


# Half-year report 2009

Royal FrieslandCampina N.V.

# Key figures

## Results

| in millions of euros | 2009 First half | 2008 Fist half | 2008 Full Year |
|---|---|---|---|
| Revenue | **4,104** | 4,818 | 9,454 |
| Operating profit | **110** | 119 | 248 |
| Profit for the period | **78** | 60 | 135 |
| in euros per 100 kilograms of milk excl. of VAT, at 4,41% fat, 3,47% protein | | | |
| Guaranteed price | **26.04** | 38.17 | 35.89 |
| Pro forma performance payment [1] | **0.34** | 0.45 | 0.48 |
| Pro forma milk price in euro's [1] | **26.38** | 38.62 | 36.37 |

## Cash flows

| in millions of euros | 2009 First half | 2008 First half | 2008 Full Year |
|---|---|---|---|
| Net cash flows from operating activities | **269** | - 94 | 315 |
| Investment in property, plant and equipment and intangible assets | **87** | 105 | 240 |
| Depreciation and amortisation | **104** | 110 | 219 |

## Balance sheet

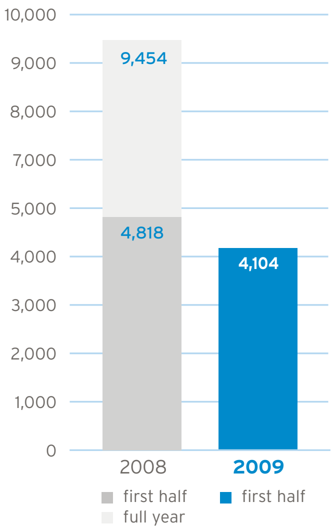
| in millions of euros | 2009 30 June | 2008 30 June | 2008 31 December |
|---|---|---|---|
| Total assets | **4,680** | 5,253 | 4,930 |
| Group equity | **1,642** | 1,615 | 1,480 |
| Equity attributable to the equity holder | **1,552** | 1,541 | 1,395 |
| Net debt [2] | **1,227** | 1,624 | 1,494 |

## Other information

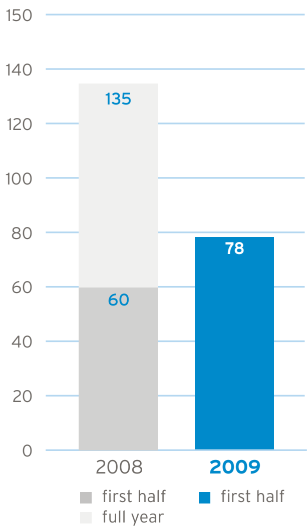
| in millions of euros | 2009 First half | 2008 First half | 2008 Full Year |
|---|---|---|---|
| Solvency ratio (group equity as a % of total assets) | **35.1** | 30.7 | 30.0 |
| Volume of milk supplied by members (in millions of kg) | **4,439** | 4,374 | 8,589 |

[1] The performance payment and milk price stated are of an indicative nature and are based on profit for the first six months. The final performance payment and milk price will be determined on the basis of the profit figures for the full year.
[2] Net debt represents non-current interest-bearing borrowings and current borrowings less cash and cash equivalents

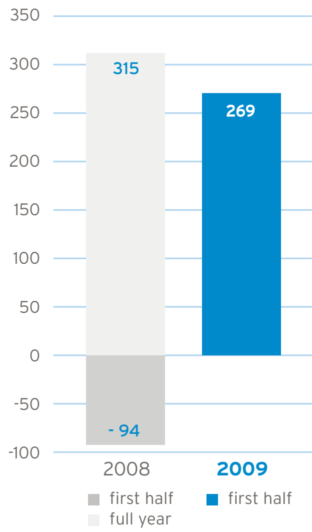
### Revenue
in millions of euros



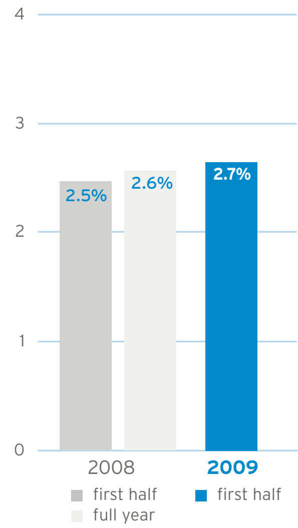

### Profit for the period
in millions of euros




### Cash flows from operating activities
in millions of euros




### Gross profit margin
in %



# First half of 2009: reasonable performance in challenging dairy market

## Highlights, first half of 2009

- Economic crisis leading to falling demand for, and drop in selling prices of, basic dairy products
- Revenue down 15 percent to 4.1 billion euros due to weaker demand for consumer products and ingredients, and lower selling prices. Currency movements weighing down earnings by 19 million euros on balance
- Operating profit down 8 percent, dropping to 110 million euros due, in part, to the lower valuation of inventories
- Good results posted by the Consumer Products International and Consumer Products Europe business groups
- Earnings achieved by the Cheese & Butter and Ingredients business groups adversely affected by low selling prices of basic products such as milk powders, caseins and cheese
- Profit up 30 percent to 78 million euros thanks to improved performance on finance income and costs, and share of profit of associates
- Cash flows from operating activities up thanks to cost control and higher working capital, mainly due to lower prices and the positive effects of structured working capital management
- Solvency ratio up from 30.0 at the end of 2008 to 35.1 percent at 30 June 2009, attributable to strengthened equity position and lower total assets
- Guaranteed milk price for member dairy farmers down 32 percent to 26.04 euros per 100 kilograms of milk, exclusive of VAT
- Pro forma performance payment for first half of 2009 at 0.34 euros per 100 kilograms of milk, exclusive of VAT
- Merger: geographical spread and broad product portfolio bringing more balance and stability
- Merger: integration well on schedule with first merger synergies achieved one year sooner than planned thanks to purchasing benefits and lower personnel expenses and overheads

**The first six months of 2009 were characterised by difficult economic conditions worldwide. Both selling prices and volumes of dairy products sold were being weighed down as a result. This led to a 15 percent drop in Royal FrieslandCampina's revenue to 4.1 billion euros. Operating profit fell 8 percent, landing at 110 million euros. Profit for the first half of 2009 was up 30 percent, rising to 78 million euros thanks to an improved performance on finance income and costs, and share of profit of associates. Both branded products and industrial labels performed well. Owing to disappointing selling prices of basic products, such as milk powders, caseins and cheese in particular, the milk price paid to member dairy farmers has come under severe pressure. Due, in part, to this development, FrieslandCampina paid its member dairy farmers a guaranteed price of 26.04 euros, exclusive of VAT, per 100 kilograms of milk for the first half of 2009. This represents a 32 percent drop compared with the same period last year.**

# Good brand development, basic products lagging behind

### Encouraging first half of the year

Cees 't Hart, Chief Executive Officer of Royal FrieslandCampina, described the first half-year earnings of the newly merged company as "encouraging, given the difficult dairy market". However, at the same time he also noted that "the guaranteed milk price for our member dairy farmers is at a worryingly low level".

