Annual report 2009

Royal FrieslandCampina N.V.

Annual report **2009**

Royal FrieslandCampina N.V.

Explanatory note

In this Annual report we present the financial performance and key developments of Royal FrieslandCampina N.V. in 2009.

We also invite you to read, in a number of brief interviews, about how some of our employees and member dairy farmers feel about 2009. It was an eventful year for many, because of the consequences of the financial and economic crisis, the decreased selling prices for dairy products and the amalgamation of the companies following the merger between Friesland Foods and Campina.

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

The Annual report of Royal FrieslandCampina N.V. has been posted on www.frieslandcampina.com and is available upon request from the Corporate Communication Department of FrieslandCampina.

This Annual report appears in Dutch, German and English. Only the Dutch text is legally binding, as it is the authentic text. The English text is included as a translation for convenience purposes only.

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We deliver healthy

FrieslandCampina provides people around the world with all the good things milk has to offer. FrieslandCampina produces baby and infant food, milk-based drinks, cheese, milk, yoghurts, desserts, butter, cream, milk powder, dairy-based ingredients and fruit-based drinks – products that play an important role in people's nutrition and well-being. Together with our member dairy farmers, we are milk experts who are continually expanding our knowledge of the applications of milk. Such knowledge extends from the quality of the pasture land on which the cows graze to the marketing of tasty cheeses, healthy milk-based drinks and the best possible ingredients for the food and pharmaceutical industries and all steps in between.
We deliver healthy food, every day.

Our profile

food, every day...

Our company

Royal FrieslandCampina is a multinational dairy company wholly owned by the dairy cooperative Zuivelcoöperatie FrieslandCampina, which has 15,300 member dairy farms in the Netherlands, Germany and Belgium. Our products are for sale in more than 100 countries. Key regions are Europe, Asia and Africa. Ingredients are sold all over the world. In 2009, sales amounted to 8.2 billion euros. The company employs 20,000 people in 24 countries.

Our milk

By nature, milk is one of the richest sources of food. We process the milk supplied by our member dairy farmers into a wide range of dairy products. Each day over a billion people choose those products as part of their diet. Our dairy products provide not only a unique taste sensation, but also proteins, fats, vitamins, minerals and lactose - building materials and fuels that are important to the health and well-being of people.

Our ambition

Sound market results must bring about a leading milk price for our member dairy farmers. We keep expanding our knowledge of milk by investing in research and development. This will allow us to better leverage the market opportunities that present themselves. We want to be attractive as a partner for our customers and as an employer for our employees. FrieslandCampina aspires to be the world's most professional, successful and attractive dairy company.

Our customers

Consumers around the world buy our dairy products and fruit juices in supermarkets, local shops or on the road. Professional processors in the hotel, restaurant and cafe segment, the bakery sector, and the ice-cream and food industries use our cream and butter products. Food producers and pharmaceutical companies purchase specific dairy-based ingredients.

FrieslandCampina markets strong consumer brands for dairy products, fruit juices and fruit-based drinks, sports drinks, cream and butter products, desserts and ice-cream and milkshake mixes for professional users and ingredients for business customers.

Dairy products: Betagen, Buttergold, Campina, Chocomel/Cécémel, Completa, Dutch Lady, Foremost, Frico, Friesche Vlag (condensed milk and long-life milk), Frisian Flag, Friso, Fristi, Fruttis, Goedemorgen, Joyvalle, Landliebe, Milli, Milner, Mona, Napolact, NoyNoy, Optimel/Optiwell, Peak, Pöttyös, Puddis, Rainbow, Valess, Vifit and Yazoo.

Fruit juices and fruit-based drinks: Appelsientje, CoolBest and DubbelFrisss. Sports drink: Extran.

Our brands

Cream and butter products, desserts and ice-cream and milkshake mixes for professional users:
Debic, Hollandia and Polderland.

Ingredients for industrial producers: Creamy Creation, DMV, Domo, Kievit, Nutrifeed and DMV-Fonterra Excipients.

