



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

# Annual Report 2012

Royal FrieslandCampina N.V.



## Explanatory note

In this Annual Report the financial results and key developments of Royal FrieslandCampina N.V. (hereafter FrieslandCampina) during 2012 are presented.

The financial statements have been prepared as at 31 December 2012. The figures for 2012 and the comparative figures for 2011 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 2012 received by members of Zuivelcoöperatie FrieslandCampina U.A. for the milk they supplied was determined on the basis of FrieslandCampina's method for determining milk prices 2011 – 2013. All amounts in this report are in euros, unless stated otherwise.

This Annual Report includes statements about future expectations. These statements are based on the current expectations, estimates and projections of FrieslandCampina's management and the information currently available. The expectations are uncertain and contain elements of risk that are difficult to quantify. For this reason FrieslandCampina gives no assurance that the expectations will be realised.

This Annual Report is available in Dutch, English and German language versions. In the case of conflict between the versions the Dutch text is binding.

The Annual Report of Royal FrieslandCampina N.V. has also been published on the website <http://annualreport.frieslandcampina.com>. The iPad app FrieslandCampina Annual Report 2012 can be downloaded and the annual report is available on request from the Corporate Communication department of FrieslandCampina: [corporate.communication@frieslandcampina.com](mailto:corporate.communication@frieslandcampina.com)

### The terms used in this Annual Report include:

Royal FrieslandCampina N.V. (the 'Company' or 'FrieslandCampina')  
Zuivelcoöperatie FrieslandCampina U.A. (the 'Cooperative')  
Supervisory Board of the company (the 'Supervisory Board')  
Executive Board of the company (the 'Executive Board')





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# Annual Report 2012

Royal FrieslandCampina N.V.



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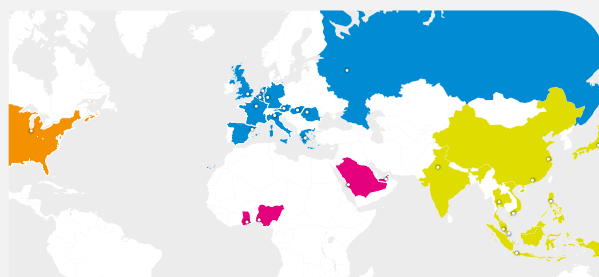
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## Royal FrieslandCampina at a glance

Every day Royal FrieslandCampina provides around 1 billion consumers all over the world with healthy food that is rich in valuable nutrients. With annual revenues of 10.3 billion euro FrieslandCampina is one of the world's five largest dairy companies. FrieslandCampina supplies consumer products such as dairy-based beverages, infant & toddler nutrition, cheese and desserts in many European countries and in Asia and Africa. Products such as cream and butter are also supplied to professional customers including bakeries and food-service companies. FrieslandCampina also produces ingredients and half-finished products for manufacturers of infant & toddler nutrition, the food industry and the pharmaceutical sector around the world.

**10.3 billion** euro  
revenue



**19,946**  
employees



Offices in

**28** countries



Exports to over

**100**  
countries



**19,487**   
member dairy farmers



own the Company

**1.0 billion**  
consumers



**482** million euro

operating profit up by 19.6%

**274** million euro

profit up by 26.9%

**842** million euro

cash flow from operating activities

**423** million euro

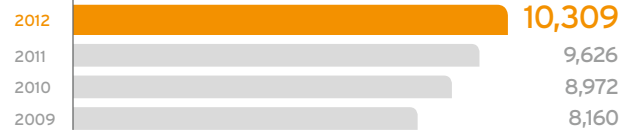
investments

**36.24** euro

milk price for members down by 6.5%

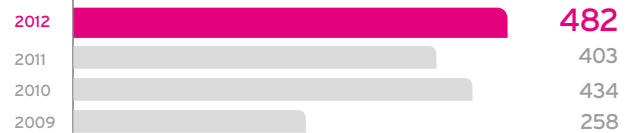
**Revenue**

in millions of euros

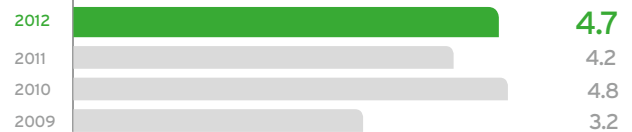


**Operating profit**

in millions of euros

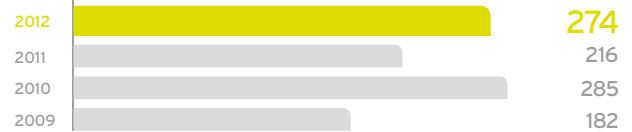


**Operating profit as a % of revenue**



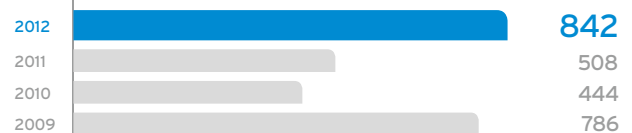
**Profit**

in millions of euros



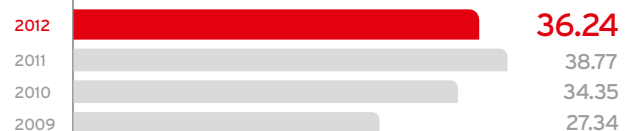
**Operational cash flow**

in millions of euros



**Milk price**

in euros per 100 kilos, excl. VAT



## Foreword



Dear reader,

FrieslandCampina can look back on a good year. The *route2020* strategy has delivered results faster than expected. FrieslandCampina is focused on the future. Every year the Company invests around 400 to 500 million euro. Much of the investment is to achieve growth so that the expected increased quantity of member milk can be processed. The Company is financing this production capacity expansion with its own means. Most of the investments are taking place in the Netherlands and, in particular, in the area of expanding the production capacity of infant & toddler nutrition – the segment in which the most robust growth is being achieved by responding to the increasing demand from Asia for high-quality dairy products.

### **A sharp increase in revenue and profit**

In 2012 revenue exceeded 10 billion euro for the first time and profit also improved compared with the preceding year. The growth categories of dairy-based beverages, infant & toddler nutrition and branded cheese performed well. The activities in Asia in particular made a substantial contribution towards the growth. Asia now accounts for 26 percent of FrieslandCampina's growth.

### **Higher profit, higher performance payment**

Thanks to the increased profit the performance premium and the distribution of member bonds rose to 2.37 euro per 100 kilos of milk. The milk price for the Cooperative's member dairy farmers

dropped to 36.24 euro per 100 kilos of milk (2011: 38.77 euro) because the guaranteed price was lower due to the lower milk prices of the reference companies. The lower milk price and increased feed costs put the income of the member dairy farmers under pressure.

### **A difficult European market**

Despite the difficult market conditions in Europe, the Consumer Products Europe business group achieved a better result. Although the market shares and volume development of most of the brands were under pressure, cost increases were passed on to the market more effectively. At the end of 2012 a reorganisation of the activities in Germany and Hungary was announced. Cost reduction and further efficiency improvements are necessary if FrieslandCampina is to remain competitive in these markets. Unfortunately this means several hundred jobs will be lost in these countries.

### **Optimised business systems**

The processing of milk links virtually all FrieslandCampina's business units. By-products of one business unit are important raw materials for another unit. Currently FrieslandCampina still uses a variety of automation systems left over from before the merger. A single new management and planning system will contribute towards cohesion of all the activities and a better valuation of the milk.

### Socially responsible

Today for a company or organisation to blossom, it must be part of the community. FrieslandCampina achieves this by being open about what it does, and why, and thus entering into dialogue with its stakeholders. Opting to make the entire production chain more sustainable plays a major role as it necessitates further

*"FrieslandCampina can look back on a good year."*

collaboration with customers and suppliers. As the world's population grows, so too does the world's need for nutritionally relevant food. FrieslandCampina already supplies 1 billion consumers in over 100 countries with dairy-based beverages, infant & toddler nutrition, cheese, butter, yoghurts and desserts for every time of day, every day. FrieslandCampina wants to do that, with respect for people, animals, the environment and society, in the interests of its owners - the member dairy farmers -, its customers, its employees and its suppliers. This fits in with the cooperative tradition of over 140 years.

### Further growth

With the expansion of the production capacity for infant & toddler nutrition and ingredients in 2013/2014, FrieslandCampina can respond better to the growing demand for ingredients and end products and growth can be accelerated. With dairy-based beverages the aim is a recovery of the market shares in Asia and Africa. The economic outlook in Europe is less positive. As a consequence, FrieslandCampina anticipates that volumes of both dairy-based beverages and cheese will remain under pressure. The focus is on margin improvement, cost management and market-share retention.

### Acquisitions

FrieslandCampina has grown both organically and through acquisitions. The purchase of Alaska Milk Corporation, the number two in the Philippine dairy market, has strengthened the Company's position in Asia. In Belgium cheese packaging company IDB Belgium N.V. has been acquired. This acquisition has strengthened FrieslandCampina's position in pre-packaged cheese. Both companies made a positive contribution towards the 2012 profit. In January 2013 agreement was reached with Mijwo Beheer B.V. regarding the intended acquisition of cheese specialist Zijerveld en Veldhuyzen B.V. and its packaging unit G. den Hollander Holding B.V. This acquisition, which must still be approved by the European Commission, will enable FrieslandCampina to offer its customers a wider range of

cheese and services and, by so doing, achieve growth with products with more added-value.

### Building for the future

Every year FrieslandCampina invests between 400 and 500 million euro of its own money. In the current economic situation in Europe this is exceptional. With the investments and the increasing exports to growth regions in Asia and Africa, FrieslandCampina is contributing towards maintaining job opportunities and increasing Dutch export. FrieslandCampina believes the opening of the new FrieslandCampina Innovation Centre in Wageningen in October 2013 will give new impetus to its innovative strength.

The investments in capacity expansion, the changes to the organisation and the renewal of systems ask much of the employees. My colleagues in the Executive Board and I thank all FrieslandCampina's employees for their efforts and for the result we have achieved together: the highest revenue and best result since FrieslandCampina came into being. I would also like to thank the member dairy farmers for the good cooperation and positive criticism I have experienced during various meetings and contacts.

## Kapil Garg

It was with great sadness that in January 2013 we had to say goodbye to our colleague Kapil Garg, who, as Chief Operating Officer, was responsible for all FrieslandCampina's activities in Asia and Africa. After a period of illness he died in Singapore on 16 January 2013. He was just 48 years old. Kapil was a born leader and his enormous store of energy motivated his colleagues. He remained positive until the very end. His wisdom and loyalty will be greatly missed on both the business and personal front.

Cees 't Hart  
CEO Royal FrieslandCampina N.V.

Amersfoort, the Netherlands, 1 March 2013

## Major developments in 2012

### The most important financial developments in 2012

- Profit up by 26.9 percent to 274 million euro
- Cash flow from operating activities rises significantly by 334 million euro (65.7 percent) to 842 million euro due to higher profit and better working capital management
- Net revenue up by 7.1 percent to 10.3 billion euro through a shift in volume from commodities and basis products to growth categories, acquisitions and currency translation effects



### Achievement of *route2020* strategy ahead of schedule

- 10.2 percent volume growth in infant & toddler nutrition
- 9.5 percent volume growth in dairy-based beverages outside of Europe
- 4.4 percent volume growth in branded cheese due to increased export



### Milk price for member dairy farmers

per 100 kilos of milk excl. VAT, at 4.41 percent fat and 3.47 percent protein





- Operating profit up by 19.6 percent to 482 million euro, while the meadow milk premium rises by 25 million euro to 28 million euro (2011: 3 million euro)

- Improved results from the Consumer Products International, Ingredients and Consumer Products Europe business groups

- Cheese (branded cheese and basic cheese) performs well, the Cheese, Butter & Milkpowder business group's overall result drops due to lower results from butter and milk powder

- The economic situation in Europe puts pressure on volumes and margins



- The acquisition of Alaska Milk Corporation (Philippines) and IDB Belgium N.V. and the intended acquisition of Zijerveld and Veldhuyzen B.V. and G. den Hollander Holding B.V. strengthen the positions in dairy-based beverages and cheese

- Investments of 423 million euro mainly in expanding infant & toddler nutrition and milk processing capacity
- Further improvements to safety and safety awareness

- Sustainability programme for the Company and the Cooperative in progress; more and more collaboration in the field of sustainability with major customers

- Performance premium (1.42 euro) and distribution of member bonds (0.95 euro) up by a total of 0.54 euro (29.5 percent) to 2.37 euro
- Guaranteed price down by 3.07 euro (8.3 percent) to 33.87 euro

- Milk price for member dairy farmers down by 2.53 euro (6.5 percent) to 36.24 euro
- Milk price + supplements down by 2.24 euro (5.8 percent) to 36.68 euro



## Key figures

### Results

in millions of euros	2012	2011	Δ %
Revenue	10,309	9,626	7.1
Operating profit	482	403	19.6
Profit	274	216	26.9

### Balance sheet

in millions of euros	2012	2011	Δ %
Balance sheet total	6,838	5,739	19.1
Equity	2,514	2,264	11.0
Net debt <sup>1</sup>	685	699	-2.0
Equity as a percentage of balance sheet total	36.8%	39.4%	

### Cash flow

in millions of euros	2012	2011	Δ %
Net cash flow from operating activities	842	508	65.7
Net cash used in investing activities	-702	-340	

### Investments

in millions of euros	2012	2011	Δ %
Investments	423	376	12.5

### Value creation for member dairy farmers

in euro per 100 kilos (excl. VAT, at 4.41% fat and 3.47% protein)	2012	2011	Δ %
Performance premium	1.42	1.10	29.1
Issuance of registered member bonds	0.95	0.73	30.1
Guaranteed price	33.87 <sup>2</sup>	36.94	-8.3
Milk price	36.24	38.77	-6.5
Meadow milk premium <sup>3</sup>	0.32	0.03	
Special supplements <sup>4</sup>	0.12	0.12	
Milk price + supplements	36.68	38.92	-5.8

### Additional information

	2012	2011	Δ %
Employees (average numbers of FTEs)	19,946	19,036	4.8
Number of accidents with sick leave per 200,000 hours worked	1.0	1.5	
Number of member dairy farms at year end	14,132	14,391	-1.8
Number of member dairy farmers at year end	19,487	19,848	-1.8
Total milk processed (in millions of kilos)	10,215	10,140	0.7
Milk supplied by member dairy farmers (in millions of kilos)	8,860	8,838	0.2

<sup>1</sup> Net debt concerns long-term interest-bearing obligations, obligations to lenders and the net of obligations to and receivables from associated companies minus freely available cash and cash equivalents.

<sup>2</sup> This means the balance of the guaranteed price of 33.80 euro and an adjustment of 0.07 euro for a too low estimate for 2012.

<sup>3</sup> As of 2012 member dairy farmers who put their cows out in the meadow receive a meadow milk premium of 0.50 euro per 100 kilos of milk. Averaged over all FrieslandCampina member milk, this is 0.32 euro per 100 kilos of milk.

<sup>4</sup> Special supplements relates to the total payments per 100 kilos of milk for Campina milk (1.20 euro), organic milk (8.60 euro) and Landliebe milk (1.00 euro). Averaged over all FrieslandCampina member milk, this is 0.12 euro per 100 kilos of milk.

## Consumer Products Europe

in millions of euros	2012	2011	Δ %
Revenue from third parties	2,814	2,892	-2.7
Internal supplies	107	104	2.9
Operating profit before reorganisations <sup>5</sup>	104	72	44.4
Operating profit <sup>6</sup>	75	72	4.2
Operating profit as a % of revenue	2.7	2.5	
Employees (average number of FTEs)	6,637	6,787	-2.2
Market share brands	▼		
Volume	▼		

## Consumer Products International

in millions of euros	2012	2011	Δ %
Revenue from third parties	3,180	2,460	29.3
Internal supplies	169	173	-2.3
Operating profit <sup>6</sup>	514	359	43.2
Operating profit as a % of revenue	16.2	14.6	
Employees (average number of FTEs)	7,516	6,684	12.4
Market share brands	▲		
Volume	▲		

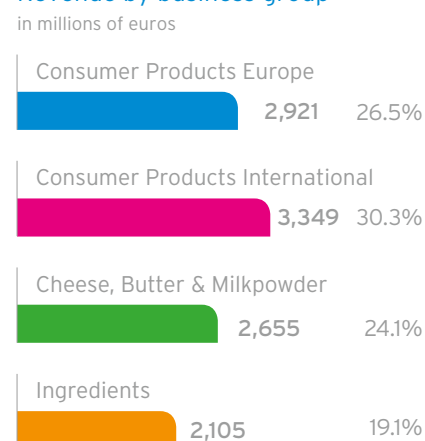
## Cheese, Butter & Milkpowder

in millions of euros	2012	2011	Δ %
Revenue from third parties	2,370	2,474	-4.2
Internal supplies	285	348	-18.1
Operating profit <sup>6</sup>	-39	8	
Operating profit as a % of revenue	-1.6	0.3	
Employees (average number of FTEs)	2,331	2,339	-0.3
Market share brands	▼		
Volume	▲		

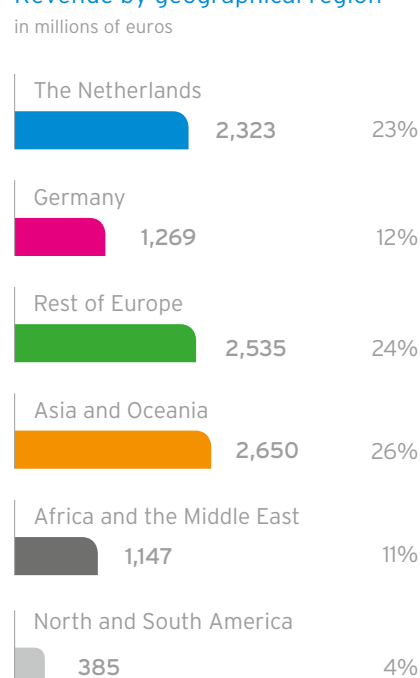
## Ingredients

in millions of euros	2012	2011	Δ %
Revenue from third parties	1,677	1,512	10.9
Internal supplies	428	418	2.4
Operating profit <sup>6</sup>	224	201	11.4
Operating profit as a % of revenue	13.4	13.3	
Employees (average number of FTEs)	2,684	2,486	8.0
Volume	▲		

## Revenue by business group



## Revenue by geographical region



<sup>5</sup> Operating profit before reorganisation costs in Germany and Hungary.

<sup>6</sup> Since 2012 the performance premium and distribution of registered member bonds have not been allocated to the business groups. In previous years they were allocated pro rata based on the quantity of member milk received. As a result of these amendments the

operating profit reflects the commercial performance more accurately. This amendment has the most effect on the business groups that process a considerable quantity of milk, such as Cheese, Butter & Milkpowder. The comparative figures for 2011 have been adjusted. The amendment has no effect on the consolidated equity, result or balance sheet total.

# FrieslandCampina

## The challenges



FrieslandCampina wants to contribute towards solving social issues



### The challenges of **food security and safety**

#### The challenges for **dairy farmers**

- The increasing average age of farmers worldwide
- Offer young dairy farmers a positive future
- Worldwide 750–900 million people depend on the dairy farming sector

- Feed the world's growing population: in 2050 feed 7 to 9 billion people, 70 percent of whom are city dwellers
- Food security, nutrition security and affordable nutrition
- Food safety and consumer trust

#### The challenges of **sustainability**

- Less CO<sub>2</sub> emissions and more renewable energy
- Increasing scarcity of land, water and other natural resources
- Nature conservation and maintaining the diversity of animals and plants (biodiversity)

## Dairy with a purpose >

*The world's population is increasing and with it the need for food. This global development has implications for the health of people and animals as well as for the environment. How will sufficient, nutritious and energy-rich food be produced? What are the consequences of this for the environment? And are there still enough farmers who produce food and, while doing so, achieve a fair income for themselves?*

Providing people around the world with the right nutrition is the challenge. FrieslandCampina's ambition is to provide more help to people and the communities in which they live. FrieslandCampina does this by offering nutritious dairy products and by perpetuating the Company's long tradition of working and doing business as a cooperative.

Enabling parents to give their children reliable and nutritious dairy products is what motivates FrieslandCampina's member dairy farmers and employees. It's what the Company has been doing for more than 140 years. Every day one billion consumers once again experience FrieslandCampina's innovative and tasty dairy products.

FrieslandCampina brings the best of two worlds together by combining the professionalism and entrepreneurship of its member dairy farmers with the expertise, customer-orientation and experience of global operation of its employees. This safeguards the Company's growth in both the consumer and industrial markets.

FrieslandCampina is committed to high quality, sustainability and transparency standards throughout the entire chain - 'from grass to glass'. This lays the foundations for the trust of customers and consumers in the products and safeguards the continuity that is the hallmark of the Cooperative.

FrieslandCampina believes in shared value: the shared achievement of a good income for the member dairy farmers, career development perspectives for the employees and added-value for customers and consumers. At the same time FrieslandCampina wants to stand for added-value for the communities in which it operates. This is how opportunities are created and perspectives are offered to all stakeholders.

## Aspiration >

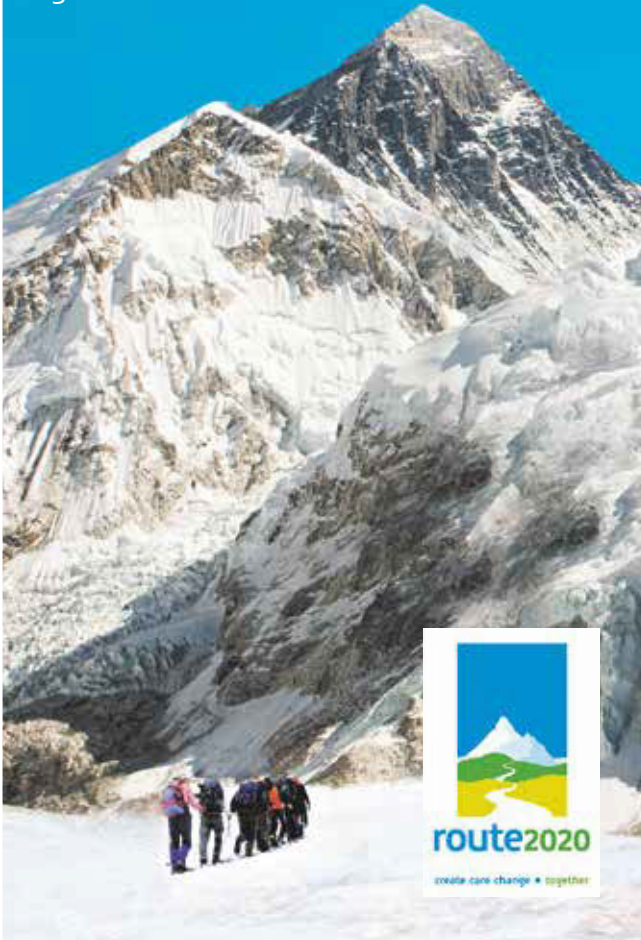


To supply people around the world with essential nutrients from natural dairy produce



To be the most attractive dairy company for member dairy farmers

route2020:  
growth and value creation



- Growth categories
- Respond to needs
- Capabilities
- Foundations

Differentiating



**Milk:** nutritious by nature



**From grass to glass:** guaranteed quality throughout the chain



**Cooperative tradition:** continuity and sustainable growth



**Our way of working:** invest in the growth and development of people



**Sustainability and responsibility:** create added-value in a sustainable and transparent way



**Global player in agri-food:** contribute towards food security with a local focus

## Added-value



### Creating shared value for:


- member dairy farmers
- customers
- consumers
- (potential) employees
- investors
- society



**Aspiration**




To supply people around the world with essential nutrients from natural dairy produce




To be the most attractive dairy company for member dairy farmers


**Growth categories**




Dairy-based beverages




Infant & toddler nutrition (B2B, B2C)




Branded cheese



Strongholds & geographic expansion




Foodservice in Europe




Basic products


**Respond to needs**




Growth & development



Daily nutrition




Health & wellness




Functionality


**Capabilities**




Talent management



Milk valorisation



Innovation



Business model & cost focus

**Foundation**



Goodness of dairy



Chain advantages



Sustainable dairy farming & business operations



The way we work & safety



## route2020 strategy: growth and value creation

FrieslandCampina's ambition is to offer people essential nutrients with natural dairy products and, at the same time, to be the most attractive dairy company for the Cooperative's member dairy farmers. The world market's growing demand for healthy, sustainably produced food offers FrieslandCampina opportunities. Milk does indeed contain essential nutrients such as proteins, fats, milk sugars, vitamins and minerals.

FrieslandCampina has defined six growth categories. In three of them - dairy-based beverages, infant & toddler nutrition and branded cheese - above-average investments have been made in the field of marketing, innovation and capital goods.

To fulfil this ambition, FrieslandCampina formulated the *route2020* strategy for the period 2010 - 2020. The key words are growth and value creation: growth of the Company and maximising the value of all the milk produced by the Cooperative's member dairy farmers.

FrieslandCampina strives to achieve the following goals:

- an increased share of added-value and branded products in the total sales volume;
- a further operating profit growth;
- a substantially higher performance premium and a higher distribution of member bonds for the member dairy farmers;
- a halving of the number of job-related accidents within five years;
- climate-neutral growth throughout the entire chain from cow to consumer.

The efforts in the field of marketing and innovation are concentrated on growth & development (of children), daily nutrition, health & wellness and functionality.

Because it is directly linked with the Cooperative, FrieslandCampina controls the entire production chain from raw milk to distribution. As a result FrieslandCampina can vouch for the quality of its products. In the collaboration with member dairy farmers the accent is primarily on providing safe nutrition and operating sustainably.

FrieslandCampina strives to achieve the foreseen growth of its activities in a climate-neutral manner throughout the entire chain from cow to consumer. The Company wants to achieve this by working with the member dairy farmers and chain partners on improving energy efficiency, reducing greenhouse gas emissions and stimulating the production of sustainable energy on dairy farms.

Information about the achievement of the strategy can be found on page 23.





## Milk: nutritious by nature

FrieslandCampina offers people essential nutrients during every phase of their lives. Milk is the result of the dairy cattle's ability to convert grass that is indigestible for people into one of the most nutritious foods there is. Milk is not only tasty; it also contains essential nutrients the human body needs and cannot make for itself: proteins, vitamins B2 and B12, and minerals such as calcium. FrieslandCampina, together with the member dairy farmers, continuously extends its expertise. From improving the quality of meadows to the worldwide offering of a choice of products with different tastes and applications as well as the best possible ingredients for the food and pharmaceutical industries. Working with milk is, and remains, fascinating.

"In Indonesia we are facing a double challenge: undernourishment on the one hand and over-eating, obesity for example, on the other hand. Both will in time result in chronic illnesses for adults. Of course we have to have a balanced diet that incorporates a wide variety of nutrients. The government cannot solve the nutritional problems by itself, the expertise of academics is needed. To really solve the problems, we also need the private sector, to work hand in hand on the future of our communities."

**Dr. Saptawati Bardosono** - MSc, Nutritionist, lecturer in the Department of Nutrition in the Faculty of Medicine at the University of Indonesia



"Milk contains many of the essential nutrients that people need on a daily basis. Nutrients your body cannot make for itself and, therefore, has to get from the food you eat. As a parent you want your children to have all the nutrients they need to grow and develop properly. So you have to look for food that contributes towards them getting these essential nutrients. Milk, like vegetables, fruit, bread, meat, fish and eggs, supplies the majority of these nutrients."

**Petra Dekker** - Corporate Manager Diet & Health, FrieslandCampina



# Report of the Executive Board

*route2020 strategy successful*

## **2012: record revenue and profit**

- Growth in infant & toddler nutrition, dairy-based beverages and branded cheese
- Consumer Products International and Ingredients improve results
- Consumer Products Europe improves result despite difficult market conditions
- Lower results for butter and milk powder due to market developments
- Substantial cash flow improvement
- Milk price for member dairy farmers drops despite higher performance premium and distribution of member bonds
- Achievement of *route2020* strategy ahead of schedule

In 2012 FrieslandCampina achieved record revenue of 10.3 billion euro, a growth of 7.1 percent compared with 2011. Operating profit rose by 19.6 percent to 482 million euro. Profit rose by 26.9 percent to 274 million euro. A shift in volumes from commodities to products within the growth categories and the acquisition of Alaska Milk Corporation and IDB Belgium have contributed towards the revenue growth and improved profit. The operational cash flow improved by 65.7 percent to 842 million euro due to the increased profit and structurally improved working capital management. The infant & toddler nutrition category achieved the strongest growth.

### **Record revenue**

In 2012 revenue rose by 7.1 percent to 10,309 million euro. The key reason for the higher revenue was the shift in the portfolio from commodities to products in the growth categories of infant & toddler nutrition, dairy-based beverages and branded cheese. The 10.2 percent volume growth of infant & toddler nutrition and the 9.5 percent volume growth of dairy-based beverages outside of Europe were positive. The branded cheese category achieved a volume growth of 4.4 percent through increased export. The volume of dairy-based beverages in Europe and commodities dropped. Although the sales prices of the majority of the products rose, sales prices for butter and milk powder fell by 10.7 percent. As a result the average sales price fell. The acquisition of dairy company Alaska Milk Corporation in the Philippines in March 2012 and of IDB Belgium in October 2012 contributed 237 million euro (2.5 percent) towards the revenue growth. Currency translation effects had a net positive effect on revenue of 1.4 percent (139 million euro). In Europe reduced consumer spending as a result of the economic crisis in many European countries put pressure on volumes and revenue. Sales prices in Europe remain under the 2010 level due to the economic crisis.

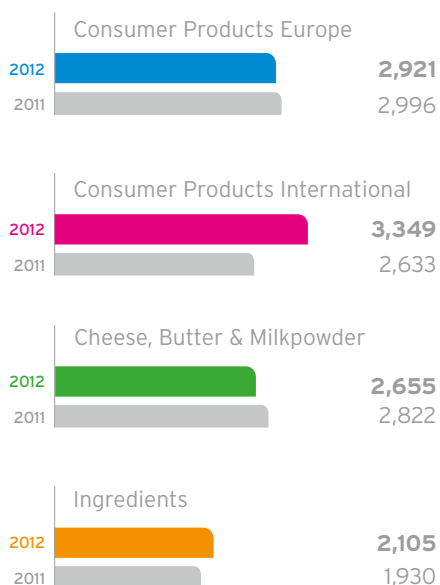
### **Key figures**

in millions of euros	<b>2012</b>	2011	Δ %
Revenue	10,309	9,626	7.1
Operating profit	482	403	19.6
Profit	274	216	26.9
Volume	▲		



### Revenue by business group

in millions of euros



### Improved operating profit

Operating profit rose by 19.6 percent to 482 million euro despite the amount paid out in meadow milk premium (charged to the result) increasing by 25 million euro to 28 million euro (2011: 3 million euro).

Operating profit rose because more of the increases in raw material and packaging costs could be passed on in the sales prices, unlike in 2011 when this was impossible. In addition, far-reaching efficiency improvements in production and

cost management by the European operating companies contributed towards the increased profit. Although the Cheese, Butter & Milkpowder business group benefited from higher prices for cheese, the sales prices for butter and milk powder were substantially lower due to low world market prices for these products.

In 2012 operating costs rose by 6.5 percent to 9,842 million euro (2011: 9,243 million euro) as a result of higher packaging, raw materials and energy costs. By contrast, in 2012 the milk price + supplements paid for the milk supplied by the member dairy farmers fell by 5.8 percent due to the lower guaranteed price for milk.

### Higher profit

Profit for 2012 rose by 26.9 percent to 274 million euro (2011: 216 million euro) due to a higher operating profit and lower financing costs and despite higher taxation as a result of higher profit and the writing-down of deferred tax assets in Germany. The profit attributable to the Company's shareholder (the Cooperative) amounted to 158 million euro (2011: 122 million euro).

### Substantially improved cash flow

Cash flow from operating activities improved substantially to 842 million euro (2011: 508 million euro), thanks to the improved results and structurally improved working capital management. Net cash flow expenditure from investing and financing activities rose due to the acquisition of Alaska Milk Corporation and IDB Belgium and the extensive investment programme.

### Milk price system

FrieslandCampina's milk price comprises the guaranteed price, the performance premium and the distributed registered fixed member bonds. In addition, the Company pays supplements for meadow milk, Campina milk, Landliebe milk and organic milk. The guaranteed price is the weighted average of the annual milk prices for raw milk paid by the reference companies (twelve German dairy companies, Arla Foods in Denmark, Bel Leerdammer, Cono Kaasmakers and DOC Kaas in the Netherlands and Milcobel in Belgium) and includes any back payment from the reference companies to their dairy farmers and any formation of equity in the name of the reference companies' dairy farmers.

The amount of the performance premium and the distribution of member bonds depends on the Company's financial performance and the reservation policy.

Fifty percent of the profit of Royal FrieslandCampina N.V. is added to the company's equity. Thirty percent is paid out to the member dairy farmers in cash as a performance premium for the milk supplied and twenty percent is paid out in the form of fixed member bonds. The calculation of the guaranteed price can be adjusted if in any year a goodwill impairment amounting to at least 100 million euro is necessary. In such a case the adjustment, which can only be made if it is proposed by the Executive Board and approved by the Supervisory Board, could mean that the addition to the Company's reserves is reduced, which would make a larger portion of the profit available to members, but would remain in conformance with the other stipulations of the milk payment regulations and the applicable reservation policy. The adjustment may not exceed the portion of the profit that, in accordance with the reservation policy applicable in the year in question, could be added to the Company's reserves.

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.

At the end of 2012 the pricing system for organic milk was amended after intensive consultation with the organic member dairy farmers. As of 2013 the organic milk price paid out each year to the organic members comprises the organic guaranteed price, the performance premium and the distribution of fixed member bonds (registration by name).

### Milk supply

In 2012 8.9 billion kilos of milk was offered by the Cooperative's members. This meant the amount of milk supplied was slightly higher (0.2 percent) than in 2011 (8.8 billion kilos).

### Milk price 36.24 euro

For the raw milk they supplied in 2012 the member dairy farmers of Zuivelcoöperatie FrieslandCampina U.A received a performance premium of 1.42 euro per 100 kilos of milk, excluding VAT. This was 29.1 percent higher than the performance premium for 2011 (1.10 euro per 100 kilos of milk). The distribution of member bonds for 2012 was 84 million euro. This amounts to 0.95 euro per 100 kilos of milk (2011: 0.73 euro per 100 kilos of milk).

The guaranteed price for 2012 was 33.87 euro, excluding VAT per 100 kilos of milk, 8.3 percent lower compared with 2011 (36.94 euro per 100 kilos of milk). The drop was the result of the lower milk prices of the reference companies primarily as a consequence of lower sales prices for butter and milk powder.

In 2012 the milk price amounted to 36.24 euro, excluding VAT per 100 kilos of milk at 4.41 percent fat and 3.47 percent protein, a decrease of 6.5 percent compared with 2011 (38.77 euro per 100 kilos of milk).