Says 't Hart: "The half-year figures show a clear division between branded products and industrial specialties on the one hand, and basic products on the other. We managed to achieve good results, under the circumstances, from both our branded products and our industrial specialties. Branded products showed a particularly positive trend in South East Asia and Africa, and we saw volumes grow and market share increase in most countries in these regions. In Europe we managed to improve our market position, although volumes and prices are under pressure. We are particularly concerned about trends in prices for basic products such as milk powders, caseins and cheese. Price levels in these product categories are based mainly on global supply and demand, and lagging demand has caused selling prices to plummet to an exceptionally low level. The price levels not only have a major impact on our results, they also determine to a significant extent the guaranteed price for our member dairy farmers, which is at a worryingly low level.

That said, we are pleased to report that our branded products made a strong contribution to our results. The challenge that we face is to develop more branded products and industrial labels. In view of the difficult market we have brought costs under control and delayed investments in order to improve our financial position, which has also been boosted by the positive trend in earnings. As a result, despite the current tight credit market, we have managed to reach agreement with banks on a new, 1 billion euro credit facility that will provide us with the financial headroom we need for the coming years. I am happy with the advancements that have been made after the merger. The first half-year results show that, as a business combination, FrieslandCampina is more stable and balanced than its two predecessors individually, thanks to both the geographical spread of our operations and our broad product offering. Although the market is difficult, we still made good progress, achieving synergies and cost savings sooner than expected, and the integration project is going entirely to plan. The Executive Board would like to state that it greatly appreciates the exceptional efforts that our highly motivated staff have made in connection with this demanding change project."

### Market conditions

In the first half of 2009, demand for dairy products from both consumers and industrial customers dropped further around the world due to the economic crisis, although there were differences between regions and product categories. In Europe, fewer dairy products were consumed and used, where Asia showed growth stagnation. The strong euro and the weak dollar got in the way of exports of dairy products outside the European Union (EU) because prices were high relative to price levels in other regions. Selling prices of milk powder, caseins and cheese were under heavy strain in the first half of 2009. This then had a gradual effect on price developments in other product categories as well. Supermarkets in Europe are again starting to focus on price competition, which is causing more and more pressure on selling prices of dairy products in the supermarket segment.

The drop in sales of dairy products and increasing pricing pressures prompted the European Commission to broaden its support for the dairy sector. Consignments of milk powder and butter are being purchased using an intervention system. This programme, which will at least continue on into 2009, created a bottom in the market. The reintroduction in January 2009 of export refunds for such products as milk powder and butter, and subsequently for cheese, supports sales on the world market of dairy products from the EU to some extent. In addition, the private mark-up scheme for butter kicked in earlier this year and will remain in effect longer, as will the intervention system.
In the EU, with over 69 billion kilograms, production of farm milk in the first half of 2009 was virtually at the same level compared with the first six months of 2008. Over this period, production of farm milk in the Netherlands rose by 1.8 percent, with milk supplied to FrieslandCampina by members in the Netherlands, Belgium and Germany seeing a 1.5 percent increase (by 65 million kilograms) to 4,439 million kilograms of milk (first half of 2008: 4,374 million kilograms).




FrieslandCampina Consumer Products Europe

### Revenue

Revenue for the first half of 2009 came to 4.1 billion euros, down 714 million euros (15 percent) from the first half of 2008 (4.8 billion euros). The Consumer Products International business group (Asia, Africa, the Middle East, export) saw its revenue increase by 4 percent to 951 million euros, mainly as a result of volume growth. The other business groups experienced a drop in revenue. Consumer Products Europe recorded a fall in revenue by 18 percent to 1.4 billion euros because of lower selling prices and dropping demand, which led to lower volumes. Its market share did grow. Cheese & Butter saw its revenue drop by 20 percent to 1.0 billion euros. This was due to lower selling prices as well as to falling volumes of products sold, especially where cheese was concerned. Ingredients posted a drop in revenue by 16 percent to 593 million euros, which was primarily attributable to a sharp decrease in selling prices of basic products such as milk powder and caseins. Volumes of products sold increased in this business group because of higher production levels of low-fat milk powder due to a drop in demand for milk by other business groups and more milk supplied by member dairy farmers.

### Earnings and profit

FrieslandCampina's operating profit was down 8 percent in the first half of 2009, dropping to 110 million euros (first half of 2008: 119 million euros). Operating profit as a percentage of revenue was 2.7 percent (first half of 2008: 2.5 percent).

Consumer Products International's share in operating profit was particularly noteworthy. This business group managed to increase its operating profit by 97 million euros, lifting it to 135 million euros (first half of 2008: 38 million euros). Consumer Products Europe also delivered an excellent performance, recording a rise in operating profit to 109 million euros (first half of 2008: 72 million euros) thanks to cost control and cuts, and achievement of synergies. The drop in FrieslandCampina's earnings was due mainly to the decrease in operating profit at Ingredients, which went from an operating profit of 80 million euros in the first half of 2008 to an operating loss of - 45 million euros for the first six months of 2009. Cheese & Butter's posted an operating loss of - 55 million euros (first half of 2008: - 25 million euros). At both business groups, the drops were caused mostly by plummeting selling prices of products such as milk powder, caseins and cheese. Another factor that played a role was the lower valuation of inventories as a result of lower prices of raw materials and milk, and depressed selling prices.

The results realised on the sales of Nijkerk Dairy B.V., the ice-cream activities in Romania and ingredients activities in Argentina had no material effect on results.

