36.37	34.85
Addition member bonds in euros per 100 kilograms	0.73	0.35	0.29	
<b>Financial position</b>				
Total assets	5,299	4,770	4,930	5,128
Equity	2,071	1,749	1,480	1,681
Equity attributable to the shareholder and other providers of capital	1,961	1,652	1,395	1,601
Net debt <sup>3</sup>	776	842	1,494	1,343
<b>Cash flows</b>				
Net cash flows from operating activities	444	786	351	234
Investments in property, plant, equipment and intangible assets	261	231	240	304
Depreciation and amortisation	210	206	219	226
<b>Ratios</b>				
Equity as a % of total assets	39.1	36.7	30.0	32.8
Employees (average number of FTEs)	19,484	20,034	20,568	20,774
Total milk processed (in millions of kilograms)	10,266	10,755	11,446	11,700
Milk supplied by members (in millions of kilograms)	8,821	8,685	8,589	8,734

<sup>1</sup> The 2007 figures are pro forma.

<sup>2</sup> before non-recurring income and expenses related to merger and reorganisation costs.

<sup>3</sup> Net debt represents the Zuivelcoöperatie FrieslandCampina U.A. borrowing, non-current interest-bearing borrowings, current borrowings, the obligation to Zuivelcoöperatie FrieslandCampina U.A. less cash and cash equivalents and the balance of amounts owed to and receivable from associates.

## Milk price

In euros per 100 kilogram of milk at 4,41% fat and 3,47% protein, excl. VAT

	2010	2009
Fat	16.12	11.29
Protein	16.27	15.11
<b>Guaranteed price</b>	<b>32.39</b>	26.40
Performance premium	1.23	0.59
<b>Milk price</b>	<b>33.62</b>	26.99
Addition member bonds	0.73	0.35
<b>Total</b>	<b>34.35</b>	27.34

# Management and addresses

## Executive Board and Corporate Directors

### Royal FrieslandCampina N.V.

Stationsplein 4  
3818 LE Amersfoort  
Postbus 1551  
3800 BN Amersfoort  
The Netherlands  
T +31 33 713 3333

### Executive Board

C.C. 't Hart	Chief Executive Officer
C.J.M. Gielen	Chief Financial Officer
K. Garg	Chief Operating Officer
P.J. Hilarides	Chief Operating Officer
F. Rijna	Chief Operating Officer
R.A. Joosten	Executive Director

### Corporate Directors

T.J.C.M. Albers	Corporate Director Strategy
J. Bles	Corporate Director Centre for Dairy Nutrition
W.S.J.M. Buck	Corporate Director Public & Quality Affairs
G. Hagedoorn	Corporate Director Internal Audit
P. van der Hoek	Corporate Director Finance & Reporting
J.C. Hordijk	Corporate Director Customer & Trade Marketing
A.C.M. van Hooijdonk	(until 31 March 2011) Corporate Director Research & Development
J. van Hout	Corporate Director Tax
H. van der Kooij	(as of 1 april 2011) Corporate Director Legal & Company Secretary
E.M. Meijer	(as of 1 april 2011) Corporate Director Research & Development
J. van der Rakt	(as of 1 april 2011) Corporate Director Supply Chain
R.A.F. Reefman	Corporate Director Global Marketing
A.K. Schaap	Corporate Director Co-operative Affairs
N. Simo Vila	Corporate Director ICT
K.A. Springer	Corporate Director Treasury
A.E. Traas	Corporate Director Mergers & Acquisitions
J.C. de Vries	Corporate Director Human Resources
C.J. van Wees	Corporate Director Milk Valorisation & Allocation
F.A.C. van Ooijen	Corporate Director Communication & Sustainability Affairs
vacancy	Corporate Director Procurement

### Category and Innovation Directors

M. Erdl	Director Innovation Dairy Based Beverages
M.J. Jonkman	Director Innovation Infant & Toddler Nutrition
B.H.M. Kodden	Director Category Infant & Toddler Nutrition
R.A.F. Reefman	Director Category Team Dairy Based Beverages
M.R. Wijsman	Director Innovation Branded Cheese
P.A. Zinkweg	Director Category Team Branded Cheese

## FrieslandCampina Consumer Products Europe

### FrieslandCampina Consumer Products Europe

Stationsplein 4  
3818 LE Amersfoort  
Postbus 1551  
3800 BN Amersfoort  
The Netherlands  
T +31 33 713 3333

Chief Operating Officer:  
F. Rijna

### FrieslandCampina Benelux

Stationsplein 4  
3818 LE Amersfoort  
Postbus 1551  
3800 BN Amersfoort  
The Netherlands  
T +31 33 713 3333

Managing Director:  
P.L.S. Reekmans

### FrieslandCampina Dagvers

Industrieweg 130-134  
3044 AT Rotterdam  
Postbus 11189  
3004 ED Rotterdam  
The Netherlands  
T +31 10 488 7000