Since 1 January 2012 member dairy farmers who put their cows out in the meadow to graze on at least 120 days a year, for at least six hours a day, are paid a meadow milk premium of 0.50 euro per 100 kilos of milk (was 0.05 euro per 100 kilos of milk). Calculated over all the member milk, the meadow milk premium amounts to 0.32 euro per 100 kilos of milk. Other supplements are, per 100 kilos of milk, 1.20 euro for Campina milk, 8.60 euro for organic milk and 1.00 euro for Landliebe milk. Calculated over the total quantity of FrieslandCampina milk, the special supplements amount to 0.12 euro per 100 kilos of milk.

### Chain involvement

To achieve market success, Zuivelcoöperatie FrieslandCampina U.A.'s member dairy farmers and the Royal FrieslandCampina N.V. company are very dependent on each other. The member dairy farmers make a major contribution towards the quality, safety and sustainability of the raw milk with which the Company with its products and working method can differentiate itself in the market. More and more members, customers and social organisations are seeing the importance of better cooperation in the production chain so as to safeguard food supply in a sustainable manner. On the one hand efforts are being made to increase the member dairy farmers' involvement with FrieslandCampina and the market. On the other hand customers and consumers are being brought into contact with dairy farming. Initiatives such as farm open days and visits to dairy farms by schools and customers are contributing towards this.

### Achievement of the route2020 strategy

In 2012 FrieslandCampina took further major steps towards achieving the *route2020* strategy aimed at growth and value creation in selected markets and product categories.

#### Growth

Total sales volume rose by 2.4 percent, primarily due to acquisitions. There was also a shift from commodities to the three growth categories of infant & toddler nutrition, dairy-based beverages and branded cheese, which resulted in a 4.1 percent volume growth within these three growth categories.

Most of the organic growth was achieved in the infant & toddler nutrition category in which 10.2 percent volume growth was achieved in the consumer market and the business-to-business market. The dairy-based beverage category also achieved volume growth, mainly in Asia and Africa, where 9.5 percent volume growth was achieved. In Europe the development of dairy-based beverages lagged behind due to the economic crisis. The volume of branded cheese rose by 4.4 percent due to increased export outside Europe.

#### Acquisitions

The acquisition of Alaska Milk Corporation in the Philippines in March was a major step in the desired geographic expansion that is a component of FrieslandCampina's growth strategy. The Philippines is enjoying robust economic growth and its population is increasing rapidly. In addition, Alaska Milk Corporation product range dovetails well with FrieslandCampina's activities in Asia.

In 2012 FrieslandCampina responded to the growing demand for pre-cut and packaged cheese from countries outside of Europe by acquiring the Belgian cheese packaging company IDB Belgium N.V. In France a collaboration with Bongrain for the sale of branded cheese in the French retail market has been established.

At the beginning of January 2013 FrieslandCampina and Mijwo Beheer B.V. reached agreement regarding FrieslandCampina's intended acquisition of cheese specialist Zijerveld en Veldhuyzen B.V. and its packing unit G. den Hollander Holding B.V. The acquisition will enable FrieslandCampina Cheese and Zijerveld to offer their clients a wider range of cheeses and package of services. Zijerveld has a wide range of speciality cheeses, such as cheeses from the Dutch province of North Holland with an EU Protected Geographical Designation (red EU seal) and farmhouse cheese, and offers customers not only expertise but also made-to-measure concepts and logistics services. The acquisition is in line with the *route2020* ambition of achieving growth of products with added-value. The acquisition is still dependent on approval from the European Committee.

FrieslandCampina's intended acquisition, announced in February 2012, of the dairy companies Imlek and Mlekara Subotica, active in the Western Balkans, did not happen. The parties did not succeed in reaching an agreement regarding the transaction conditions.

#### Investments

In 2012 FrieslandCampina invested 423 million euro in achieving growth in the growth categories and in ensuring the anticipated increasing quantity of milk from member dairy farmers, as a result of the ending of the EU milk quota, can be processed in 2015. The major investment projects include:

FrieslandCampina Domo, Beilen, the Netherlands

- Investment: 145 million euro
- Duration: 2011 - 2015
- Goal: expanding the capacity for infant & toddler nutrition by installing new spray-drying towers, expanding small packaging and improving infrastructure



### Cheese in many sizes

Cheese cut into cubes or sticks, grated cheese from fine to thick - the Belgian company IDB Belgium in Genk does it all. Since October 2012 the cheese processing and packaging company has formed part of the Cheese, Butter & Milkpowder business group. IDB Belgium will from now on be known as Yoko Cheese. The acquisition of the company is in line with the business group's strategy. In this way the business group can serve its clients better with a broader range of products. The acquisition has strengthened FrieslandCampina's position in the pre-packaged cheese segment.

FrieslandCampina Domo, Bedum, the Netherlands

- Investment: 105 million euro
- Duration: 2012 - 2014
- Goal: expansion of milk processing capacity and infant & toddler nutrition production

FrieslandCampina DMV, Veghel, the Netherlands

- Investment: 60 million euro
- Duration: 2012 - 2013
- Goal: expansion of milk processing capacity and infant & toddler nutrition production by expanding the capacity for receiving and de-creaming raw milk and processing whey and improving the efficiency of caseinate and lactose production

FrieslandCampina Leeuwarden, the Netherlands

- Investment: 35 million euro
- Duration: 2013 - 2015
- Goal: expansion of milk processing capacity through renewing and expanding the production capacity of evaporated and condensed milk for export

FrieslandCampina Innovation Centre,  
Wageningen, the Netherlands

- Investment: 40 million euro
- Duration: 2011 - 2013
- Goal: new building with research facilities, laboratories, a testing factory and offices

## The five largest FrieslandCampina Ingredients products

- (Pharmaceutical) lactose (milk sugar - carrier for medicines and an ingredient of foodstuffs)
- Caseinates (milk protein - used as source of protein in medicinal food, sport and diet food and as an emulsifier in food)
- Creamers (powdered products for use in beverages such as coffee and tea)
- Vivinal GOS (galacto oligo saccharide - ingredient from milk for infant & toddler nutrition)
- Deminal and Hiprotal (whey proteins and demineralised whey products for infant & toddler nutrition, nutrition and sport and diet food)

### Value creation

The increased profit resulted in increased payments to member dairy farmers of the performance premium and the registered member bonds. Compared with 2011 the performance premium and registered member bonds rose by 29.5 percent from 1.83 to 2.37 euro per 100 kilos of milk.

### Sustainability

In 2012 further steps were taken to safeguard the Company's and the Cooperative's sustainability objectives including:

- implementation of the sustainability programme at member dairy farms (Foqus planet);
- purchasing of sustainable raw materials;
- further efficiency measures in the field of energy, water and waste;
- 30 percent of the power FrieslandCampina used in the Netherlands is green power sourced from member dairy farms;
- collaboration agreements with the Dutch Red Cross and Agriterro (support programme for small farmers in developing countries).

### Organisational changes

In its efforts to achieve a more streamlined organisation, in 2012 FrieslandCampina implemented various changes in the organisation, including:

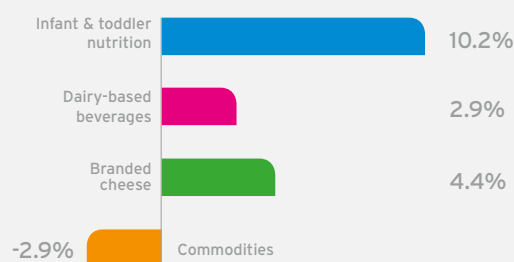
- the sales activities for consumer products have been integrated into a single sales organisation in the Netherlands. As of January 2013 the branded cheese sales activities in the Netherlands have also been integrated into this organisation;
- since 1 January 2013 the export activities of FrieslandCampina Cheese Specialties and FrieslandCampina Export have been integrated into a new FrieslandCampina Export organisation in Wollega (the Netherlands);
- activities aimed at the development of the consumer and ingredients markets in Southeast Asia, the Middle East and Africa have been concentrated in Singapore; and
- employee training & education programmes have been intensified.

An investment and optimisation programme aimed at strengthening FrieslandCampina's competitive position in Germany has been announced. The plans foresee investments in the German facilities and infrastructure and in the Landlei brand. The facilities in Cologne, Gütersloh and Heilbronn are being modernised and production and administrative processes are being improved and more geared to each other in order to reduce costs. As a result of the reorganisation around 230 of the total of 1,500 jobs will be lost. A reorganisation programme

### More products with added-value

In 2012 the volume and revenue share of products with added-value was higher than in 2011. In the *route2020* strategy the shift in the range from commodities to products within the growth categories is a major goal.

### Volume development strategic growth categories



in Hungary has also been announced. Production will be concentrated in the production facility in Mateszalka. Logistics and administrative support will be centralised in Budapest.

### Financial position

As at 31 December 2012 net debt amounted to 685 million euro, 14 million euro less than at the end of 2011. The increased need for financing for acquisitions was partly financed out of the high operating cash flows.

At the end of 2012 equity amounted to 2,514 million euro (end of 2011: 2,264 million euro). Equity has been strengthened by the reservation of profit.

Solvency (equity as a percentage of the balance sheet total) fell to 36.8 percent (end of 2011: 39.4 percent) mainly due the higher balance sheet total. This is the result of the acquisition of Alaska Milk Corporation and IDB Belgium and investments in capacity expansion in the context of *route2020*.

Net finance income and expenses improved by 15 million euro to 57 million euro negative. The improvement was due primarily to the positive currency translation effect on temporary short-term financing. The net interest expense amounted to 33 million euro (2011: 40 million euro).

Profit from joint ventures and associated participations rose from 13 million euro in 2011 to 16 million euro in 2012.

Taxes amounted to 167 million euro (2011: 128 million euro). The increase was primarily due to the higher profit and the writing-down of deferred tax assets in Germany.

### Financing

FrieslandCampina raises loans from different groups of lenders (member dairy farmers, banks and investors). 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 (Revolving Credit Facility) amounting to 1 billion euro with a term until August 2015. In addition, at the end of December 2012 FrieslandCampina had loans of 808 million dollar and 25 million euro with institutional investors. In June 2012 private loans amounting to 500 million dollar were placed with institutional investors in the United States. These private loans, which went into effect on 30 August 2012, have terms of between 5 and 15 years. The loans will be used for several purposes including the financing of acquisitions, such as the acquisitions of Alaska Milk Corporation and IDB Belgium.

To hedge the currency risk, the dollar loans have been converted into euro liabilities via currency swaps.

### Pension charges and coverage ratio

In 2012 pension charges rose from 88 million euro to 93 million euro. Most of the charges related to the Dutch pension plans. The most important pension agreements with FrieslandCampina's Dutch employees are laid down in the Employment Agreement related to pensions for the dairy industry. Within the Company there are other pension plans in place. The pension plans are administered by various external pension administrators, the most important of which are Avéro Achmea Pensioen and Stichting Pensioenfonds Campina. The coverage ratio of Pensioenfonds Campina rose from 95.5 percent at the end of 2011 to 99.7 percent at the

end of 2012. At the end of 2012 the coverage ratio of the separate investment fund administered by Avéro Achmea Pensioen was 116.3% (end of 2011: 113.3%). This last coverage rate was determined on the basis of the insurance conditions agreed with the insurance company. FrieslandCampina is in consultation with the different social partners regarding bringing the pension structure in line with the market and the measures implemented by the new Dutch Cabinet.

In 2013 a number of changes related to the design and execution of the pension plan are expected. Talks are in progress with the Stichting Pensioenfonds Campina to find

### Market developments in 2012

The worldwide demand for dairy products rose in 2012 due to the growing demand from Asia, South America and North Africa. By contrast consumption fell in a number of European countries. The offering of milk was high in the first half of the year but in the second half of 2012 a drop in milk production led to a shortfall.

In the first half of 2012 milk production around the world was high due to favourable weather conditions. Overall milk production in the first half of 2012 increased by around 5 percent. New Zealand achieved an increase of nearly 10 percent, virtually all of which was sold on the world market. In the EU milk production rose by 2.5 percent, despite a cold and wet spring. The increased milk production depressed market prices, especially for butter and milk powder. The price of butter dropped sharply as a result of virtually no increase in demand on the world market and the high offering, mainly from New Zealand. Despite the, for EU export, favourable euro/US-dollar relationship, European butter could not be offered competitively on the world market. The Dutch quotation fell from 3,460 euro/ton in January 2012 to 2,400 euro/ton (a drop of around 30 percent) in May. Thanks to the weak euro the European dairy industry could profit from the good demand for milk protein (skimmed milk powder, whey products and caseinate protein) on the world market. The prices for these products remained at a reasonable level and fell less sharply than butter. This partially offset the disappointing European demand for dairy products resulting from the economic crisis. The production of Dutch cheese rose slightly. Sales rose due to increased export both within and outside the EU. The price for naturally matured Gouda cheese fell slightly.

Due to weather conditions in both Europe and the United States, in the second half of 2012 milk production was substantially lower than in both 2011 and the first half of 2012. In the autumn the milk offering in the EU dropped due to the poor quality of the raw feed and the high cost of supplementary feed. Supplementary feed was expensive because across much of the world, grain and soya production was down due to hot weather and the drought in, amongst other countries, the United States, Russia and the Ukraine. The weather also adversely affected milk production in the United States.

Based on the high milk offering during the first half of the year, many buyers took a further drop in milk product prices after the summer into account and did not hedge their long-term purchase contracts. Due to the shortfall in the milk offering and rising prices they were forced to hedge contracts against higher and higher prices. This drove the market prices for butter up from 2,400 euro/ton in May to 3,420 euro/ton in December. The prices for skimmed milk powder rose by around 40 percent from 1,960 in May to 2,740 euro/ton in October before dropping again to 2,640 euro/ton in December. During the last months of 2012 prices for several other dairy products rose by 20 to 30 percent due to supply not meeting demand. Prices also rose on the world market although less steeply than in Europe due to the good milk production in New Zealand and Australia.

During 2012 as a whole global milk production rose by 2.4 percent. In Europe milk production rose by 0.8 percent. In the Netherlands the milk supply rose by 0.3 percent to around 11.7 billion kilos.

future-proof solutions. In addition, at the end of 2013 the execution agreement with Avéro will end.

The consequences of the changes in financial reporting regulations as of 1 January 2013 will include that, as of the 2013 financial year, unrecognised actuarial gains and losses and the unrecognised costs related to past service years must be recognised directly in equity. The expected negative impact on equity after tax as per 1 January 2013 is 256 million euro.

#### European Union conditions related to the merger

The independent Dutch Milk Foundation (DMF) implements the merger conditions stipulated by the European Union in 2008 in respect of the merger of Friesland Foods and Campina. FrieslandCampina must make up to 1.2 billion kilos of Dutch raw milk a year available to producers of fresh dairy products and/or naturally matured cheese at the FrieslandCampina guaranteed price less 1 percent. The 1 percent discount will not be applicable after 1 July 2014.

The business units that had to be sold at the time of the merger and that are now part of Arla Foods and Deltamilk utilise this option and the volumes reserved for them. Of the available 1.2 billion kilos of milk, the DMF reserved 0.9 billion kilos for these market players. At the end of 2012 the agreement for the supply of raw milk to cheese producer Deltamilk was extended to 31 December 2022.

The Foundation also administers the severance scheme for FrieslandCampina's Dutch member dairy farmers. In the period 1 January to 31 December 2012 the Dutch Milk Foundation approved 14 requests (2011: 25) from dairy farmers who wished to terminate their membership of Zuivelcoöperatie FrieslandCampina under the severance scheme of 5.00 euro per 100 kilos of milk. In total this involved nearly 10.5 million kilos of milk. The volume of milk from Dutch member dairy farmers that leave FrieslandCampina through the severance scheme is deducted from the quantity of milk available to the DMF.

Since it went into effect in 2009, 76 member dairy farmers have utilised the severance scheme. The total quantity of milk involved is 48 million kilos.

### The ten largest FrieslandCampina consumer brands



Indonesia



Nigeria



Malaysia, Singapore, Vietnam

**Friso**

international



The Netherlands, Belgium, Germany, export



international



Europe, professional market



Thailand



Germany, Austria



The Middle East



DUTCH LADY

low fat  
high calcium  
milk

susu rendah lemak kalsium

# From grass to glass: guaranteed quality throughout the chain

FrieslandCampina has a long history in the dairy sector. Together with the Cooperative's member dairy farmers, FrieslandCampina commands and controls the entire milk production chain from milk to end product - from grass to glass. This guarantees the quality, safety and sustainability of the products. The entrepreneurship of the member dairy farmers, the optimal conditions for dairy farming in Western Europe, the high-quality processing of milk into a wide range of products, the expertise in the field of milking, milk production and products, the short supply lines and the market positions FrieslandCampina occupies with its brands and products make FrieslandCampina a trend-setting player.

"When it comes to infant nutrition and dairy products, all that counts is quality and safety. We have every confidence that our partnership with FrieslandCampina Hong Kong can give us this. It's why we also appreciate the stringent product quality control on products, from the cow grazing in the meadow to the finished product that is poured into the consumer's glass."

**Joanne Chen** - [Merchandise Controller - Personal Care, Watsons](#)



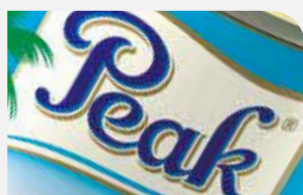
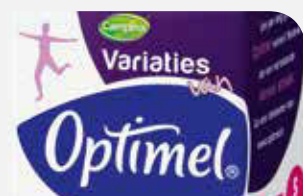
"We invited Chinese consumers to come to the Netherlands to see for themselves what the 'From grass to glass' concept means. They were delighted to meet the farmers and to see the farms and factories as living proof of the fact that FrieslandCampina controls the whole chain. When they were back in China the Chinese mothers told other mothers about 'From grass to glass'. They became our ambassadors in China."

**Berndt Kodden** - [Global Category Director IFT, FrieslandCampina](#)



# FrieslandCampina brands

Consumer products

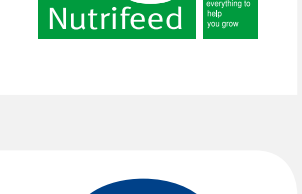
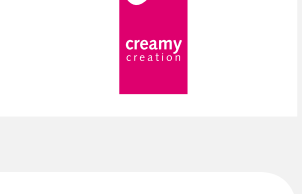




## Professional market

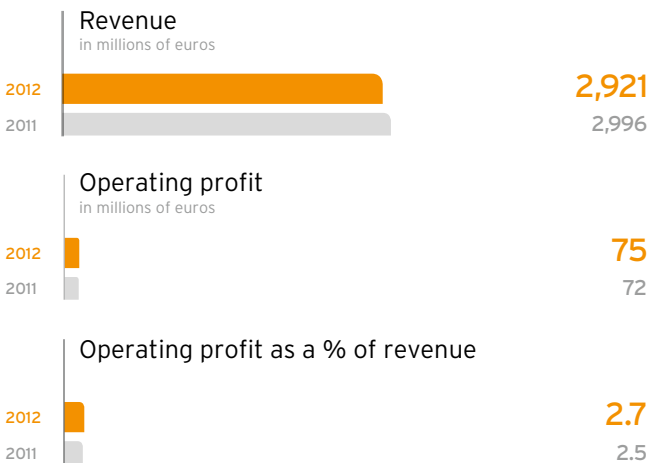


## Ingredients



## Consumer Products Europe

- Revenue down due to declining consumer spending
- Margins recover slightly due to price increases at the end of 2011
- Campina strengthens market position
- Market shares of several dairy brands under pressure
- Reorganisation in Germany and Hungary



The Consumer Products Europe business group produces and sells dairy products in Europe to both consumers and professional customers. In the Netherlands and Belgium the business group also sells fruit juices, fruit drinks and sports drinks. Consumer Products Europe is active in 12 European countries (the Netherlands, Belgium, Germany, France, Austria, Russia, Hungary, Romania, Greece, Spain, Italy and Great Britain).

In 2012 the Consumer Products Europe business group recovered somewhat from the disappointing result in 2011. Operating profit before reorganisation rose by 44.4 percent to 104 million euro (2011: 72 million euro) due to far-reaching efficiency improvements, cost management and the price increases implemented at the end of 2011. The reorganisations involve an incidental expense of 29 million euro before the measures to reduce costs in the German and Hungarian organisations announced at the end of 2012. Operating profit rose by 4.1 percent to 75 million euro. Revenue from third parties fell by 2.7 percent to 2,814 million euro (2011: 2,892 million euro) due to lower volumes (-6.1 percent) as a result of reduced consumer spending.

### Declining demand for dairy products

The economic crisis and gradually rising unemployment has reduced consumer spending in Europe. The demand for dairy products continued to decline in 2012. Households also remained exceptionally price-conscious, a situation from which the discount supermarkets and private labels profited. In 2012 the market share of a number of the business group's brands was under pressure, which resulted in a drop in sales volumes.

The price increases implemented at the end of 2011 enabled much of the increased costs of packaging materials, raw materials and energy to be passed on in the sales prices. A focus on cost and efficiency programmes across the board have contributed towards the business group's recovery. Improvements to the commercial readiness of the production processes and the sales and marketing activities have been implemented by making processes more uniform.

The Campina brand of fresh dairy products performed well. Campina's market share increased, against the trend, in part due to the positioning of meadow milk. The very popular open farm days and the positive reactions to the FrieslandCampina dairy farmers' and employees' 'Campina Dichtbij' campaign showed that there was a growing demand from consumers for natural dairy products. The market share of Appelsientje also increased. Other brands in the Netherlands had more difficulties and lost market share.

Volumes were also under pressure in the out-of-home market segment. Revenue fell due to reduced consumer spending.

The German dairy market has for years been characterised by the domination of the large supermarkets that compete primarily on price. In 2012 the results recovered slightly, but remained negative. In the coming years the aim will be to improve the competitive position in Germany by focusing more on the Landliebe brand.

## Campina Dichtbij

In the spring of 2012 the largest consumer campaign ever was introduced: around 5,000 member dairy farmers and around 1,200 employees took cartons of Campina milk to 250,000 households. The objective? To show consumers the connection between the cow in the meadow and the carton of Campina milk on the table. Member dairy farmers and employees worked together for the entire day in the 135 villages and towns selected for the campaign. One and a half million consumers reacted via social media.



Consumer Products Europe can look back on a good year in Russia, where the demand for dairy products continued to rise. Despite difficult market conditions the result remained at a reasonably good level.

The business group was able to improve its results in the professional market (bakeries, catering and fast-food chains) thanks to a timely response to price developments in the volatile markets and through improving efficiency in the supply chain.

### Operational developments in 2012

In the Netherlands the combining of the marketing and sales activities took further shape. The integration of these activities into one organisation means customers have a single account team as their contact point for dairy-based beverages, desserts and fruit drinks.

The Russian production facility in Stupino was one of the places investments in capacity expansion were made. This was a response to the increasing demand for dairy products.

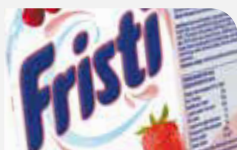
For the business group 2012 was primarily a year of focusing on costs and efficiency measures. Reorganisations in Germany and Hungary have been announced.

By relocating production from the facility in Kalkar (Germany), which was closed at the end of May 2012, to Aalter (Belgium) and Patras (Greece) increased scale has been achieved in the production of long-life dairy products.

**Attention points in 2013**

In the context of the ‘One face to the customer’ approach, from 2013 the sales and marketing activities for branded cheese and butter are also being integrated into the Dutch sales organisation. This will enable overall sales and marketing activities to be managed better. The increased efficiency will benefit both the customer and the business group. Reducing overhead costs and costs in the production chain will remain a key point of attention in 2013. In its communications about dairy-based beverages Campina will place more emphasis on the nutritional value of milk in the daily diet.

In the context of market share recovery, for the most important brands the focus is on optimising distribution and a better presentation of the range in the shops. A number of product introductions is also foreseen. In 2013 Frico cheese will be sold via the business group’s own Russian sales and marketing organisation. Growth with branded cheese is in line with *route2020*.



## Consumer Products International

- Operating profit up by 43.2 percent
- All components contribute towards improved results
- Volume growth 9 percent
- Further growth of infant & toddler nutrition market share
- Acquisition of Alaska Milk Corporation in the Philippines growth market

The Consumer Products International business group performed well in 2012. A further acceleration of the volume growth was achieved in all product categories. The increasing demand for infant & toddler nutrition contributed towards the increased revenue and improved profit. Revenue from third parties rose by 29.3 percent to 3,180 million euro (2011: 2,460 million euro) due to volume growth (9.0%), price increases (5.4%), the acquisition of Alaska Milk Corporation (8.6%) and positive currency effects (4.7%). Operating profit rose by 43.2 percent to 514 million euro (2011: 359 million euro).

### Higher volumes

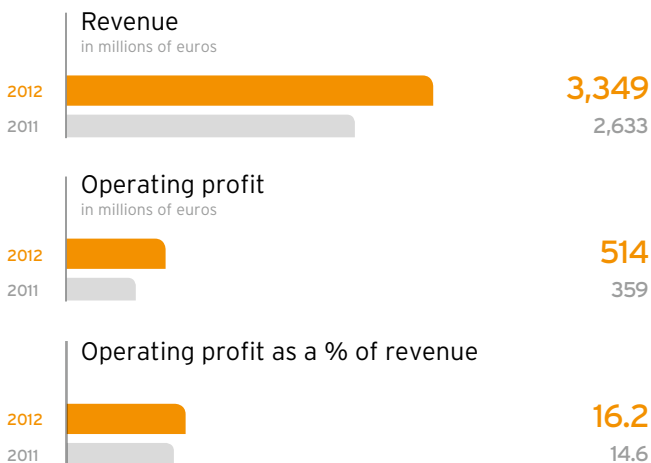
In the countries in which the business group is active the demand for dairy products is rising as a result of increasing welfare. The demand for dairy products such as ready-to-drink products, yoghurts, yoghurt drinks and, in particular, infant & toddler nutrition increased particularly in the cities.

### Infant & toddler nutrition

Once again the Friso brand performed well, especially in China, Hong Kong and Vietnam. The introduction of the revamped Friso and new packaging was successful. In China distribution was extended further. In Malaysia FrieslandCampina is, for the first time, the market leader in infant & toddler nutrition with its Dutch Lady and Friso brands. The introduction of Dutch Lady Active Gold was successful. In Indonesia a new children's nutrition product for children aged one year and over was introduced under the brand Frisian Flag 'energy for the brain'. Sales of infant & toddler nutrition under the brand Peak also rose in Nigeria.

### Dairy-based beverages

Despite volume growth being achieved, in Indonesia and Vietnam the market share of dairy-based beverages came under some pressure. In Hong Kong the use of Black & White condensed milk in teashops rose further. In Malaysia and Singapore sales of dairy-based beverages increased. In Nigeria, after the social unrest in the country during the first half of 2012, the results recovered during the second half of the year. In the Middle East regional distribution and sales of Rainbow condensed milk increased. The Rainbow teashops were particularly successful and are becoming more and more popular. Export of dairy-based beverages from the Netherlands to North Africa increased in 2012.



The Consumer Products International business group provides consumers in countries outside of Europe with dairy products, both locally and via export from the Netherlands. Consumer Products International has offices in 12 countries (China, the Philippines, Hong Kong, Indonesia, Malaysia, Singapore, Thailand, Vietnam, Ghana, Nigeria, Saudi Arabia and the United Arab Emirates).



### The acquisition of Alaska Milk Corporation

In March 2012 FrieslandCampina expanded its market position in Asia with the acquisition of the Alaska Milk Corporation in the Philippines. The company employs 783 people and is in the number two position in the dairy market in the Philippines. The company's most important product is evaporated milk, which is sold under the brand name Alaska. The first children's nutrition products were introduced in the second half of 2012. The acquisition offers FrieslandCampina a growth platform that fits within the strategic goals of *route2020*. The integration of Alaska Milk Corporation in the business group is going full speed ahead. Between March 2012 and the end of the year the company contributed 211 million euro towards FrieslandCampina's total revenue.

### Investments in growth

In every country investments have been made in efficiency improvements and the expansion of production capacity. In 2012 the capacity in Lagos in Nigeria was expanded further with a new sachet production line. In the export facility in Leeuwarden in the Netherlands, the production capacity of evaporated milk was increased to meet the growing global demand.

In March 2012 a new office was opened in Singapore. This office now coordinates the regional activities in Asia of both the Consumer Products International and the Ingredients business groups.

### Development of local dairy farming

With the FrieslandCampina Dairy Development Programme FrieslandCampina contributes towards the further development of local dairy farming in Indonesia, Vietnam, Thailand, Malaysia and Nigeria. The offering and quality of the locally produced milk has still not caught up with the growing demand. FrieslandCampina has developed a programme to support local dairy farmers by improving the quality and increasing the production of milk through sharing expertise in the field of breeding, animal feed, animal health, milk production and hygiene. The programme contributes towards the development of sustainable and professionally managed family businesses with a secure income. Currently nearly 40,000 farmers in the five countries mentioned above deliver their milk directly or indirectly to FrieslandCampina.

### Attention points in 2013

In 2013 further volume growth of both infant & toddler nutrition and dairy-based beverages remains a key point of attention. Further growth of Friso is being striven for in China and Hong Kong and the brand will be launched in several other countries. As far as dairy-based beverages are concerned the focus will be on, among other things, the recovery of market shares. Higher investments in advertising & promotion and several new product introductions must contribute towards this.

## Frisian Flag – 90 years in Indonesia

In 2012 Frisian Flag, the brand name under which FrieslandCampina's dairy products are sold in Indonesia, celebrated its 90th birthday. Frisian Flag sweetened condensed milk was launched on the market in 1922. In Indonesia the product is known as 'Soesoe Tjap Bendera'. Throughout the past 90 years condensed milk has remained an important product group. Not just because of the unique qualities of the products but also thanks to the marketing strategy and innovative promotional campaigns. Succeeding generations of people in Indonesia have known the advertising jingle 'Susu Saya Susu Bendera'.



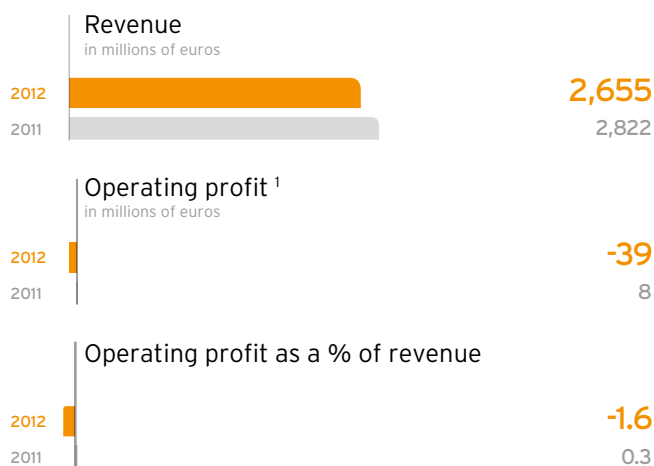
## Foremost honoured

At the end of November Foremost, FrieslandCampina Thailand's most important brand, was declared 'The strongest brand of 2012'. The prize in the 'Dairy' category was handed over by the Director of the Chulalongkorn University.

The selection of Foremost was the result of a survey among 16,000 consumers from 13 different provinces. The University carried out this extensive survey in order to learn more about the development of tools for brand appreciation and brand preference. The honour proves that many consumers trust in the Foremost products.

## Cheese, Butter & Milkpowder

- Acquisition of IDB Belgium (2012) and intended acquisition of Zijerveld and Den Hollander Food (2013)
- Good results for branded cheese due to the robust growth of export
- Loss through low sales prices of butter and milk powder
- Efficiency improvements in the production of cheese, butter and milk powder



The Cheese, Butter & Milkpowder business group produces and sells cheese, butter and milk powder worldwide. The product range comprises a wide variety of Gouda, Edam, Maasdam and foil cheeses, both as whole cheeses and in pre-packed pieces and slices, different types of butter and milk powders. The business group has offices in six countries (the Netherlands, Germany, Belgium, France, Greece and Spain).

As far as its cheese activities are concerned the Cheese, Butter & Milkpowder business group can look back on a good year. Both the Cheese Specialties and Cheese operating companies achieved a positive result. Increased export, especially of Frico cheese, resulted in a volume development of 4.4 percent. In Europe sales of branded cheese stabilised. The price development and results of butter and milk powder were negative, which resulted in the business group's revenue dropping to 2,370 million euro (2011: 2,474 million euro) and the operating profit dropping from 8 million euro positive to 39 million euro negative.

### Cheese export rises

In 2012 the cheese market was relatively stable. In the second half of the year the price of both foil cheese and naturally ripened cheese rose. Cheese export also developed positively during 2012. More Frico cheese was exported, especially to Russia, the Middle East, North Africa and Mexico but also to other regions. The international growth of branded cheese offset the drop in volume in Europe. In Europe, although cheese consumption increased, the market share of branded cheese came under pressure. In the difficult Greek market cheese sales maintained their level and sales of Milner increased slightly.

In the Netherlands the introduction of meadow milk in Milner cheese has been well received by the trade. Several supermarkets have also switched to cheese made from meadow milk.

### A difficult butter and milk powder market

FrieslandCampina Butter & Milkpowder achieved a negative operating profit. In the first half of 2012 sales prices for milk powder, and especially butter, fell. Halfway through the year the listed prices for butter reached the lowest level since 2009. In the second half of the year butter prices recovered slightly. Existing contract positions did not allow sufficient use to be made of this. Milk powder's performance was in accordance with the market, which led to a negative operating profit.

### Acquisitions and joint ventures

In October Belgian cheese packer IDB Belgium N.V. (now trading under the name Yoko Cheese) was acquired. In the fourth quarter of 2012 the company achieved revenue of 26 million euro. The acquisition, which is in line with the goals of *route2020*, has strengthened the position of pre-packaged cheese.

<sup>1</sup>Since 2012 the performance premium and distribution of registered member bonds have not been allocated to the business groups. In previous years they were allocated pro rata based on the quantity of member milk received. As a result of these amendments the operating profit reflects the business economic reality more accurately. This amendment has the most effect on the business groups that process a considerable quantity of milk, such as Cheese, Butter & Milkpowder. The comparative figures for 2011 have been adjusted.

FrieslandCampina and Bongrain have entered into a collaboration aimed at the sale of branded cheese products on the French retail market. FrieslandCampina provides expertise in the field of hard and half-hard cheeses. Bongrain provides experience of the French branded cheese market.

At the beginning of January 2013 FrieslandCampina and Mijwo Beheer B.V. reached agreement regarding FrieslandCampina's intended acquisition of cheese specialist Zijerveld en Veldhuyzen B.V. and its packing unit G. den Hollander Holding B.V. The acquisition, which is dependent on the approval of the European Commission, will enable FrieslandCampina Cheese and Zijerveld to offer a wider range of cheeses and services. Zijerveld has a wide range of speciality cheeses, such as cheeses from the Dutch province of North Holland with an EU Protected Geographical Designation (red EU seal) and farmhouse cheese, and offers customers not only expertise but also made-to-measure concepts and logistics services. The acquisition is in line with the *route2020* ambition of achieving growth of products with added-value.

#### Cost leadership

In order to achieve the *route2020* strategy the business group will strive for cost leadership in the production of cheese, milk powder and butter. In this context, at the end of 2012 the cheese production facility in Varsseveld in the Netherlands was closed. The investments in efficiency improvements, including in the Dutch cheese production facilities in Workum, Balkbrug and Marum, were also completed during 2012.