Operating expenses dropped 15 percent to 4.0 billion euros in the first half of 2009. A total of 1,182 million euros was distributed in milk payments, 30 percent less than in the same period of 2008. Non-recurring expense items include restructuring costs for an amount of 8 million euros, which comprise not only the restructuring costs associated with the merger, but also the costs of the announced closures of the facilities in Oud Gastel and Oldenzaal in 2010.

Contrary to earlier announcements that the first concrete merger synergies were not expected until 2010, the first cost savings were already achieved in the first six months after the merger because measures were sped up. Lower purchase, staff and overhead costs were the result. The merger led to 150 redundancies in the Netherlands.

Finance income and costs, and share of profit of associates improved, rising 31 million euros from - 50 million euros to - 19 million euros. The drop in finance costs is largely attributable to lower dividend payments by DMV Fonterra Excipients. Another factor in the drop in finance costs was an increase in cash flows from operating activities, mostly as a result of lower working capital levels. The rate of interest was lower and the share of profit of associated companies improved.

The income tax expense stood at 13 million euros (first half of 2008: 9 million euros) owing to a better financial performance outside the Netherlands.

Profit for the first six months of 2009 came to 78 million euros. Despite the lower operating profit, this is 30 percent up from profit for the first half of 2008 (60 million euros), the most important reason for the improvement being a better performance on finance income and costs as a result of lower dividend payments by DMV Fonterra Excipients, and a higher share of profit of associated companies.

Of profit for the period, an amount of 24 million euros is attributable to interest on member bond loans, 4 million euros to holders of perpetual notes, 22 million euros to minority interests and 28 million euros to Zuivelcoöperatie FrieslandCampina U.A., the equity holder.

### Cash flows

Cash flows from operating activities rose sharply to 269 million euros (first half of 2008: - 94 million euros), mainly as a result of improved working capital levels thanks, primarily, to lower prices and to the positive effects of structured working capital management. Some investment plans were put on hold because of economic developments and for the purposes of strengthening the equity position. Investments in land, buildings, plants, equipment and intangible assets amounted to 87 million euros (first half of 2008: 105 million euros).

### Financing structure

FrieslandCampina raises loans from different groups of lenders (members, banks and investors). This is beneficial to the company's flexibility. Most of the loan capital funding has been contracted from Dutch and foreign banks. The majority of bank loans are comprised of unconditional credit facilities worth 1 billion euros. The current credit facilities will expire over the next 12 months. Agreement was reached with financial institutions in August 2009 about refinancing the credit facility for an amount of 1 billion euros. The fees payable to the banks for the new facility exceed the current fees, which will lead to higher finance costs.

In May 2009, member dairy farmers of what used to be Zuivelcoöperatie Campina and former members who discontinued their business converted 36 million euros worth of subordinated Campina bonds into member bonds - free (perpetual subordinated notes with a variable interest rate based on six-month Euribor plus a 2.5 percent margin). They have received interest on the member bonds - free since the date of the merger. They also have the option of offering free member bonds-free for sale on the internal market. Any unconverted Campina bonds will continue to be registered to the bond holders in question and form part of the subordinated debt of Zuivelcoöperatie FrieslandCampina U.A.

### Strengthening the financial position

Group equity stood at 1.6 billion euros at 30 June 2009 (year-end 2008: 1.5 billion euros). Equity was strengthened by retaining earnings and having member farmers and former members convert 36 million euros worth of subordinated Campina bonds into member bonds - free, as mentioned before. In addition, equity was boosted by the one-off conversion of 110 million euros of a loan from Zuivelcoöperatie FrieslandCampina U.A. into Royal FrieslandCampina N.V. equity.

The solvency ratio (group equity as a percentage of total assets) was 35.1 percent, up 5.1 percentage points from year-end 2008 (30.0 percent). This was attributable, on the one hand, to the efforts to strengthen equity and to lower total assets (mainly as a result of lower working capital levels) on the other.

Net debt fell to 1.2 billion euros, a drop by 267 million and 397 million euros compared with year-end 2008 (1.5 billion euros) and with the first half of 2008 (1.6 billion euros) respectively. This is due, in large part, to the lower borrowing requirement as a result of lower working capital levels and the partial repayment of the debt to Zuivelcoöperatie FrieslandCampina U.A. The company meets the requirements imposed by lenders, as expressed in financial ratios.

### Value creation

Value creation for member dairy farmers is comprised of the milk price (guaranteed price plus performance payment), retained earnings registered to member farmers and payments on member certificates and member bonds (fixed and free).

The milk price of FrieslandCampina consists of the guaranteed price plus the performance payment. The guaranteed price is based on the average milk price for Germany, the milk price of Arla Foods in Denmark, milk prices of Bel Leerdammer, Cono Kaasmakers and DOC Kaas in the Netherlands, and the milk price of Milcobel in Belgium. The level of the performance payment is contingent on FrieslandCampina's financial performance and the retention policy adopted. Of the company's profit, based on the guaranteed price and net of payments on member certificates and bonds, 25 percent is paid to the members in cash as a performance payment and 15 percent retained and registered to the member farmers. The performance payment is paid annually after adoption of the financial statements in proportion to the milk supplied.

For the first half of 2009, FrieslandCampina paid a guaranteed price of 26.04 euros, exclusive of VAT, per 100 kilograms of milk at 4.41 percent fat and 3.47 percent protein (first half of 2008: 38.17 euros). Based on the profit disclosed in this half-year report, the pro forma performance payment will be 0.34 euros and the pro forma milk price will be 26.38 euros per 100 kilograms of milk. In calculating the performance payment, profit based on the guaranteed price is reduced by interest paid on the perpetual notes, interest on the member bonds (fixed and free), and minority interests, and then divided by the volume of member milk supplied. In calculating the performance payment per 100 kilograms of milk based on full-year profit, allowance should be made for a volume of milk supplied that will be about twice as high on an annual basis. Interest paid on member bonds and minority interests was up from the first half of 2008. For the full year 2008, FrieslandCampina's milk price (guaranteed price plus performance payment) amounted to 36.37 euros, exclusive of VAT. The pro forma retained earnings registered to member farmers amounted to 9 million euros. In the first half of 2009, 34 million euros was paid in interest on member bond loans.