...for a billion people worldwide

Foreword

Dear members,

2009 was characterised by challenging market conditions due to the financial and economic crisis. Lagging demand on the part of both consumers and the food industry caused the prices of various dairy products to fall sharply, both in local markets and on the global market. Unfortunately, this led to a sharp decline in the guaranteed price for you, our member dairy farmers.

Despite these challenging market conditions, we were able to improve the company's financial result compared with 2008, thanks to the sound performance of our brand products in Europe, South-East Asia and Africa, and our industrial specialties. We succeeded in improving our market share in a number of markets and expanding our customer base. This constitutes the basis for our company's further growth. However, the poor selling prices of such products as milk powder, casein and basic cheese put the result under pressure. We face the challenge of becoming less dependent on those product categories.

On 2 January 2009, the post-merger collaboration actually started. Throughout the company and in the cooperative, I sense the will and the enthusiasm to turn FrieslandCampina into a success. Staff have excelled in working together from day one. The relationship with the company's Supervisory Board and the cooperative's Board and Member Council is also open and inspiring. Thanks to this sound cooperation and the confidence in the opportunities offered by the merger, we succeeded in handling the many integration projects in a decisive and goal-oriented way. And with good results: the benefits of the merger that were achieved, already exceeded expectations in 2009.

For some of our employees, the amalgamation had unpleasant consequences. Jobs were relocated because offices were relocated, leading to prolonged commuting times for many of our employees. Shut-downs were announced, meaning that the number of jobs will decline further over the next few years. These were tough, but necessary decisions, made as part of ongoing cost control and production efficiency measures. Moreover, due to the conditions set by the European Commission within the context of the merger, the plants of Friesland Foods Fresh in Nijkerk, the Netherlands, and FrieslandCampina Cheese in Bleskensgraaf, the Netherlands, were sold, with their employees being transferred to a new owner.

It was a very hectic year, in which a great deal was demanded from our employees. On behalf of the Board of FrieslandCampina, I wish to thank all of our employees, in particular, for their unceasing commitment and contribution to FrieslandCampina's development. Likewise, I wish to thank the members of the different employee representation bodies of the two now merged companies. Due to the new composition of the Works Councils, positions changed; and many, often after many years of close involvement, had to discontinue their activities for the Works Council.

Following the merger, we began reviewing the strategic roles of the different FrieslandCampina divisions within the context of a project called Dairy Unlimited, carried out together with the Top 70 of management and in close consultation with the Supervisory Board and the cooperative's Board. Together, we are looking at the future through the lens of the new FrieslandCampina. Obviously, in determining the strategy, we are aware that our consumers' and customers' requirements, the dairy sector and dairy-based applications will clearly be different in 2020 than they are now. Determining the strategy with a broad-based group offers the advantage that we can use all knowledge accrued in the past. Another advantage is that it greatly accelerated the integration of the top team, which can be noted on many fronts. In the spring of 2010, we will determine the new company's spearheads, together with our top management. This will require knowledge, insight and the courage to change. Subsequently, we will share our new strategy in-house. The process will be a thorough and not a rushed process; the priorities we set at the start of the merger will lead to a sound performance. Our broad product portfolio will result in a robust company. By refining some of our choices, we wish to position FrieslandCampina even better for the challenges the future has in store for the company.

FrieslandCampina aspires to be the world's most professional, successful and attractive dairy company, aiming to achieve a leading milk price for you, the owners of this company. We have not reached this goal yet, but this first year of working together has convinced me that the potential is certainly there.

Cees 't Hart
CEO, Royal FrieslandCampina N.V.