#### Attention points in 2013

For cheese the focus in 2013 will be the achievement of synergy with the acquired companies and the further roll-out of the cost leadership programme. The European sales activities related to branded cheese, one of FrieslandCampina's growth categories, are being integrated into the Consumer Products Europe sales organisation with the objective of achieving further growth. The planned expansion of the milk powder and butter production capacity is in response to the growing volume of member milk. Achieving cost leadership with milk powder and butter remains a key point of attention. The tasks for the business group as a whole in 2013 are the further improvement of quality systems, safety and safety awareness.





## World champion!

At the World Cheese Contest in Wisconsin (USA) in 2012, 2,500 cheeses in 82 categories vied for the title 'the best cheese in the world'. The winner was FrieslandCampina's 'Vermeer' cheese. 'Vermeer' cheese is made in the cheese factory in Steenderen, the Netherlands. Until recently all 'Vermeer' cheese was exported. It has now been included in the Milner range as Milner Masterpiece. The world title brought facility manager Piet Nederhoed a personal invitation from Crown Prince Willem-Alexander and Crown Princess Máxima.

## Twice as much cheese

At the end of 2012 a major investment operation was completed at the cheese factory in Workum in Friesland. Constructing a large new building and re-building the existing departments have nearly doubled the factory's production capacity. Every year 1.25 billion kilos of milk can now be processed into naturally ripened and foil cheese. The Ingredients business group's factory next door now receives far more high-value whey. Expanding cheese production is a component of the *route2020* strategy.



## The 'Cheese Master class'

From purchaser to distributor, from shop manager to sales department employee: they are all learning the secrets of the cheese seller's trade via a new training course: the 'Cheese Master class'. FrieslandCampina Export has revamped the training for a job selling cheese. With the help of a 'toolkit' cheese sellers learn the best way to cut cheese, safeguard hygiene, which brands FrieslandCampina sells and much more. The course book and DVD take participants through the 12 course lesson modules. Consumers want to be advised by a professional. The 'toolkit' offers every opportunity for this.

## Ingredients

- Revenue and result substantially improved
- Continuing high demand for dairy ingredients for infant & toddler nutrition
- Positive cash flow due to a good result and improved working capital despite high level of investment
- 181 million euro invested in expansion of production capacity



The Ingredients business group develops nutritious and functional ingredients that add value to existing products. The business group supplies natural ingredients based on milk, cheese whey and vegetable raw materials to industrial customers in the infant & toddler nutrition branch, the food industry, the pharmaceutical industry and the young animal feed industry worldwide. The Ingredients business group has offices in nine countries (the Netherlands, Germany, the United States, Indonesia, China, Singapore, Japan, New Zealand and India).

The Ingredients business group performed well in 2012. Revenue from third parties rose by 10.9 percent to 1,677 million euro (2011: 1,512 million euro) due to higher volumes and sales prices. The continuing high demand for dairy ingredients for infant & toddler nutrition had a positive effect on the volumes. Operating profit rose by 11.4 percent to 224 million euro (2011: 201 million euro).

### Higher sales prices due to limited supply

The demand for ingredients based on milk and whey remained high throughout 2012. The greatest increase in demand for dairy ingredients for infant & toddler nutrition came from Asia. The emergence of a middle-class in this region, mainly young families with children who put more and more value on good quality, healthy food, generated additional demand for these ingredients.

The business group's result improved despite higher raw materials prices, especially for whey. Whey prices rose due to the global supply being limited as a result of the drought in the United States. In the Asian market for creamers a good first half of the year was followed by pressure on markets in the second half of the year, when the supply increased and outstripped demand. In Europe the demand for creamers developed positively. Sales prices in the animal feed segment were under pressure due to the high offering of delactosed whey and pressure on the animal feed market.

In 2012 the Ingredients business group's volume development was limited by the maximum utilisation of the production capacity for (ingredients for) infant & toddler nutrition.

To be able to continue answering the growing demand from third parties for (nutritious) dairy ingredients for infant & toddler nutrition, investment programmes are in progress. In 2012 181 million euro was invested in capacity expansion and quality improvement. New production capacity will become available at the end of 2013, responding to the increasing demand for ingredients from third parties.

## New office in Beijing

In 2012 FrieslandCampina opened a new office in Beijing, China, where employees of the Ingredients and Consumer Products International business groups are working together to offer a better service, a complete product range and a well-thought-out market approach in order to meet the targets the business groups have set for the Chinese market. The office was opened by the agricultural attaché in China, Mr. Marinus Overheul, during a festive gathering of all the Company's major clients.



### Operational developments in 2012

The introduction of key account management has improved the cooperation with customers. In July 2012 the Ingredients and Consumer Products International business groups opened a joint office in Singapore. Earlier in the year a sales office was opened in Beijing. In both offices the sales teams from all Ingredients' operating companies are clustered together. This enables the business group's entire range of ingredients to be offered to customers.

In the field of sustainability considerable attention was paid to reducing energy usage in the production process.

FrieslandCampina Domo can look back on a good year.

This applies for both business-to-business and business-to-consumer products. The demand for demineralised products such as Deminal and Hiprotal, for Vivinal GOS and for lactose products was high. To meet the increasing market demand for infant & toddler nutrition, in line with the *route2020* strategy, investment in capacity expansion and further improving product quality is going full steam ahead.

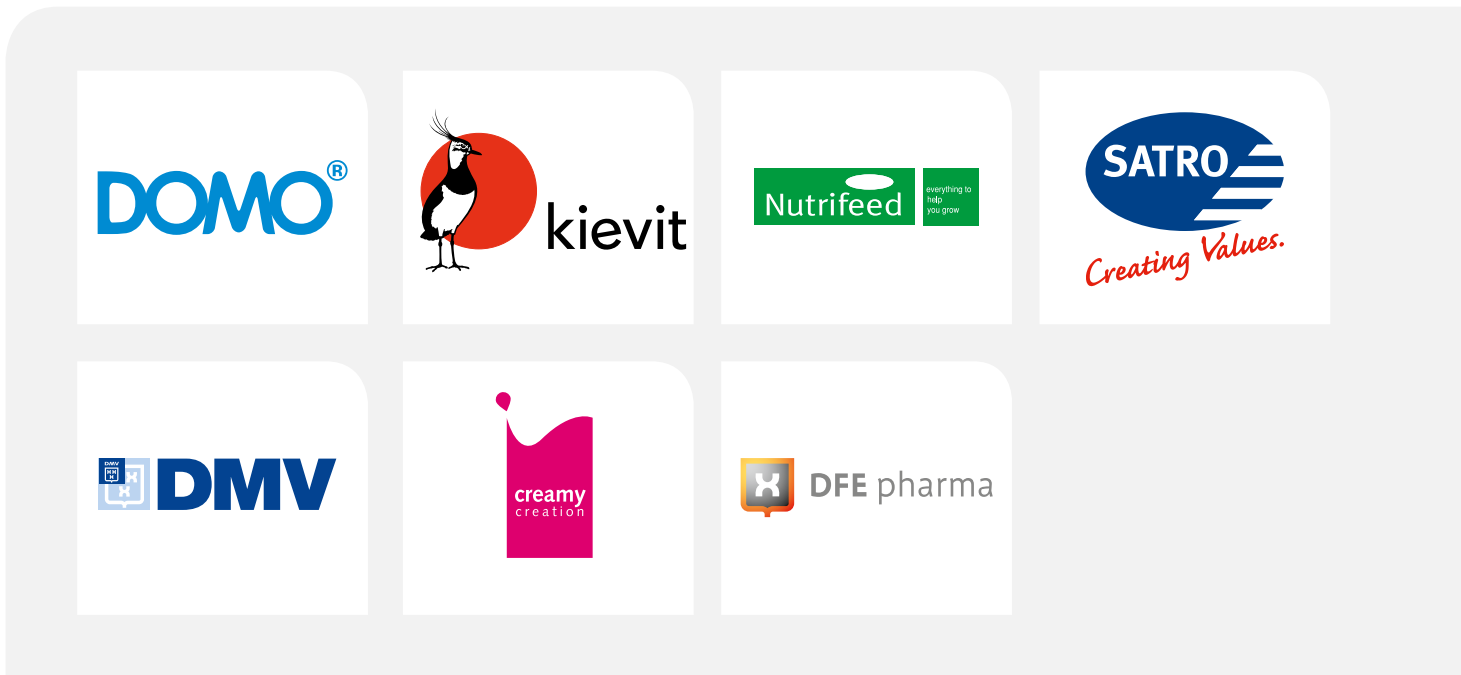
FrieslandCampina DMV also had a good year with caseinates and whey-protein concentrates. At the end of 2012 a 60 million euro investment programme started in the production facility in Veghel, the Netherlands.

The investments will increase the capacity for receiving and skimming raw milk and increase the capacity for producing ingredients including caseinates, whey-protein specialities and lactose.

After a difficult 2011 FrieslandCampina Kievit underwent a recovery in 2012. The company, which specialises in creamers and encapsulated products, could respond well to the growing market for these products. In addition, the Asian market developed well in the first half of the year and the European market developed well in the second half. In November 2012 an agreement was signed with a Chinese company for the production of creamers for the Chinese market.

Creamy Creation, which produces mainly cream liqueurs, achieved a good result in 2012. The United States and Africa are major markets for this type of drink. High prices put the volume and market shares in Europe under some pressure.

After an introductory period in which a strategic reorientation and cost rationalisation were carried out, during the second half of the year Satro's sales volumes increased. Over the entire year Satro achieved growth of both revenue and profitability. Satro supplies products based on dairy and vegetable raw materials, such as cocoa, sugar and coffee, for use in vending machines to customers in Western Europe.



The DFE pharma joint venture had a good year. Sales of pharmaceutical lactose in particular increased. The integration of Brahmar Cellulose in India, which was acquired at the end of 2011, proceeded as planned. In 2012 capacity expansions and quality improvements were achieved and from 2013 on cellulose products, currently sold locally in India, will be sold worldwide under the DFE pharma brand.

#### **Attention points in 2013**

At the end of 2013 additional production capacity will become available, which will enable a better response to the growing demand for ingredients and complete infant & toddler nutrition. New investment plans for further production capacity expansion have been worked out for 2013 - 2015. Focus points remain the further improvement of quality systems, safety and safety awareness in the work place.



# The Cooperative tradition: continuity and sustainable growth

FrieslandCampina is one of the world's largest dairy companies and has a cooperative tradition stretching back more than 140 years. Via the Cooperative the member dairy farmers in the Netherlands, Germany and Belgium own 100 percent of the Company. All the member dairy farmers are independent entrepreneurs. Their competence and professionalism helps FrieslandCampina guarantee quality, safety and sustainability. On behalf of its member dairy farmers, FrieslandCampina strives for growth and value creation.

"Farming is a wonderful profession. I was able to become a farmer because my parents started this business. I want to be able to hand on a business that has a future, that fits comfortably in the Netherlands and that my son can continue to build on. You notice that the knowledge and systems we have here, and the structure with the Cooperative and FrieslandCampina, is worth gold. There are countries that would jump at what we have: a really well-founded system from the family businesses right through to the sale of great dairy products. There's an enormous need for such products in the world."

**Anton Stokman** - Dairy farmer



"In my view a cooperative has enormous added-value if it answers meaningful questions, if it's an organisation that really does give added-value because it reflects an ideal that revolves around the members. The first priority is the long-term focus rather than profit."

**Prof. dr. Cees van Riel** - Senior lecturer Corporate Communication, Rotterdam School of Management



# Milk is special



Milk is for us so commonplace that we have forgotten what makes it such a special product; the cow converts grass that is indigestible for people into a special product - milk - which is naturally rich in essential nutrients the human body needs every day. Watch 'The Story of Milk' on [www.frieslandcampina.com](http://www.frieslandcampina.com).



## Safety

FrieslandCampina works structurally to improve safety. The target is to halve the number of accidents within five years. The focus is on process safety, culture & leadership and structural elements through the Foqus-SHE safety programme.

The number of accidents resulting in sick leave per 200,000 working hours fell from 1.5 in 2011 to 1.0 in 2012.

Unfortunately, in 2012 there was a fatal accident. At the Alaska Milk Corporation in the Philippines, which was acquired in 2012, an employee of a building company was killed as a result of a fall during construction work. In 2012 a programme was started at the company aimed at improving safety and safety awareness.

## Innovation

FrieslandCampina's innovation programmes focus on growth & development, daily nutrition, health & wellness and functionality. FrieslandCampina offers 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 activities amounted to 70 million euro (2010: 66 million euro).

In 2012 Friso baby food was re-launched in Asia in more customer-friendly packaging. A new variety of toddler nutrition was introduced in Indonesia under the Frisian Flag brand. Dairy-based drinks were launched in Asia under the marketing message 'All the goodness of milk'. In Europe packaging innovations were carried out for Milner, Mona and Napolact. New process technology that will result in annual energy savings went into service in the Ingredients business group.

In 2012 FrieslandCampina researchers published articles about various research fields, such as the health aspects of milk, intestine health, the physical-chemical characteristics of milk components, the texture of cheese, aroma and taste analyses and separation technology. In addition, during the year under review 19 patent applications were submitted with the emphasis on functional ingredients for children's nutrition and the protection of new product and process innovations.

In the Netherlands FrieslandCampina played a steering role in the government's Top Sectors policy. Collaboration with Unilever in the field of protein functionality played a major role in the acquisition of Partner to Win status with Unilever (preferred supplier of innovations in dairy).

All innovation and R&D activities will be integrated in the new FrieslandCampina Innovation Centre in Wageningen, the Netherlands, which will be opened in October 2013.

## Quality

To safeguard the safety and quality of its products throughout the entire production chain. FrieslandCampina has its own integral quality system, called Foqus. With Foqus FrieslandCampina offers consumers, customers and the authorities the guarantee that the products and production processes meet the stringent standards in the field of food safety, quality, safety, working conditions, fire protection and environment. An extensive programme of training courses and audits will help safeguard the implementation and continuous monitoring of Foqus in the production facilities, at the member dairy farms and at the suppliers of raw materials.

FrieslandCampina, together with the Cooperative, commands the entire production chain from farm to end product. The guiding principles of the quality control are the statutory stipulations, with the addition of supplementary demands. The various international standards, such as HACCP, ISO 9001, ISO 22000, OHSAS 18000 and ISO 14000 are integrated into Foqus so that both FrieslandCampina's customers and the consumers can be assured that the products are safe, of the highest quality and sustainably manufactured.

## FrieslandCampina and its staff

### Worldwide employee survey

In 2012 FrieslandCampina carried out a survey among all its 19,946 employees. Over 80 percent of the employees completed the survey. The results, which showed a high degree of involvement and pride among the employees, were shared with the employees and, where necessary, improvements have been implemented.

### Talent management

Talent and leadership development are prerequisites for the successful implementation of the *route2020* strategy. In 2012 attention was paid to leadership development through programmes aimed at various target groups in the organisation. FrieslandCampina’s leadership team, the 70 most senior executives, met three times for two-day sessions, including at the IMD Business School in Lausanne. The emphasis was on strategy, competence development and personal leadership. The top 200 followed the ‘Leading with Impact’ programme specially developed for FrieslandCampina by IMD and focusing on both professional and personal development.

In 2012 132 ‘high potentials’ participated in the 18-month FrieslandCampina ‘Leading to Succeed’ programme developed in cooperation with the Ashridge Business School and the first group of 30 ‘young talents’ started the 9-month ‘Taking the Lead’ programme at the Ashridge Business School. By including a mix of development assessments, leadership weeks, group assignments, interviews and coaching these programmes accelerate the participants’ development. Attention is paid, together with the line managers and the HR department, to the career paths through the organisation of these ‘talents’. This has led to 44 percent of the talent group making a step forward in their careers and 6 percent achieving a position in the top 200.

A Corporate traineeship has been established to attract ‘starters’ to the Company. Fifteen Masters graduates have started a two-year programme involving them carrying out various assignments in different business groups. They are also offered various development opportunities aimed at them moving through to the ‘high potential’ group.

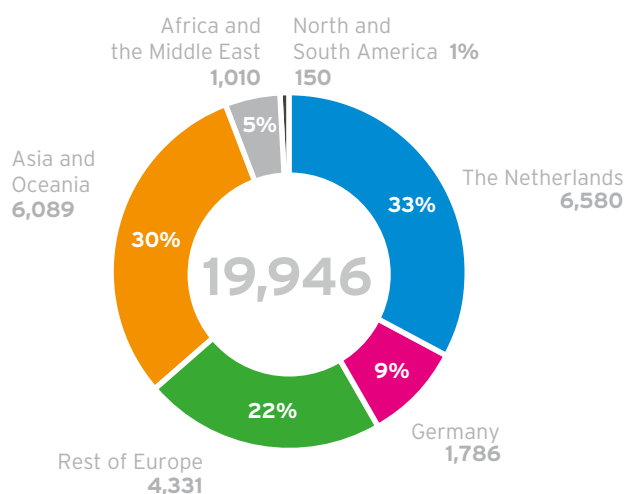
### FrieslandCampina Academy

The FrieslandCampina Academy develops and organises training programmes comprising training course and e-learning programmes. In 2012 more than 2,200 employees followed one of the over 200 training courses. The FrieslandCampina Academy’s offering includes:

- general FrieslandCampina programmes: Goodness of Dairy, Code of Conduct, *route2020* and Project & Portfolio Management;
- FrieslandCampina behaviour competencies: for example coaching skills, stakeholder engagement and personal effectiveness;
- FrieslandCampina management and leadership programmes: Leading Self, Leading People and Leadership in Business;
- FrieslandCampina functional competencies: Commercial Academy (Consumer Marketing, Shopper Marketing, Customer Development), HR Academy and B2B Sales Academy.

### Employees by geographical region

average numbers of FTEs





### **Compensation, Benefits & Global Mobility**

In 2012 the Global Performance Management Framework and the related Global Compensation Frameworks for the senior management and managerial staff were evaluated and adjusted. In 2013 the revised frameworks will be tuned to the specific situations per country before being implemented. Depending on the situation in each country the works councils and/or trade unions will be involved.

### **HR the Netherlands**

The Employability 2020 project focuses on the Dutch production facilities' staffing requirements in terms of both quantity and quality. The rising average age of the employees working in the production facilities and the expected natural outflow means that around 50 percent of the current 4,700 production employees will leave FrieslandCampina between now and 2020. Since 2010 the policy has been to focus on recruiting new, young employees. This has broken the trend of an increasing aging of the workforce and stabilised the average age at 47. Shortages of well-trained

technical staff are expected. To enable FrieslandCampina to respond to this situation in good time, a cooperation has been set up with training institutes to ensure the dairy expertise and experience that has been amassed will be safeguarded for the future.

In the context of the theme Sustainable Employability, a programme has been developed aimed at maintaining existing employees' fitness in terms of both their work and their health. This programme, called 'Fit4Work', is a response to the increasing speed of developments in operations and automation as well as to the fact that the pensionable age will be raised to 67.

## Corporate social responsibility

As one of the global players in dairy FrieslandCampina strives for responsible dairy production. But at FrieslandCampina corporate social responsibility (CSR) goes further than making the chain and the production process more sustainable. The key to corporate social responsibility is the creation of added-value for both FrieslandCampina and society. This added-value can stem from new ways of thinking, new products, smarter production processes or cooperations with so-called non-government organisations (NGOs) and other stakeholders. The added-value can become apparent in financial value creation through the development of new products or the strengthening of a relationship with customers. Social value can also be created by efforts aimed at improving health or combating undernourishment. FrieslandCampina's CSR policy revolves around this shared value so that not only FrieslandCampina's continuity is safeguarded but also the health of people, animals, the environment and the future of dairy farming.

### Dairy in a fast-changing world

FrieslandCampina foresees a challenging future for the world's food supplies. The rapid growth of the global population has a substantial influence on the availability of food and raw materials. Milk is by nature one of the richest sources of nutrition and forms the basis for a wide range of dairy products. Through its products FrieslandCampina makes a contribution towards supplying the world not just with food but with assured nutrition. This is FrieslandCampina's response to the increasing demand for healthy and sustainable nutrition. FrieslandCampina's CSR policy focuses on four priorities: nutrition & health, efficient and sustainable production chains, dairy development in Asia and Africa, and sustainable dairy farming.

## From guarantee to implementation

The foundations of the CSR policy are formed by:

- an organisation comprising the CSR Governance Board, the sustainability coordination team and four teams responsible for the implementation of the CSR policy;
- the involvement of stakeholders;
- a policy with goals for 2020, guaranteed by the ISO 26000 standard, that is aimed at the optimum involvement of the employees and member dairy farmers in sustainable business operations;
- a compilation of agreements, commitments, codes of conduct, policy documents, covenants, reports and certification which guarantee social responsibility within FrieslandCampina.

In 2012 FrieslandCampina focused on the implementation of the CSR policy within the organisation.



### Nutrition & health

Enough nutritious food for a constantly increasing world population is one of the four cornerstones of FrieslandCampina's CSR policy. A notable portion of the world's population is faced with undernourishment and a shortage of nutrients. FrieslandCampina wants to contribute towards combating these problems. The Company also wants to help drive back obesity, including through offering a choice of products, reducing the sugar content in products, improving the information regarding healthy eating and lifestyle and emphasising the importance of sport and exercise.

### Efficient and sustainable production chains

FrieslandCampina's goal is to achieve its future growth in a climate-neutral manner. Towards this end it is working on improving energy efficiency and the transition to sustainably generated energy. This means that in 2020 the entire chain in the Netherlands, from dairy farm to dairy production facility, must be able to meet its own energy requirements, for example by using energy generated from biomass and wind and/or solar energy.

### Dairy development in Asia and Africa

FrieslandCampina's focus is primarily on programmes that will enable farmers in Asia and Africa to run their businesses in the best possible way and thus increase the quantity and quality of dairy production. In developing these programmes the emphasis is on cooperation with local partners.

### Sustainable dairy farming

FrieslandCampina deems it important that milk and other raw materials necessary for its dairy products are produced in a sustainable manner. This means, for example, agricultural and dairy farming methods that have the minimum possible impact on the environment and also have a positive impact on local communities.



## FrieslandCampina and 3FM Serious Request

In 2012 FrieslandCampina was one of the partners of 3FM Serious Request, a partnership that has arisen out of the cooperation between FrieslandCampina and the Dutch Red Cross. Every year the 3FM radio station's campaign generates more money that is used for good purposes via the Red Cross. This time the focus of the campaign was combating infant mortality in a number of African countries. Thanks to a Campina brand consumer campaign and activities organised by FrieslandCampina employees and member dairy farmers, on 24 December a cheque for 288,059 euro was handed over to the DJs leading the 'Glazen Huis' ('Glass House') campaign.

## Partner of Unilever

Since October 2012 Unilever and FrieslandCampina have worked together as partners in the field of development, innovation and the promotion of sustainable packaging and logistics. This has gained FrieslandCampina the status of Unilever preferred supplier for dairy and dairy ingredients. Gaining this status is thanks primarily to the member dairy farmers' far-reaching efforts in the field of sustainability, which are contributing towards the achievement of the goals of Unilever's 'Sustainable Living Plan'.



### More sustainable production chains

FrieslandCampina's clients expect the Company to operate sustainably and by so doing to contribute towards their sustainability goals. These clients include Danone and Unilever with which FrieslandCampina cooperates in order to reduce greenhouse gas emissions in the production chain. FrieslandCampina and Danone have signed a 'carbon pact' to reduce CO<sub>2</sub> emissions in the chain via both the member dairy farmers and FrieslandCampina's production facilities. The improvement of the energy efficiency, the transition to solar and wind energy, the purchase of sustainable raw materials and the use of FSC-certificated cardboard drinks packaging all contribute towards a more sustainable production chain.

### Developing dairy farming in Asia and Africa

With the FrieslandCampina Dairy Development Programme FrieslandCampina contributes towards the further development of local dairy farming in Indonesia, Vietnam, Thailand, Malaysia and Nigeria. The quantity and quality of locally produced milk still lags behind the growing demand. FrieslandCampina has developed a programme to help local dairy farmers improve the quality and quantity of the milk they produce by sharing expertise in the field of breeding, animal feed, animal health, milking and hygiene. The programme contributes towards the development of sustainable and professionally managed family businesses that are assured of an income. Currently a total of nearly 40,000 farmers in the five countries listed above deliver their milk directly or indirectly to FrieslandCampina.

Through a cooperation contract with Agriterra (a social organisation that supports farmers' organisations in their fight against poverty) more than 700,000 farmers can be reached and expertise and experience can be exchanged in order to mean more to local farmers.

### Sustainable dairy farming

As of 1 January 2012 FrieslandCampina's Foqus quality system has included a sustainability policy for dairy farming: Foqus planet. Foqus planet is a programme with concrete goals for energy and climate, animal welfare, biodiversity and landscape that has been approved by the Cooperative's Member Council. In 2012 the first steps were taken to implement the action plans. There is considerable emphasis on energy and climate, stimulating the use of sustainable energy and achieving energy savings at members' farms.

### CSR Report 2012

More information about FrieslandCampina's CSR policy and the results in 2012 can be found in the CSR Report 2012, which will be published in June 2013.

## Praise for sustainable palm oil

FrieslandCampina received the Task Force Sustainable Palm Oil Award and the Productschap MVO (Production MFO - Margarine, Fats and Oils) Award 2012 for its policy of purchasing sustainable palm oil. Since 2007 the Company has been a member of the Round Table on Sustainable Palm Oil (RSPO) and since 2011 it has purchased sustainable palm oil. As a result, since August 2012 all FrieslandCampina Kievit's products have had an RSPO status.

## Outlook

The economic outlook is challenging. For 2013 a slight rise of the demand for dairy is expected due to the increasing consumption at a global level, particularly in Asia, South America, Russia and Africa. In western countries the demand for dairy products has, to a degree, stagnated due to the negative economic developments and lagging consumer spending power. The worldwide offering of milk is expected to increase slightly. In Western Europe milk production is expected to be lower in the first half of 2013 than it was in the first half of 2012 due to the mediocre quality of 'natural' cattle feed and the high cost of supplementary feed. In the Netherlands milk production is expected to increase slightly. Higher prices for raw milk and other raw materials could put pressure on the Company's margins if these cost increases cannot be passed on in the sales prices in full or in good time. The moment at which prices are fixed and the term of contracts could have major consequences for the achieved sales prices and margin development.

In 2013 the focus will be on the further achievement of the *route2020* strategy. FrieslandCampina anticipates further volume growth of added-value products. The growth of infant & toddler nutrition in particular is expected to accelerate due to new production capacity becoming available in both the consumer and industrial markets in the second half of 2013. Organic growth with dairy-based beverages is also foreseen partly due to a number of innovations that will be introduced

in 2013. Most of the growth of dairy-based beverages will take place outside of Europe. Within Europe a slight reduction in the volume of dairy-based beverages is expected. Europe will also remain a difficult market for branded cheese, although volume growth is foreseen due to increased export to, for example, Russia and North Africa and the expansion of the cheese activities through the acquisition of IDB Belgium N.V. and the intended acquisition (if the European Commission approves) of Zijerveld en Veldhuyzen B.V. and G. den Hollander Holding B.V.

Spending for advertising & promotion is increasing to support the growth and strengthen market positions and market shares. Overhead costs will also rise in line with the Company's growth. In the Consumer Products International and Ingredients business groups in particular the number of sales jobs will rise in order to achieve sales growth. There will also be investments in increasing professionalism, sustainability, quality and control. Investments related to expanding production capacity, replacing installations, and improving efficiency and innovation are planned. The innovation programmes are linked to the strategic growth categories and incorporate more intensive cooperation with clients. Expenditure on research & development is expected to rise.

FrieslandCampina's solid financial base offers a good foundation for achieving the Company's plans in the context of the *route2020* strategy.

### New packaging for Friso

The new Friso infant & toddler nutrition that has been introduced in the Asian market is the pinnacle of hygiene and user convenience. The measuring spoon is held in a clip in the lid so parents do not have to touch the contents with their hands. The tins enable parents to see at a glance for which phase of their child's life the nutrition is intended. The new packaging was shown for the first time during the baby-expo in Hong Kong. This new Friso packaging has given an extra boost to the desired growth in infant & toddler nutrition.



## Responsibility statement

In the field of human resources demographic developments in the different regions will be the guideline for achieving the right staffing level. Staff education and training in various fields is receiving considerable attention as is further improving safety in the workplace. Increased efficiency, the expansion of activities and possible acquisitions will lead to changes in the workforce.

A sharper focus on corporate social responsibility throughout the dairy production chain will contribute towards sustainable value creation for all stakeholders.

Competition in the global dairy market will increase further. Both multinational dairy companies and local companies in specific countries strengthen their positions by expanding their distribution, a competitive price structure, product introductions and intensifying advertising & promotional activities. In Europe the market for dairy-based beverages and desserts is expected to shrink even further due to the economic crisis. Limited growth is anticipated for cheese. The up-scaling of the European dairy industry will continue through mergers and acquisitions so that cost efficiencies can continue to be effective. Despite the ending of the milk quota in 2015, in Europe as a whole no sharp increase in the total milk production is expected. Dairy farmers and dairy companies in a number of countries and regions, including the Netherlands, are, however, preparing for an increased milk production. By taking further steps towards the achievement of the *route2020* strategy, FrieslandCampina will continue to contribute towards improving the position of the Cooperative's member dairy farmers in 2013.

No statement is being made regarding the expected result for 2013.

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 the 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 31 December 2012 and the business development during the financial year of Royal FrieslandCampina N.V. and the associated companies for which the financial information is included in its financial statements. The annual report also describes the material risks with which Royal FrieslandCampina N.V. is confronted.

### Executive Board

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

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

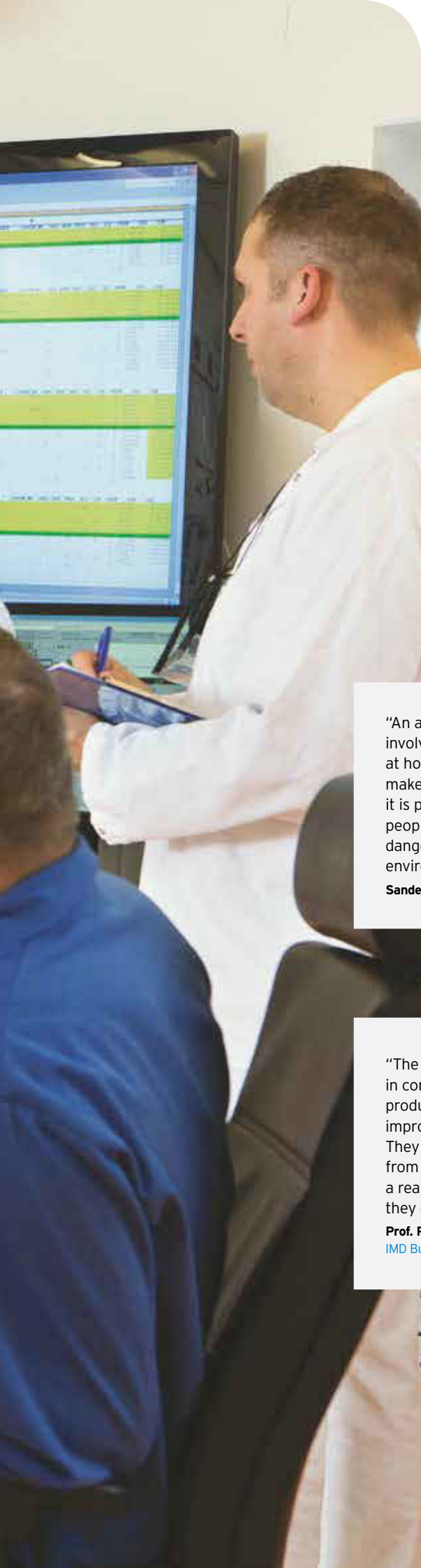
**Piet (P.J.) Hilarides**  
Chief Operating Officer

**Roelof (R.A.) Joosten**  
Chief Operating Officer

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

Amersfoort, the Netherlands, 1 March 2013





# Our way of working: investing in people's growth and development

'The Way We Work' is for FrieslandCampina a guideline for the creation of the right business culture and working environment in which to achieve its ambitions and the *route2020* strategy. Based on the Company's potential, FrieslandCampina wants to create opportunities for its employees around the world. Investing in growth and development with relevant training courses in a goal-oriented, but pleasant, comradely and first and foremost safe working environment. Employees are encouraged to work safely, to seize opportunities, develop together and take responsibility.

"An accident has an enormous impact. Not just on the person involved but also on his or her colleagues at work and family at home. Every day you come across enough situations that make you think 'that could have turned out differently'. And it is precisely this sort of situation that we encourage our people to report so that together we can deal with these dangerous situations and, in the end, create a safe working environment for everyone."

**Sander Janmaat** - Operations Manager, FrieslandCampina Creamy Creation



"The FrieslandCampina employees I train have one thing in common - their passion, for both the company and the products. There's a great willingness to continue learning, to improve and to apply this knowledge in their own business. They are truly passionate about differentiating themselves from other companies and from other managers by making a real contribution and providing people with good food so they can lead healthy lives."

**Prof. Robert Hooijberg** - Professor of Organisational Behavior, IMD Business School



# Corporate governance

## Corporate governance at a glance

### Basic principles

Royal FrieslandCampina N.V. (the 'Company') voluntarily applies the principles of the Dutch Corporate Governance Code (the 'Code'). The manner in which these principles are applied is described in this section. The principles of the Code the Company does not apply, and the reason why not, are also included. Zuivelcoöperatie FrieslandCampina U.A. (the 'Cooperative') is exempted from applying a structural regime. The Company is a statutory two-tier company. A covenant has been agreed with the Central Works Council (the 'CWC') on the grounds of which the members of the Company's Supervisory Board (the 'Supervisory Board') are appointed by the Supervisory Board, the so-called co-option system.

### Shareholders structure

All the shares in the Company's capital are held by the Cooperative, the members of which are involved in dairy farming. The Cooperative's geographical area of operations is divided into 21 districts, each of which has a District Board. The Cooperatives members appoint the Boards of the 21 districts. Together the 210 members of the District Boards form the Cooperative's Member Council. The Member Council appoints the nine members of the Cooperative's Board on the recommendation of the Board of the Cooperative. The Cooperative is the sole shareholder of the Company. The Board of the Cooperative exercises the Cooperative's shareholders' rights and in this capacity functions as the General Meeting of Shareholders of the Company. There are a number of decisions regarding which, on the grounds of the Company's Articles of Association, the Company's directors (the 'Executive Board') must obtain the approval of the General Meeting of Shareholders. For a number of the decisions for which the Board of the Cooperative votes on behalf of the Cooperative, the Board of the Cooperative must obtain the approval of the Member Council before casting its vote. Such approval from the Member Council

is also applicable for a number of other major decisions of the Company's General Meeting of Shareholders. The Cooperative's governance structure is described in the Cooperative's Annual Report.

### Board structure

The Company has a so-called two-tier structure with an Executive Board and a Supervisory Board. The Executive Board comprises five members: a Chief Executive Officer (CEO), a Chief Financial Officer (CFO) and three Chief Operating Officers (COOs). Each COO is responsible for a specific part of the organisation, such as a business group or the management of the consumer product categories. The Executive Board's composition and division of tasks is explained on page 142.