FrieslandCampina has great concerns about the implications for its member farmers of the downward trend in selling prices of dairy products, which also impacts the level of the guaranteed price paid to members. FrieslandCampina supports the measures taken by the European Commission to use all market control options available to support and stabilise the dairy market. Country-level measures may result in some support for milk price levels in the short term, but they do not offer a sustainable solution in the longer run. A level playing field throughout the EU (with the same rules applying in all EU Member States) is key to FrieslandCampina, which sells approximately 75 percent of its member milk within the EU and about 25 percent outside the EU.

FrieslandCampina Cheese & Butter

**Developments by business group**

FrieslandCampina has four business groups: Consumer Products Europe, Consumer Products International, Cheese & Butter and Ingredients. The structure of the business groups has been adjusted since it was described in the Annual Report 2008. The Russian, Hungarian, Romanian and Greek operations now come under the Consumer Products Europe business group, having been carved out of the Consumer Products International business group. The comparative figures for 2008 reflect this new structure.

### Consumer Products Europe

Given the market conditions, the Consumer Products Europe business group delivered a good performance in the first six months of the year, with revenue landing at 1,414 million euros, down 319 million euros on the first half of 2008 (1,733 million euros). Operating profit rose to 109 million euros (first half of 2008: 72 million euros). Operating profit was weighed down by the reorganisation costs associated with the announced closures of the facilities in Oud Gastel and Oldenzaal. The gross profit margin improved to 6.8 percent (first half of 2008: 3.8 percent). Despite a clear downward trend in selling prices, margins could be maintained in the Netherlands, Germany and Belgium thanks to stringent cost control and cuts, as well as synergy effects. The business group managed to improve its market share. There was a drop in volumes sold, however, due to restraint in consumer spending. As a result, competition is on the rise and prices are under pressure, in part because supermarkets again started to focus intently on low pricing and private label products. FrieslandCampina is capitalising on this development through special promotional campaigns. Consumer spending in the out-of-home channel is continuing to fall, so that this segment is more affected by the economic crisis than the supermarket channel. Market shares were up.

### Consumer Products International

The Consumer Products International business group, which operates in Southeast Asia, the Middle East and Africa, and exports products from the Netherlands to other regions and countries, can look back on a good first half of the year. Revenue went up 4 percent to 951 million euros (first half of 2008: 915 million euros). Currency movements weighed down earnings by 1 million euros on balance. The increase in revenue was attributable to volume growth and market share improved in most countries. Operating profit rose to 135 million euros (first half of 2008: 38 million euros). The gross profit margin improved to 14.2 percent (first half of 2008: 4.1 percent). Margins improved thanks to lower purchase prices of raw materials, as well as lower production costs. The effects of the economic crisis vary from country to country in these regions.
The volatility of the exchange rates of the Indonesian rupiah and the Nigerian naira in particular also played a role in the first six months of the year. Overall, growth came to a halt.

FrieslandCampina Vietnam, FrieslandCampina Indonesia and FrieslandCampina WAMCO Nigeria were especially successful at increasing their revenue and earnings. Friso infant and children's foods are doing particularly well in a number of countries. FrieslandCampina opened its own sales office in Shanghai (China) focusing on the sale of infant foods. FrieslandCampina Export, which exports long-life dairy products from the Netherlands to non-EU countries, was faced with a global drop in demand and fierce competition, which led to severe pricing pressures. These developments resulted in higher earnings despite lower revenues.

### Cheese & Butter

The poor situation on the dairy market put extreme pressure on earnings at the Cheese & Butter business group. Revenue stood at 1,042 million euros, a 259 million euro drop compared with the first half of 2008 (1,301 million euros). The business group posted an operating loss of - 55 million euros, down from - 25 million euros for first half of 2008. The operating loss increased as a result of lower valuation of inventories due to lower prices of raw materials and milk, and depressed selling prices. The gross profit margin fell to - 5.0 percent (first half of 2008: -1.8 percent).
Cheese consumption dropped in the first half of 2009 on the same period last year. As a result, there is a large supply of cheese in the market and selling prices of basic types such as foil cheese are under particular pressure. This has led to fewer exports of cheese and to exceptionally low selling prices of a number of cheese types. Special cheeses such as Milner and Slankie are also struggling in the difficult market. Additional promotional campaigns were needed to generate sales. Cheese from the Dutch Province of Noord-Holland performed relatively well. Demand for cheese was lower than before in most export markets. Butter prices have been stable since the beginning of 2009 thanks – in part – to the EU intervention purchase system. Exports of cheese and butter were hampered by the poor economic situation in many countries, the expensive euro and low prices on the world market.

### Ingredients

Revenue generated by the Ingredients business group came to 593 million euros, a decrease by 110 million euros from the first half of 2008 (703 million euros). This drop in revenue was attributable in particular to lower selling prices of basic products such as milk powder and caseins. The business group recorded an operating loss of - 45 million euros, having posted an operating profit of 80 million euros in first half of 2008. The gross profit margin dropped to - 5.9 percent (first half of 2008: 8.1 percent). The industrial specialties were profitable. The operating loss was caused by the considerably higher volumes of milk that were processed into milk powder by FrieslandCampina DMV. Low global demand for milk powder caused inventories to increase further and selling prices to drop. The European Commission reintroduced support measures, which did create somewhat of a bottom in the market, but at a very low level. Earnings were affected also by lower valution of inventories as a result of lower prices of raw materials and milk, and depressed selling prices.

The key value-added segments posted somewhat lower results than last year. FrieslandCampina Domo's achieved volume growth in the infant foods segment. With the help of new and existing customers, it managed to strengthen its basis for further growth in this strategically important segment. What is important here is that customers can be offered the broader product range that is a result of the merger. FrieslandCampina Kievit, FrieslandCampina DMV and FrieslandCampina Creamy Creation saw their sales volumes of industrial specialties for the food industry come under pressure due to sluggish demand as a result of the economic headwinds. They nevertheless managed to maintain their market positions in these segments and kept their margins at an acceptable level. DMV Fonterra Excipients, a joint venture, is developing in line with the market, both in terms of volumes and earnings. Selling prices did lag behind last year's prices, however. The Dairy Feed activities developed as expected, with the market for calf milk powder being weighed down. This was offset somewhat by the piglet feed markets where new products introductions provided some relief.