Amersfoort, the Netherlands
5 March 2010

FrieslandCampina at a glance

Headline figures

Good financial performance in challenging dairy market

- Sound performance achieved with brands in South-East Asia, Africa and Europe, and industrial specialties
- Market shares of most brands up or equal, in part thanks to increased advertising and promotional expenses
- Volumes in South-East Asia and Africa on the rise; decreasing consumption of dairy products puts volumes under pressure in Europe
- Revenue down 14 percent to 8.2 billion euros due to low prices of such products as milk powder, caseins and basic cheese, in particular
- Operating profit before non-recurring expenses up 26 percent to 347 million euros
- Non-recurring expenses in the amount of 89 million euros relate to restructuring and merger costs
- Operating profit up 4 percent to 258 million euros; operating profit as a percentage of revenue up 0.6 percentage point to 3.2 percent
- Profit for the year up 35 percent to 182 million euros

Milk price down, performance payment up

- Guaranteed price down 26 percent to 26.40 euros per 100 kilograms (excl. of VAT, at 4.41% fat and 3.47% protein)
- Performance payment up 23 percent to 0.59 euro per 100 kilograms
- Milk price down 26 percent to 26.99 euros per 100 kilograms (excl. of VAT, at 4.41% fat and 3.47% protein)

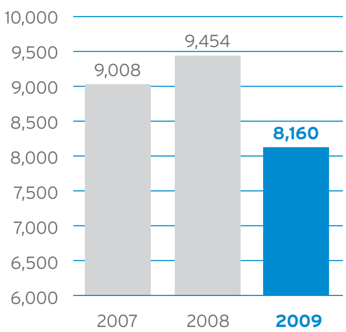
Significant improvement of cash flows

- Cash flows from operating activities increase significantly from 351 to 757 million euros
- Working capital decreases due to reduced inventories and lower prices

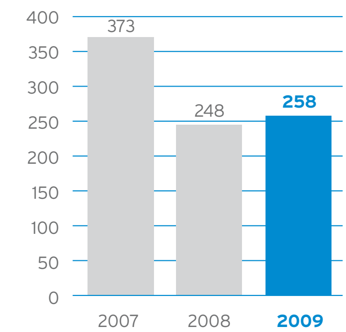
Reserve

- 87 million euros added to the general reserve
- 31 million euros (0.35 euro per 100 kilograms of milk) added to reserve registered in the names of member dairy farmers

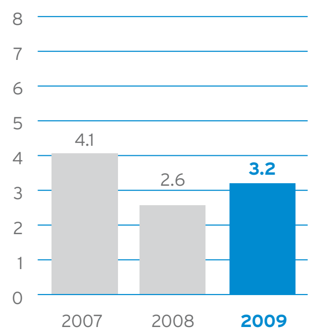
Revenue
in millions of euros



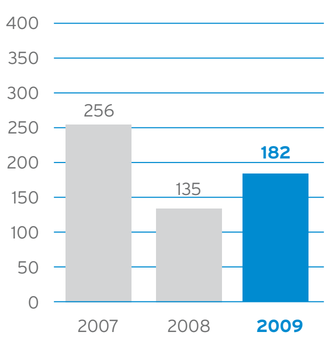
Operating profit
in millions of euros



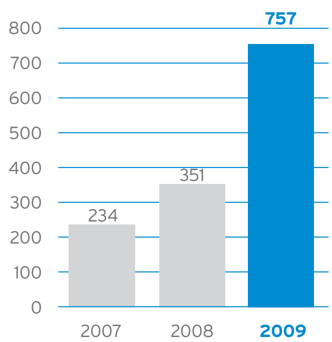
Operating profit as a percentage of revenue
as a %



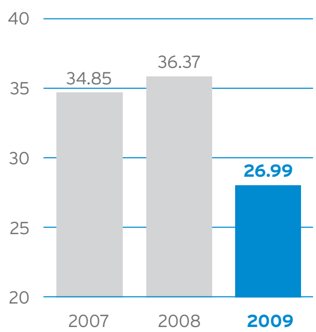
Profit for the year
in millions of euros



Net cash flows from operating activities
in millions of euros



Milk price
in euros per 100 kilograms, excl. of VAT



Results
in millions of euros

	2009	2008
Revenue	8,160	9,454
Operating profit [1]	347	276
Operating profit	258	248
Profit for the year	182	135