Managing Director:  
E.H. Schut

### FrieslandCampina Germany

Wimpfener Strasse 125  
74078 Heilbronn  
Germany  
T +49 71 314 890

Managing Director:  
M. Feller

### FrieslandCampina Hellas

18, Nik. Zekakou & K. Karamanli str.  
15125 Maroussi  
P.O. Box 61057  
15110 Maroussi  
Greece  
T +30 210 61 66 400

Managing Director:  
G.J. Sklikas

### FrieslandCampina Hungary

1134 Budapest  
Váci út 33  
1394 Budapest Pf. 363  
Hungary  
T +36 1 802 7700

Managing Director:  
K. Maggioros

### FrieslandCampina Romania

Calea Baciului 2-4  
400230 Cluj Napoca  
Romania  
T +40 264 50 2000

Managing Director:  
K. Maggioros

### FrieslandCampina Russia

42, Ul. Mosfilmovskaya  
119285 Moscow  
Russia  
T +74959 333 646

Managing Director:  
M.L. Spits

### FrieslandCampina Professional

Grote Baan 34  
3560 Lummen  
Belgium  
T +32 13 310 310

Managing Director:  
F.H.G. Smeulders

### FrieslandCampina UK

Denne House  
Denne Road  
West Sussex RH12 1JF  
England  
T +44 1403 273 273

Managing Director:  
a.i. T. Barney

## FrieslandCampina Consumer Products International

### Consumer Products International

Stationsplein 4  
3818 LE Amersfoort  
Postbus 1551  
3800 BN Amersfoort  
The Netherlands  
T +31 33 713 3333

Chief Operating Officer:  
K. Garg

### FrieslandCampina Hong Kong

Room 1702-05  
Shun Tak Centre  
West Tower  
200 Connaught Road Central  
Hong Kong  
T +852 2547 6226

General Manager:  
vacancy

### FrieslandCampina Export

P. Stuyvesantweg 1  
8937 AC Leeuwarden  
Postbus 226  
8901 MA Leeuwarden  
The Netherlands  
T +31 58 299 91 11

General Manager:  
T.G.H. Smalbraak

### FrieslandCampina Middle East

No. 306, 3rd Floor  
Arabian Business Center  
King Abdullah Street  
Jeddah  
P.O. Box 6905  
Jeddah, 21452  
Saudi Arabia  
T +966 2652 9231

Managing Director:  
M. Klavert

### FrieslandCampina Indonesia

Jalan Raya Bogor Km 5  
Jakarta 13760  
P.O. Box 4047  
Jakarta 13040  
Indonesia  
T +62 21 841 0 945

Managing Director:  
C.H.M. Ruygrok

### FrieslandCampina Thailand

6th floor, S.P. Building  
388 Paholyothin Road  
Samsen Nai, Phayathai  
Bangkok 10400  
Thailand  
T +66 26201900

Managing Director:  
C. Archjananun

### FrieslandCampina Malaysia

13, Jalan Semangat  
46200 Petaling Jaya  
P.O. Box 122  
46710 Petaling Jaya  
Malaysia  
T +603 7956 7477

Managing Director:  
S.G. van den Berg

### FrieslandCampina Vietnam

Binh Hoa Commune  
Thuan An District  
Binh Duong Province  
Vietnam  
T +84 65 03754 422

Managing Director:  
P.M. Boot

### FrieslandCampina Singapore

61, Quality Road  
618818 Singapore  
T +65 6419 8488

General Manager:  
B.L. Koh

### FrieslandCampina WAMCO Nigeria

Plot 7B Acme Road  
Ogba  
Ikeja Industrial Estate  
Lagos State  
Nigeria  
T +234 1 271 51 00

Managing Director:  
R.J. Steetskamp

### FrieslandCampina China

901 Shanghai  
Times Square  
Office Tower  
No 93 Huai Hai Zhong Road  
Shanghai 200021  
China  
T +8621 639 10066

Managing Director:  
C. L. Saw

### FrieslandCampina West Africa

Patrice Lumumba No. 11  
Airport Residential Area  
P.O. Box CT 4478  
Accra  
Ghana  
T +233 2176 0433

General Manager:  
P.A.H. Verhaak

## FrieslandCampina Cheese & Butter

### FrieslandCampina Cheese & Butter

Stationsplein 4  
3818 LE Amersfoort  
Postbus 1551  
3800 BN Amersfoort  
The Netherlands  
T +31 33 713 3333

Chief Operating Officer:  
P.J. Hilarides

### FrieslandCampina Cheese Hellas

18, Nik. Zekakou & K. Karamanli str.  
15125 Maroussi  
P.O. Box 61057  
15110 Maroussi  
Greece  
T +30 210 61 66 400

Managing Director:  
G.J. Sklikas

### FrieslandCampina Cheese Nederland

Stationsplein 4  
3818 LE Amersfoort  
Postbus 1551  
3800 BN Amersfoort  
The Netherlands  
T +31 33 713 3333