## Integration on schedule

The integration process following the merger on 31 December 2008 is proceeding smoothly; the first merger synergies have even been achieved earlier than expected.

On 2 January 2009, employees of the two companies were actually able to work together for the first time. From that time onwards, plans, working methods, backgrounds and insights could be shared. This created an unprecedented dynamic, primarily in the day-to-day practice in areas such as sales, marketing, logistics, production planning, milk allocation and administration of both corporate and cooperative affairs. Under high pressure of time, many working groups were expected to share their views, define principles, and make choices about systems and implementation. Relocating to new – temporary – workstations, getting to know each other and getting to work was the overriding motto in economic conditions, to boot, that in themselves demanded more than run-of-the-mill attention to ordinary business.

At Cheese & Butter, the Board and the sales, marketing and a number of support departments have now relocated to temporary offices in Amersfoort. Sales have been the responsibility of one single department since 1 June. Most of the Dutch activities of Consumer Products Europe were amalgamated in Veenendaal and the business group's R&D Department was integrated in Wageningen. In Germany, sales and marketing activities are now handled out of Heilbronn. Consumer Products Europe took stock of all production facilities and existing product offerings. Decisions about the best possible production structure to achieve better efficiency and higher earnings will be taken in the second half of this year. At Ingredients, the activities of the different operating companies were regrouped, both from a commercial and a production perspective. The export departments were joined in Consumer Products International and activities in different countries are being coordinated by this business group. Best practices in the production process are being shared and implemented. Once production in the most specialist production facilities has been amalgamated, production runs can be increased and the production process streamlined. The need for outsourcing production work is lower because of own capacity available within the company. The activities of the different corporate departments have been combined as well.

An Integration Team is monitoring and supporting the progress achieved on the integration in the four business groups and at the Corporate Centre. Its duties include overseeing that merger synergies, such as purchasing benefits, a cut in overheads and the use of existing product concepts in various countries, are actually being achieved. One of the first projects carried out by Consumer Products Europe in this respect involved leveraging the existing production capacity and formulas in Germany for desserts that are now also being sold in Hungary and Romania under the Milli brand.

The Executive Board has started to update the corporate strategy in close dialogue with the Management Top 50. This process, which is expected to be completed in 2010, will steer the further development of FrieslandCampina.

## Composition of Supervisory Board and Executive Board

### Supervisory Board

Mr Ben van der Veer will be appointed to the Supervisory Board of Royal FrieslandCampina N.V. on 1 October 2009. He served as Chairman of the Board of Management of KPMG N.V. until the end of September 2008. He will fill the vacancy left by Mr Jan Hommen who stepped down from the Supervisory Board in January 2009 following his appointment as CEO of ING Groep N.V.

### Executive Board

Two members of the Executive Board, namely Mr Theo Spierings and Mr André Boudewijns, decided to pursue their career elsewhere and resigned from the Executive Board of FrieslandCampina.
After the successful completion of the merger between Friesland Foods and Campina, and the first few months of the integration process, they felt it was time for a new chapter in their career. Theo Spierings served as Chief Operating Officer of the Consumer Products International business group until 31 July 2009.
Mr Kapil Garg has been appointed Executive Director of the Consumer Products International business group with effect from 1 August 2009; he reports to Cees 't Hart. André Boudewijns was the Chief Integration Officer until 31 May 2009, in which position he championed the integration between Friesland Foods and Campina, and took on the role of Compliance Officer with regard to the formalities that needed to be fulfilled in order for the European Union to approve the merger. Now that Mr Spierings and Mr Boudewijns have left the company, the members of the Executive Board of FrieslandCampina are:

| | |
|---|---|
| Cees 't Hart | Chief Executive Officer, |
| Kees Gielen | Chief Financial Officer, |
| Freek Rijna | Chief Operating Officer Business Group Consumer Products Europe, |
| Piet Hilarides | Chief Operating Officer Business Group Cheese & Butter, |
| Frans Visser | Chief Operating Officer Business Group Ingredients. |

## Measures imposed by European Union in connection with merger

On 17 December 2008, the European Commission agreed to the merger between Friesland Foods and Campina, on the condition the fresh dairy activities in Nijkerk, the cheese activities in Bleskensgraaf, and the Yogho! Yogho! and Choco! Choco! brands should be sold, so as to prevent a disproportionately strong



position of FrieslandCampina on the Dutch market for fresh dairy, naturally matured cheese and long-life dairy drinks. The Monitoring Trustee, from an organisation designated by the European Commission, will oversee the implementation of the measures imposed by the European Commission.

On 4 May 2009, the European Commission and the Netherlands Competition Authority (Dutch acronym: NMa) approved the purchase by Arla Foods amba, a Danish dairy cooperative, of Nijkerk Dairy B.V. from Royal FrieslandCampina N.V. The Works Council of Nijkerk Dairy also agreed to the transfer of the activities. The transaction involves the fresh dairy activities of Nijkerk Dairy, the assets (property, plant and equipment, etc.) and the Breaker, Milk&Fruit, Kwarkyoghurt and Melkunie brands. A ten-year licence contract has been concluded for the use of the Friesche Vlag brand for fresh dairy in the Netherlands. FrieslandCampina will guarantee the supply of farm milk to the production facility in Nijkerk until 1 January 2017.

Inza cvba, a Belgian dairy cooperative and a subsidiary of Milcobel cvba, will acquire the Yogho! Yogho! and Choco! Choco! brands from FrieslandCampina.
The intended sale comprises these brands in the European Union, the product formulas and the associated trading activities. No staff are involved in the acquisition. Inza will grant FrieslandCampina a licence for exploiting the brands in the European Union (but outside the Benelux). Outside the European Union, FrieslandCampina will remain the owner of the brands. The transaction is expected to be completed in the third quarter of 2009.