The Supervisory Board comprises thirteen members: nine members of the Board of the Cooperative plus four 'external' members. The Supervisory Board's composition is described on pages 140 and 141.

### Supervisory Board committees

The Supervisory Board has formed two committees: the Audit Committee, which comprises four Supervisory Board members, and the Remuneration & Appointment Committee, which comprises three Supervisory Board members. The composition of the Supervisory Board's Committees can be found on pages 140 and 141.

### Report of the Supervisory Board

The topics covered in the report of the Supervisory Board include the activities of the Supervisory Board and its Committees during the year under review. This report is included on pages 70 to 75.

The Corporate Governance principles followed by Royal FrieslandCampina N.V. are laid down in the Articles of Association and the Regulations of the Company's various bodies, all of which are published on the Company's website. Although the Code is not applicable to the Company, because according to the law only stock exchange listed companies are governed by the Code, the Company applies the principles and best practices provisions of the Code that are compatible with its structure of authority and the nature of the Cooperative. The provisions that are not applied are specified in this overview along with the reasons why they are deemed inappropriate. During the year under review there were no structural changes to the governance structure.

## **Executive Board**

### *Tasks and responsibilities*

The Executive Board, which on the grounds of the Articles of Association comprises a minimum of two members, is charged with the management of the Company. This means that the Executive Board's responsibilities include the policy and business progress within the Company and with this the achievement of the goals, strategy, profit development and the social aspects of doing business that are relevant for the Company. The Executive Board is also responsible for the compliance with legislation and regulations, the management of the risks coupled with the company's activities and the financing of the Company. The Executive Board discusses the internal risk management and control systems with the Supervisory Board and the Audit Committee.

In the performance of its duties the Executive Board is led by the interests of the Company and its subsidiaries and associates. The Executive Board is accountable to the Supervisory Board and the General Meeting of Shareholders for its policy.

### *Appointment*

The members of the Executive Board are appointed by the Supervisory Board for an indefinite period. The basis for non-compliance with the recommendation of the Code (appointment for a maximum term of four years) rests in the principles of the management structure whereby the members of the Executive Board are appointed by the Supervisory Board. In addition, the Cooperative is oriented towards the long-term. The Supervisory Board notifies the General Meeting of Shareholders of an intended appointment and does not dismiss members of the Executive Board, or not until after the General Meeting of Shareholders has expressed its opinion.

### *Remuneration of Executive Board members*

All the relevant recommendations of the Code are applied in the remuneration policy. The remuneration policy is not made public because the Company is legally exempt from publication. The remuneration policy is proposed by the Supervisory Board and approved by the General Meeting of Shareholders and is accounted for every year in the meeting of the Cooperative's Member Council. Important changes in

the remuneration policy are put before the General Meeting of Shareholders for approval. FrieslandCampina is also accountable for this to the Cooperative's Member Council.

### Supervisory Board

The Supervisory Board supervises the policy of the Executive Board and the general business progress of the Company and its associated companies and advises the Executive Board. The Supervisory Board discusses with the Executive Board the strategy and main risks related to the Company's operations as well as the organisation and functioning of, and any significant changes to, the risk management and control systems.

The Supervisory Board also has the authorities and powers specified in the provisions of Book 2 of the Dutch Civil Code in respect of companies with a two-tier management structure. These powers include, in particular, 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 decisions of the Executive Board as specified in legislation. The Supervisory Board also has the authority to approve certain decisions of the Executive Board as stipulated in the Articles of Association.

In the performance of its duties the members of the Supervisory Board are led by the interests of the Company and its affiliated companies and takes into account the interests of all the Company's stakeholders and all the aspects of social responsibility relevant to the Company.

### Composition, independence and appointment

A covenant has been signed with the CWC that includes agreements regarding the composition of the Supervisory Board, the required profile of the members of the Supervisory Board, the strengthened rights of the CWC in respect of the appointment of Supervisory Board members and the way in which the CWC exercises these rights. The profile sketch has been published on the Company's website as an appendix to the Supervisory Board Regulations. On the basis of the covenant the Supervisory Board is composed properly if two-thirds of its members are members of the Board of the Cooperative ('internal members') and one-third of its members are recruited from outside ('external members').

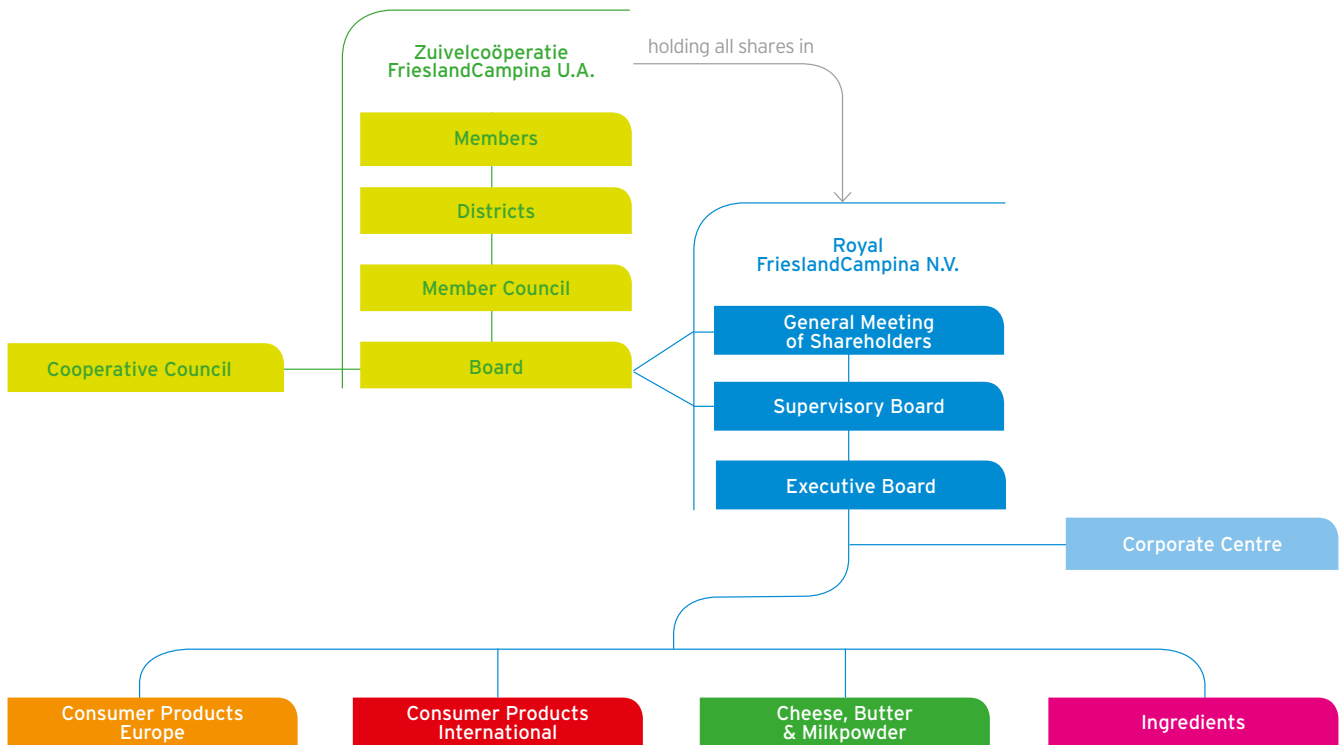
The chosen composition reflects the two-thirds to one-third dominance of internal members in a Supervisory Board permitted by the law for large cooperatives. This dominance by internal members is carried through to the Company level.

This stipulation deviates from the Code's best practice provision which states that all Supervisory Board members, with the exception of a maximum of one member, must be independent. All the external Board members are independent in the sense of the Code. The external Supervisory Board members are selected on the basis of the criteria laid down in the profile sketch. At least one Supervisory Board 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.

The membership of other Supervisory Boards and the holding of other positions by both Supervisory Board members and Executive Board members are 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. None of the Supervisory Board members may hold more than five Supervisory Board memberships and/or other functions with Dutch stock exchange listed companies or other large companies with a chairmanship counting as double. For members of the Supervisory Board who were already members of the Board on 1 January 2013, this rule comes into effect at the time of their first reappointment after this date.

Supervisory Board members are appointed by the Supervisory Board for a term of four years and may be reappointed a maximum of twice. An exception to this is applicable for the incumbent chairman who may be appointed for a fourth term in connection with the fact that the Company wants to be able to appoint a Supervisory Board member for this function who has a lot of experience of the day-to-day operations of the Company and the Cooperative.

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. Information concerning the dates of (re)appointment and current terms of the Supervisory Board members can be found in the appointment and resignation roster on page 75.



### Remuneration

The General Meeting of Shareholders fixes the remuneration of the Supervisory Board members on the recommendation of the Supervisory Board and is accountable to the Member Council for its decisions. The remuneration is not dependent on the Company's results.

### Supervisory Board committees

The Supervisory Board has a Remuneration & Appointment Committee and an Audit Committee. The task of these Committees is to prepare the decision-making of the Supervisory Board; they have no independent decision-making authority. The Regulations of the Committees are published on the Company's website. Both Committees report regularly to the Supervisory Board regarding their deliberations and findings.

### Remuneration & Appointment Committee

The Remuneration & Appointment Committee comprises the Supervisory Board member with the social profile, who is also the chairman of the Remuneration & Appointment Committee, plus the chairman and vice-chairman of the Supervisory Board.

The duties of the Remuneration & Appointment Committee include:

- proposals for the remuneration policy of the Executive Board and the individual Board members;
- compiling the remuneration report;
- selecting and appointing the members (including drawing up appointment criteria and procedures) of the Executive Board and the external Supervisory Board members;
- regular evaluation of the size and composition of the Supervisory Board, the Supervisory Board Committees and the Executive Board;
- regular evaluation of the functioning of the Executive Board, the Supervisory Board, the individual members of both these Boards and the Supervisory Board's committees;
- preparation of the decision-making regarding the Executive Board remuneration policy; and
- supervision of the Executive Board's remuneration policy, selection criteria and appointment procedures for members of the senior management.

### Audit Committee

The Audit Committee comprises the financial expert and 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;
- compliance with recommendations from the Corporate Internal Audit department and the external auditor;
- the reliability and continuity of ICT systems;
- the administrative organisation;
- the functioning of the internal risk management and control systems;
- compliance with legislation and regulations, the policy in respect of tax planning;
- financing and application of information and communication technology;
- the role and functioning of the internal auditor; and
- the appointment of and relationship with the external auditor (including the auditor's independence, remuneration and any audit tasks).

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

### Conflict of interests

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

### The General Meeting of Shareholders

The Company's General Meeting of Shareholders has the authority to approve certain Executive Board decisions. 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 most important other authorities of the General Meeting of Shareholders are:

- adoption of the Company's financial statements and profit appropriation;
- discharging the members of the Executive Board for their management and the members of the Supervisory Board for their supervision of the Executive Board;
- adoption of the dividend;
- adoption of the remuneration policy for the Executive Board and the remuneration of the Supervisory Board members;
- appointment and dismissal of the external auditor;
- amendments to the Articles of Association; and
- issuing of shares, exclusion of the application right, authorisation to repurchase the Company's own shares, reduction of the paid-up capital, dissolution, application for bankruptcy.

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

### The Company, share capital and Articles of Association

Royal FrieslandCampina N.V. is a public limited liability company registered in Amersfoort, the Netherlands, with its central office at Stationsplein 4, Amersfoort. The Company's Articles of Association were last amended on 2 February 2011 and are published on the Company's website. The Company is registered with the Chamber of Commerce under number 11057544. At 31 December 2012 the Company's authorised capital amounted to EUR 1,000,000,000 divided into 10,000,000 (ten million) shares with a nominal value of EUR 100. The shares are registered. On the same day 3,702,777 shares were issued and paid up, and all are held by the Cooperative. For the sake of brevity, for the stipulations regarding the issuing of shares, application rights, acquisition of own shares and capital reduction, please refer to the Company's Articles of Association.

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

#### Financial reporting

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

#### External auditor

The external auditor is appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. The Supervisory Board is advised by both the Audit Committee and the Executive Board. The remuneration of the external auditor and orders to the external accountant to carry out tasks not related to the audit are approved by the Supervisory Board on the recommendation of the Audit Committee and after consultation with the Executive Board. The external auditor is present during the Supervisory Board meeting in which the decision to approve the financial statements is taken. The external auditor's findings regarding the audit of the financial statements are reported to the Executive Board and Supervisory Board at the same time.

#### Internal audit function

The functioning of the internal auditor is the responsibility of the Executive Board. Both the Audit Committee and the external auditor are involved in the plan of work of the internal auditor and are notified of his/her findings. The internal auditor has regular consultations with the external auditor and the chairman of the Audit Committee.

### Best practice provisions of the Code not applied by FrieslandCampina:

The Company fully endorses the Code by applying the principles and best practice provisions or by explaining why the Company deviates from the Code. The principles listed below are not applied for the reason indicated in the foregoing text or below:

- |                  |  |
|------------------|--|
| II.1.1           | Appointment of a member of the Executive Board for a period of a maximum of four years: see motivation under 'Executive Board-Appointment'.  |
| II.1.9-11 and IV | Response time to shareholders, Supervisory Board notification in the case of an acquisition bid; principles in respect of the (General Meeting of) Shareholders and information provision/logistics regarding the General meeting: not applicable due to the fact that the Company is not stock exchange listed and all the shares in its capital are held by the Cooperative. |
| II 2.12-15       | Publishing remuneration report, most important components of employment conditions or severance payment of Executive Board member: the Company utilises the statutory exception as understood in Art. 2:383b of the Dutch Civil Code for so-called 'private public liability companies'.   |
| III.2.1          | All Supervisory Board members, with the exception of a maximum of one, are independent: see motivation under 'Supervisory Board - Composition, independence and appointment'.  |
| III.3.5          | A Supervisory Board member may only be a member of the Supervisory Board for a maximum of three terms of four years: see motivation under 'Supervisory Board - Composition, independence and appointment'.   |
| III.5            | The Remuneration Committee and the Selection & Appointment Committee have, for practical reasons, been combined into the Remuneration & Appointment Committee.   |

## Risk management

The achievement of business objectives goes hand in hand with risks and uncertainties, including due to external economic factors, market developments, calamities and internal factors. FrieslandCampina divides risks into four groups: strategic, tactical & operational, (financial) management and compliance.

Each risk group has its own targets for managing the risks:

- Strategic - Major risks that could impede the achievement of the *route2020* strategy are recognised in good time and, as far as possible, managed over the long-term;
- Tactical & operational - The material influence that risks could have over the (financial) goals for the current year and the medium-term (three years) are limited as far as possible;
- (Financial) management - The Company strives to have in place the measures necessary to ensure the effective management of the named risks;
- Compliance - The Company wants to avoid these risks and their consequences as far as possible, whatever the scale of any resulting damages.

FrieslandCampina implements general risk management measures as well as specific risk management measures for each type of risk. These are described below with the specific measures for the most important risk groups summarised.

### General risk management measures

#### *Risk management organisation*

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 evaluate 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.

The organisation and functioning of the internal management systems for these risks were further improved during 2012.

#### *Code of Conduct and Whistle-blower's procedure*

FrieslandCampina has laid down its principles regarding standards of behaviour in a Code of Conduct. This is applicable to every FrieslandCampina employee and is published internally. In 2012 familiarity with the Code of Conduct within the Company increased. In 2012 the Code of Conduct was made an integral component of the employment agreement for higher staff.

The Company has a Whistle-blower's procedure. Employees who suspect deviations from the conduct standards are taking place can, in accordance with this procedure, report this to the management, an internal ombudsman, the Corporate Compliance Officer or an independent external body. A summary of these reports, which respects the anonymity of the whistle-blowers, is submitted to the Executive Board and the Audit Committee.

#### *Corporate Manual*

A Corporate Manual containing the most important policy principles, responsibilities and authorities relating to the main functions and processes within the organisation is available. The Manual also lays down the manner in which organisational risks should be managed.

#### *Business planning and review*

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

The business group managements consult their operating companies on a monthly basis regarding the achievement of the (financial and non-financial) targets, in part as a result of the financial and operational reports (business reviews). The business groups' Chief Operating Officers report to the Executive Board (of which they are members) via the monthly reports. This is also applicable for the Consumer Products Europe business group, which is represented by the Executive Director. The monthly reports are distributed and explained to the Supervisory Board.

#### *Risk inventory and evaluation 2012*

In 2011 risk inventories and evaluations were carried out with the business groups and the Executive Board. In 2012 this annual procedure, which inventories and evaluates the business risks linked to the *route2020* strategy, was expanded to include the operating companies and was supported by the new Enterprise Risk Management department. 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. These initiatives form an integral component of the business plans.

The most important findings of the risk inventories and evaluations are described in this section. It is possible that risks that are not currently recognised, or that are deemed to be of a non-material nature, could at some time in the future have a major negative effect on Royal FrieslandCampina's ability to achieve its business objectives. Royal FrieslandCampina's business planning and review processes (including risk evaluations), guidelines, procedures, systems and organisational measures are also aimed at the timely recognition of these risks.

#### The most important types of risk for FrieslandCampina

<b>Strategic</b>	Innovation and added-value Economic and political developments Milk valorisation and processing capacity Acquisitions and partnerships
<b>Tactical &amp; operational</b>	Competition and market developments Purchasing market and price development Personnel and organisation Employee safety Calamities including animal diseases Reputation Sustainability
<b>(Financial) management</b>	Financing, credit, foreign currency and interest risk Pensions and taxes ICT and management information
<b>Compliance</b>	Product quality/food safety Legislation and regulations

### 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 given shape in the Internal Control Framework (ICF). The ICF contains prescribed control measures. The correct application of these measures in the components of the organisation is evaluated and the evaluations, and any improvement measures to correct shortcomings, are recorded in the system.

The ICF was implemented in 2011 and in 2012 it was applied by the business groups and operating companies. Regular internal evaluations were carried out in 97 percent of cases. The Corporate Enterprise Risk Management department independently evaluated the recorded shortcomings for potential risks. No material risks were recognised.

The findings of the regular internal evaluations, and any risks resulting from shortcomings, are reported to the management responsible, the Executive Board and the Audit Committee. The Corporate Internal Audit department carries out independent annual reviews to evaluate the correct application of the ICF.

### Internal audits

During 2012 the Corporate Internal Audit department carried out audits to assess the effectiveness of the implemented risk management measures. This took place in accordance with a programme set up in consultation with the Supervisory Board's Audit Committee. The information collected in this way is used to implement improvements to the internal risk management and control systems. The department also carried out specific assignments (for example an ICT audit). The findings and recommendations have been discussed with the relevant responsible management and reported to the Executive Board and the Audit Committee.



## Alaska Milk Corporation

In March 2012 FrieslandCampina acquired the majority of the shares in the Alaska Milk Corporation dairy company in the Philippines. Alaska Milk Corporation occupies the number two position in the dairy market in the Philippines with leading brands such as Alaska, Liberty, Alpine and Krem-Top. The Company is strong in condensed milk, cream and ready-to-use dairy products. Milk powder is another major product for Alaska Milk Corporation. This acquisition has given FrieslandCampina the opportunity to make further inroads into an extensive consumer market. This is contributing towards the achievement of one of the *route2020* goals: growth in Asia.

### Operational risks

In addition to the general management measures described above there are also specific measures for the operational risks.

Description of the risk	How the risks are managed
<p><b>Innovation and added-value</b></p> <p>A timely response to consumers' and customers' needs through successful product and process innovations in strategic categories is essential for the achievement of the Company's goals.</p> <p>A lack of successful innovations could severely hinder the implementation of the <i>route2020</i> strategy.</p>	<ul style="list-style-type: none"> <li>• An Innovation Governance Board monitors the effectiveness of innovations.</li> <li>• A portfolio management system and a standard innovation process.</li> <li>• Innovation programmes Growth &amp; development, Daily nutrition, Health &amp; wellness and Functionality.</li> <li>• In view of the economic situation a keener focus on the development of low-threshold product concepts.</li> <li>• R&amp;D activities clustered in new FrieslandCampina Innovation Centre in Wageningen.</li> <li>• Adequate organisation and processes to protect brands and intellectual property, including through patents.</li> </ul>
<p><b>Economic and political developments</b></p> <p>FrieslandCampina occupies strong market and brand positions in many regions including Asia, West Africa, Western, Eastern and Central Europe and the Middle East. Political or economic changes in these regions could affect the market positions in these countries.</p> <p>A worsening of the economic development in Europe could potentially lead to lower consumer spending on dairy, more pressure on prices, increased client-related credit risks, withdrawal of suppliers and credit providers.</p> <p>Public statements and developments in the Netherlands or other (Western European) countries could also have an adverse effect on FrieslandCampina's operating profit and financial position, for example due to a boycott of FrieslandCampina's products.</p> <p>Politics-related sanctions in Western countries (for example in respect of Libya and Iran) could lead to supply limitations for FrieslandCampina.</p>	<ul style="list-style-type: none"> <li>• The diversification of activities, in respect of both products and geography, spreads the risks.</li> <li>• Frequent monitoring of economic indicators and market information enables a timely response to developments.</li> <li>• Scenario plans for European countries with an increased economic risk (such as Greece, including a scenario for the possible withdrawal from the Eurozone) have been drawn up, including focused on the market position, supply chain, credit risks, liquidity and financing.</li> <li>• More attention paid to improving liquidity positions (stringent working capital management), minimising local cash positions outside the central cash pool and, in principle, using banks with a minimum 'single A' rating.</li> <li>• Capacity and know-how reinforced in the field of governmental relationships and regulatory developments in Asia (for example China).</li> <li>• The active involvement of FrieslandCampina in social discussions about (dairy) cattle farming and the dairy sector.</li> </ul>

Description of the risk	How the risks are managed
<p><b>Personnel and organisation</b></p> <p>The ability to recruit, retain and develop the right people is a key factor for the achievement of FrieslandCampina's goals.</p>	<ul style="list-style-type: none"> <li>• A global personnel and organisation strategy to support the Company's <i>route2020</i> strategy.</li> <li>• Following up the outcomes of the worldwide employee satisfaction survey 'Over2You' in all departments.</li> <li>• Inventorying and reinforcing of the filling of key positions at various levels in the organisation.</li> <li>• Talent and leadership development programmes for both senior management and less experienced talents.</li> <li>• Project Employability 2020 in cooperation with training institutes to safeguard dairy expertise and experience for the future in view of the average higher age of production employees in the Netherlands.</li> <li>• For more information please see 'FrieslandCampina and its staff' (pages 48 to 49).</li> </ul>
<p><b>Calamities including animal diseases</b></p> <p>FrieslandCampina works with natural products. A widespread or long-term outbreak of (contagious) animal diseases, especial in cattle, would adversely affect the production and sales of dairy products and, therefore, FrieslandCampina's results.</p> <p>For the production and delivery of its products FrieslandCampina is dependent on the good functioning of production and distribution facilities and the availability of raw materials, energy and services. Natural disasters, such as floods, can disrupt the Company throughout the production chain.</p> <p>Such risks cannot be (completely) excluded.</p>	<ul style="list-style-type: none"> <li>• The Foqus quality system for the processing of raw milk. The products can be tracked throughout the production chain.</li> <li>• The proper functioning and compliance of the quality system is evaluated regularly through internal and external verification.</li> <li>• The Company has the procedures and organisation to deal with a crisis appropriately, within the operating companies and business groups and at a corporate level. All the people involved have been trained in crisis management.</li> <li>• The evaluation of product deviations and the implementation of measures to prevent these deviations are a component of business operations.</li> <li>• Projects based on a risk inventory per facility have been started to improve the plans for alternative production facilities and suppliers in the case of calamities,</li> <li>• Should such a calamity occur, the Company is appropriately insured against damage, consequential loss and liability.</li> </ul>
<p><b>Product quality/food safety</b></p> <p>FrieslandCampina's customers and the consumers must be able to trust that the products are safe and of the highest quality.</p> <p>FrieslandCampina's business activities involve risks that can lead to variances in product quality, for example due to interruption of production, contamination of products or raw materials or deliveries that do not comply with specifications.</p> <p>Variations in product quality could severely damage the Company's reputation and position including the growth and profitability of the brands concerned.</p>	<ul style="list-style-type: none"> <li>• Foqus quality system incorporating the international standards (such as ISO 9001, ISO 22000 and HACCP) integral to the entire production chain (farm to distribution).</li> <li>• Most of the production facilities are HACCP certificated.</li> <li>• A supplementary QA Fit programme is being implemented.</li> <li>• Internal Foqus audits by trained internal auditors.</li> <li>• Internal procedures related to food safety, the registration and handling of consumer complaints and issue and crisis management.</li> <li>• Registration and analysis of incidents.</li> <li>• For these risks FrieslandCampina has arranged suitable product liability and recall insurance.</li> </ul>

### Description of the risk

#### Competition and market developments

The dairy sector is undergoing rapid changes. Customers are tightening their conditions for purchasing FrieslandCampina's products. Consumers have increasingly high expectations regarding the products and the way they can be used. Customers' preferences are also changing. There are also major differences between the different countries in which FrieslandCampina is active.

In its key sales markets FrieslandCampina has to compete not only against many smaller (local) producers, but also against large multinationals. These companies, several of which are listed, have the financial resources to capitalise on certain trends and/or to develop and market (new) products.

If FrieslandCampina was unable to respond to changes in the market and be innovative, this could have an adverse effect on its competitive position and, therefore, its operating profit and financial position.

### How the risks are managed

- Responding to these changes and regularly reviewing its competitive position are priorities in the *route2020* strategy, organisational structure, annual planning and operations.
- Category teams develop expertise and strategic plans for strategic segments. Partly due to this implementation on a global scale is accelerated.
- The Company has clustered its knowledge regarding how the dairy market and the competition are development into a Dairy News Analysis system.
- Analysis of market and consumer developments with the aid of market research bureaus.
- The Executive Board and the managements of the business groups are kept up to date with the most important market and competition developments.

#### 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 2012;
- 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 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.

#### Executive Board

Amersfoort, the Netherlands, 1 March 2013



Piet (P.) Boer



Jan (J.H.G.M.) Uijtewaal



Peter (P.A.F.W.) Elverding



Sjoerd (S.H.) Galema



Tex (L.W.) Gunning



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



Jan (J.P.C.) Keijsers



Frans (F.A.M.) Keurentjes



Simon (S.R.F.) Ruiter



Henk (H.) Scheffers



Hans (H.) Stöcker



Ben (B.) van der Veer



Erwin (W.M.) Wunnekink

## Report of the Supervisory Board

### Supervisory Board activities

In view of the expected increased milk offering after the scrapping of the milk quota in 2015, the Company's long-term capacity planning and the related larger investment were paid considerable attention during the Supervisory Board meetings. Capacity planning is based on the strategic plan for the milk processing capacity and the recommendations in respect of the capacity for the period until 2020, whereby the starting point remains the valorisation of all member milk. In addition to efficiency improvements which in a number of cases can lead to an improvement of the capacity of existing production facilities, investments in the expansion of existing capacity will also be necessary. The expected requirements for additional investments in milk processing capacity are substantial. During the year under review a number of larger projects were presented to the Supervisory Board for approval. These included skimming capacity at FrieslandCampina DMV in Veghel, a new powder tower for FrieslandCampina Domo in Bedum and a new packing line in Leeuwarden, all in the Netherlands. The progress of other on-going investment projects was also discussed during the year under review.

In 2012 considerable attention was also paid to the progress of the Company's strategy, and more specifically to the management's plans to accelerate growth in a number of regions and thus utilise the momentum of the possibilities in the market. In this context the main areas of discussion were the plans in China and the possibilities in Africa and Asia. A number of areas in which FrieslandCampina must improve were also discussed; in this context a reorganisation plan for Germany was discussed and approved. Finally the most important prerequisites for the successful implementation of the Company's strategy were discussed. One of the prerequisites is the availability of uniform data and processes. In this context the proposed investment in 'Summitplus' for the acquisition and introduction of an integrated automation system for the entire organisation was approved. This will enable FrieslandCampina to develop into a mutually dependent organisation with a fully transparent business model based on one standardised way of working in the areas of planning, purchasing, accounting, sales and quality control and with production and sales units throughout the organisation linked in the same manner.

FrieslandCampina's activities in the field of acquisitions were regular agenda items in the Board's meetings and several larger acquisition projects were discussed. During the year under review the acquisitions of Zijerveld en Veldhuyzen B.V., G. den Hollander Holding B.V. and Alaska Milk

Corporation were approved by the Supervisory Board. IDB Belgium N.V. was also acquired. The acquisition of Zijerveld en Veldhuyzen B.V. and G. den Hollander Holding B.V. is subject to the approval of the European Commission, which FrieslandCampina expects to receive in the second quarter of 2013.

The outcomes of an employee satisfaction survey were presented to the Supervisory Board in December. The Board also acquainted itself with the management's activities aimed at achieving a sustainable integral solution for the Dutch employees' pensions.

Attention was also paid to the Company's business progress and results. The Company's long-term financing was also discussed, partly in connection with the Company's resilience to the economic crisis. In March the 2011 financial statements and the text of the annual report were discussed with the Executive Board and the external auditor and approved. The management letter from the auditor was discussed in depth with the auditor. The management's progress in the field of safety within the organisation, especially related to operational activities, was followed closely by the Board. The achieved results and the activities set in motion with a view to further improving safety were discussed with the Supervisory Board. In May the Company's sustainability policy was discussed.

During the year under review the Supervisory Board met six times. In September the Supervisory Board, accompanied by several Executive Board members, visited FrieslandCampina's regional office in Singapore and the operating companies in Indonesia. In Singapore attention was paid to the Consumer Products International business group's strategy. In Indonesia the activities, strategy and results of the operating companies were discussed in depth with the relevant managements. In October the Supervisory Board visited FrieslandCampina Domo in Beilen in the Netherlands. The emphasis was on the safeguarding of food safety and quality and the progress of the on-going investment project.

The Supervisory Board meetings took place in the presence of the Executive Board. At the end of nearly every meeting an internal discussion took place in principle in the presence of only the Supervisory Board and the Company Secretary. During the closed sessions the issues discussed included the functioning of the Supervisory Board and the Executive Board as well as aspects such as selection, remuneration and the salary policy.

During the closed sessions in 2012 attention was paid to the functioning of the Supervisory Board and its members after a series of discussions between each member and the Remuneration & Appointment Committee. The general evaluation regarding the functioning of the Board was positive, with a few points of attention such as the need for theme meetings in order to increase the Board's knowledge about and understanding of specific issues of importance to FrieslandCampina. The transition to the new chairman and vice-chairman proceeded very smoothly.

The evaluation of the Executive Board members was also carried out via discussions between each member and the Remuneration & Appointment Committee followed by an evaluation in the Supervisory Board in the absence of the Executive Board.

Aspects of the remuneration of the Executive Board discussed were the targets for 2012 and the results achieved in respect of the targets for 2011 and, in view of this, the (short- and long-term) bonuses to be awarded for the year. The decision-making related to all these topics was prepared by the Remuneration & Appointment Committee.

Several times a year a delegation from the Supervisory Board is in contact with the Central Works Council regarding business progress within FrieslandCampina.

### **Supervisory Board Committees**

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

#### *Audit Committee*

The annual report and the financial statements for 2011 were discussed in depth as was the report of the external auditor regarding the financial statements and the declaration of the Executive Board included in the annual report. The 2012 half-yearly report and the external auditor's findings regarding the half-yearly report were discussed in depth.

The tasks of the external auditor were discussed on the basis of the audit plan. The list of additional tasks assigned to the external auditor was evaluated by the Audit Committee four times during the year under review. The functioning of the external auditor was evaluated, which led to a positive evaluation. In 2013 an extensive evaluation of the functioning of the external auditor will be carried out and the findings will be shared with the Member Council.

During every meeting a number of managers (internal audit, enterprise risk management, treasury, ICT, taxes) reported to the Audit Committee regarding their activities.

The scope of the tasks and responsibilities of the internal audit function were discussed and the Audit Committee supported the proposal to increase the number and powers of the internal auditors quite considerably. Enterprise risk management reported regarding the internal control framework and the analysis related to the functional separation of tasks.

In the field of ICT the progress of the Summitplus project and the risk management related to this were discussed.

During one meeting the Mergers & Acquisitions department presented a summary of the on-going M&A projects and processes.

Existing material claims and the improved processes being followed to handle these claims in the best possible way were discussed during one meeting.

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

Attention was paid to compliance with the Code of Conduct within the company and the effectiveness of the related complaints procedure.

During the year under review the Audit Committee met four times in the presence of the management and the external auditor. In addition, the chairman of the Committee spoke several times with the external auditor.

The composition of the Audit Committee can be found on page 141. Two members of the Audit Committee, Messrs. Henk Scheffers (Chairman) and Ben van der Veer, qualify as financial experts in the sense of the Supervisory Board Charter. Two members of the Audit Committee are internal members of the Supervisory Board. Other internal members of the Supervisory Board attend the Audit Committee meetings as a listener on a rotational basis.

#### *Remuneration & Appointment Committee*

During the year under review the Remuneration & Appointment Committee's activities were primarily related to the remuneration of the Executive Board. Items discussed included issues such as the determination of bonuses and the fixing of targets for the bonuses for the coming year. The evaluations of the Executive Board and the members of the Supervisory Board were also prepared by the Committee. Considerable attention was paid to talent development within the Company and the progress of the leadership development programmes. Finally there was close consultation regarding the amendments

to the division of tasks within the Executive Board that came into effect on 1 January 2013. During the year under review two rounds of evaluation discussions were held with the Executive Board and reported in the Supervisory Board meetings. Evaluation discussions were also held with the members of the Supervisory Board regarding their functioning and the functioning of the Supervisory Board and its Committees. The outcomes of these discussions were reported to the Supervisory Board. The Remuneration & Appointment Committee met four times during the year under review and after each meeting reported to the Supervisory Board.

The composition of the Remuneration & Appointment Committee can be found on page 141.

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

#### *Supervisory Board*

FrieslandCampina's Supervisory Board comprises thirteen members. Nine of the members are members of the Board of Zuivelcoöperatie FrieslandCampina U.A. and four are external Supervisory Board members.

All the external members of the Board (the members who are not also members of the Board of the Cooperative) are independent of the Company as stipulated in the Dutch Corporate Governance Code and the Supervisory Board Regulations. The composition of the Supervisory Board did not change during the year under review. Three internal members were reappointed for a term of four years.

#### *Diversity*

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

Although this was taken into account when seeking a candidate to fill the vacancy for an external candidate that arose during 2011, this did not result in the appointment of a woman. The next time a vacancy arises the search criteria will once again emphasise that the candidates should be female. In 2012 there were no vacancies in the Board. The Supervisory Board also strives to ensure that where its internal members are concerned the ratio of men and women reflects the Cooperative's membership (around 16 percent of the Cooperative's members are women). Progress is being made in this respect.

#### *Committees*

The composition of the Committees did not change during 2012.

The composition of the Supervisory Board and its committees can be found on pages 140 and 141.