Value creation[2]
in euros per 100 kilograms

	2009	2008
Guaranteed price	26.40	35.89
Performance payment	0.59	0.48
Milk price	26.99	36.37
Registered reserve [3]	0.35	0.29

Balance sheet
in millions of euros

	2009	2008
Total assets	4,770	4,930
Group equity	1,749	1,480
Equity [4]	1,652	1,395
Net debt	842	1,494

Cash flows
in millions of euros

	2009	2008
Net cash flows [5]	757	351
Investment [6]	231	240
Depreciation [7]	206	219

	2009	2008
Group equity as a % of total assets	36.7	30.0

	2009	2008
Employees (average number of FTEs)	20,034	20,568

	2009	2008
Number of member dairy farms at year-end	15,326	15,837
Number of members at year-end	21,062	21,583

	2009	2008
Total volume of milk processed (in millions of kilograms)	10,755	11,446
Volume of milk supplied by members (in millions of kilograms)	8,685	8,589

[1] Operating profit before non-recurring expenses
[2] Value creation for member dairy farmers in euros per 100 kilograms of milk
[3] Registered reserve in euros per 100 kilograms of milk
[4] Equity attributable to equity holders of the company and other providers of capital
[5] Net cash flows from operating activities
[6] Investment in property, plant, equipment and intangible assets
[7] Depreciation and amortisation

Structure and organisation

The 21,062 member dairy farmers of Zuivelcoöperatie FrieslandCampina U.A. in the Netherlands, Germany and Belgium form the basis for the dairy chain. Representatives elected by the members constitute the 21 District Boards, which, in turn, jointly make up the Member Council, which is made up of 210 members. The Member Council chooses the nine members of the Board of the cooperative, who also form part of the company's Supervisory Board. In this way, member dairy farmers are involved in issues that determine the company's policies and in supervising the company. Zuivelcoöperatie FrieslandCampina U.A. holds all shares in the capital of Royal FrieslandCampina N.V.

Royal FrieslandCampina N.V. holds all shares in the capital of FrieslandCampina Nederland Holding B.V., the holding company for the companies in which the Dutch milk-processing activities are concentrated. It also holds all shares in the capital of FrieslandCampina International Holding B.V., in which the foreign activities are carried out. On 30 and 31 December 2009, the legal structure of the underlying companies was changed. On that occasion, the former legal entities of Friesland Foods and Campina carrying out the same type of activities merged.

FrieslandCampina has concentrated its commercial activities in four business groups: Consumer Products Europe, Consumer Products International, Cheese & Butter and Ingredients. The product range consists of milk, baby and infant food, milk-based drinks, yoghurts, desserts, cheese, butter, cream, milk powder, dairy-based ingredients, fruit juices and fruit-based drinks.

Zuivelcoöperatie FrieslandCampina U.A.

- Members
- Districts
- Member Council
- Board

Cooperative Council

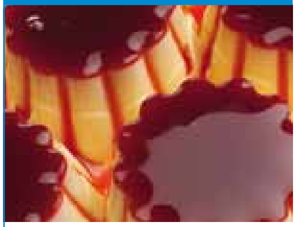
holding all shares in

Royal FrieslandCampina N.V.

- General Meeting of Shareholders
- Supervisory Board
- Executive Board

Corporate Centre

Consumer Products Europe



- FrieslandCampina Dagvers
- FrieslandCampina Benelux
- FrieslandCampina Germany
- FrieslandCampina Professional
- FrieslandCampina Hungary
- FrieslandCampina Romania
- FrieslandCampina Hellas
- FrieslandCampina Russia
- FrieslandCampina UK
- FrieslandCampina Spain

Consumer Products International

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

Cheese & Butter

- FrieslandCampina Cheese
- FrieslandCampina Cheese Specialties
- FrieslandCampina Butter