Where the merger conditions relating to farm milk are concerned, the Dutch Milk Foundation (DMF), an independent foundation, has administrated the exit scheme for FrieslandCampina's Dutch member farmers with effect from 1 July 2009. In addition, producers of fresh dairy products and naturally matured cheese in the Netherlands can avail themselves of the option to purchase Dutch farm milk from FrieslandCampina via DMF. The standard term to maturity of each contract is 12 months. Buyers will be required to purchase at least two million kilograms of milk per month.
The price of the farm milk will be FrieslandCampina's guaranteed price less one percent for the next five years, net of levies, and costs of transport and quality control, among other expenses. Member farmers who discontinue their membership of FrieslandCampina and start to supply their milk to another buyer of farm milk in the Netherlands will be entitled to a premium of 5.00 euros per 100 kilograms of farm milk. The milk volume supplied in the preceding calendar year will be decisive for the level of the premium, which will be paid within two months of a dairy farmer actually starting their supply to another buyer. Should dairy farmers discontinue their business within three years or return to FrieslandCampina, the exit premium is repayable on a pro-rata basis.

**Organisational developments**

Great Ocean Ingredients, a production facility in Allansford, Australia, was officially opened in May 2009. Great Ocean Ingredients is a 50/50 joint venture between FrieslandCampina Domo and Australian-based Warrnambool Cheese & Butter Factory.
The newly built facility allows FrieslandCampina Domo to continue to meet the increasing demand for prebiotic galacto-oligosaccharides. Within the framework of better services and risk reduction in the event of any production calamities, a regional spread in production has been taken as a starting point. The product is marketed under the Vivinal GOS brand name and used in infant foods, dairy products and drinks.

The ice-cream activities of FrieslandCampina Romania were sold to Unilever in June 2009. The sale comprised the sales and marketing activities with respect to ice-cream, staff working in these areas and the Napoca brand. FrieslandCampina Romania will continue to produce ice-cream for Unilever in the Napolact facility in Cluj Napoca in Romania.

In Argentina, the operations of Inovatech Argentina S.A. relating to the production and sale of ingredients such as low-fat milk powder, butter ghee and buttermilk powder for the ice-cream and food industry and infant foods were sold to Fabrica Alimentos Santa Clara S.A.

The plan to close the FrieslandCampina facility in Oud Gastel as of June 2010 was announced in May 2009. The activities will be relocated to other FrieslandCampina production facilities. All 105 jobs in Oud Gastel will be lost when the facility is shut down. The Oud Gastel facility produces whipped cream, ice-cream mix, coffee creamer and cream cheese. Because production capacity is available at the other facilities, the production can be relocated with relatively limited investments having to be made. The sales activities have already been transferred to FrieslandCampina Professional in Lummen (Belgium).

In June, the intention was announced to amalgamate the traditional and semi-industrial bakery and hospitality operations of Polderland Zuivel B.V., a subsidiary based in Oldenzaal, with those of Friesland Foods Professional in Nuenen. The Oldenzaal facility will be shut down in the course of 2010 as a result.
The company employs 25 staff.

**Innovation**

Considering today's economic conditions and current developments in the dairy market, innovation continues to be especially crucial to FrieslandCampina.
The merger has further strengthened the knowledge base and, thus, the basis for innovation. It is the company's ambition to develop an even more efficient and effective innovative organisation where knowledge and a culture of innovation take centre-stage. FrieslandCampina recognises the importance of innovation networks. 'Getting more out of milk' is decisive for the direction innovation should take, and our existing knowledge of milk forms a strong basis for building on our brands and markets, our aim being to harness the nutritional value of milk, bring about technological improvements and create a sustainable production chain.

**Risks**

The Annual Report 2008 describes the risks and uncertainties that may have a materially adverse effect on the company's equity and earnings. By reference, the description of risks and uncertainties is deemed to form part of this half-year report. The principal risks and uncertainties for the second half of 2009 are listed below.

The economic crisis has a major negative impact around the world, for instance on spending patterns of consumers and industrial customers, and on bank loans. This has led, and might lead in the future, to delayed growth and decline in several economies where FrieslandCampina operates. FrieslandCampina regularly checks its customers' credit rating, but this offers no absolute guarantee that they will always be able to, or actually, meet their obligations. Customer defaults, particularly when involving customers that have a considerable share in FrieslandCampina's revenue because of the large volumes that they purchase, might adversely affect FrieslandCampina's earnings and equity position.

Additional risks and uncertainties that are as yet unknown or are currently not considered material may become material at a later stage, affecting our business, targets, revenue, earnings, assets and liquidity.

**Outlook**

FrieslandCampina does not expect any key changes in the economy in the second half of 2009. The market will remain challenging. Selling prices of basic dairy products in particular are expected to remain under pressure, owing to sluggish demand. Due to the


FrieslandCampina Consumer Products International

volatility of the markets and the many uncertainties, FrieslandCampina cannot, however, make any specific forward-looking statements about the company's financial performance for the full year 2009.

## Executive Board responsibility statement

The Executive Board of Royal FrieslandCampina N.V. represents:

- that the half-year report, which has been prepared in accordance with the relevant reporting standards for interim reporting, gives a true and fair view of the assets, liabilities, financial position and profit of Royal FrieslandCampina N.V. and its consolidated entities;
- that the half-year report gives a true and fair view of the situation at the balance sheet date, of developments in activities during the first half of 2009 of Royal FrieslandCampina N.V., and of its affiliated entities whose information has been included in its half-year report; and
- that the half-year report describes the material risks facing Royal FrieslandCampina N.V., in accordance with the Dutch Financial Supervision Act.

## 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 Cheese & Butter
**Freek (F.) Rijna**
Chief Operating Officer Consumer Products Europe
**Frans (F.M.W.) Visser**
Chief Operating Officer Ingredients

Amersfoort, the Netherlands, 26 August 2009

# Condensed consolidated income statement

| in millions of euros | First half 2009 | First half 2008 |
|---|---|---|
| **Revenue** | **4,104** | 4,818 |
| Other operating income | **7** | 17 |
| Operating income | **4,111** | 4,835 |
| | | |
| Operating expenses | **- 4,001** | - 4,716 |
| **Operating profit** | **110** | 119 |
| | | |
| Finance income and costs and share of profit of associates | **- 19** | - 50 |
| Profit before tax | **91** | 69 |
| | | |
| Income tax expense | **- 13** | - 9 |
| **Profit for the period** | **78** | 60 |
| | | |
| Profit attributable to: | | |
| - holders of member bonds | **24** | 16 |
| - holders of perpetual notes | **4** | 4 |
| - minority interests | **22** | 9 |
| - Zuivelcoöperatie FrieslandCampina U.A., the equity holder | **28** | 31 |
| | **78** | 60 |