#### *Executive Board*

On 16 January 2013 Kapil Garg, a member of the Executive Board since 1 August 2010, died after a serious illness. Kapil Garg joined subsidiary Frisian Flag Indonesia in 2001 as Consumer Marketing Director. Thereafter he fulfilled various functions at a Director level including Managing Director of FrieslandCampina Wamco Nigeria. In August 2010 he was appointed Chief Operating Officer of Royal FrieslandCampina N.V. Kapil Garg was a person who people both within and outside FrieslandCampina enjoyed meeting. His enormous efforts on behalf of the Company, his personal involvement with his colleagues, his sense of humour and his perseverance were intrinsic to his character. Kapil played a leading role in keeping our dairy products affordable for broad groups of the population in Asia and Africa. Despite his illness Kapil remained very active and involved in the decision-making within our company until the final weeks before his death.

In view of Kapil Garg's illness, in September 2012 it was announced that the responsibilities within the Executive Board would be adjusted. As of 1 January 2013 Freek Rijna became Chief Operating Officer Consumer Products International and Kapil Garg was responsible for Global Category Management. As of 1 January 2013 the Consumer Products Europe business group was led by Gregory Sklikas, who as Executive Director reported to Cees 't Hart, as the member of the Executive Board with formal responsibility for the business group. Global Categories Management is now the responsibility of Cees 't Hart.

Currently all the members of the Executive Board are male. Although at present there are no vacancies on the Board, at the first opportunity every effort will be made to bring about a more balanced participation of women.

The composition of the Executive Board can be found on page 142.

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

In February 2013 the Audit Committee discussed the 2012 financial statements drawn up by the Executive Board and notified the Supervisory Board of their findings. During the Supervisory Board meeting of 1 March 2013 the Supervisory Board members and the Executive Board

members signed the financial statements. The financial statements were audited by KPMG Accountants N.V., which then issued an unqualified auditor's report. The financial statements will be submitted to the General Meeting of Shareholders (the Board of Zuivelcoöperatie FrieslandCampina U.A.) for adoption on 23 April 2013.

From the profit of 274 million euro, 66 million euro is attributed to the minority interests. The Supervisory Board has approved the Executive Board's proposal to add 158 million of the 208 million euro profit to the general reserve, to reserve 41 million euro as recompense for holders of member bonds and to reserve 9 million euro as recompense for the holders of perpetual notes.

In accordance with Article 21, Clause 2, Item d of the Articles of Association, during the General Meeting of Shareholders it will be proposed that the members of the Executive Board will be discharged for their management during the 2012 financial year and, in accordance with Article 21, Clause 2, Item e of the Articles of Association it will be proposed that the members of the Supervisory Board will be discharged for their supervision of the Executive Board during 2012.

On 23 April 2013 the Member Council of Zuivelcoöperatie FrieslandCampina U.A. will be asked to approve the decision of the Cooperative's Board, in its capacity as the General Meeting of Shareholders, to adopt the 2012 financial statements of Royal FrieslandCampina N.V. and approve the appropriation of profit.

### **Supervisory Board**

Amersfoort, the Netherlands, 1 March 2013

## Supervisory Board appointment and resignation roster (as at 19 December 2012)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
P. Boer				●				■				■
J.H.G.M. Uijtewaal		●				■				■		
P.A.F.W. Elverding			◆				●				■	
S.H. Galema			◆				◆				●	
L.W. Gunning			◆				◆				●	
A.A.M. Huijben-Pijnenburg		◆				◆				●		
J.P.C. Keijsers				●				■				■
F.A.M. Keurentjes		◆				●				■		
S.R.F. Ruiters				●				■				■
H. Scheffers		◆				●				■		
H. Stöcker			◆				◆				●	
B. van der Veer	◆				◆				●			
W.M. Wunnekink	◆				◆				●			

- ◆ resigns, eligible for reappointment
- resigns, not eligible for reappointment
- successor of current member resigns, eligible for reappointment



# Sustainability and responsibility: creating added-value in a sustainable and transparent way

Corporate social responsibility plays a major role in the achievement of the *route2020* strategy. As one of the world's largest dairy companies FrieslandCampina accepts this responsibility by:

- further increasing the sustainability of dairy farming and the production chain and distribution of dairy;
- marketing healthy dairy products, offering food supply security and tackling undernourishment;
- making knowledge and expertise available to small dairy farmers in Asia and Africa so they can improve their productivity and quality and increase their family's income;
- contributing towards a viable countryside - a prerequisite for food supply security;
- striving for climate-neutral growth both at the dairy farm and company level.

"In 2012 FrieslandCampina signed a five-year agreement with the Red Cross to work together, both nationally and internationally, to achieve good things in the field of food supply security, disaster aid and fund-raising. The high-point at the end of the year was the 3FM Serious Request. Thanks to the efforts of employees, dairy farmers and consumers, this raised a marvellous amount for the Dutch Red Cross."

**Frank Asser** - [Manager Corporate Partnerships, Dutch Red Cross](#)



"We are a cooperative company with a history that goes back more than 140 years and our farmers want this to continue for another 140 years. What we hear from our Cooperative Board is that it's not just about a good income for our member dairy farmers, who are our shareholders, it's also about safeguarding continuity. That means you have to answer the wishes and expectations of the stakeholders in the society in which you operate."

**Frank van Ooijen** - [Director Sustainability, FrieslandCampina](#)







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

# Financial statements 2012

Royal FrieslandCampina N.V.

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## Consolidated income statement

In millions of euros, unless stated otherwise	Note	2012	2011
<b>Revenue</b>	(4)	10,309	9,626
Other operating income	(5)	15	20
<b>Operating income</b>		<b>10,324</b>	9,646
Raw materials and consumables used	(6)	-6,715	-6,472
Employee benefits expense	(7)	-901	-831
Depreciation of plant and equipment and amortisation intangible assets	(11) (12)	-194	-176
Other expenses	(8)	-2,032	-1,764
Total expenses		-9,842	-9,243
<b>Operating profit</b>		<b>482</b>	403
Finance income	(9)	47	34
Finance costs	(9)	-104	-106
Net finance costs		-57	-72
Share of profit of joint ventures and associates	(13)	16	13
<b>Profit before tax</b>		<b>441</b>	344
Income tax expense	(10)	-167	-128
<b>Profit for the year</b>		<b>274</b>	216
Profit attributable to:			
• providers of member bonds		41	39
• providers of perpetual notes		9	9
• shareholder of the company		158	122
• shareholder and other providers of capital of the company		208	170
• non-controlling interests		66	46
<b>Profit for the year</b>		<b>274</b>	216

## Consolidated statement of comprehensive income

In millions of euros, unless stated otherwise

	2012	2011
<b>Profit for the year</b>	274	216
Effective portion of cash flow hedges, net of tax	-8	4
Currency translation differences, net of tax	5	-21
Other comprehensive income for the year, net of tax	-3	-17
<b>Total comprehensive income for the year</b>	<b>271</b>	199
Attributable to:		
• shareholder and other providers of capital of the company	206	154
• non-controlling interests	65	45

## Consolidated statement of financial position

At 31 December, in millions of euros, unless stated otherwise

	Note	2012	2011
<b>Assets</b>			
Property, plant and equipment	(11)	1,918	1,660
Intangible assets	(12)	1,290	945
Deferred tax assets	(21)	210	224
Investment in joint ventures and associates	(13)	118	111
Employee benefits	(20)	96	78
Other financial assets	(15)	60	73
<b>Non-current assets</b>		<b>3,692</b>	3,091
Inventories	(16)	1,139	1,085
Trade and other receivables	(17)	1,221	1,127
Income tax receivable		20	12
Other financial assets	(14)	3	
Cash and cash equivalents	(18)	756	420
Assets held for sale	(3)	7	4
<b>Current assets</b>		<b>3,146</b>	2,648
<b>Total assets</b>		<b>6,838</b>	5,739
<b>Equity</b>			
Issued capital		370	370
Share premium		114	113
Perpetual notes		130	130
Member bonds		1,084	1,003
Other reserves		-61	-59
Retained earnings		758	591
<b>Equity attributable to shareholder of the company and other providers of capital</b>		<b>2,395</b>	2,148
Non-controlling interests		119	116
<b>Total equity</b>		<b>2,514</b>	2,264
<b>Liabilities</b>			
Employee benefits	(20)	353	304
Deferred tax liabilities	(21)	128	63
Provisions	(22)	9	25
Interest-bearing borrowings	(23)	1,080	891
Other financial liabilities	(24)	46	150
<b>Non-current liabilities</b>		<b>1,616</b>	1,433
Current borrowings	(25)	393	250
Trade and other payables	(26)	2,135	1,676
Income tax payable		109	69
Provisions	(22)	56	37
Other financial liabilities	(14)	15	10
<b>Current liabilities</b>		<b>2,708</b>	2,042
<b>Total liabilities</b>		<b>4,324</b>	3,475
<b>Total equity and liabilities</b>		<b>6,838</b>	5,739

## Consolidated statement of cash flows

In millions of euros, unless stated otherwise

	Note	2012	2011
<b>Cash flows from operating activities</b>			
<b>Profit before tax</b>		<b>441</b>	344
<b>Adjustments for:</b>			
• interest	(9)	33	42
• depreciation of plant and equipment and amortisation of intangible assets		194	176
• impairment of fixed assets		7	12
• reversal of impairment of fixed assets			-1
• share of profit of joint ventures and associates	(13)	-16	-13
• put-option costs	(9)	28	19
• revaluation result of derivatives			1
• issuance of registered member bonds		84	65
• book profit on disposals			-11
<b>Total adjustments</b>		<b>330</b>	290
<b>Movements:</b>			
• movements in the valuation of securities	(31)	-4	-2
• movements in inventories	(31)	-16	-79
• movements in receivables	(31)	-49	-21
• movements in liabilities	(31)	228	101
• movements in employee benefits	(20)	33	24
• movements in provisions	(22)	3	-22
<b>Total movements</b>		<b>195</b>	1
Cash flow from operating activities		<b>966</b>	635
Dividend received	(13)	8	3
Income tax paid		-91	-94
Interest paid		-73	-73
Interest received		32	37
<b>Net cash from operating activities</b>		<b>842</b>	508
<b>Cash flows from investing activities</b>			
Investment in property, plant and equipment and intangible assets		-392	-368
Disposals of property, plant and equipment, intangible assets and assets held for sale		7	29
Payments related to loans provided		-15	-5
Received repayments of loans provided		7	9
Acquisitions	(2)	-309	-5
<b>Net cash used in investing activities</b>		<b>-702</b>	-340
<b>Cash flows from financing activities</b>			
Investments in non-controlling interests		-4	
Dividends paid to non-controlling interests		-66	-39
Amounts paid to providers of perpetual notes		-9	-9
Amounts paid to providers of member bonds		-44	-32
Interest-bearing borrowings drawn		455	69
Repayment of interest-bearing borrowings		-106	-25
Paid to holder of put-option		-20	-8
Repayment of derivatives		-7	2
<b>Net cash (used in)/from financing activities</b>		<b>199</b>	-42
<b>Net cash flow</b>		<b>339</b>	126
Cash and cash equivalents at 1 January	(18)	420	292
Net cash flows		339	126
Translation differences in cash and cash equivalents		-3	2
<b>Cash and cash equivalents at 31 December</b>	(18)	<b>756</b>	420

## Consolidated statement of changes in equity

In millions of euros,  
unless stated otherwise

2012

	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	113	130	1,003	-10	-49	591	<b>2,148</b>	116	<b>2,264</b>
Comprehensive income:										
• profit for the year			9	41			158	<b>208</b>	66	<b>274</b>
• other comprehensive income					-8	6		<b>-2</b>	-1	<b>-3</b>
<b>Total comprehensive income for the year</b>			<b>9</b>	<b>41</b>	<b>-8</b>	<b>6</b>	<b>158</b>	<b>206</b>	<b>65</b>	<b>271</b>
Transactions with shareholder and other providers of capital recognised directly in equity:										
• dividends paid to non-controlling interests									-66	<b>-66</b>
• amounts paid to providers of perpetual notes			-9				2	<b>-7</b>		<b>-7</b>
• amounts paid to providers of member bonds				-44			8	<b>-36</b>		<b>-36</b>
• issuance of registered member bonds				84				<b>84</b>		<b>84</b>
• capital contribution by Zuivelcoöperatie FrieslandCampina U.A.		1						<b>1</b>		<b>1</b>
• leaving premium to member dairy farmers Zuivelcoöperatie FrieslandCampina U.A.							-1	<b>-1</b>		<b>-1</b>
<b>Total transactions with shareholder and other providers of capital</b>		<b>1</b>	<b>-9</b>	<b>40</b>			<b>9</b>	<b>41</b>	<b>-66</b>	<b>-25</b>
Changes in ownership interests in subsidiaries:										
• transactions with owners of non-controlling interests									4	<b>4</b>
<b>At 31 December</b>	<b>370</b>	<b>114</b>	<b>130</b>	<b>1,084</b>	<b>-18</b>	<b>-43</b>	<b>758</b>	<b>2,395</b>	<b>119</b>	<b>2,514</b>

<sup>1</sup> Including the appropriation of profit of prior years and profit for the year 2012.

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

2011

	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	113	130	931	-14	-29	460	1,961	110	2,071
Comprehensive income:										
• profit for the year			9	39			122	170	46	216
• other comprehensive income					4	-20		-16	-1	-17
<b>Total comprehensive income for the year</b>			9	39	4	-20	122	154	45	199
Transactions with shareholder and other providers of capital recognised directly in equity:										
• dividends paid to shareholder of the company									-39	-39
• amounts paid to providers of perpetual notes			-9				2	-7		-7
• amounts paid to providers of member bonds				-32			7	-25		-25
• issuance of registered member bonds				65				65		65
• leaving premium to member dairy farmers Zuivelcoöperatie FrieslandCampina U.A.							-1	-1		-1
• other							1	1		1
<b>Total transactions with shareholder and other providers of capital</b>			-9	33			9	33	-39	-6
<b>At 31 December</b>	370	113	130	1,003	-10	-49	591	2,148	116	2,264

<sup>1</sup> Including the appropriation of profit of prior years and profit for the year 2011.

<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

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 2012 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. (FrieslandCampina).

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, bars and fast-food chains. In addition, FrieslandCampina also supplies high-quality ingredients to producers of foodstuffs and pharmaceuticals.

All disclosures are based on continuing operations.

## Basis of preparation

### Statement of compliance

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

For the presentation of the company income statement use has been made of the facility provided by Article 402, Title 9, Book 2 of the Dutch Civil Code.

After authorisation for issue by the Executive Board and the Supervisory Board on 1 March 2013 the financial statements of Royal FrieslandCampina N.V. at 31 December 2012 will be made available for publication by the Executive Board on 14 March 2013. On 23 April 2013 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.

### Basis of measurement

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

- non-derivative financial instruments at fair value through the income statement are measured at fair value;
- derivatives are measured at fair value;
- the asset from the defined benefit pension schemes is recognised as plan assets, plus unrecognised past-service costs, less the present value of the defined benefit obligations and is limited as explained in Note 20.

### Functional and presentation currency

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

### Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. The judgements, assumptions and estimates have been made taking into account the opinions and advice of (external) experts. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and judgements that are considered most critical are:

- impairments (Note 11);
- useful lives of property, plant and equipment and intangible assets (Notes 11 and 12);
- utilisation of tax losses (Note 21);
- measurement of defined benefit obligations (Note 20);
- key assumptions used in discounted cash flow projections (Notes 12 and 24);
- provisions and contingencies (Notes 22 and 27).

For more detailed information regarding the treatment of the items mentioned please see the Notes to the financial statements.

### Changes in accounting policies and disclosures

#### [New and amended standards as adopted by FrieslandCampina](#)

The following new standards and amendments to standards were mandatory for the first time for the financial year beginning 1 January 2012:

- IFRS 7 Disclosures of transfers of financial assets; this amendment requires additional disclosure about financial assets that have been transferred but not derecognised and disclosure about continuing involvement in derecognised assets. This amendment does not have a material effect on FrieslandCampina's consolidated Financial Statements.

The new standards, amendments to standards and interpretations are not expected to have any effect on equity and the income statement but could lead to amendments to the Notes to the financial statements.

#### New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not adopted early

The following number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements:

##### **IFRS 9 Financial instruments**

IFRS 9 becomes mandatory for FrieslandCampina's 2015 consolidated financial statements and could change the classification and measurement of financial assets. FrieslandCampina will not adopt this standard early and the extent of the effect has not yet been determined.

##### **IAS 19 Employee benefits**

Amendments to IAS 19, effective for annual periods beginning on or after 1 January 2013, introduce the requirement to recognize unrecognised actuarial gains and losses and not yet recognised past-service costs immediately in the consolidated statement of other comprehensive income. In addition the proceeds from investments must be calculated on the basis of the discount rate used to calculate the defined benefit obligations. These amendments will have a material effect on FrieslandCampina's financial statements, in particular because FrieslandCampina currently applies the corridor method and after the amendment, FrieslandCampina must recognise all actuarial gains and losses that arise immediately in other comprehensive income.

The impact is determined by applying the revised IAS 19R to the current post-employed plans. The estimated negative impact on equity after tax and the expected impact on the income statement:

Equity	1 January 2013	EUR 256 million
Profit for the year	2012	EUR 4 million
Profit for the year	2013	EUR -5 million

No impact on the cash flow statement is anticipated. The employee benefit disclosures will also be affected by the amendments to IAS 19. The amendments to IAS 19 will be applied as of 1 January 2013.

##### **IFRS 10 Consolidated financial statements**

IFRS 10 replaces the consolidation requirements in SIC 12 and IAS 27. IFRS 10 changes the definition of control such that the same criteria are applied to all entities in order to assess control. The revised definition of control focuses on the need to have both power and variable returns before control is present. The new standard includes guidance on control with less than half of the voting rights and agent/principal relationships. This new standard is endorsed by the EU and will be applicable as from 1 January 2014. FrieslandCampina has evaluated the impact of this new standard and it is not expected that this new standard will have a material effect on the consolidated financial statements of FrieslandCampina.

##### **IFRS 11 Joint Arrangements**

This new standard focuses on the rights and obligations of the parties to the joint arrangement rather than on its legal form. There are two types of joint arrangements: joint operations and joint ventures. Under IFRS 11 interests in joint operations are accounted for on the basis of the interest in those assets and liabilities and interests in joint ventures are accounted for using the equity method. This new standard is endorsed by the EU and will be applicable as from 1 January 2014. Whether joint arrangements of FrieslandCampina are joint operations or joint ventures under the new standard is currently reviewed. Depending on the outcome of this assessment changes in the accounting for these interests might be necessary because currently all joint arrangements are accounted for using the equity method.

##### **IFRS 12 Disclosure of interests in other entities**

IFRS 12 becomes effective as of 1 January 2014. This new standard includes all of the disclosures that were previously included in IAS 27, IAS 31 and IAS 28 and a number of new disclosures. This new standard will only affect the disclosures relating to interests in subsidiaries, joint arrangements and associates.

##### **IFRS 13 Fair Value Measurement**

This new standard becomes effective as of 1 January 2013 and provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. This new standard will affect disclosures relating to fair value measurements.

FrieslandCampina is currently evaluating the potential impact of the remaining new standards, amendments to standards and interpretations that will be effective for annual periods beginning on or after 1 January 2013 and that have not yet been applied by FrieslandCampina. None of these standards are expected to have a significant effect on FrieslandCampina's consolidated financial statements.

#### **Summary of significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all FrieslandCampina's entities.

##### **Basis of Consolidation**

###### **Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to FrieslandCampina. Control is the power to govern the financial and operational policies of an entity so as to obtain benefits from its activities. In assessing control, FrieslandCampina takes into consideration potential voting rights that are currently exercisable.

FrieslandCampina measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. Transaction costs, other than those associated with the issue of debt or equity securities, that FrieslandCampina incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration are recognised in the income statement. If the contingent consideration is classified as equity it is not remeasured and settlement is accounted for within equity.

For each business combination, FrieslandCampina elects to measure any non-controlling interest in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

#### Acquisition of non-controlling interests

Changes in the FrieslandCampina's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in the income statement.

#### Subsidiaries

Subsidiaries are entities controlled by FrieslandCampina. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases.

#### Loss of control

At the moment of loss of control, FrieslandCampina derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. If FrieslandCampina retains any interest in the previous subsidiary such interest is measured at fair value at the date control is lost. Subsequently it is accounted for as an equity accounted investee or as a financial asset held for sale depending on the level of influence retained.

#### Associates and joint ventures

Associates are those entities in which FrieslandCampina has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist

when FrieslandCampina holds between 20% and 50% of the voting power of another entity. A joint venture is a contractual arrangement whereby FrieslandCampina and other parties undertake an economic activity through a jointly controlled entity. Joint control exists when strategic, financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include FrieslandCampina's share of the results and other comprehensive income of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When FrieslandCampina's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interest that forms a part thereof, is reduced to zero and the recognition of further losses is discontinued except to the extent that FrieslandCampina has an obligation or has made payments on behalf of the investee.

#### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of FrieslandCampina's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

A list of the principal subsidiaries, joint ventures and associates is included on page 129.

#### Foreign currency translation

##### Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates at the balance sheet date. Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction.

Non-monetary items 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.

Foreign currency differences arising on retranslation are recognised in the income statement, except for the following differences which are recognised in other comprehensive income arising on the retranslation of:

- a financial liability designated as a hedge of the net investment in a foreign operation to the extent the hedge is effective, or
- qualifying cash flow hedges to the extent the hedge is effective.

### Foreign operations

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. Foreign currency translation differences are recognised in other comprehensive income and presented in the currency translation reserve in equity. If however, the foreign operation is a non-wholly owned subsidiary, the relevant proportion of the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the income statement as part of the gain or loss on disposal.

When FrieslandCampina disposes only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reclassified to non-controlling interest. When FrieslandCampina disposes only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the income statement.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such an item are considered to form part of a net investment in the foreign operation and are recognised in other comprehensive income and presented in the currency translation reserve in equity.

### Hedging of net investments in foreign activities

FrieslandCampina applies hedge accounting to the currency translation differences that arise through translating the functional currency of the foreign activity into the functional currency of FrieslandCampina (the euro), whether or not the net-investment is held directly or via an intermediary holding.

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

The following exchange rates have been used in the preparation of the consolidated financial statements:

	2012	
	At year-end	Average
US dollar	1.32	1.29
Singapore dollar	1.61	1.61
Hong Kong dollar	10.22	10.00
Indonesian rupiah (10,000)	1.29	1.21
Malaysian ringgit	4.04	3.97
Nigerian naira (100)	2.06	2.05
Vietnamese dong (10,000)	2.75	2.69
Chinese yuan	8.22	8.13
Philippine peso	54.19	54.39

	2011	
	At year-end	Average
US dollar	1.29	1.40
Singapore dollar	1.68	1.75
Hong Kong dollar	10.05	10.89
Indonesian rupiah (10,000)	1.18	1.23
Malaysian ringgit	4.10	4.27
Nigerian naira (100)	2.10	2.18
Vietnamese dong (10,000)	2.72	2.89
Chinese yuan	8.15	9.05
Philippine peso	56.74	60.52

### Financial Instruments

#### Non-derivative financial assets

FrieslandCampina initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through the income statement) are recognised initially on the trade date, which is the date that FrieslandCampina becomes a party to the contractual provision of the instrument.

FrieslandCampina derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position if, and only if, FrieslandCampina has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

FrieslandCampina classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

#### Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is designated as such on initial recognition. Financial assets are designated at fair value through profit or loss if FrieslandCampina manages such investments and makes purchase and sale decisions based on their fair value. Attributable transaction costs are recognised in the income statement as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, taking into account any dividend income, are recognised in the income statement. Financial assets designated as at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised costs using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with maturities of three months or less from the acquisition date.

### Non-derivative financial liabilities

FrieslandCampina initially recognises debt securities and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that FrieslandCampina becomes a party to the contractual provision of the instrument.

FrieslandCampina derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

FrieslandCampina classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised costs using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

### 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 FrieslandCampina can defer the interest payments.

#### Dividends

Dividends are recognised as a liability in the period in which they are declared.

### Derivatives, including hedge accounting

FrieslandCampina holds derivatives to hedge its foreign currency risk and interest rate risk exposure.

On initial designation of the derivative as a hedging instrument, FrieslandCampina formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge

transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. FrieslandCampina assesses, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within the range of 80%-125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value: attributable transaction costs are recognised in the income statement as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are accounted for as described below.

### Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability, or as a highly probable forecast transaction that could affect the income statement, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

If the hedged item is a non-financial asset the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to the income statement in the same period that the hedged item affects the income statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur the balance in equity is reclassified to the income statement.

### Other non-trading derivatives

When a derivative is not designated as a hedge relationship that qualifies for hedge accounting all changes in its fair value are recognised immediately in the income statement.

### Property, plant and equipment

#### Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost price includes any costs directly attributable to the acquisition of the asset. The cost price of self-manufactured assets comprises:

- costs of materials and direct labour costs;
- any other costs directly attributable to making the asset ready for use;
- if FrieslandCampina has an obligation to remove the asset, an estimate of the cost of dismantling and removing the items;
- capitalised borrowing costs.

Property, plant and equipment also include assets of which FrieslandCampina has acquired beneficial ownership under finance lease agreements. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition the asset is accounted for in accordance with the accounting policy applicable to that asset.

If parts of an item of property, plant and equipment have different useful lives the parts are accounted for as separate items of property, plant and equipment. Any gain or loss on the disposal of an item of property, plant and equipment is determined on the basis of a comparison of the proceeds from the sale and the carrying amount of the property, plant or equipment and is recognised in the income statement.

#### Subsequent costs

Subsequent costs are capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to FrieslandCampina. Ongoing repairs and maintenance costs are expensed as incurred.

#### Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in the income statement over the estimated useful life of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that FrieslandCampina will obtain ownership by the end of the lease term. Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use.

The estimated useful lives for the current year of significant items of property, plant and equipment are as follows:

Land	not applicable
Buildings	10-25 years
Plant and equipment	5-33 years
Other operational assets	4-20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and if appropriate, adjusted.

#### Intangible assets and goodwill

##### Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition, see the note regarding the basis of Consolidation. Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees the carrying amount of goodwill is included in the carrying amount of the investment and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

##### Research and development

Expenditure on research activities undertaken with the prospect of gaining new technical knowledge and understanding is recognised in the income statement as incurred. Development expenditure is

capitalised only if development costs can be measured reliably, the product process is technically and commercially feasible, future economic benefits are probable, and FrieslandCampina intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs directly attributable to preparing the asset for its intended use and capitalised borrowing costs. Other development expenditure is recognised in the income statement as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

#### Other intangible assets

Other intangible assets that are acquired by FrieslandCampina and that have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

#### Subsequent costs

Subsequent costs are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

#### Amortisation

Intangible assets other than goodwill are amortised on a straight-line basis in the income statement over their estimated useful lives calculated from the date that they are available for use.

The estimated useful lives for the current and comparative years are as follows:

Trademark and patents	10-40 years
Customer bases	5-20 years
Software	5 years
Capitalised internal development costs	5 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

#### Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories cost includes an appropriate share of production overheads based on normal operating capacity. The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

#### Impairment

##### Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of

one or more events that occurred after the initial recognition of the asset and the loss event(s) has had an effect on the estimated future cash flows of the asset that can be measured reliably.

#### Financial assets measured at amortised cost

FrieslandCampina considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and collective level. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

#### Non-financial assets

The carrying amounts of FrieslandCampina's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists the asset's recoverable amount is estimated. Goodwill and intangible assets with an indefinite life are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or Cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. When assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to the operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level within FrieslandCampina at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to the FrieslandCampina CGUs that are expected to benefit from the synergies of that combination.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. An impairment loss on other assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### Assets held for sale or distribution

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 FrieslandCampina's accounting policies. Thereafter the assets, or disposal group, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with FrieslandCampina'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.

Once classified as held for sale intangible assets and property, plant and equipment are not amortised or depreciated.

In addition, equity accounting of equity-accounted investments ceases once classified as held for sale.

#### Employee benefits

##### Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligations to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefits expense in the income statement in the periods during which the related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

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

##### Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. 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 a 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.

FrieslandCampina recognises gains and losses on the curtailment or settlement of a defined benefit plan at the time the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligations, any related actuarial gains and losses and past service costs not previously recognised.

#### Other long-term employee benefits

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

#### Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed at the time the related service is provided. A liability is recognised for the amount expected to be paid as a short-term cash bonus if FrieslandCampina has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### Provisions

A provision is recognised when, as a result of a past event, FrieslandCampina has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

Provisions for restructuring are formed when FrieslandCampina has formalised a detailed and formal restructuring plan and has either started implementing the restructuring plan or has announced the main lines of the restructuring in such a way that the people who will be affected by it have a valid reason for expecting the restructuring will take place.

A provision for onerous contracts is recognised when the expected benefits to be derived by FrieslandCampina from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established FrieslandCampina recognises any impairment loss on the assets associated with the contract.

#### Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognised as a reduction of revenue as the sales are recognised.

FrieslandCampina has customer loyalty programmes in place through which customers can earn points when they purchase certain FrieslandCampina products. 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 when 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. If 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 trade goods

This concerns the cost of the raw materials and consumables related to the products sold and/or the cost of acquiring the products sold. The cost of raw materials and consumables is calculated in accordance with the first-in-first-out principle.

The cost includes the currency translation differences related to trade payables as well as the differences in valuation of related derivatives.

### Leases

At the inception of an arrangement FrieslandCampina determines whether such an arrangement is, or contains, a lease. This will be the case if the following two criteria are met: the fulfillment of the arrangement is dependent on the use of a specific asset or assets; and the arrangement contains a right to use the asset(s). At inception, or on reassessment of the arrangement, FrieslandCampina separates payments and other considerations required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If FrieslandCampina concludes that it is impracticable to separate the payments related to a finance lease reliably, both an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using FrieslandCampina's incremental borrowing rate.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### Finance income and finance costs

Finance income comprises interest received on loans and receivables from third parties, dividend income, fair value gains on financial assets at fair value through profit or loss, gains on hedging instruments that are recognised in the income statement and reclassifications of amounts previously recognised in other comprehensive income.

Interest income is recognised in the income statement as it accrues using the effective interest method.

Finance costs comprises interest expenses on borrowings, fair value losses on financial assets at fair value through profit or loss, unwinding the discount on provisions, impairment losses recognised on financial assets (other than trade receivables), losses on hedging instruments that are recognised in the income statement and reclassifications of amounts previously recognised in other comprehensive income.

Foreign currency gains and losses from trade debtors and creditors are recognised as a component of operating profit. All other foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

### Tax

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that 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 tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax FrieslandCampina takes into account the effect of uncertain tax positions and whether additional taxes and interest may be due. FrieslandCampina believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes FrieslandCampina to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will affect tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and the assets and liabilities relate to taxes levied by the same tax authority, on the same taxable entity or on different tax entities, but they intend either settling current tax liabilities and assets on a net basis or realising their tax assets and liabilities simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unrecognised deferred tax assets are reassessed at each balance sheet date and

are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

### **Segment reporting**

The identified operating segments are the separate segments within FrieslandCampina for which financial information is available and frequently evaluated by the highest decision-making body (Executive Board) in order to come to decisions regarding the attribution of the available means to the segment and to determine the performance of the segment. FrieslandCampina has divided the operating segments into the business groups: Consumer Products Europe, Consumer Products International, Cheese, Butter & Milkpowder and Ingredients. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and liabilities, corporate expenses, the performance premium and the distribution of registered fixed member bonds.

### **Cash flows**

The cash flow statement is prepared using the indirect method. Cash flows in foreign currencies have been translated into euros at the exchange rates prevailing on the transaction date.

### **Determination of fair values**

A number of FrieslandCampina's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. If applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which property could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement costs when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

### **Intangible assets**

The fair value of patents and trademarks names acquired in a business combination based on the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### **Inventories**

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated cost of completion and sale and plus a reasonable profit margin based on the effort required to complete and sell the inventories.

### **Trade and other receivables**

The fair value of trade and other receivables outstanding for longer than a year is estimated as the present value of future cash flows, discounted at the actual interest rate at the reporting date.

### **Derivatives**

The fair value of forward exchange contracts is generally estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using current interest rates and current foreign currency rates.

The fair value of interest rate swaps and cross-currency interest rate swaps is estimated by discounting the cash flows resulting from the contractual interest rates of both legs of the transaction, taking into account the current interest rates, current foreign currency rates and the current creditworthiness of the swap counterparties.

### **Non-derivative financial instruments**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements. The fair value of the put-option liability is estimated based on a discounted cash flow analysis.

## 1 Segmentation

FrieslandCampina's activities are divided into four reporting segments, which also form the four business groups. Each of the four business groups is responsible for a particular product group and/or specific geographic region:

- Consumer Products Europe: liquid milk, dairy based beverages, yoghurts, desserts, coffee creamers, cream and fruit juices and beverages in Europe. Brand names include Campina, Chocomel/Cecémel, Fruttis, Landliebe, Milli, Mona, NoyNoy and Optimel/Optiwell;
- Consumer Products International: liquid milk, milk powder, condensed milk, infant & toddler nutrition, dairy based beverages, yoghurts and desserts in mainly Asia, Africa and the Middle East. Brand names include Dutch Lady, Foremost, Frisian Flag, Rainbow and Peak;
- Cheese, Butter & Milkpowder: cheese, butter and milk powder, all over the world. Brand names include Frico, Milner and Botergoud;
- Ingredients: ingredients for the food and pharmaceutical industries, all over the world.

As from 2012 the performance premium and the distribution of the registered fixed member bonds are not attributed to the business groups. In previous years these were attributed in proportion to the quantity of members' milk received by the business group. As a result of this amendment the disclosed operating profit of the business groups provides better insight in their performance. This amendment affects primarily the business groups that process a lot of milk, such as Cheese, Butter & Milkpowder. This amendment has no effect on the consolidated equity, profit or balance sheet total, only the operating profit per business group is changed.

The comparative figures for 2011 have been adjusted for this amendment, furthermore the comparative figures for 2011 have been changed due to internal transfers.

	2012						
Segmentation by business group	Consumer Products Europe	Consumer Products International	Cheese, Butter & Milkpowder	Ingredients	Other	Elimination	Total
<b>Revenue third parties</b>	2,814	3,180	2,370	1,677	268		<b>10,309</b>
Inter-segment revenue	107	169	285	428		-989	
Total revenue	<b>2,921</b>	<b>3,349</b>	<b>2,655</b>	<b>2,105</b>	<b>268</b>	<b>-989</b>	<b>10,309</b>
Other operating income	7	7			1		<b>15</b>
Total operating income	<b>2,928</b>	<b>3,356</b>	<b>2,655</b>	<b>2,105</b>	<b>269</b>	<b>-989</b>	<b>10,324</b>
<b>Operating profit</b>	75	514	-39	224	-292		<b>482</b>
Share of profit of joint ventures and associates		9	4	2	1		<b>16</b>
Finance income and cost							-57
Income tax expense							-167
<b>Profit for the year</b>							<b>274</b>
Operating profit as a % of revenue third parties	2.7	16.2	-1.6	13.4			4.7
Carrying amounts of assets employed in operating activities <sup>1</sup>	1,744	1,328	1,042	1,352	753	-578	<b>5,641</b>
Carrying amounts of other assets							1,197
							<b>6,838</b>
Liabilities resulting from operating activities <sup>2</sup>	587	711	398	426	907	-578	<b>2,451</b>
Other liabilities							1,873
							<b>4,324</b>
Additions in property, plant, equipment and intangible assets	66	77	56	181	43		<b>423</b>
Depreciation of plant and equipment and amortisation of intangible assets	-63	-39	-38	-44	-10		<b>-194</b>
Impairment of fixed assets	-4		-1	-2			<b>-7</b>
Investments in joint ventures and associates	1	70	24	16	7		<b>118</b>

**Geographical information**

	Revenue third parties <sup>3</sup>	Carrying amount of operating non-current assets <sup>4</sup>
The Netherlands	4,990	1,737
Germany	985	357
Rest of Europe	1,350	462
Asia and Oceania	2,226	572
Africa and the Middle East	619	68
North and South America	139	12
<b>Total</b>	<b>10,309</b>	<b>3,208</b>

<sup>1</sup> Excluding deferred tax assets, investments in joint ventures and associates, loans provided, long-term receivables, income tax receivables, receivables from affiliated company, cash and cash equivalents and assets held for sale.