Managing Director:  
P.S. Weltevreden

### FrieslandCampina Butter

Stationsplein 4  
3818 LE Amersfoort  
Postbus 1551  
3800 BN Amersfoort  
The Netherlands  
T +31 33 713 3333

Managing Director:  
a.i. P. Hilarides,  
as of 1 april 2011  
M.M.G.M van der Hoven

### FrieslandCampina Cheese Specialties

Stationsplein 4  
3818 LE Amersfoort  
Postbus 1551  
3800 BN Amersfoort  
The Netherlands  
T +31 33 713 3333

Managing Director:  
J.A.M.F. Castelein

### FrieslandCampina Cheese Germany

Hatzper Straße 30  
45149 Essen  
Postfach 26 01 02  
45079 Essen  
Germany  
T +49 201 8712 746

Managing Director:  
F.J.J. Saelman

### FrieslandCampina Cheese France

Quartier Les Crillons Sénas  
B.P. 3  
13560 Sénas  
France  
T +33 490 572 929

Managing Director:  
J.C.O. Asselberghs

### FrieslandCampina Cheese Spain

Calle Balmes, 201  
2-2 E-08006 Barcelona  
Spain  
T +34 932 413 434

Managing Director:  
J.J. Boks

## FrieslandCampina Ingredients

### FrieslandCampina Ingredients

Stationsplein 4  
3818 LE Amersfoort  
Postbus 1551  
3800 BN Amersfoort  
The Netherlands  
T +31 33 713 3333

Executive Director:  
R.A. Joosten

### Satro GmbH

Wiedenbrücker Str. 80  
D-59555 Lippstadt  
Germany  
T +49 29416620

General Manager:  
H. Schygulla

### FrieslandCampina Domo

Stationsplein 4  
3818 LE Amersfoort  
Postbus 1551  
3800 BN Amersfoort  
The Netherlands  
T +31 33 713 3333

Managing Director:  
H.W.A. Ermens

### FrieslandCampina Creamy Creation

Hoogeindsestraat 31  
5447 PE Rijkevoort  
The Netherlands  
T +31 485 37 89 00

Managing Director:  
M.M.G.M. van den Hoven

### FrieslandCampina Domo Asia Pacific

F-39-12 level 12,  
Crest Building  
3 Two Square  
No. 2, Jalan 19/1  
46300 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia  
T +60 378 415 000

Regional Director Asia Pacific:  
A.I. Smit

### FrieslandCampina Creamy Creation USA

178 Washington Avenue  
NY 14020 Batavia  
United States of America  
T +1 585 3454290

Managing Director:  
B.F.J. van Hoorn

### FrieslandCampina Dairy Feed

Lage Landstraat 7  
5462 GJ Veghel  
Postbus 441  
5460 AK Veghel  
The Netherlands  
T +31 413 37 26 00

Managing Director:  
K.A. de Jong

### FrieslandCampina Domo Americas

61 S. Paramus Road,  
Suite 422  
Paramus, NJ 07652  
United States of America  
T +1 877 368 7378

Regional Director Americas:  
a.i. H.W.A. Ermens

### FrieslandCampina DMV

NCB laan 80  
5462 GE Veghel  
Postbus 13  
5460 BA Veghel  
The Netherlands  
T +31 413 37 22 22

Managing Director:  
H.J. Sips

### FrieslandCampina Kievit

Oliemolenweg 4a  
7944 HX Meppel  
Postbus 189  
7940 AD Meppel  
The Netherlands  
T +31 522 23 81 38

Managing Director:  
I.L.M. de Grefte

### DMV-Fonterra Excipients

Klevert Straße 187  
47574 Goch  
Germany  
T +49 2823 9288770

Chief Executive Officer:  
J. Jongsma

### FrieslandCampina Kievit Indonesia

Jl. Merpati 1  
50721 Salatiga  
Indonesia  
T +62 298 324 444

General Manager:  
L. Coolen











**FrieslandCampina** 

FrieslandCampina plays an important role in providing food for hundreds of millions of people all over the world on a daily basis. FrieslandCampina's products include dairy-based beverages, infant & toddler nutrition, cheese, butter, cream, desserts and functional dairy-based ingredients. In addition to consumer products FrieslandCampina also supplies professional customers, the food industry and the pharmaceutical sector.

FrieslandCampina has more than 130 years of dairy experience. With annual revenue of nearly 9 billion euro FrieslandCampina is one of the world's largest dairy companies. In the field of consumer products the Company is active in many European countries, in Asia and in Africa. Sales to industrial customers take place worldwide. FrieslandCampina's own offices and facilities in 25 countries employ a total of over 19,000 people. FrieslandCampina's products find their way to more than 100 countries.

Royal FrieslandCampina N.V. is owned by Zuivelcoöperatie FrieslandCampina U.A., with 14,800 member dairy farms in the Netherlands, Germany and Belgium.

**Royal FrieslandCampina N.V.**

Stationsplein 4  
3818 LE Amersfoort  
The Netherlands  
T +31 (0)33 713 3333

[www.frieslandcampina.com](http://www.frieslandcampina.com)