# Condensed consolidated statement of comprehensive income

| in millions of euros | First half 2009 | | | First half 2008 | | |
|---|---|---|---|---|---|---|
| | Income attributable to equity holder and other equity providers | Minority interests | Total | Income attributable to equity holder and other equity providers | Minority interests | Total |
| Profit | 56 | 22 | **78** | 51 | 9 | 60 |
| Movements in cash flow hedges | 2 | | **2** | 1 | | 1 |
| Tax on amounts paid on perpetual notes and member bonds | 4 | | **4** | | | |
| Currency translation differences | - 10 | - 1 | **- 11** | - 13 | - 4 | - 17 |
| | | | | | | |
| **Total comprehensive income** | 52 | 21 | **73** | 39 | 5 | 44 |

# Condensed consolidated balance sheet

| in millions of euros | 30 June 2009 | 31 December 2008 |
|---|---|---|
| **Assets** | | |
| Non-current assets | | |
| Property, plant and equipment | 1,450 | 1,471 |
| Intangible assets | 895 | 909 |
| Financial assets | 311 | 259 |
| | 2,656 | 2,639 |
| Current assets | | |
| Inventories | 832 | 960 |
| Receivables | 1,026 | 1,078 |
| Cash and cash equivalents | 150 | 180 |
| | 2,008 | 2,218 |
| Assets held for sale | 16 | 73 |
| **Total assets** | 4,680 | 4,930 |
| **Equity and liabilities** | | |
| Group equity | | |
| Share capital | 370 | 370 |
| Retained earnings and reserves | 226 | 96 |
| Perpetual notes | 126 | 130 |
| Member bonds | 830 | 799 |
| Equity attributable to equity holder and other equity providers | 1,552 | 1,395 |
| Minority interests | 90 | 85 |
| **Total group equity** | 1,642 | 1,480 |
| Non-current liabilities | | |
| Provisions | 229 | 229 |
| Non-current interest-bearing borrowings | 855 | 960 |
| Other non-current liabilities | 139 | 48 |
| | 1,223 | 1,237 |
| Current liabilities | | |
| Current borrowings | 522 | 714 |
| Other current liabilities | 1,292 | 1,472 |
| | 1,814 | 2,186 |
| Liabilities held for sale | 1 | 27 |
| **Total equity and liabilities** | 4,680 | 4,930 |

# Condensed consolidated cash flow statement

| in millions of euros | **First half 2009** | First half 2008 |
|---|---|---|
| This statement shows the cash flows generated by FrieslandCampina, translated into euros where applicable. Cash flows denominated in foreign currencies are translated into euros at the exchange rates ruling on the transaction date. The cash flow statement has been prepared using the indirect method. | | |
| Profit before tax | **91** | 69 |
| Depreciation and amortisation | **104** | 110 |
| Movements in working capital | **102** | - 214 |
| Other operating activities | **- 28** | - 59 |
| Net cash flows from operating activities | **269** | - 94 |
| Investment in property, plant, equipment and intangible assets | **- 87** | - 105 |
| Other investing activities | **21** | 1 |
| Net cash flows from investing activities | **- 66** | - 104 |
| Movements in current borrowings | **- 180** | 239 |
| Other financing activities | **- 49** | - 65 |
| Net cash flows from financing activities | **- 229** | 174 |
| **Net cash flows** | **- 26** | - 24 |
| Cash and cash equivalents at 1 January | **180** | 158 |
| Net cash flows | **- 26** | - 24 |
| Translation differences in cash and cash equivalents | **- 4** | - 2 |
| Cash and cash equivalents at 30 June | **150** | 132 |

# Condensed consolidated statement of changes in equity

| in millions of euros | | | **First half 2009** |
|---|---|---|---|
| | Equity attributable to equity holder and other equity providers | Minority interests | Total |
| At 1 January | 1,395 | 85 | **1,480** |
| Total comprehensive income | 52 | 21 | **73** |
| Issued member bonds [1] | 32 | | **32** |
| Retained earnings registered to member farmers for the period | 9 | | **9** |
| Dividends paid to minority interests | | - 16 | **- 16** |
| Paid to holders of perpetual notes | - 9 | | **- 9** |
| Payments to holders of member bonds | - 34 | | **- 34** |
| Capital contribution by Zuivelcoöperatie FrieslandCampina U.A. | 110 | | **110** |
| Purchase of shares in minority interests | - 3 | | **- 3** |
| **At 30 June** | 1,552 | 90 | **1,642** |

| | | | First half 2008 |
|---|---|---|---|
| | Equity attributable to equity holder and other equity providers | Minority interests | Total |
| At 1 January | 1,601 | 80 | 1,681 |
| Restatement of pro forma profit for 2007 [2] | - 41 | | - 41 |
| Total comprehensive income | 39 | 5 | 44 |
| Retained earnings registered to member farmers for the period | 12 | | 12 |
| Dividends paid to equity holders | - 60 | | - 60 |
| Dividends paid to minority interests | | - 11 | - 11 |
| Paid to holders of perpetual notes | - 9 | | - 9 |
| Purchase of shares in minority interests | - 1 | | - 1 |
| **At 30 June** | 1,541 | 74 | 1,615 |

[1] Issued member bonds pertain to the voluntary conversion of subordinated member bonds of Zuivelcoöperatie FrieslandCampina U.A. into member bonds of Royal FrieslandCampina N.V.

[2] In 2008, activities of Zuivelcoöperatie FrieslandCampina U.A. were transferred to Royal FrieslandCampina N.V. For the purposes of comparability, these activities were transferred pro forma in 2007. Earnings from these activities for 2007 were restated at 1 January 2008.

# Notes to the condensed consolidated half-year figures



### Statement of compliance
This half-year report has been prepared in accordance with International Financial Reporting Standards (IFRS) as accepted by the European Union, and their interpretations as adopted by the International Accounting Standards Board (IASB) and subject to IAS 34 "Interim financial reporting". It does not contain all the information required for complete financial statements and should be read in combination with the Annual Report 2008.

### Comparative figures
The comparative figures for the first half of 2008 have been presented on a pro forma basis as if the merger had taken place as early as on 1 January 2008.

### Significant accounting policies
The accounting policies and methods of calculation used for these consolidated half-year financial figures are consistent with those used for the Annual Report 2008, with the exception of the IFRSs set forth below, which have been in effect since 1 January 2009.