<sup>2</sup> Employee benefits, provisions, trade and other payables (excluding liabilities regarding put-option and payable to affiliated company) and derivatives.

<sup>3</sup> Please see Note 4 for a breakdown of revenue according to the customer's geographical location.

<sup>4</sup> Relates to property, plant and equipment and intangible assets.

**Segmentation by business group**

	Consumer Products Europe	Consumer Products International	Cheese, Butter & Milkpowder	Ingredients	Other	Elimination	Total
<b>Revenue third parties</b>	2,892	2,460	2,474	1,512	288		9,626
Inter-segment revenue	104	173	348	418		-1,043	
Total revenue	2,996	2,633	2,822	1,930	288	-1,043	9,626
Other operating income	14	5			1		20
Total operating income	3,010	2,638	2,822	1,930	289	-1,043	9,646
<b>Operating profit</b>	72	359	8	201	-237		403
Share of profit of joint ventures and associates	1	5	5	1	1		13
Finance income and cost							-72
Income tax expense							-128
<b>Profit for the year</b>							216
Operating profit as a % of revenue third parties	2.5	14.6	0.3	13.3			4.2
Carrying amounts of assets employed in operating activities <sup>1</sup>	1,736	856	1,037	1,153	599	-491	4,890
Carrying amounts of other assets							849
							5,739
Liabilities resulting from operating activities <sup>2</sup>	565	533	371	303	799	-491	2,080
Other liabilities							1,395
							3,475
Additions in property, plant, equipment and intangible assets	105	74	55	105	37		376
Depreciation of plant and equipment and amortisation of intangible assets	-60	-29	-40	-41	-6		-176
Impairment of fixed assets	-3	-2	-6		-1		-12
Reversal of impairment of fixed assets			1				1
Investments in joint ventures and associates	2	69	20	14	6		111

Geographical information	2011	
	Revenue third parties <sup>3</sup>	Carrying amount of operating non-current assets <sup>4</sup>
The Netherlands	4,961	1,518
Germany	1,033	347
Rest of Europe	1,362	442
Asia and Oceania	1,613	238
Africa and the Middle East	533	49
North and South America	124	11
Total	9,626	2,605

<sup>1</sup> Excluding deferred tax assets, investments in joint ventures and associates, loans provided, securities, long-term receivables, income tax receivables, receivables from affiliated company, cash and cash equivalents and assets held for sale.

<sup>2</sup> Employee benefits, provisions, trade and other payables and derivatives.

<sup>3</sup> Please see Note 4 for a breakdown of revenue according to the customer's geographical location.

<sup>4</sup> Relates to property, plant and equipment and intangible assets.

## 2 Acquisitions

In March 2012 FrieslandCampina acquired control over Alaska Milk Corporation (AMC). The acquisition date is 20 March 2012, the date on which FrieslandCampina increased its share in AMC from 8% to 68.5%. On 14 June 2012, after the closure of the mandatory tender offer, FrieslandCampina increased its share further to 97.7%.

AMC is engaged primarily in the manufacture, distribution and sale of dairy based beverages and milk powders under the brands Alaska, Carnation, Liberty, Alpine and Milkmaid. This acquisition provides FrieslandCampina with a platform that is in line with the strategic route 2020 goals and further strengthens its position in the strategic growth area Asia.

As of the acquisition date, AMC is consolidated as part of the Consumer Products International business group. In the nine months to 31 December 2012 AMC contributed a total revenue of EUR 211 million and a total profit of EUR 17 million towards FrieslandCampina's results. If the acquisition had occurred on 1 January 2012, management estimates that FrieslandCampina's consolidated revenue for the year would have been EUR 10,370 million and consolidated profit would have been EUR 280 million. In determining these amounts management assumed that the fair value adjustments that arose at the date of acquisition would have been the same if the acquisition had taken place on 1 January 2012.

FrieslandCampina acquired AMC by paying a cash consideration of EUR 341 million.

The major assets acquired and liabilities assumed recognised at the acquisition date are as follows:

### Identifiable assets acquired and liabilities assumed

Property, plant and equipment	41
Intangible assets	148
Inventories	35
Other financial assets	40
Cash and cash equivalents	43
Deferred tax liabilities	-42
Other payables	-42
<b>Total net identifiable assets</b>	<b>223</b>

The fair values of the net identifiable assets acquired and liabilities assumed have been determined based on the preliminary purchase price allocation performed by a third party. FrieslandCampina will definitively determine the purchase price allocation within the valuation period of one year specified by IFRS.

The trade and other receivables comprise gross contractual amounts of EUR 13 million, of which EUR 1 million was expected to be uncollectable at the acquisition date.

**Goodwill**

Goodwill has been recognised as a result of the acquisition as follows:

Total consideration transferred	341
Non-controlling interest, based on full fair value	8
Fair value of existing interest in acquiree	20
Fair value of identifiable assets	-223
<b>Goodwill</b>	<b>146</b>

The non-controlling interest of 2.3% is measured on the basis of the fair value method. The price per share for the non-controlling interest is equal to the price per share paid on the acquisition of the controlling interest. In the second half of 2012 FrieslandCampina purchased another 1% of the shares in AMC from non-controlling interests holders. See also Note 19.

Before the acquisition FrieslandCampina's existing 8% interest in AMC was classified as a financial asset at fair value through profit or loss. This resulted in a gain of EUR 3 million. This gain is included under 'net finance costs' in the income statement.

The goodwill relates primarily to the synergies expected to be achieved from integrating AMC into the Consumer Products International business group. The recognised goodwill is expected to be fiscally non-deductible.

Acquisition-related costs of EUR 6 million are included under 'other expenses' in the income statement and include among others legal fees and due diligence costs.

**Other acquisitions**

On 10 October 2012 FrieslandCampina acquired a 99.89% interest in IDB Belgium N.V., part of the Cheese, Butter & Milkpowder business group. The acquisition price of EUR 12 million, including EUR 2 million acquired cash and cash equivalents, is accounted for using the acquisition method. The total acquisition price was paid in 2012. This acquisition is not of a material nature for FrieslandCampina in respect of the disclosure requirements of IFRS 3.

**3 Assets and liabilities held for sale**

Assets held for sale are property, plant and equipment amounting to EUR 7 million (2011: EUR 4 million). At the end of 2012 and 2011 no liabilities related to current and non-current liabilities were held for sale.

In 2012 the facility in Klerken in Belgium, part of the Cheese, Butter & Milkpowder business group, was sold. In addition, during 2012 the Consumer Products Europe business group's facility in Debrecen in Hungary was classified as an asset held for sale. This asset is expected to be sold within one year.

	2012	2011
At 1 January	4	13
Transfer of associates		3
Transfer of property, plant and equipment	5	1
Disposals	-2	-13
<b>At 31 December</b>	<b>7</b>	<b>4</b>

**4 Revenue**

	2012		2011	
		%		%
<b>Revenue by geographical sales market</b>				
The Netherlands	2,323	23	2,435	25
Germany	1,269	12	1,317	14
Rest of Europe	2,535	24	2,555	27
Asia and Oceania	2,650	26	1,996	21
Africa and the Middle East	1,147	11	999	10
North and South America	385	4	324	3
	<b>10,309</b>	<b>100</b>	<b>9,626</b>	<b>100</b>

Differences between the breakdown of revenue third parties by geographical location of the assets as presented in Note 1 arise from the classification according to the area where the sales were generated.

Revenue includes EUR 2 million (2011: EUR 4 million) of government grants. The conditions for these grants have been met and the related obligations have been fulfilled.

**5 Other operating income**

Other operating income includes proceeds from services provided to third parties, rental income and the sale of property, plant and equipment. Last year this also included the EUR 9 million gain from disposal of an interest in a joint venture.

**6 Raw materials and consumables used**

	2012		2011	
		%		%
Milk from member dairy farmers	-3,273	49	-3,456	53
Cost of other raw materials, consumables and goods for resale	-3,442	51	-3,016	47
	<b>-6,715</b>	<b>100</b>	<b>-6,472</b>	<b>100</b>

**7 Employee benefits expense**

	2012		2011	
		%		%
Wages and salaries	-694	77	-638	77
Social security charges	-114	13	-105	13
Pension costs	-93	10	-88	10
	<b>-901</b>	<b>100</b>	<b>-831</b>	<b>100</b>

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

Consumer Products Europe	6,637	33	6,787	36
Consumer Products International	7,516	38	6,684	35
Cheese, Butter & Milkpowder	2,331	12	2,339	12
Ingredients	2,684	13	2,486	13
Other	778	4	740	4
	<b>19,946</b>	<b>100</b>	<b>19,036</b>	<b>100</b>

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

The Netherlands	6,580	33	6,494	34
Germany	1,786	9	1,828	10
Rest of Europe	4,331	22	4,340	23
Asia and Oceania	6,089	30	5,202	27
Africa and the Middle East	1,010	5	1,032	5
North and South America	150	1	140	1
	<b>19,946</b>	<b>100</b>	<b>19,036</b>	<b>100</b>

**8 Other operating expenses**

	2012	2011
Transport costs	-432	-422
Advertising and promotions costs	-456	-377
Work contracted out and temporary staff	-307	-277
Utilities	-216	-185
Maintenance and repairs costs	-159	-139
Other expenses	-462	-364
	<b>-2,032</b>	-1,764

The other expenses include:

- research and development costs of EUR 70 million (2011: EUR 66 million);
- operational leasing costs amounting to EUR 55 million (2011: EUR 43 million);
- various government grants amounting to EUR 3 million (2011: EUR 5 million). The conditions for these grants have been met and the related obligations fulfilled;
- impairment of property, plant and equipment and intangible assets amounting to EUR 6 million (2011: EUR 12 million) and no income in respect of the reversal of impairment of property, plant and equipment and assets held for sale (2011: EUR 1 million);
- an addition to the reorganisation provision of EUR 33 million (2011: EUR 4 million);
- the external auditor's audit and consultancy costs amounting to EUR 3.5 million (2011: EUR 3.1 million).

	2012	2011
<b>Specification of the external auditor's audit and consultancy costs</b>		
	Total KPMG network	Total KPMG network
Audit of the financial statements	-2.5	-2.1
Other audit engagements	-0.5	-0.5
Tax consultancy	-0.3	-0.3
Other non-audit-related services	-0.2	-0.2
	<b>-3.5</b>	-3.1

**9 Finance income and cost**

	2012	2011
Interest income	33	32
Interest expense	-66	-72
Gains (losses) on foreign exchange	11	
Put-option costs	-28	-19
Other finance income	3	2
Other finance costs	-10	-15
	<b>-57</b>	-72

Interest expenses includes EUR 7 million (2011: EUR 7 million) resulting from financing by Zuivelcoöperatie FrieslandCampina U.A. of Royal FrieslandCampina N.V.

Other finance income includes EUR 3 million (2011: EUR 2 million) recognised for the revaluation of the interest FrieslandCampina held in AMC before the moment at which control of AMC was acquired. Other finance cost includes amortisation of transaction costs and fees paid for the bridging loan and syndicate loan of EUR 7 million (2011: EUR 7 million).

Foreign exchange results arising from the cost of raw materials and consumables used and other operating expenses are included in cost of sales or in the appropriate component of operating expenses. In 2012 FrieslandCampina included a net exchange effect of EUR -2 million in operating profit (2011: EUR -2 million).

## 10 Income tax expense

	2012	2011
<b>Breakdown of tax expense</b>		
<b>Current tax expense</b>		
Current tax expense, current year	-121	-79
Adjustments for prior years	-	-1
	<b>-121</b>	<b>-80</b>
<b>Deferred tax expense</b>		
Deferred tax expense recognised in the current year	-10	-11
Adjustments to deferred tax attributable to changes in tax rates and laws	-	-8
Write-down of deferred tax assets	-39	-28
Adjustments for prior years	3	7
Other	-	-8
	<b>-46</b>	<b>-48</b>
<b>Income tax expense</b>	<b>-167</b>	<b>-128</b>

	2012			2011		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
<b>Income tax recognised directly in equity</b>						
Perpetual notes	-9	2	-7	-9	2	-7
Member bonds	-41	8	-33	-39	7	-32
<b>Income tax recognised as other comprehensive income</b>						
Currency translation reserve	5	-	5	-21	-	-21
Cash flow hedge reserve	-12	4	-8	5	-1	4

	2012		2011	
<b>Effective tax rate</b>	Amount	%	Amount	%
Theoretical tax rate in the Netherlands	110	25.0	86	25.0
Effect of different tax rates in other countries	6	1.4	6	1.7
Effect of change in tax rate	-	-	8	2.3
Share of result of joint ventures and associates	-5	-1.1	-8	-2.3
Withholding tax on dividends	5	1.1	5	1.5
Non-deductible expenses	17	3.9	14	4.1
Tax exempt income	-2	-0.5	-3	-0.9
Write-down of deferred tax assets	39	8.8	28	8.1
Adjustments to estimates relating to prior years	-3	-0.7	-6	-1.7
Tax credits used	-	-	-2	-0.6
<b>Effective tax rate</b>	<b>167</b>	<b>37.9</b>	<b>128</b>	<b>37.2</b>

The theoretical tax rate is calculated by applying the tax rate in the Netherlands of 25% to the result before tax.

## 11 Property, plant and equipment

	2012				
	Land and buildings	Plant and equipment	Assets under construction	Other operating assets	Total
Carrying amount at 1 January	493	1,082		85	1,660
Adjustment for introduction of assets under construction	-45	-182	237	-10	
Consolidation and deconsolidation	23	27			50
Additions	29	112	219	43	403
Disposals		-4		-1	-5
Currency translation differences		-4			-4
Transfers	47	109	-136	-20	
Transfer to assets held for sale	-5				-5
Depreciation	-36	-118		-21	-175
Impairment	-1	-5			-6
<b>Carrying amount at 31 December</b>	<b>505</b>	<b>1,017</b>	<b>320</b>	<b>76</b>	<b>1,918</b>
Cost	1,084	2,868	320	300	4,572
Accumulated depreciation and impairment	-579	-1,851		-224	-2,654
<b>Carrying amount at 31 December</b>	<b>505</b>	<b>1,017</b>	<b>320</b>	<b>76</b>	<b>1,918</b>

	2011				
	Land and buildings	Plant and equipment		Other operating assets	Total
Carrying amount at 1 January	467	947		81	1,495
Consolidation and deconsolidation	2	2			4
Additions	71	243		26	340
Disposals		-4		-1	-5
Currency translation differences	-2	-1			-3
Transfers	-10	9		-2	-3
Transfer to assets held for sale	-1				-1
Depreciation	-34	-108		-19	-161
Impairment	-1	-6			-7
Reversal of impairment	1				1
<b>Carrying amount at 31 December</b>	<b>493</b>	<b>1,082</b>		<b>85</b>	<b>1,660</b>
Cost	1,044	2,853		308	4,205
Accumulated depreciation and impairment	-551	-1,771		-223	-2,545
<b>Carrying amount at 31 December</b>	<b>493</b>	<b>1,082</b>		<b>85</b>	<b>1,660</b>

Impairment relates mainly to the downward revaluation of the appraised net recoverable amount of property, plant and equipment, because these assets are no longer in use and, therefore, can no longer be valued at value in use. Impairment is classified as other operating expenses in the income statement.

The carrying amount of buildings, plant and equipment for which financial lease agreements apply was EUR 12 million (2011: EUR 14 million).

The carrying amount at 31 December included EUR 320 million (2011: EUR 237 million) assets under construction. As of 2012 movements in assets under construction are shown separately in the movement schedule of property, plant and equipment in order to provide more insight in this category. This new category is not shown separately in the movement schedule for 2011 because the aggregated information for this year is not available.

At the end of the financial year FrieslandCampina was committed to investments in property, plant and equipment amounting to EUR 116 million (2011: EUR 79 million).

Additions include capitalised borrowing costs amounting to EUR 5 million (2011: EUR 2 million). The applicable interest rate is 4.3% (2011: 5.0%).

## 12 Intangible assets

	2012				
	Goodwill	Trademarks, customer relations and patents	Software	Other	Total
Carrying amount at 1 January	855	8	36	46	945
Consolidation and deconsolidation	146	150			296
Additions arising from internal development				15	15
Additions			5		5
Transfers		1	3	-4	
Currency translation differences	17	4		-1	20
Amortisation		-5	-12	-2	-19
Change in value in concerning the put-option	28				28
<b>Carrying amount at 31 December</b>	<b>1,046</b>	<b>158</b>	<b>32</b>	<b>54</b>	<b>1,290</b>
Cost	1,050	188	134	66	1,438
Accumulated amortisation and impairment	-4	-32	-102	-10	-148
<b>Carrying amount at 31 December</b>	<b>1,046</b>	<b>156</b>	<b>32</b>	<b>56</b>	<b>1,290</b>

	2011				
	Goodwill	Trademarks, customer relations and patents	Software	Other	Total
Carrying amount at 1 January	838	9	36	20	903
Consolidation and deconsolidation	1			1	2
Additions arising from internal development				21	21
Additions			12	3	15
Transfers				3	3
Currency translation differences	-19			1	-18
Amortisation		-1	-11	-3	-15
Impairment	-4		-1		-5
Change in value concerning the put-option	39				39
<b>Carrying amount at 31 December</b>	<b>855</b>	<b>8</b>	<b>36</b>	<b>46</b>	<b>945</b>
Cost	859	17	135	52	1,063
Accumulated amortisation and impairment	-4	-9	-99	-6	-118
<b>Carrying amount at 31 December</b>	<b>855</b>	<b>8</b>	<b>36</b>	<b>46</b>	<b>945</b>

In 2010 FrieslandCampina started a worldwide ICT-standardisation programme. During 2012 an amount of EUR 15 million (2011: EUR 21 million) was capitalised for this programme. The portion of this amount still under construction at the end of 2012 is recognised in the category 'Other'. In 2012 the system went live for the first group of operating companies. Implementation by the other operating companies will take several years.

See Note 26 for the change in value concerning the put-option.

**Impairment testing for cash-generating units containing goodwill**

In previous years the impairment test was carried out during the fourth quarter. As of 2012 the impairment test will be carried out during the second quarter. The change in the timing of the impairment test will not affect its outcome.

The impairment test comprises calculating the recoverable amounts per group of cash flow-generating units once a year, or at another time if there is an indication for impairment. Goodwill is monitored and tested at business group level (groups of cash flow-generating units). Due to the acquisition of AMC, as of 2012 goodwill will also be allocated to the Consumer Products International business group.

The aggregate carrying amounts of goodwill allocated to each cash-generating unit are as follows:

	2012	2011
Consumer Products Europe	758	753
Consumer Products International	150	
Ingredients	138	102
	<b>1,046</b>	<b>855</b>

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

	%		%		%	
	Terminal value		Budgeted EBITDA		Pre-tax discount rate	
	2012	2011	2012	2011	2012	2011
Consumer Products Europe	2	2	5-9	6-9	12	12
Consumer Products International	2.5		16-18		16	
Ingredients	2	2	15-21	14-21	11	10

Budgeted EBITDA margins 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 are pre-tax, in accordance with IAS 36.55.

The recoverable amounts, being the value in use, of the cash-generating units were determined on the basis of the 2012 budget and long term plans. For the period after 2017, a growth rate was used that is equal to the expected long-term inflation rates of up to 2% for the business groups Consumer Products Europe and Ingredients and up to 2.5% for the Consumer Products International business group.

The outcome of the impairment tests was that the recoverable amounts exceed the carrying amounts of the cash-generating units.

**Sensitivity to changes in assumptions**

The impairment test showed that the estimated recoverable amount of the Consumer Products Europe business group exceeds the carrying amount by EUR 297 million. The Executive Board has identified two important assumption changes which could lead to an impairment. The extent to which one of these two assumptions must change in order for the estimated recoverable amount to equal the carrying value is shown below.

Change needed for carrying amount to equal recoverable amount:

Pre-tax discount rate	+ 2%
Estimated EBITDA	- 1%

The values attributed to the important assumptions represent Management's judgement regarding future developments in the Consumer Products Europe business group and are based on both external and internal sources.

The outcome of the impairment testing of the business groups Consumer Products International and Ingredients showed that the recoverable amount amply exceeds the carrying value of the cash flow generating unit. In this instance a reasonable amendment of the assumption will not lead to a lower recoverable value than the carrying value of the business groups Consumer Products International and Ingredients.

**13 Investments in joint ventures and associates**

	2012	2011
Carrying amount at 1 January	111	103
Additions		1
Impairment	-1	
Transfer to assets held for sale		-3
Profit for the year	16	13
Dividends received	-8	-3
<b>Carrying amount at 31 December</b>	<b>118</b>	<b>111</b>
<b>Financial data of joint ventures and associates:</b>		
Share of profit	16	13
Share of revenue	156	138
<b>Balance sheet:</b>		
Non-current assets	184	166
Current assets	102	90
Equity	166	152
Non-current liabilities	67	53
Current liabilities	53	51

Please see the list of Principal subsidiaries, joint ventures and associates on page 129 for the names of joint ventures and associates.

**14 Derivatives**

Please see Note 30 for the objectives, guidelines and policies related to the use of derivatives in FrieslandCampina's activities.

In the statement of financial position the derivatives are included in current and non-current other financial assets and liabilities.

	2012			
<b>Hedging activities</b>	Maturity	Assets	Liabilities	Notional amount
Cross currency swaps for fixing interest on non-current liabilities (carried as assets)	After 2017	13		138
Cross currency swaps for fixing interest on non-current liabilities (carried as liabilities)	2013/>2017		44	489
Interest rate swaps for fixing interest on interest-bearing liabilities	2013-2015		16	400
Currency derivatives carried as assets	2013			5
<b>Cash flow hedges</b>		<b>13</b>	<b>60</b>	
Cross currency swap for fixing non-current liabilities	2014		1	18
Currency derivatives carried as assets	2013	3		121
Currency derivatives carried as liabilities	2013			65
<b>Derivatives not subject to hedge accounting</b>		<b>3</b>	<b>1</b>	
<b>Total derivatives</b>		<b>16</b>	<b>61</b>	
Classified as current		3	15	
Classified as non-current		13	46	

	2011			
	Maturity	Assets	Liabilities	Notional amount
<b>Hedging activities</b>				
Cross currency swaps for fixing interest on non-current liabilities (carried as assets)	After 2016	18		138
Cross currency swaps for fixing interest on non-current liabilities (carried as liabilities)	2013/2016		7	95
Interest rate swaps for fixing interest on interest-bearing liabilities	2012/2016		25	600
Currency derivatives carried as liabilities	2012			6
<b>Cash flow hedges</b>		18	32	
Cross currency swap for fixing non-current liabilities	2013/2016		1	18
Currency derivatives carried as assets	2012			23
Currency derivatives carried as liabilities	2012		5	133
<b>Derivatives not subject to hedge accounting</b>			6	
<b>Total derivatives</b>		18	38	
Classified as current			10	
Classified as non-current		18	28	

#### Cash flow hedges

Cross-currency interest rate swaps have been contracted for borrowings of USD 808 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.

Currency derivatives relate to hedged expected future cash flows from export income for an amount of USD 8 million (2011: USD 11 million).

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 2012 EUR, -18 million was recognised in equity as cash flow hedge reserve. Of this sum, EUR 7 million relates to the cross currency swaps and EUR 11 million to the interest rate swaps. During 2012 EUR 8 million was transferred to the income statement from the cash flow hedge reserve. This was the effective portion of the interest expense during the financial year.

#### Derivatives not subject to hedge accounting

Derivatives not subject to hedge accounting relate to contracted sales and purchases, loans and outstanding receivables and payables. The changes in the value of these derivatives are largely offset by value changes in receivables and payables that have an opposite effect. FrieslandCampina's policy is, and has been throughout the year under review, that no trading takes place for speculative purposes.

## 15 Other financial assets

	2012	2011
Loans	43	34
Securities		18
Derivatives	13	18
Long-term receivables	4	3
	<b>60</b>	<b>73</b>

Loans concerns a loan of EUR 20 million to the Great Ocean Ingredients Pty. Ltd. joint venture and the remainder concerns loans to third parties. The average interest rate on the loans at the end of 2012 was 2.9% (2011: 2.2%). The due date of EUR 22 million of the loans is after 2017. All the loans provided are still within their terms.

At the end of 2011 FrieslandCampina's 8% interest in AMC was classified as a financial asset under "Securities", in 2012 FrieslandCampina acquired control of AMC, see also Note 2.

Please see Note 14 for information regarding derivatives.

## 16 Inventories

	2012	2011
Raw materials and consumables	378	371
Finished goods and goods for resale	761	714
	<b>1,139</b>	<b>1,085</b>

Inventories of finished goods and goods for resale included EUR 175 million (2011: EUR 171 million) valued at lower market value.

In 2012 the write-down of inventories to net realisable value amounted to EUR 17 million (2011: EUR 22 million). The write-down is included in the raw materials and consumables used.

There are no inventories pledged as security for liabilities.

## 17 Trade and other receivables

	2012	2011	
Trade receivables	966	964	
Receivable from affiliated companies	39	23	
Other receivables	98	56	
Provision for doubtful debts	-15	-14	
	<b>1,088</b>	<b>1,029</b>	
Receivables related to tax (excluding income tax) and social security contributions	99	72	
Prepayments	34	26	
	<b>1,221</b>	<b>1,127</b>	
<b>Provision for doubtful debts</b>			
At 1 January	-14	-17	
Consolidation and deconsolidation	-2		
Charged to the income statement	-3	-2	
Released to the income statement	2	2	
Trade receivables written off	2	3	
<b>At 31 December</b>	<b>-15</b>	<b>-14</b>	
<b>Maturity schedule: trade and other receivables</b>			
	Gross	Impairment	Net
Within payment term	951	-3	<b>948</b>
Overdue by less than 3 months	115	-2	<b>113</b>
Overdue by 3 and 6 months			
Overdue by more than 6 months	37	-10	<b>27</b>
	<b>1,103</b>	<b>-15</b>	<b>1,088</b>

The addition and release of the provision for doubtful debts have been included in other operating expenses (Note 8). Amounts charged to the provisions account are generally written-off, when it is not expected that these are collectable.

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 2012 this insured position amounted to EUR 348 million (2011: EUR 315 million).

## 18 Cash and cash equivalents

	2012	2011
Deposits	288	106
Cash and cash equivalents	468	314
	<b>756</b>	420

Cash and cash equivalents up to an amount of EUR 6 million (2011: EUR 1 million) are not at FrieslandCampina's free disposal. These amounts are totally related to bank guarantees.

## 19 Equity

### Issued capital

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. 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.

### Perpetual notes

In 2003 FrieslandCampina issued a 7.125% perpetual cumulative subordinated loan with a nominal value of EUR 125 million. 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. The notes are listed on Euronext Amsterdam. Interest payments may be deferred, provided that Royal FrieslandCampina N.V. has not fixed or 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.

From the profit over the 2012 financial year, EUR 9 million (2011: EUR 9 million) is attributed to the providers of the perpetual notes.

### Member bonds

Member bonds have been issued to Zuivelcoöperatie FrieslandCampina U.A. and its members. The member bonds are perpetual and have no expiry date. The interest charge for the member bonds is the six month Euribor plus 3.0% as at 1 June and 1 December of the year in question. The bonds are subordinated to the claims of all other existing and future creditors to the extent that these are not subordinated. A portion of the profit is attributed to the member dairy farmers in the form of registered fixed member bonds. Interest payments may be deferred, provided that Royal FrieslandCampina N.V. has not fixed or 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.

From the profit over the 2012 financial year, EUR 41 million (2011: 39 million) is attributed to the providers of the member bonds. In addition, in 2012 EUR 84 million (2011: 65 million) was attributed to the member dairy farmers by means of the issue of registered member bonds.

### 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 statutory reserves.

**Non-controlling interests**

Non-controlling interests concerns the share in equity not attributed to FrieslandCampina. In the second half of the year FrieslandCampina acquired a further 1.0% of the shares in AMC from the holders of minority interests in the company by paying an amount of EUR 4 million in cash. At the end of 2012 the remaining minority interest in AMC amounted to 1.3%.

**20 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 indexed average salary plans. 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 at year end 2012 had a required coverage ratio (the ratio of plan assets to the pension obligation calculated under the conditions of the insurance contract) of at least 110%.

At the end of 2012 the coverage ratio of the pension plan insured with the insurance company was 116.3% (2011: 113.3%) and thus fulfilled the contractual obligation towards the insurance company. If the coverage ratio is lower than the specified minimum of 110% at the end of a financial year, and remains below the minimum for the following eighteen months, FrieslandCampina must at that moment make a one-time payment to the insurance company such that the 110% coverage ratio is restored.

At the end of 2012 the coverage ratio of the company pension fund was 99.7% (2011: 95.5%). FrieslandCampina is contractually obliged to pay a supplementary payment of EUR 12 million due to the existing coverage shortfall (under 105%). As of 2013 this obligation is no longer applicable.

At the end of 2012 the measurement of the pension obligations and the investments in respect of the average salary plans for the Dutch divisions changed. The value of the plan assets in the insurance contract is now derived from the guaranteed value of this contract instead of from the value of the plan assets in the segregated investment fund. The manner in which the assumption for conditional indexing for inactive participants is estimated has also changed. For the insurance contract this indexation assumption is derived from the expected profit sharing in the contract and for the company pension fund the indexation assumption is derived from the available means in the fund. This amendment has resulted in a decrease of the unrecognised actuarial losses by EUR 34 million.

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.

	2012	2011
<b>Assumptions<sup>1</sup></b>		
	%	%
Discount rate	3.3 / 3.9	4.6 / 4.9
Age-related salary increases	0.0 - 1.6	0.0 - 1.5
Wage inflation	2.5	2.4
Price inflation	2.0	1.9
Indexation		
• active	2.5	2.4
• non-active and retired	0.0 - 1.7	0.0 - 1.9
Increase in contribution-free salary	2.0	1.9
	AG forecast table	AG forecast table
Mortality tables	2012-2062	2010-2060
	%	%
Expected rate of return on plan assets in the financial year	4.2 / 4.8	4.6 / 5.1
Expected rate of return on plan assets in the following financial year	3.3 / 3.9	4.2 / 4.8

<sup>1</sup> The percentages shown relate to the Dutch pension schemes mentioned above, which represent 93% (2011: 93%) of the present value of the defined benefit obligations, respectively 99% (2011: 99%) of the fair value of plan assets.

The discount rate method applied provides a true reflection of the market for high-quality corporate bonds and takes the volatility of the interest on loans with a longer term into account in the correct manner.

	2012	2011
<b>Breakdown of pension costs payable at 31 December</b>		
Present value of defined benefit obligations	2,841	2,288
Fair value of plan assets	2,243	1,969
Deficit of cover	<b>598</b>	319
Unrecognised actuarial gains and losses at 31 December	-330	-80
Past-service costs not yet recognised	-11	-13
<b>Pension costs payable</b>	<b>257</b>	226
<b>Movement in the pension costs payable</b>		
At 1 January	226	202
Reclassification		3
Pension costs of defined benefit plans	77	73
Contributions paid	-44	-52
Currency translation differences	-2	
Pension costs payable	<b>257</b>	226
Classified as non-current assets	96	78
<b>Classified as non-current liabilities</b>	<b>353</b>	304

	2012	2011
<b>Present value of defined benefit obligations</b>		
At 1 January	2,288	2,176
Consolidation and deconsolidation	11	
Current service costs	56	51
Interest	108	112
Benefits paid	-90	-89
Currency translation differences	-2	
Actuarial gains and losses	470	38
<b>At 31 December</b>	<b>2,841</b>	2,288
Funded defined benefit obligations	2,593	2,072
Defined benefit obligations not yet funded	248	216
<b>At 31 December</b>	<b>2,841</b>	2,288
<b>Movement in the fair value of plan assets</b>		
At 1 January	1,969	1,893
Consolidation and deconsolidation	11	
Expected return on plan assets	88	90
Contributions received from the employer	44	52
Benefits paid	-90	-89
Reclassification		-3
Actuarial gains and losses	221	26
<b>At 31 December</b>	<b>2,243</b>	1,969

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.

The actual return on plan assets in the financial year was EUR 309 million (2011: EUR 116 million).

The main reason the actuarial gains and losses in respect of the present value of defined benefit obligations is EUR 470 million negative is that in 2012 the discount rate used for the Dutch plans decreased by over 1 percent. The main reason the actuarial gains and losses in respect of the fair value of plan assets is EUR 221 million positive is that the actual return on plan assets in 2012 was substantially higher than expected.

	2012	2011
<b>Unrecognised actuarial gains and losses</b>		
At 1 January	-80	-67
Actuarial result related to awarded defined benefit obligations	-470	-38
Actuarial result from plan assets	221	26
Realised actuarial gains and losses	-1	-1
<b>At 31 December</b>	<b>-330</b>	<b>-80</b>
<b>Past-service costs not yet recognised</b>		
At 1 January	-13	-14
Amortisation	2	1
<b>At 31 December</b>	<b>-11</b>	<b>-13</b>
<b>Pension costs recognised through the income statement</b>		
Increase in present value of defined benefit obligations	56	51
Interest	108	112
Expected return on plan assets	-88	-90
Amortisation of past-service costs	2	1
Realised actuarial gains and losses	-1	-1
Expense recognised in the income statement for IAS 19-based defined benefit plans	<b>77</b>	73
Pension costs for defined contribution plans and contributions to multi-employer pension plans	21	20
Employees' share in pension costs	-5	-5
<b>Pension costs recognised through the income statement</b>	<b>93</b>	<b>88</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 74 million towards its defined benefit plans in 2013 and EUR 1 million towards the multi-employer plans. EUR 12 million of the contribution towards the defined benefit plans concerns the supplementary payment as a result of the deficit of cover of the company pension fund at the end of 2012.

	2012	2011
<b>Principal plan asset categories, by percentage of fair value of the total plan assets:</b>		
	%	%
Equity securities	17	35
Fixed-income securities	37	59
Property		2
Other plan assets		4
Guaranteed value of insurance contract	46	

	2012	2011	2010	2009	2008
<b>Financial history</b>					
Present value of defined benefit obligations	2,841	2,288	2,176	2,221	1,862
Fair value of plan assets	2,243	1,969	1,893	1,745	1,569
<b>Deficit of cover</b>	<b>598</b>	319	283	476	293
<b>Actuarial gains and losses related to adjustments of assumptions or experience</b>					
<b>Defined benefit obligations</b>					
Actuarial gains and losses due to assumption changes	-468	-49	71	-282	82
Actuarial gains and losses due to experience changes	-2	11	56	4	21
<b>Total</b>	<b>-470</b>	-38	127	-278	103
<b>Plan assets</b>					
Actuarial gains and losses due to experience changes	221	26	82	109	-405

## 21 Deferred tax assets and liabilities

	2012						
	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, receivables, derivatives, liabilities and provisions	Unused tax losses and relief facilities	Other	Total
At 1 January	-43	90	17	27	70		161
Acquisitions	-5	-41		1			-45
Recognised through the income statement	-12	-14	14	9	-43		-46
Recognised in equity				4	10		14
Currency translation differences		-2					-2
<b>At 31 December</b>	<b>-60</b>	<b>33</b>	<b>31</b>	<b>41</b>	<b>37</b>		<b>82</b>

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

	Assets	Liabilities	Net
Property, plant and equipment	2	62	-60
Intangible assets	114	81	33
Employee benefits	31		31
Inventories, receivables, derivatives, liabilities and provisions	52	11	41
Unused tax losses and relief facilities	37		37
Other	-26	-26	
<b>Net deferred tax asset</b>	<b>210</b>	<b>128</b>	<b>82</b>

2011

**Assets and liabilities per type of temporary difference**

	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, receivables, derivatives, liabilities and provisions	Unused tax losses and relief facilities	Other	Total
At 1 January	-29	123	10	18	77	-1	198
Recognised through the income statement	-14	-36	7	10	-16	1	-48
Recognised in equity				-1	9		8
Currency translation differences		3					3
<b>At 31 December</b>	<b>-43</b>	<b>90</b>	<b>17</b>	<b>27</b>	<b>70</b>		<b>161</b>

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

	Assets	Liabilities	Net
Property, plant and equipment	4	47	-43
Intangible assets	125	35	90
Employee benefits	20	3	17
Inventories, receivables, derivatives, liabilities and provisions	33	6	27
Unused tax losses and relief facilities	70		70
Other	5	5	
Netting	-33	-33	
<b>Net deferred tax asset</b>	<b>224</b>	<b>63</b>	<b>161</b>

The majority of the deferred tax assets related to unused loss compensation and facilities concerns tax jurisdictions in which FrieslandCampina has suffered a fiscal loss in the current or previous financial years.

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

Deferred tax assets are not recognised if it is not probable that there will be future taxable profits within the entities against which the losses can be utilised.

In 2012 a portion of the deferred tax assets related to unrealised loss compensation and facilities was written-down. Most of the write-down related to the unrealised loss compensation in Germany. As a result of the fierce price-competition on the German dairy market the expected future profits have been adjusted downwards, which has led to a write-down.

Deferred tax assets have not been recognised in respect of the following losses and facilities:

	2012	2011
Tax losses	321	224
Facilities available for relief	2	2
	<b>323</b>	<b>226</b>

EUR 4 million of the unrecognised losses elapse in between 5 and 10 years. The remaining unrecognised losses and facilities will not age under the current fiscal rules.

**22 Provisions**

	2012			2011		
	Restructuring	Other provisions	Total	Restructuring	Other provisions	Total
At 1 January	26	36	62	49	35	84
Additions charged to the income statement	33	21	54	4	24	28
Released to the income statement	-4	-18	-22	-7	-7	-14
Utilised	-14	-15	-29	-20	-16	-36
<b>At 31 December</b>	<b>41</b>	<b>24</b>	<b>65</b>	26	36	62
Non-current provisions	3	6	9	12	13	25
Current provisions	38	18	56	14	23	37
	<b>41</b>	<b>24</b>	<b>65</b>	26	36	62

**Restructuring provisions**

At the end of 2012 FrieslandCampina announced three reorganisation programmes. The facilities being reorganised are the Consumer Products Europe business group's Gütersloh, Keulen and Heilbronn facilities in Germany and Debrecen and Budapest facilities in Hungary, and the Cheese, Butter & Milkpowder business group's facility in Sénas, France. The provision comprises primarily redundancy payments for over 550 employees plus related costs. It is anticipated that the majority of these reorganisations will be completed during 2013.

In previous years FrieslandCampina has formed various provisions for the reorganisation of production and packing facilities. The withdrawals in 2012 were mainly related to the provisions for the Consumer Products Europe business group's Kalkar and Elsterwerda facilities. At the end of 2012 most of the remaining reorganisations related to Elsterwerda in Germany part of the business group Consumer Products Europe and the Klerken and Varsseveld production facilities part of the business group Cheese, Butter & Milkpowder.

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

**Other provisions**

These provisions are formed for obligations the extent or likelihood of which is uncertain at the balance sheet date and these provisions are stated at nominal value as their present value is not materially different.

Other provisions includes EUR 11 million (2011: EUR 23 million) for onerous contracts. The remainder relates primarily to received claims and other provisions.

**23 Interest-bearing borrowings**

	2012	2011
Amounts owed to syndicate of credit institutions	145	237
Amounts owed to institutional investors	552	265
Loans from affiliated company	290	290
Loans from member dairy farmers	33	42
Finance lease liabilities	14	13
Amounts owed to credit institutions	12	8
Other interest-bearing borrowings	34	36
	<b>1,080</b>	891

The terms and conditions of outstanding non-current loans are as follows:

Loan	Currency	Nominal interest rate	Year of maturity	Nominal amount 2012	Carrying amount 2012	Nominal amount 2011	Carrying amount 2011
Syndicate (variable interest)	EUR	1.2	2015	150	145	245	237
Private Placement (fixed interest)	USD		2013			87	89
Private Placement (fixed interest)	USD/EUR	4.4	2017	110	110	74	74
Private Placement (fixed interest)	USD	5.7	2020	100	100	102	102
Private Placement (fixed interest)	USD	4.0	2022	61	61		
Private Placement (fixed interest)	USD	4.2	2024	111	111		
Private Placement (fixed interest)	USD	4.0	2027	171	170		
Loan from Zuivelcoöperatie Friesland-Campina U.A. (variable interest)	EUR	2.3	2014	290	290	290	290
Loans from member dairy farmers (variable interest)	EUR	2.5	2014	33	33	42	42
Fonterra (variable interest)	EUR/NZD	2.0	2018	29	29	33	33
Other				31	31	24	24
				<b>1,086</b>	<b>1,080</b>	897	891

#### 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 2011 the term of the credit facility was extended to August 2015 and the conditions related to the loan were improved. On 31 December 2012 EUR 185 million of the credit facility had been utilised (2011: EUR 285 million), of which EUR 35 million (2011: EUR 40 million) is recognised as current.

To finance possible acquisitions, on 13 March 2012 FrieslandCampina agreed a Bridge Loan of EUR 600 million. This loan had a variable interest rate plus surcharge (2.3% for the first period). This interim Bridge Loan had a term of five years. As of 30 August 2012 the Bridge Loan was repaid.

#### Borrowings from institutional investors (private placements)

In total FrieslandCampina took out private loans with institutional investors in the United States amounting to USD 808 million (2011: USD 308 million) and a private loan with a European investor amounting to EUR 25 million (2011: EUR 25 million).

To replace the Bridge Loan, on 29 June 2012 FrieslandCampina took out private loans amounting to USD 500 million with institutional investors in the United States. These private loans, which went into effect on 30 August 2012 and have terms of between 5 and 15 years and a fixed interest rate in dollars of 3.1% to 4.2%, depending on the term, will be used to finance the Acquisition of Alaska Milk Corporation and other acquisitions.

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. The cross-currency swaps were entered into to hedge the cash flows. 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 808 million (2011: USD 308 million) have been fixed at EUR 627 million (2011: EUR 233 million) through these swaps. On 31 December 2012 EUR 85 million was classified as current.

#### Loans from affiliated company

This loan concerns a subordinated loan from Zuivelcoöperatie FrieslandCampina U.A.

#### Loans from member dairy farmers

These loans concern three-year deposit loans held by member dairy farmers.

**Financial lease liabilities**

	2012			2011		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	4		4	2		2
Between 1 and 5 years	12		10	9		7
More than five years	6		4	9		6
	<b>22</b>	<b>6.6</b>	<b>18</b>	<b>20</b>	<b>6.3</b>	<b>15</b>

The lease installments payable in 2012 included EUR 14 million (present value EUR 11 million) for the agreement with a third party for ripening, storing and packaging cheese (2011: EUR 16 million). This agreement expires in 2020.

EUR 4 million (2011: EUR 2 million) of the discounted value of the minimum payments is current and recognised under current borrowings.

No security has been provided for current and non-current borrowings.

**24 Other financial liabilities**

	2012	2011
Derivatives	46	28
Liability put-option		122
	<b>46</b>	<b>150</b>

Please see Note 26 for information regarding the liability in connection with the put-option relating to DMV Fonterra Excipients.

Please see Note 14 for information regarding derivatives.

**25 Current borrowings**

	2012	2011
Current portion of interest-bearing borrowings	150	42
Current interest-bearing borrowings	187	168
Bank overdrafts	56	40
	<b>393</b>	<b>250</b>

At the end of 2012 an amount of EUR 72 million (2011: 53 million) for Commercial paper and an amount of EUR 115 million (2011: EUR 115 million) for Bank Loans were recognised under 'Current interest-bearing borrowings'.

The average interest rate on current borrowings at the end of 2012 was 2.5% (2011: 2.5%).

**26 Trade and other payables**

	2012	2011
Amounts owed to member dairy farmers	472	421
Trade creditors	1,062	843
Payables related to tax (excluding income tax) and social security contributions	37	33
Liabilities in connection with put-options	162	7
Payable to affiliated company	1	
Other payables	401	372
	<b>2,135</b>	<b>1,676</b>

FrieslandCampina has recognised a liability of EUR 155 million in connection with the put-option under the terms of the agreement with Fonterra Co-operative Group Ltd. 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 2013. Because the option can be exercised in 2013, at the end of 2012 it was classified as current.

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 added to or deducted from goodwill. The changed value amounted to EUR 28 million in 2012 (2011: EUR 39 million).

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 a finance cost, as a compensation to the holder of the put-option.

At the time the financial statements were prepared, FrieslandCampina's management had no indication that Fonterra wished to exercise the option.

## 27 Commitments and contingencies

	2012			
	2013	2014-2017	After 2017	Total
Guarantees to third parties	4			4
Operational lease obligations	37	69	7	113
Purchase commitments for non-current assets	107	9		116
Tax contingencies		18		18
Other liabilities	46	72	1	119
	<b>194</b>	<b>168</b>	<b>8</b>	<b>370</b>

	2011			
	2012	2013-2016	After 2016	Total
Guarantees to third parties	10			10
Operational lease obligations	34	78	11	123
Purchase commitments for non-current assets	72	7		79
Tax contingencies		36		36
Other liabilities	43	73	6	122
	<b>159</b>	<b>194</b>	<b>17</b>	<b>370</b>

FrieslandCampina has granted a third party the right, subject to certain conditions, to acquire 8% of the shares in PT Frisian Flag Indonesia in the period 2013 to 2015.

In the context of the merger in 2008 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 member 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 of 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 these 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 total milk volume of 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.

For not recognised employee benefits see Note 20.

## 28 Related parties

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

See Note 29 for the remuneration of the Executive Board and the Supervisory Board.

See Note 20 for pension costs.

### **Zuivelcoöperatie FrieslandCampina U.A.**

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 2012 this was 8.9 billion kilograms (2011: 8.8 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 48 billion kilograms of milk in total. The milk price calculated in this way is guaranteed and, therefore, referred to as the guaranteed price. Out of the profit of Royal FrieslandCampina N.V., after deduction of profit attributable to providers of member bonds, providers of perpetual notes and non-controlling interests, 50% is added to the company's equity, 30% is paid out to member dairy farmers as a performance payment for the milk supplied and 20% is paid out to the member dairy farmers in the form of fixed member bonds.

Zuivelcoöperatie FrieslandCampina U.A. issued a subordinated loan to finance the assets of Royal FrieslandCampina N.V. Interest costs were charged on this loan. The conditions under which these transactions can take place are the same as for transactions with third parties.

EUR 270 million (2011: EUR 293 million) of the member bond loan is placed with Zuivelcoöperatie FrieslandCampina U.A. The accrued interest on these member bonds amounts to EUR 11 million (2011: EUR 13 million).

	2012	2011
Interest charged by Zuivelcoöperatie FrieslandCampina U.A.	-7	-7
Receivable from Zuivelcoöperatie FrieslandCampina U.A.	39	23
Payable to Zuivelcoöperatie FrieslandCampina U.A.	291	290

### **Joint ventures and associates**

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. The transactions are specified in the table below:

	2012	2011
Purchase of raw materials, consumables and goods for resale	41	30
Sale of raw materials, consumables and goods for resale	64	80
Receivable from joint ventures and associates	39	34
Payable to joint ventures and associates	4	3

### Supervisory Board and Executive Board

As member dairy farmers the members of the Supervisory Board who are also members of the Cooperative's Board conduct transactions with FrieslandCampina, including supplying FrieslandCampina with milk, and also hold member bonds.

On 31 December 2012 a total of 24,821 member bonds (2011: 19,637 member bonds) with a value of EUR 1.2 million (2011: EUR 1.0 million) were held by members of the Supervisory Board. A total of 75,700 perpetual notes (2011: 75,660 perpetual notes) with a value of EUR 0.1 million (2011: EUR 0.1 million) were held by one of the members of the Executive Board.

## 29 Remuneration of members of the Supervisory Board and the Executive Board

	2012	2011
<b>Supervisory Board</b>		
Short-term remuneration	0.9	0.9
	<b>0.9</b>	<b>0.9</b>
<b>Executive Board</b>		
Short-term remuneration	4.1	4.1
Long-term remuneration	1.5	1.0
Pension plans	0.8	0.6
<b>Remuneration of Executive Board excluding crisis levy</b>	<b>6.4</b>	<b>5.7</b>
Crisis levy	0.9	-
<b>Remuneration of Executive Board including crisis levy</b>	<b>7.3</b>	<b>5.7</b>

As a result of the 'Budget Agreement 2013 Tax Measures (Implementation) Act', which went into force in the Netherlands on 18 July 2012, in 2013 employers are charged a one-time crisis levy of 16% on the wage from current employment that an employee has been paid in 2012, in so far that the wage was higher than EUR 150,000.

## 30 Financial risk management and financial instruments

### Financial risk management

FrieslandCampina's principal 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 creditors, which arise directly from its operations. FrieslandCampina monitors the market risks, mainly currency risks and interest rate risks, relative to all financial instruments very closely.

FrieslandCampina also enters into derivative transactions, primarily forward currency contracts and interest rate swaps, in order to manage the currency risks and interest rate 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 risks

As FrieslandCampina conducts business worldwide, a considerable portion of its assets, liabilities and results is sensitive to currency fluctuations. The purpose of the policy for managing transaction risks is to limit the effect of currency fluctuations on financial performance. Although, in principle, transaction risks are hedged, specific product and market circumstances may mean that this is not done, for example in the case of the Nigerian naira, the Indonesian rupiah and the Chinese yuan.

Currency risks resulting from investments in foreign subsidiaries and joint ventures and associates are in principle not hedged. By financing foreign subsidiaries in the local currency to the extent that this is possible the risk arising from a currency 'mismatch' between assets and liabilities is limited. Until mid 2012 an exception was made in this respect - the net investment hedge - whereby to hedge the currency risk on the net investment in the foreign subsidiary in Greece financing was taken out in the current account in the currency of the net investment (EUR 15 million). This net investment hedge was terminated as of 30 June 2012. The reason for this termination was the European credit crisis. To anticipate possible effects of the European credit crisis FrieslandCampina has drawn-up country-specific contingency plans. One of these contingency plans was to partially repay the Greek subsidiary's loan to the subsidiary in the United Kingdom. Consequently the hedge was terminated as of 30 June 2012.

**Exposure of currency risk**

The summary of quantitative data about FrieslandCampina's exposure to foreign currency risk provided to management based on its risk management policy was as follows (positions given in EUR):

	2012				2011			
	EUR/USD	USD/NGN	USD/IDR	EUR/CNY	EUR/USD	USD/NGN	USD/IDR	EUR/CNY
Receivables	40		2	57	55	2	2	13
Cash	5	1	2		7	13	2	
Liabilities	-14	-5	-38		-9	-5	-22	
<b>Net statement of financial position</b>	<b>31</b>	<b>-4</b>	<b>-34</b>	<b>57</b>	53	10	-18	13
Forecast sales next year	644			200	671			83
Forecast purchases next year	-30	-318	-246		-42	-309	-251	
<b>Net forecast transaction exposure</b>	<b>614</b>	<b>-318</b>	<b>-246</b>	<b>200</b>	629	-309	-251	83
Forward exchange contracts	-108				-97			
<b>Net exposure 31 December EUR</b>	<b>537</b>	<b>-322</b>	<b>-280</b>	<b>257</b>	585	-299	-269	96

**Sensitivity analysis**

FrieslandCampina is sensitive primarily to fluctuations in the US dollar exchange rate due to its sales and purchases in dollars. The largest currency pairings are EUR/USD, USD/NGN, USD/IDR and EUR/CNY. As far as the euro is concerned this relates mainly to sales in American dollars. As far as other currencies are concerned this relates mainly to the purchase of raw materials on the world market. The breakdown below summarises the impact of a 5% change of the specified exchange rate against the local currency in the income statement. A 5% change in the exchange rate is assumed to be a realistic possibility.

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. Currently there are no large cash flow hedges, which is why they have not been reported.

A strengthening (weakening) of the specified exchange rate, as indicated below, against the EUR, NGN, IDR and CNY at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that FrieslandCampina considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

in millions of euro's	Strengthening	Weakening
	Effect on profit or loss	Effect on profit or loss
<b>31 December 2012</b>		
USD (5% increase against EUR)	28	-28
NGN (5% increase against USD)	-16	16
IDR (5% increase against USD)	-14	14
CNY (5% increase against EUR)	13	-13
<b>31 December 2011</b>		
USD (5% increase against EUR)	31	-31
NGN (5% increase against USD)	-15	15
IDR (5% increase against USD)	-13	13
CNY (5% increase against EUR)	5	-5

**Interest rate risk**

The objective of interest rate risk management is to limit the effect of interest rate fluctuations on profit and to reduce interest expense where possible. Interest rate derivatives are used to match the effective interest in borrowings to the intended interest rate risk profile. The average percentage of FrieslandCampina's interest bearing instruments (excluding member bonds, loans from affiliated companies, loans from member dairy farmers and the perpetual notes) that is characterised by a fixed interest percentage or is fixed by means of a hedge is on average 86% for the next 5 years. The overview below shows the situation at the end of the year:

Interest on borrowings	2012		2011	
	Carrying amount excluding hedging	Carrying amount including hedging	Carrying amount excluding hedging	Carrying amount including hedging
Fixed rate	656	956	278	678
Floating rate	817	517	863	463
	<b>1,473</b>	<b>1,473</b>	1,141	1,141

FrieslandCampina carried out a sensitivity analysis based on the influence of interest rates on derivatives and other financial instruments at the end of the year. The analysis of cash and cash equivalents and liabilities with variable interest rates was carried out based on the assumption that the outstanding amount at the end of the year had been outstanding throughout the year. This sensitivity analysis indicated that, if interest had risen or fallen by 0.5%, the cumulative interest expense for the current year would have been less than 1 million euro higher or lower.

### Liquidity risk

FrieslandCampina's objective is to maintain a balance between the continuity and flexibility of its funding by using a range of financial instruments. Total net debt should be covered mainly by long-term borrowings and committed credit facilities, which coverage equalled 150% by the end of 2012. FrieslandCampina manages its liquidity mainly by keeping available a significant amount of headroom under the unconditional credit facilities of EUR 1,637 million (2011: EUR 1,265 million). Of these facilities EUR 815 million (2011: EUR 715 million) was unused at the end of 2012, which is substantially more than the minimum headroom of EUR 350 million required according to FrieslandCampina's financial policy.

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

### Cash flows on borrowings

	2012				
	Carrying amount	Contractual cash flows	2013	2014-2017	After 2017
<b>Non-derivative financial liabilities</b>					
Loans	-1,459	-1,722	-428	-684	-610
Financial lease liabilities	-18	-22	-4	-12	-6
Trade and other payables	-2,131	-2,131	2,131		
Operational lease liabilities		-113	-37	-69	-7
Purchase commitments for non-current assets		-116	-107	-9	
Other commitments		-137	-46	-90	-1
<b>Derivatives</b>					
Interest rate swaps	-16	-19	-10	-9	
Cross currency swaps	-44	-11	-3	-3	-5
Forward exchange	-1				
	<b>-3,669</b>	<b>-4,271</b>	<b>-2,766</b>	<b>-876</b>	<b>-629</b>

2011

	Carrying amount	Contractual cash flows	2012	2013-2016	After 2016
<b>Non-derivative financial liabilities</b>					
Loans	-1,128	-1,266	-284	-754	-228
Financial lease liabilities	-15	-20	-2	-9	-9
Trade and other payables	-1,674	-1,674	-1,674		
Operational lease liabilities		-123	-34	-78	-11
Purchase commitments for non-current assets		-79	-72	-7	
Other commitments		-158	-43	-109	-6
<b>Derivatives</b>					
Interest rate swaps	-25	-30	-16	-14	
Cross currency swaps	-8	-4	-2	-2	
Forward exchange	-5	-5	-5		
	-2,855	-3,359	-2,132	-973	-254

**Credit Risk**

FrieslandCampina is exposed to credit risk with its trade receivables, cash and cash equivalents and derivative financial instruments. FrieslandCampina manages credit risk by systematically monitoring the credit rating of its customers at a decentralised level and financial counterparties at a central level. Increased risk in the Eurozone and its neighbouring regions led FrieslandCampina to further sharpen one its existing risk policy aimed at limiting and mitigating this risk as far as possible.

FrieslandCampina generally trades with reputable third parties with whom it maintains long-standing trading relationships. In accordance with FrieslandCampina's credit management policy customers are categorised, and depending on their credit profile, the following types of risk mitigating measures are taken:

- prepayment, paid cash on delivery or collateralisation;
- coverage by letter of credit or bank guarantee;
- credit insurance.

Thanks to the spread of geographical areas and business groups, there is no significant concentration of credit risk in FrieslandCampina's trade receivables (no single customer account for more than 3% of revenue). Trade receivables write-offs have totalled less than 0.1% of sales each year since the merger in 2008. Please see Note 17 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 a 'single A' credit rating. 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. FrieslandCampina has, for example, cash positions in Nigeria. To mitigate this risk FrieslandCampina not only has an active dividend policy to minimise these cash positions, but also a stringent bank policy.

Derivatives 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.

**Eurozone related risk**

Issues arising out of the credit crisis could have a material effect on FrieslandCampina's business in a number of ways. Uncertainty, lack of confidence and any further deterioration in the situation could lead to lower growth and prolonged recessionary effects on Europe and elsewhere, as well as to reduced availability of bank credit and increased volatility in capital markets.

FrieslandCampina is committed to continuing its existing operations in Europe. Scenario plans have been drawn-up in respect of a Eurozone break-up countries leaving the Eurozone and a prolonged recession.

Measures implemented to mitigate the impact of the potential scenarios whilst business continues as normal, include:

- developing and executing contingency plans with regard to commercial and supply chain operations;
- exercising additional vigilance in respect of our counterparty exposures;
- implementation prudent balance sheet measures, for example minimizing local cash positions on a daily basis; and
- strengthening of short-term liquidity positions.

#### **Covenant guidelines**

Existing guidelines for financial ratios:

Senior Net Debt / EBITDA	< 3.0
Net Debt / EBITDA	< 3.5
EBITDA / Net Interest	> 3.5

The terms of the covenants for both facilities (Syndicate and Private Placement) have been met. The amounts drawn under the credit facility and the private placements become repayable on demand if the related terms and conditions cease to be met.

The table below sets out the specification of the (senior) net debt at year-end.

	2012	2011
Interest bearing borrowings	1,080	891
Current borrowings	393	250
Payable to affiliated companies	1	
Receivable from affiliated companies	-39	-23
Cash and cash equivalents	-756	-420
Cash and cash equivalents not at free disposal	6	1
Net debt	<b>685</b>	699
Loans from affiliated company	-290	-290
Senior net debt	<b>395</b>	409

#### **Derivative assets and liabilities designated at cash flow hedges**

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair values of the related hedging instruments.

	Fair value	Expected cash outflow	2013	2014-2017	After 2017
<b>Interest rate swaps</b>					
Liabilities	16	19	10	9	
<b>Cross currency swaps</b>					
Assets	13	6	1	3	2
Liabilities	44	10	2	3	5

#### **Accounting classifications and fair values**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are stated below. The fair value is the amount that would be received or paid if the receivables and/or liabilities were settled on the balance sheet date, without further liabilities.

2012						
	Designated at fair value through income statement	Derivatives in hedge relationship	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
Other financial assets		13	47		60	60
Trade and other receivables	3		1,218		1,221	1,221
Cash and cash equivalents			756		756	756
Other financial liabilities	1	45			46	46
Interest-bearing borrowings				1,080	1,080	1,201
Current borrowings				393	393	396
Trade and other (financial) payables	162	15		1,973	2,150	2,150

2011						
	Designated at fair value through income statement	Derivatives in hedge relationship	Loans and receivables	Other financial liabilities	Carrying amount	Fair value
Other financial assets	18	18	37		73	73
Trade and other receivables			1,127		1,127	1,127
Cash and cash equivalents			420		420	420
Other financial liabilities	123	27			150	150
Interest-bearing borrowings				891	891	945
Current borrowings				250	250	250
Trade and other (financial) payables	5	5		1,676	1,686	1,686

The fair value is equal to the carrying value, with the exception of the interest-bearing liabilities with a fixed interest percentage. To calculate the fair value of these liabilities an average weighted interest percentage of 1.49% (2011: 1.38%) is used.

The put-option related to DMV Fonterra Excipients is classified as 'carried at fair value through the profit or loss'. The option is carried at fair value, but the changes in value are added or deducted to/from goodwill, see also Note 26.

#### Fair values hierarchy

The table below analyses Financial instruments carried at fair value by the valuation method. The different levels have been defined as follows:

- 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.

2012				
	Level 1	Level 2	Level 3	Total
Other financial assets		13		13
Trade and other receivables		3		3
<b>Total assets</b>		16		16
Other financial liabilities		46		46
Trade and other payables		22	155	177
<b>Total liabilities</b>		68	155	223

	2011			
	Level 1	Level 2	Level 3	Total
Other financial assets	18	18		36
<b>Total assets</b>	18	18		36
Other financial liabilities		28	122	150
Trade and other payables		10		10
<b>Total liabilities</b>		38	122	160

The existing 8% interest in AMC was classified as other financial assets for the acquisition. Level 1 was used as the valuation method and the listed market price was used as the principle for valuation. As FrieslandCampina acquired control on 20 March 2012 this classification is no longer applicable, see also note 2.

The derivatives are classified as Level 2 valuation method. The fair value of the forward currency contracts is calculated by comparison with the actual forward prices of contracts for comparable remaining terms. The fair value of interest swap contracts is determined using the discounted value based on actual market information.

The put-option in respect of DMV Fonterra Excipients is determined on the basis of the discounted value method that uses actual market information and the future cash flows. The future cash flows are discounted at the prevailing discount rates. The fair value of the put-option in respect of DMV Fonterra Excipients is classified as a Level 3 valuation method. See Note 26 for the movement during the year and the principles of valuation and determination of result for the valuation method.

### 31 Cash flow statement

The statement of cash flows has been prepared in accordance with the indirect method.

The table below shows the underlying relationships between the movements in the statement of financial position and the statement of cash flows for inventories, receivables and liabilities in 2012.

	Inventories	Receivables	Liabilities
At 31 December 2011	1,085	1,127	1,676
At 31 December 2012	1,139	1,221	2,135
<b>Movements in statement of financial position</b>	<b>54</b>	<b>94</b>	<b>459</b>
Adjustments:			
Currency translation effect	-3	-3	8
Consolidation and deconsolidation	41	47	-59
Interest movement financial position		1	1
Movement related to put-option liability			-155
Movement related to liability capital expenditure			-26
<b>Movements in statement of cash flows</b>	<b>-16</b>	<b>-49</b>	<b>228</b>

Before the acquisition FrieslandCampina's existing 8% interest in AMC was classified as securities, as a component of the financial assets. The reclassification of the existing 8% interest from securities to investments in subsidiaries is not expressed in the statement of cash flows.

### 32 Subsequent events

On 7 January 2013 FrieslandCampina and Mijwo Beheer B.V. reached agreement regarding the acquisition of cheese specialist Zijerveld en Veldhuyzen B.V. and its packaging unit G. den Hollander Holding B.V. Although FrieslandCampina expects the transaction will be completed at the end of the first quarter of 2013, this does, however, still depend on certain contractual and other conditions, such as the approval of competition authorities.

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

### The Netherlands

DMV-Fonterra Excipients B.V., Foxhol  
 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 Nutrifeed B.V., Amersfoort  
 FrieslandCampina DMV B.V., Amersfoort  
 FrieslandCampina Domo B.V., Amersfoort  
 FrieslandCampina International Holding B.V., Amersfoort  
 FrieslandCampina Kievit B.V., Meppel  
 FrieslandCampina Nederland B.V., Amersfoort  
 FrieslandCampina Nederland Holding B.V., Amersfoort  
 FrieslandCampina Riedel B.V., Amersfoort  
 FrieslandCampina Valess B.V., Amersfoort  
 FrieslandCampina Werknemers B.V., Amersfoort  
 Kaashandel Culemborg B.V., Hardinxveld-Giessendam

### Belgium

FrieslandCampina Belgium N.V., Aalter  
 FrieslandCampina Belgium Cheese N.V., Aalter  
 FrieslandCampina Cheese N.V., Aalter  
 FrieslandCampina Professional N.V., Lummen  
 FrieslandCampina Finance N.V., Lummen  
 FrieslandCampina C.V., Weelde (99.84%)  
 IDB Belgium N.V., Genk (99.89%)

### Germany

CMG Grundstücksverwaltungs- und Beteiligungs - GmbH,  
 Heilbronn (89.56%) <sup>2</sup>  
 DMV-Fonterra Excipients GmbH & Co. KG, Goch (50%) <sup>3</sup>  
 FrieslandCampina Cheese GmbH, Essen  
 FrieslandCampina Germany GmbH, Heilbronn (94.9%)  
 FrieslandCampina Professional GmbH, Cologne  
 Sahnemolkerei Hubert Wiesehoff GmbH, Schöppingen (49%) <sup>3</sup>  
 Satro GmbH, Lippstadt  
 DMV- Fonterra Excipients Technology GmbH, Goch  
 Milchverwaltung FrieslandCampina Germany GmbH, Cologne

### France

France Crème S.A.S., Saint-Paul-en-Jarez  
 FrieslandCampina Cheese France S.A.S., Sénas  
 FrieslandCampina France S.A.S., Saint-Paul-en-Jarez

### Greece

FrieslandCampina Hellas S.A., Athens

### United Kingdom

FrieslandCampina UK Ltd, Horsham

### Hungary

FrieslandCampina Hungária zRt, Debrecen (99.99%)

### Austria

FrieslandCampina Austria GmbH, Stainach

### Romania

Napolact S.A., Cluj-Napoca (91.43%)  
 FrieslandCampina Romania S.A., Satu Mare (99.99%)  
 Industrializarea Laptelui Mures S.A., Tirgu-Mures (90.27%)

### Russia

Campina OOO, Moscow

### Spain

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

### China

FrieslandCampina (Hong Kong) Ltd., Hong Kong  
 FrieslandCampina Trading (Shanghai) Co. Ltd., Shanghai

### Indonesia

PT Frisian Flag Indonesia, Jakarta (95%)  
 PT Kievit Indonesia, Jakarta

### Malaysia/Singapore

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

### Philippines

Alaska Milk Corporation, Manila (98.69%)

### Saudi Arabia

Friesland Arabia Ltd., Jeddah

### Thailand

FrieslandCampina Fresh (Thailand) Co Ltd, Bangkok  
 FrieslandCampina (Thailand) PCL, Bangkok (99.71%)

### Vietnam

FrieslandCampina Ha Nam Co. Ltd., Phu Ly  
 FrieslandCampina Vietnam Co. Ltd., Binh Duong province (70%)

### Nigeria

FrieslandCampina WAMCO Nigeria Plc., Ikeja (54.58%)

### USA

FrieslandCampina USA LP, Wilmington, State: Delaware

### Joint ventures and associates <sup>4</sup>

Betagen Holding Ltd., Hong Kong, China (50%)  
 Coöperatieve Zuivelinvesteerdere U.A., Oudenhorn, the Netherlands (49%)  
 CSK Food Enrichment B.V., Leeuwarden, the Netherlands (82.33%)  
 FKS Frischkonzept Service GmbH, Viersen, Germany (49%)  
 Great Ocean Ingredients Pty Limited, Allansford, Victoria, Australia (50%)  
 Het Kaasmerk B.V., Leiden, the Netherlands (74.53%)  
 Unifine Debic - Ingredientes de Pastelaria S.A., Lisbon, Portugal (50%)  
 ATF Management Ltd., Bangkok, Thailand (49%)  
 Dutch Cheese Masters S.A.S., Viroflay, France (45%)

<sup>1</sup> Ownership 100%, unless stated otherwise. If the percentage is less than 100% the direct interest of the parent in the subsidiary is stated.

<sup>2</sup> FrieslandCampina is, on the grounds of an agreement, entitled to 100% of the profit of this company.

<sup>3</sup> FrieslandCampina has control over these entities, based on voting power.

<sup>4</sup> FrieslandCampina does not have control over these joint ventures and associates.

## Company balance sheet

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

	Note	2012	2011
<b>Assets</b>			
Investments in subsidiaries	(2)	2,198	1,955
Loans to subsidiaries	(3)	1,225	1,226
Deferred tax assets		9	1
Other financial assets	(9)	13	18
<b>Non-current assets</b>		<b>3,445</b>	3,200
Other receivables	(4)	508	236
Other financial assets	(9)	5	13
Cash and cash equivalents		82	
<b>Current assets</b>		<b>595</b>	249
<b>Total assets</b>		<b>4,040</b>	3,449
<b>Equity</b>			
Issued capital		370	370
Share premium		114	113
Perpetual notes		130	130
Member bonds		1,084	1,003
Cash flow hedge reserve		-18	-10
Currency translation reserve		-43	-49
Retained earnings		758	591
<b>Equity attributable to the shareholder of the company and other providers of capital</b>	(5)	<b>2,395</b>	2,148
<b>Liabilities</b>			
Interest-bearing borrowings	(6)	1,024	838
Deferred tax liabilities		3	
Other financial liabilities	(9)	44	27
<b>Non-current liabilities</b>		<b>1,071</b>	865
Current borrowings	(8)	223	95
Trade and other payables		10	4
Borrowings from subsidiaries	(7)	324	326
Other financial liabilities	(9)	17	11
<b>Current liabilities</b>		<b>574</b>	436
<b>Total liabilities</b>		<b>1,645</b>	1,301
<b>Total equity and liabilities</b>		<b>4,040</b>	3,449

## Company income statement

In millions of euros, unless stated otherwise

	2012	2011
Share of profit of subsidiaries, net of tax	232	182
Other results, net of tax	-24	-12
<b>Profit for the year</b>	<b>208</b>	170

# 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 Part 9, Book 2 of the Dutch Civil Code. 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 pages 88 to 97 of the Notes to the consolidated financial statements 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 net asset value 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, Part 9, Book 2 of the Dutch Civil Code.