### Amendments to IAS 1 'Presentation of financial statements'
The changes under IAS 1 Revised pertain primarily to the presentation of changes in equity, with transactions with owners and non-owners having to be presented separately. On that basis, transactions with the equity holder, other providers of equity and minority interests have been included in the condensed consolidated statement of changes in equity. All other changes in equity have been included in the condensed consolidated statement of comprehensive income.

### Amendments to IFRS 8 'Operating segments'
In accordance with the amendments to IFRS 8, the segmentation used in this half-year report is now directly consistent with information reported to management.

Other standards and interpretations that have been effective since 1 January 2009 do not materially affect the company.

### Judgements, estimates and assumptions
In preparing the half-year financial figures, management consistently used judgements, estimates and assumptions based on historical experience and various other factors that it believed to be reasonable under the circumstances for the purposes of judging the carrying amounts of recognised assets and liabilities. Actual results may differ from management's estimates.

Pension liabilities under defined benefit plans are calculated annually on the basis of such factors as expected future developments in respect of discount rate, and salary and life expectancies. The actuarial assumptions underlying the principal plans have been assessed.

### Seasonal influences
There is no significant seasonal pattern when comparing the first half and the second half of a year.

# Notes to the condensed consolidated half-year figures

## Segmentation by business group

in millions of euros

| First half 2009 | Consumer Products Europe | Consumer Products International | Cheese & Butter | Ingredients | Eliminated and unallocated | Total |
|---|---|---|---|---|---|---|
| **Sales to external customers** | 1,414 | 951 | 1,042 | 593 | 104 | **4,104** |
| Inter-segment sales | 192 | 2 | 49 | 175 | - 418 | **0** |
| Total revenue | 1,606 | 953 | 1,091 | 768 | - 314 | **4,104** |
| **Operating profit** | 109 | 135 | - 55 | - 45 | - 34 | **110** |
| Finance income and costs, and share of profit of associates | | | | | - 19 | **- 19** |
| Income tax expense | | | | | - 13 | **- 13** |
| **Profit for the period** | | | | | | **78** |
| Gross profit margin | 6.8 | 14.2 | - 5.0 | - 5.9 | | **2.7** |
| Carrying amounts of assets employed in operating activities | 1,959 | 499 | 874 | 878 | 13 | **4,223** |
| Carrying amounts of other assets | | | | | | **457** |
| | | | | | | **4,680** |

| First half 2008 | Consumer Products Europe | Consumer Products International | Cheese & Butter | Ingredients | Eliminated and unallocated | Total |
|---|---|---|---|---|---|---|
| **Sales to external customers** | 1,733 | 915 | 1,301 | 703 | 166 | 4,818 |
| Inter-segment sales | 183 | 3 | 111 | 290 | - 587 | 0 |
| Total revenue | 1,916 | 918 | 1,412 | 993 | - 421 | 4,818 |
| **Operating profit** | 72 | 38 | - 25 | 80 | - 46 | 119 |
| Finance income and costs, and share of profit of associates | | | | | - 50 | - 50 |
| Income tax expense | | | | | - 9 | - 9 |
| **Profit for the period** | | | | | | 60 |
| Gross profit margin | 3.8 | 4.1 | - 1.8 | 8.1 | | 2.5 |
| Carrying amounts of assets employed in operating activities [1] | 1,921 | 506 | 1,061 | 970 | - 52 | 4,406 |
| Carrying amounts of other assets [1] | | | | | | 524 |
| | | | | | | 4,930 |

[1] The carrying amounts of assets employed in operating activities and of other assets pertain to the balance sheet at 31 December 2008. Segmentation is directly consistent with information reported to management. Accordingly, any organisational changes implemented have been included in the figures for 2008.

# Notes to the condensed consolidated half-year figures

### Operating expenses
Operating expenses include the milk payments to member farmers of EUR 1,182 million (2008: EUR 1,700 million).

### Finance income and costs, and share of profit of associates
The drop in finance costs is largely attributable to lower dividend payments by DMV Fonterra Excipients.

### Income tax expense
The integrated approach was used to determine the income tax expense, with the effective tax rate being based on the outlook for the full year 2009.

### Intangible assets
Intangible assets include an amount of EUR 836 million in goodwill (2008: EUR 850 million). The organisational changes ensuing from the merger have led to changes in the level at which goodwill is assessed for potential impairment. There were no impairments in the first half of 2009.

### Inventories
Of inventories of finished goods and goods for resale, an amount of EUR 178 million was stated at a lower net recoverable amount (2008: EUR 223 million). The write-down amounted to EUR 29 million at 30 June 2009.

### Assets and liabilities held for sale
Assets and liabilities held for sale were lower than at year-end 2008, especially owing to the sale of Nijkerk Dairy B.V. to Arla Foods amba.

### Non-current interest-bearing borrowings
Non-current interest-bearing borrowings include a loan from Zuivelcoöperatie FrieslandCampina U.A. in the amount of EUR 290 million (2008: EUR 400 million). The repayment of the loan is connected with the EUR 110 million payment to the share premium account by Zuivelcoöperatie FrieslandCampina U.A.

### Other non-current liabilities
The increase in other non-current liabilities is attributable in large part to a put option that was recognised as a current liability at year-end 2008. Due to the expiry of an exercise period in 2009, the next exercise date will be in 2011.

### Commitments not disclosed in the balance sheet
Commitments not disclosed in the balance sheet do not materially differ from those included in the most recently published financial statements (Annual Report 2008).

### Related-party transactions
In 2009, EUR 36 million worth of subordinated bonds in Zuivelcoöperatie FrieslandCampina U.A. were converted into member bonds in Royal FrieslandCampina N.V. Part of the existing debt of Royal FrieslandCampina N.V. was repaid within the scope of the EUR 110 million payment to the share premium account by Zuivelcoöperatie FrieslandCampina U.A. Other related-party transactions do not materially differ from those included in the most recently published financial statements (Annual Report 2008).

### Audit
The half-year figures in this report have not been audited.

Amersfoort, the Netherlands, 26 August 2009

The Half-year report 2009 is published in Dutch, German and English. Only the Dutch text is legally binding, as its represents the authentic text. The English text is included as a translation for convenience purposes only.

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