## 2 Investments in subsidiaries

	2012	2011
At 1 January	1,955	1,787
Capital contribution	1	
Profit for the year	232	182
Other comprehensive income	10	-15
Other movements		1
<b>At 31 December</b>	<b>2,198</b>	<b>1,955</b>

## 3 Loans to subsidiaries

	2012	2011
At 1 January	1,226	551
Transferred from/to current		675
Repayments	-1	
<b>At 31 December</b>	<b>1,225</b>	<b>1,226</b>

Repayment schedule	2012			2011		
	2014-2017	After 2017	Total repayment	2013-2016	After 2016	Total repayment
Loans to subsidiaries	1,225		<b>1,225</b>	1	1,225	1,226

The loans granted serve primarily to finance subsidiaries. The average interest rate on the financing of subsidiaries in 2012 was 2.0 % (2011: 3.2%).

#### 4 Other receivables

Of the other receivables EUR 471 million relates to credit provided to subsidiaries (2011: EUR 214 million). Other receivables also includes a receivable from Zuivelcoöperatie FrieslandCampina U.A of EUR 37 million (2011: EUR 22 million). No interest is charged on these loans (average interest rate 2011: 2.1%).

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

The number of issued shares at both the beginning and the end of the financial year amounted to 3,702,777. EUR 370 million has been paid up on these shares. 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 equity attributable to the shareholder of the company and other providers of capital that is included in the company financial statement is equal to the equity attributable to the shareholder of the company and other providers of capital that is included in the consolidated financial statement. Please see the statement of changes in equity on page 86 for additional details on equity.

The cash flow hedge reserve and the currency translation reserve are statutory reserves and as such cannot be distributed. In addition EUR 53 million (2011: EUR 35 million) of the retained earnings is designated as statutory reserve subsidiaries and as such cannot be distributed.

#### 6 Interest-bearing borrowings

	2012	2011
Amounts owed to syndicate of credit institutions	145	237
Amounts owed to institutional investors	552	265
Loan from affiliated company	290	290
Loans from member dairy farmers	33	42
Other interest-bearing borrowings	4	4
	<b>1,024</b>	838

The terms and conditions of outstanding non-current loans were as follows:

Loan	Currency	Nominal interest rate	Year of maturity	Nominal amount 2012	Carrying amount 2012	Nominal amount 2011	Carrying amount 2011
Syndicate	EUR	1.2	2015	150	145	245	237
Private Placement	USD		2013			87	89
Private Placement	USD/EUR	4.4	2017	110	110	74	74
Private Placement	USD	5.7	2020	100	100	102	102
Private Placement	USD	4.0	2022	61	61		
Private Placement	USD	4.2	2024	111	111		
Private Placement	USD	4.0	2027	171	170		
Loan from Zuivelcoöperatie FrieslandCampina U.A.	EUR	2.3	2014	290	290	290	290
Loans from member dairy farmers	EUR	2.5	2014	33	33	42	42
Other				4	4	4	4
				<b>1,030</b>	<b>1,024</b>	844	838

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

#### 7 Borrowings from subsidiaries

No interest is paid on the current borrowings from subsidiaries.

**8 Current borrowings**

	2012	2011
Current portion of interest-bearing borrowings	144	40
Current interest-bearing borrowings	72	53
Bank overdrafts	7	2
	<b>223</b>	<b>95</b>

**9 Derivatives**

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

Please see Note 14 of the consolidated financial statements for information regarding derivatives.

**10 Commitments and contingencies**

Royal FrieslandCampina N.V. has issued statements of liability in conformance with Article 403, Part 9 Book 2 of the Dutch Civil Code in respect of liabilities resulting from legal proceedings of Friesland Brands B.V. and FrieslandCampina Nederland Holding B.V. and the Dutch subsidiaries of FrieslandCampina Nederland Holding B.V.

FrieslandCampina N.V., together with the majority of the Dutch operating companies and Zuivelcoöperatie FrieslandCampina U.A., forms the fiscal unity Zuivelcoöperatie FrieslandCampina U.A. for corporation tax and income tax. On these grounds the company is severally liable for the tax liability of the fiscal unit as a whole.

**11 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 29 of the consolidated financial statements. During the year under review no employees were employed by the company.

Amersfoort, the Netherlands, 1 March 2013

**Executive board****Royal FrieslandCampina N.V.**

C.C. 't Hart, CEO  
C.J.M. Gielen  
P.J. Hilarides  
R.A. Joosten  
F. Rijna

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

P. Boer, Chairman  
J.H.G.M. Uijtewaal, Vice-chairman  
P.A.F.W. Elverding  
S.H. Galema  
L.W. Gunning  
A.A.M. Huijben-Pijnenburg  
J.P.C. Keijsers  
F.A.M. Keurentjes  
S.R.F. Ruiten  
H. Scheffers  
H. Stöcker  
B. van der Veer  
W.M. Wunnekink

# Other Information

## Provisions of the Articles of Association governing profit appropriation

The provisions regarding the appropriation of profit are included in Article 28 of the Articles of Association. These can be summarised as follows: profit will be distributed after adoption of the financial statements showing such distribution to be legitimate. The profit will be at the disposal of the General Meeting of Shareholders. The General Meeting will adopt the company's reserve policy, as included in Article 27 of the Articles of Association, on a proposal from the Executive Board approved by the Supervisory Board. Distributions chargeable to a reserve may be made on a proposal from the Executive Board, which will be subject to the approval of the Supervisory Board, pursuant to a resolution passed by the General Meeting. Unretained profit will be distributed.

## Proposed appropriation of profit attributable to the shareholder of the company

The Executive Board has, with the approval of the Supervisory Board, proposed that the profit of EUR 208 million be attributed as follows: EUR 9 million to be added to the perpetual notes reserve, EUR 41 million to be added to the member bonds reserve, and EUR 158 million to be added to the retained earnings. This profit appropriation has already been incorporated in the financial statements.

## Subsequent events

For information regarding subsequent events, please see Note 32 to the consolidated financial statements.

# Independent auditor's report

To: the shareholder of Royal FrieslandCampina N.V.

## Report on the financial statements

We have audited the accompanying financial statements 2012 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 2012, 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 2012, 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 these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the Executive Board in accordance with Part 9 of Book 2 of the Netherlands 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 2012 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 Netherlands 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 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands 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 Netherlands 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 whether 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 Netherlands Civil Code.

Amstelveen, 1 March 2013

**KPMG Accountants N.V.**


E.H.W. Weusten RA





# A global player in agri-food: contributing towards food supply security with a local focus

FrieslandCampina is a multinational dairy company with a wide offering of dairy products and leading brands in more than 100 countries. With 19,487 member dairy farmers in the Netherlands, Germany and Belgium and 19,946 employees in 28 countries, FrieslandCampina contributes towards the day-to-day availability of healthy and tasty nutrition. Every day around 1 billion people use FrieslandCampina's products or foodstuffs or medicines containing ingredients produced by FrieslandCampina. Worldwide FrieslandCampina achieves annual revenue of over 10 billion euro.



“As a mother I believe it's very important to give my child the best quality products, including dairy products that are very important for growth and brain development. So I always look for quality, for the brand and the history of the brand. Because I was brought up on Peak milk I want to pass it on to my own children.”

**Osisanwa Adeola Joan** - [mother in Nigeria](#)



“How does a sixty-year-old brand like Rainbow manage to remain relevant? That question gives us a responsibility: to always deliver quality, to supply the best possible products and to never stop improving. That's what our consumers expect from us: that as a leading dairy company we give them the best and look after their health.”

**Karan Mathur** - [Senior Brand Manager, FrieslandCampina](#)



# Overviews

## Financial history

In millions of euros, unless stated otherwise

	2012	2011	2010	2009	2008
<b>Headlines</b>					
<b>Income statement</b>					
Revenue	10,309	9,626	8,972	8,160	9,454
Operating profit <sup>1</sup>			428	347	276
Operating profit	482	403	434	258	248
Profit for the year	274	216	285	182	135
Guaranteed price	33.87	36.94	32.39	26.40	35.89
Performance premium in euros per 100 kilograms	1.42	1.10	1.23	0.59	0.48
Issuance of registered member bonds in euros per 100 kilograms	0.95	0.73	0.73	0.35	0.29
Milk price in euros per 100 kilograms (excl. VAT, 4.41% fat, 3.47% protein)	36.24	38.77	34.35	27.34	36.66
Meadow milk premium in euros per 100 kilograms	0.32	0.03	0.04	0.04	0.02
Special supplements in euros per 100 kilograms	0.12	0.12	0.13	0.11	0.10
Milk price and supplements in euros per 100 kilograms	36.68	38.92	34.52	27.49	36.78
<b>Financial position</b>					
Total assets	6,838	5,739	5,299	4,770	4,930
Equity	2,514	2,264	2,071	1,749	1,480
Equity attributable to the shareholder and other providers of capital	2,395	2,148	1,961	1,652	1,395
Net debt	685	699	776	842	1,494
<b>Cash flows</b>					
Net cash from operating activities	842	508	444	786	351
Net cash used in investing activities	-702	-340	-239	-206	-214
Depreciation of plant and equipment and amortisation intangible assets	194	176	210	206	219
<b>Ratios</b>					
Equity as a % of total assets	36.8	39.4	39.1	36.7	30.0
Employees (average number of FTEs)	19,946	19,036	19,484	20,034	20,568
Total milk processed (in millions of kilograms)	10,215	10,140	10,266	10,755	11,446
Milk supplied by members (in millions of kilograms)	8,860	8,838	8,821	8,685	8,589

<sup>1</sup> Before non-recurring income and expenses related to merger and reorganisation costs.

## Milk price overview

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

	2012	2011
Fat	14.88	19.39
Protein	18.92	17.49
	<b>33.80</b>	36.88
Adjustment guaranteed price	0.07	0.06
<b>Guaranteed price</b>	<b>33.87</b>	36.94
Performance premium	1.42	1.10
Issuance of registered member bonds	0.95	0.73
<b>Milk price</b>	<b>36.24</b>	38.77
Meadow milk premium <sup>1</sup>	0.32	0.03
Special supplements <sup>2</sup>	0.12	0.12
<b>Milk price and supplements</b>	<b>36.68</b>	38.92

<sup>1</sup> As of 2012 member dairy farmers who put their cows out in the meadow receive a meadow milk premium of 0.50 euro per 100 kilos of milk. Averaged over all FrieslandCampina member milk this is 0.32 euro per 100 kilos of milk.

<sup>2</sup> Special supplements comprises the total amount of payments per 100 kilos of milk of Campina milk (1.20 euro), organic milk (8.60 euro) and Landliebe milk (1.00 euro).

## Supervisory Board

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

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

**First appointed** 31 December 2008

**Nationality** Dutch

**Occupation** dairy farmer

**Other positions held** member of the Supervisory Board of Alfa Top-Holding B.V., Chairman of Commissie Duurzame Melkproductie van NZO (Dutch Dairy Association Sustainable Milk Production Committee)

### Jan (J.H.G.M.) Uijtewaal (1962)

**Position** Vice-chairman of the Supervisory Board of Royal FrieslandCampina N.V., Vice-chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A.

**First appointed** 31 December 2008

**Nationality** Dutch

**Occupation** dairy farmer

**Other positions held** Vice-chairman of the Supervisory Board of Rabobank Maas en Waal

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

**Position** member of the Supervisory Board of Royal FrieslandCampina N.V.

**First appointed** 31 December 2008

**Nationality** Dutch

**Other positions held** Vice-chairman of the Supervisory Board of ING Groep N.V., Chairman of the Supervisory Board of Koninklijke BAM Groep nv, Vice-chairman 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

### Sjoerd (S.H.) Galema (1962)

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

**First appointed** 14 December 2011

**Nationality** Dutch

**Occupation** dairy farmer

**Other positions held** Chairman of the Supervisory Board of Rabobank Sneek-Zuidwest Friesland, member of the Board of Inspiration Millennium Netwerk Fryslân

### Tex (L.W.) Gunning (1950)

**Position** member of the Supervisory Board of Royal FrieslandCampina N.V.

**First appointed** 14 December 2011

**Nationality** Dutch

**Other positions held** member of the Board of Management and Executive Committee of AkzoNobel N.V. responsible for Decorative Paints, member of the Supervisory Board of TNT Express

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

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

**First appointed** 15 December 2010

**Nationality** Dutch

**Occupation** dairy farmer

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

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

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

**First appointed** 31 December 2008

**Nationality** Dutch

**Occupation** dairy farmer

**Other positions held** none

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

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

**First appointed** 31 December 2008

**Nationality** Dutch

**Occupation** dairy farmer

**Other positions held** member of the Groningen Provincial Council, member of Grondkamer Noord (Agricultural Land Tenancies Authority North)

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

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

**First appointed** 31 December 2008

**Nationality** Dutch

**Occupation** dairy farmer

**Other positions held** Provincial Manager LTO-Noord, Province of North-Holland

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

**Position** member of the Supervisory Board of Royal FrieslandCampina N.V.

**First appointed** 31 December 2008

**Nationality** Dutch

**Other positions held** Chairman of the Supervisory Board of Aalberts Industries N.V., Vice-chairman of the Supervisory Board of Koninklijke BAM Groep nv, Vice-chairman of the Supervisory Board of Flint Holding N.V., Chairman of the Investment Committee NPM Capital N.V., member of the Board of Stichting Administratiekantoor KAS BANK, member of the Supervisory Board of AON Nederland

**Hans (H.) Stöcker (1964)**

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

**First appointed** 14 December 2011

**Nationality** German

**Occupation** dairy farmer

**Other positions held** Chairman of Landesvereinigung Milch NRW, Chairman of the Supervisory Board of Milchverwertungsgesellschaft NRW, member of Kreisstelle Oberberg der Landwirtschaftskammerr NRW, member of Landschaftsbeirat Oberbergischer Kreis, member of Aufsichtsrat Raiffeisenerzeugergenossenschaft Bergisch Land, Chairman of the Association 'Milch und Kultur Rheinland und Westfalen'

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

**Position** member of the Supervisory Board of Royal Koninklijke FrieslandCampina N.V.

**First 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.

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

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

**First appointed** 16 December 2009

**Nationality** Dutch

**Occupation** dairy farmer

**Other positions held** none

**Remuneration & Appointment Committee**

Peter Elverding, Chairman

Piet Boer

Jan Uijttewaal

**Audit Committee**

Henk Scheffers, Chairman

Simon Ruiten

Ben van der Veer

Erwin Wunnekink

## Executive Board



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

**Position** Chief Executive Officer

**Appointed** 1 January 2009

**Nationality** Dutch

**Responsible for**

Business group Consumer Products Europe (from 1 January 2013), Cooperative Affairs, Corporate Communication & Sustainability, Corporate Human Resources, General Counsel & Company Secretary Affairs, Corporate Public & Quality Affairs, Corporate Research & Development, Corporate Strategy

**Other positions held**

Chairman of the Board of the Nederlandse Zuivelorganisatie NZO, Member of the Board of Productschap Zuivel, Boegbeeld Topsector Agri&Food, member of the General Board of VNO-NCW



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

**Position** Chief Financial Officer

**Appointed** 1 January 2009

**Nationality** Dutch

**Responsible for**

Corporate Finance & Reporting, Corporate ICT, Corporate Internal Audit, Corporate Risk Management, Corporate Procurement, Corporate Tax, Corporate Treasury, Mergers & Acquisitions



**Roelof (R.A.) Joosten** (1958)

**Position** Chief Operating Officer

**Appointed** 1 January 2012

**Nationality** Dutch

**Responsible for**

Business group Ingredients, Corporate Supply Chain, Corporate Key Account Management



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

**Position** Chief Operating Officer

**Appointed** 1 January 2009

**Nationality** Dutch

**Responsible for**

Business group Consumer Products Europe (up to and including 31 December 2012), Business group Consumer Products International (from 1 January 2013)



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

**Position** Chief Operating Officer

**Appointed** 1 January 2009

**Nationality** Dutch

**Responsible for**

Business group Cheese, Butter & Milkpowder Milk Valorisation & Allocation

Kapil Garg died on 16 January 2013. He had been Chief Operating Officer of the Consumer Products International business group since 1 August 2010.

## Corporate staff

### Executive Director

Gregory (G.J.) Sklikas

Gregory Sklikas was appointed Executive Director of the Consumer Products Europe business group as of 1 January. Until this date he was Managing Director of FrieslandCampina Hellas.

### Corporate staff

Thom (T.J.C.M.) Albers	Corporate Director Strategy
Werner (W.S.J.M.) Buck	Corporate Director Public & Quality Affairs
Jeroen (J.J.H.) Fey	Corporate Director Milk Valorisation & Allocation
Carel (C.) Gribnau a.i.	Corporate Director Internal Audit
Jan (J.C.) Hordijk	Corporate Director Customer & Trade Marketing
Hans (J.) van Hout	Corporate Director Tax
Johan (J.H.A.) Keerberg	Corporate Director Procurement
Heidi (H.) van der Kooij	Corporate Director General Counsel & Company Secretary Affairs
Emmo (E.M.) Meijer	Corporate Director Research & Development
Frank (F.A.C.) van Ooijen	Corporate Director Communication & Sustainability
Gerben (G.) Otter	Corporate Director ICT
Joost (J.A.T.M.) van de Rakt	Corporate Director Supply Chain
Franc (F.A.M.) Reefman	Corporate Director Category Development
Atze (A.K.) Schaap	Corporate Director Cooperative Affairs
Klaas (K.A.) Springer	Corporate Director Treasury
Marco (M.C.) van Veen	Corporate Director Finance & Reporting
Jaap (J.C.) de Vries	Corporate Director Human Resources
Peter (P.) Zink Secher	Corporate Director Mergers & Acquisitions

## Europe

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

## Asia and Oceania

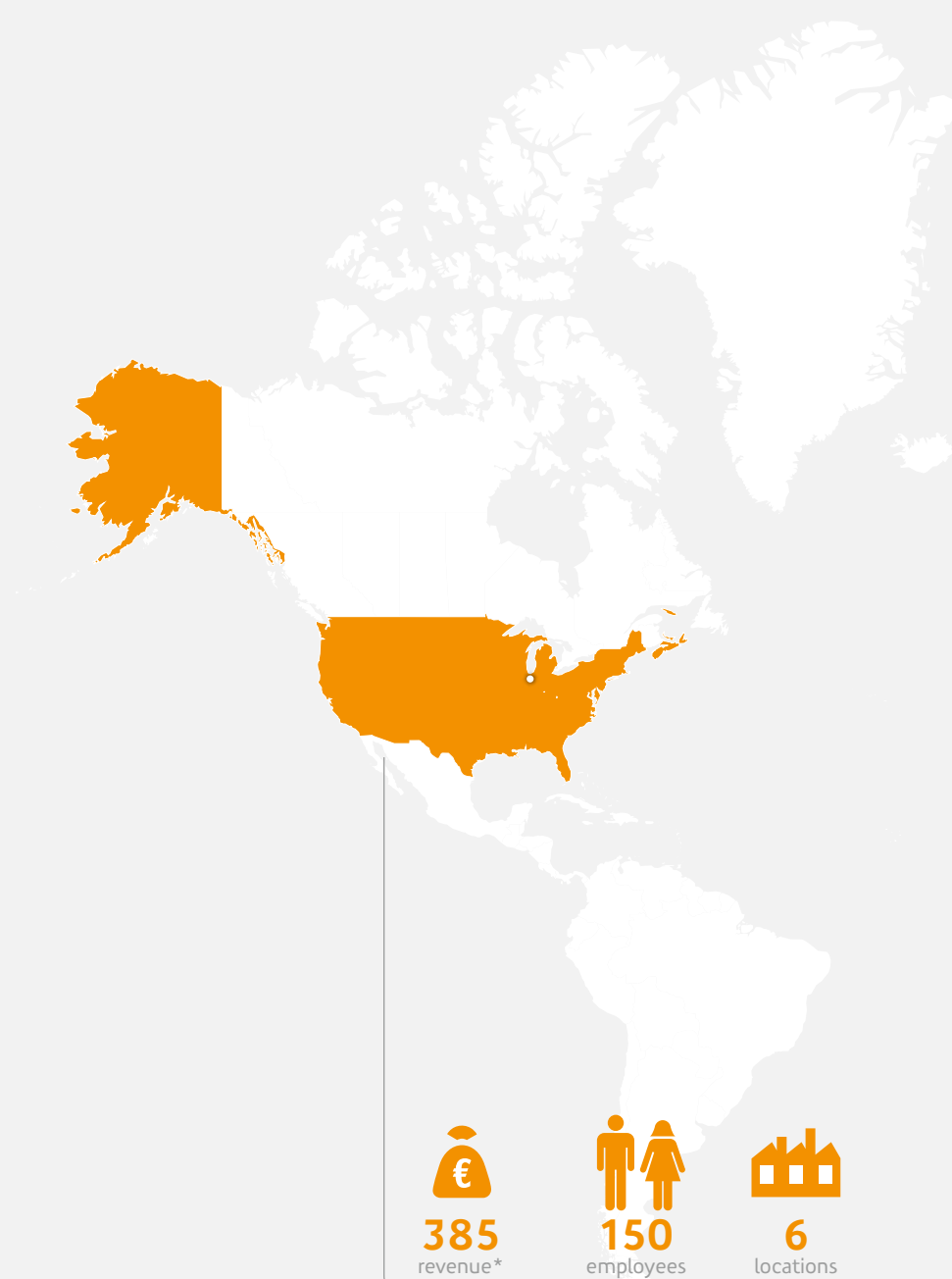
Indonesia  
Malaysia  
Singapore  
Thailand  
Vietnam  
Philippines  
China  
Hong Kong  
India  
Japan  
New Zealand

## Africa and the Middle East

Nigeria  
Ghana  
United Arab Emirates  
Saudi Arabia

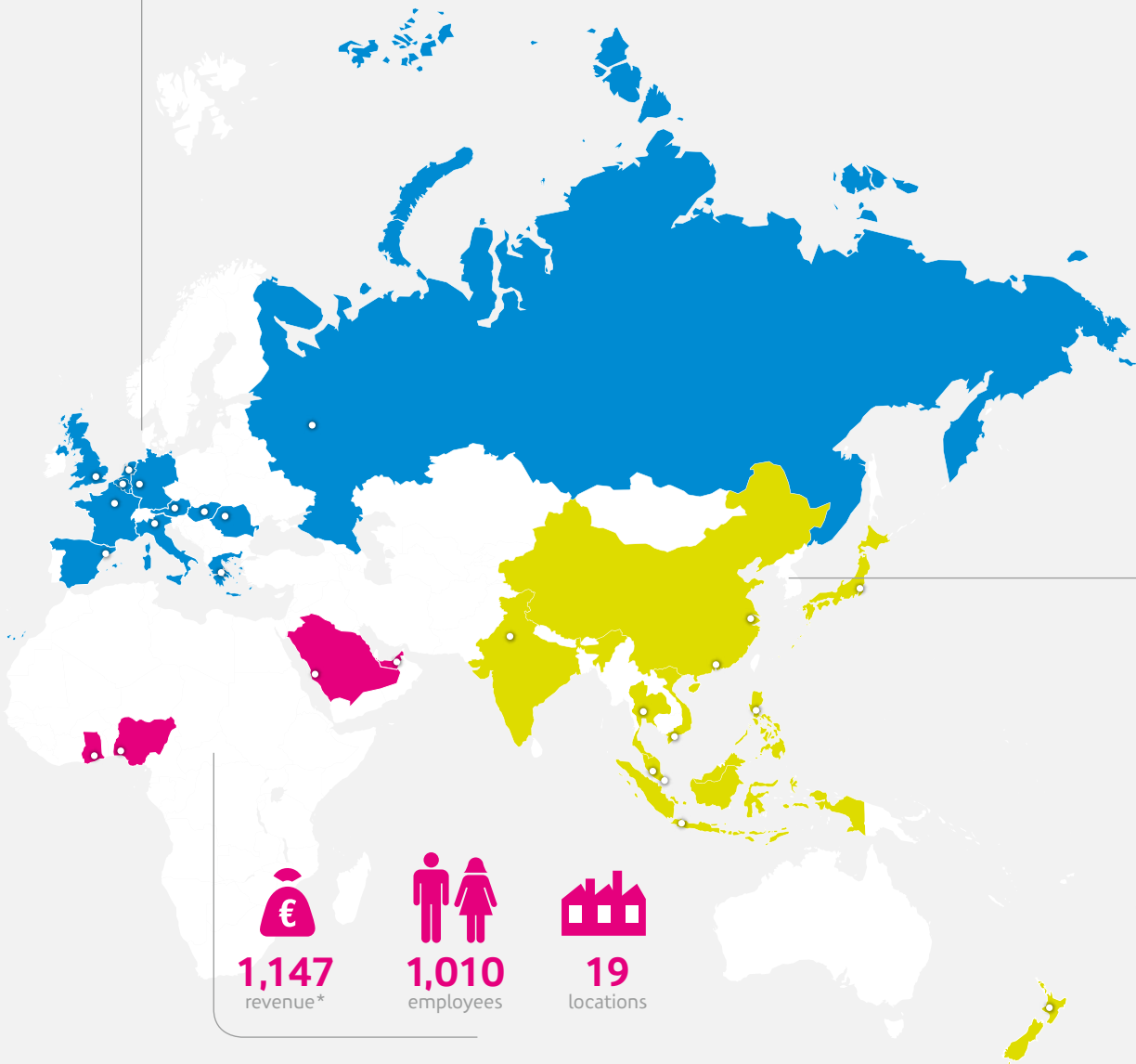
## North and South America

United States of America



\* in millions of euros

€ 6,127 revenue\*  
12,697 employees  
70 locations



€ 1,147 revenue\*  
1,010 employees  
19 locations

€ 2,650 revenue\*

6,089 employees

30 locations

# FrieslandCampina Consumer Products Europe

## FrieslandCampina Consumer Products Europe

Stationsplein 4  
3818 LE Amersfoort  
The Netherlands  
T +31 33 713 3333

Executive Director:  
**Gregory (G.J.) Sklikas**

## FrieslandCampina Sales & Marketing België

Schaessestraat 15  
9070 Destelbergen  
Belgium  
T +32 9 326 40 00

General Manager:  
**Chris (C.) Bolsius**

## FrieslandCampina Branded the Netherlands/Belgium

Stationsplein 4  
3818 LE Amersfoort  
The Netherlands  
T +31 33 713 3333

Managing Director:  
**Bas (S.G.) van den Berg**

## FrieslandCampina Professional

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

Managing Director:  
**Marco (M.G.) Bertacca**

## FrieslandCampina Germany

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

Managing Director:  
**Markus (M.) Brettschneider**

## FrieslandCampina UK

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

Managing Director:  
**Tracey (T.) Barney**  
(acting)

## FrieslandCampina Hellas

18, Nik. Zekakou & K. Karamanli str.  
15125 Marousi, Athens  
Greece  
T +30 210 61 66 400

Managing Director:  
**Kostas (K.G.) Maggioros**

## FrieslandCampina Retail Brands Europe

Stationsplein 4  
3818 LE Amersfoort  
The Netherlands  
T +31 33 713 3333

Managing Director:  
**Eric (E.) Schut**

## FrieslandCampina Hungary

Váci út 33  
1134 Budapest  
Hungary  
T +36 1 802 7700

Managing Director:  
**Jack (J.) Castelein**  
(acting)

## FrieslandCampina Romania

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

Managing Director:  
**Jan Willem (J.W.) Kivits**

## FrieslandCampina Russia

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

Managing Director:  
**Karl (C.G.F.) Buiks**

# FrieslandCampina Consumer Products International

## FrieslandCampina Consumer Products International

FrieslandCampina AMEA Pte Ltd  
 #11-01 Centennial Tower  
 3 Temasuk Avenue  
 Singapore 039190  
 T +65 65808100

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

## Alaska Milk Corporation

6th Floor, Corinthian Plaza Building  
 121 Paseo de Roxas  
 Makati City 1226  
 Philippines  
 T +632 840 4500

Managing Director:  
**Fred (W.S.) Uytensu**

## FrieslandCampina China

901 Shanghai Times Square Office Tower  
 No 93 Huai Hai Zhong Road  
 Shanghai 200021  
 China  
 T +8621 639 10066

Managing Director:  
**Chooi Lee (C.L.) Saw**

## FrieslandCampina Hong Kong

Room 1702-05  
 Shun Tak Centre  
 West Tower  
 200 Connaught Road Central  
 Hong Kong  
 T +852 2547 6226

General Manager:  
**Arnoud (A.) van den Berg**

## FrieslandCampina Indonesia

Jalan Raya Bogor Km 5  
 Jakarta 13760  
 Indonesia  
 T +62 21 841 0 945

Managing Director:  
**Marco (M.L.) Spits**

## FrieslandCampina Malaysia

Level 5, Quill 9, No 112, Jalan Semangat  
 46300 Petaling Jaya  
 Selangor Darul Ehsan Malaysia  
 Malaysia  
 T +603 7953 2600

Managing Director:  
**Rahul (R.) Colaco**

## FrieslandCampina Middle East

Palladium Tower, 8th Floor  
 Jumeirah Lake Towers  
 King Adbullah Street  
 Dubai  
 United Arab Emirates  
 T +971 4 4551800

Managing Director:  
**Maurits (E.M.) Klavert**

## FrieslandCampina Singapore

47, Scotts Road  
 Goldbell Towers  
 228233 Singapore  
 T +65 6419 8450

General Manager:  
**Eddie (B.L.) Koh**

## FrieslandCampina Thailand

6th floor, S.P. Building  
 388 Paholyothin Road  
 Samsen Nai, Phayathai  
 Bangkok 10400  
 Thailand  
 T +66 26201900

Managing Director:  
**Chanin (C.) Archjananun**

## FrieslandCampina Vietnam

Floor 16-17 Bitexco  
 Financial Tower  
 2 Hai Trieu, District 1  
 Ho Chi Minh City  
 Vietnam  
 T +84 65 03754 422

Managing Director:  
**Mark (P.M.) Boot**

## FrieslandCampina WAMCO Nigeria

Plot 7B Acme Road  
 Ogba  
 Ikeja Industrial Estate  
 Lagos State  
 Nigeria  
 T +234 1 271 51 00

Managing Director:  
**Peter (P.) Eshikena**

## FrieslandCampina West Africa

Patrice Lumumba No. 11  
 Airport Residential Area  
 Accra  
 Ghana  
 T +233 2176 0433

Director Business Development  
 West Africa:  
**Marc (M.) Desenfans**

## FrieslandCampina Cheese, Butter & Milkpowder

### FrieslandCampina Cheese, Butter & Milkpowder

Stationsplein 4  
3818 LE Amersfoort  
The Netherlands  
T +31 33 713 3333

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

### FrieslandCampina Cheese Hellas

18, Nik. Zekakou & K. Karamanli str.  
15125 Marousi, Athens  
Greece  
T +30 210 61 66 400

General Manager:  
**Kostas (K.G.) Maggioros**

### FrieslandCampina Butter

Stationsplein 4  
3818 LE Amersfoort  
The Netherlands  
T +31 33 713 3333

Managing Director:  
**Martien (M.M.G.M.)  
van den Hoven**

### FrieslandCampina Export

Frisaxstraat 4  
8471 ZW Wolvega  
The Netherlands  
T +31 561 692102

General Manager:  
**Cees (C.H.M.) Ruygrok**

### FrieslandCampina Cheese

Stationsplein 4  
3818 LE Amersfoort  
The Netherlands  
T +31 33 713 3333

Managing Director:  
**Peter (P.S.) Weltevreden**

### Yoko Cheese

Bosdel 51  
3600 Genk  
Belgium  
T +32 89 363388

General Manager:  
**Luc (L.) Lamberigts**

### FrieslandCampina Cheese Specialties

Stationsplein 4  
3818 LE Amersfoort  
The Netherlands  
T +31 33 713 3333

Managing Director:  
**Jack (J.A.M.F.) Castelein**

### FrieslandCampina Cheese Germany

Hatzper Straße 30  
45149 Essen  
Germany  
T +49 201 8712 746

General Manager:  
**Hans-Joachim (H.J.M.) Kolk**  
(acting)

### FrieslandCampina Cheese France

Quartier Les Crillons Sénas  
13560 Sénas  
France  
T +33 490 572 929

General Manager:  
**Christophe (C.M.) Machet**  
(acting)

### FrieslandCampina Cheese Spain

Roger de Lluria 50  
Planta 4  
8009 Barcelona  
Spain  
T +34 932 413 434

General Manager:  
**Jose (J.) Alonso**

# FrieslandCampina Ingredients

## FrieslandCampina Ingredients

Stationsplein 4  
3818 LE Amersfoort  
The Netherlands  
T +31 33 713 3333

Chief Operating Officer:  
**Roelof (R.A.) Joosten**

## FrieslandCampina Ingredients

#11-01 Centennial Tower  
3 Temasuk Avenue  
Singapore 039190  
T +65 65808100

Regional Director:  
**Andries (A.I.) Smit**

## FrieslandCampina Ingredients

RM2903, West Tower of LG Twin Towers  
B12 Jianguomenwai Avenue Chaoyang District  
Beijing 100022  
China  
T +86 1065666099

Managing Director:  
**Leon (L.) Coolen**

## FrieslandCampina Domo

Stationsplein 4  
3818 LE Amersfoort  
The Netherlands  
T +31 33 713 3333

Managing Director:  
**Herman (H.W.A.) Ermens**

## FrieslandCampina Domo Americas

61 S. Paramus Road,  
Suite 422  
Paramus, NJ 07652  
United States of America  
T +1 877 368 7378

Regional Director:  
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**FrieslandCampina** nl

Every day Royal FrieslandCampina provides around 1 billion consumers all over the world with food that is rich in valuable nutrients. With annual revenues of 10.3 billion euro, FrieslandCampina is one of the world's five largest dairy companies.

FrieslandCampina supplies consumer products such as dairy-based beverages, infant & toddler nutrition, cheese and desserts in many European countries, in Asia and in Africa. Products are also supplied to professional customers, including cream and butter products to bakeries and catering companies. FrieslandCampina also supplies ingredients and half-finished products to manufacturers of infant & toddler nutrition, the food industry and the pharmaceutical sector around the world.

FrieslandCampina has offices in 28 countries and employs a total of 19,946 people. FrieslandCampina's products find their way to more than 100 countries. The Company's central office is in Amersfoort, the Netherlands. FrieslandCampina's activities are divided into four market-oriented business groups: Consumer Products Europe; Consumer Products International; Cheese, Butter & Milkpowder and Ingredients. The Company is fully owned by Zuivelcoöperatie FrieslandCampina U.A., with 19,487 member dairy farmers in the Netherlands, Germany and Belgium one of the world's largest dairy cooperatives.

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