Ingredients

- FrieslandCampina Domo
- FrieslandCampina Kievit
- FrieslandCampina DMV
- FrieslandCampina Dairy Feed
- FrieslandCampina Creamy Creation

Ambition and strategy

Our ambition

FrieslandCampina aspires to be the world's most professional, successful and attractive dairy company. The company aspires to be the 'most professional', as it wants to be the number one expert in the areas of milk and the ways in which milk can be processed into a wide range of products and ingredients. We keep expanding our knowledge of milk by investing in research and development, so that we can make the most of the market opportunities that present themselves. We want to be the 'most successful' in expanding and reinforcing our market positions, and in working and producing efficiently. Innovation, both applied to product development and based on technological improvements, plays a key role in this respect. And we want to be the 'most attractive' as a purchaser and processor of the milk supplied by our member dairy farmers, as a partner for our customers and as an employer for our employees.

FrieslandCampina wants to create sustainable value for its member dairy farmers by achieving a leading milk price. It wants to do so on the basis of the power of its strong brands and its sound market positions in consumer products, its position as an innovative partner offering ingredients to the food and pharmaceutical industries, and on the basis of its geographical distribution of activities.

Strategy for 2009 – 2010

During the merger process of 2008, arrangements were made, on the basis of the strategies pursued by the two now merged companies, about the strategic course for 2009 and 2010. The purpose of the arrangements was to apply a consistent strategic line in the first period following the merger, thus ensuring continuation of a market-oriented approach. The Consumer Products Europe and Cheese & Butter business groups focus on defending existing positions and extending core activities. The Consumer Products International business group focuses on further expanding its activities in countries in Asia and Africa, and the Ingredients business group focuses on creating new opportunities involving ingredients.

New strategic roles

In 2009, a start was made with revaluating the strategic roles of the different company divisions.

The following principles were applied in formulating the new strategic roles:

- the purchase of all milk produced by the cooperative's members, also after the system of milk quotas will be abolished in the European Union after 2014. In so doing, FrieslandCampina will take an increase in the volume of milk offered by member dairy farmers into account;
- the achievement of a distinctive performance payment for member dairy farmers by developing more high-margin products, entering new markets, reducing the share of standard products in the range and generating a sound operating profit with activities not related to milk supplied by members.

FrieslandCampina believes that it can achieve these strategic goals on the basis of:

- its broad product range, leading positions in the consumer dairy markets of Europe, the South-East Asia and Africa, and strong positions in such international market segments as ingredients, cheese and cream products;
- the farm milk supplied to FrieslandCampina by its member dairy farmers, so that FrieslandCampina is better able to guarantee the production, safety and quality of its products;
- the development of distinctive product concepts by investing in research, development and technological innovation;
- the development of new market opportunities on the basis of organic growth in segments with added value, and specific acquisitions and/or collaborative structures.

In the first half of 2010, the strategy for the new FrieslandCampina will be determined. The Supervisory Board and the cooperative's Board and Member Council will be closely involved in this process.

Successful launch of Milli Mia Pudding

Borbola Pesti, Milli Marketing Manager, FrieslandCampina Hungary

"We were already market leader in desserts in Hungary with Milli Mia, but pudding was not yet part of our range. The merger gave us the opportunity to market pudding produced at FrieslandCampina in Germany under our own brand names in Hungary and Romania. Initial idea and market launch were barely five months apart. Its success has surpassed all our expectations. A few months after the launch in May, the product's market share was already 25 percent in the pudding segment. In October, with a percentage of 34 percent, we attained our highest market share ever in the total market for dairy desserts. Milli Mia's strong image and the unique product form a successful combination that is difficult to copy for competitors. The smooth cooperation with our German colleagues was very special. In 2008, we were still separate companies. Less than six months later, we achieved a wonderful result together, with many more opportunities ahead."

Method for determining milk prices and member financing

Method for determining milk prices

The milk price of FrieslandCampina consists of the guaranteed price and the performance payment. The guaranteed price is based on the milk prices of 12 German dairy companies, 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. To calculate FrieslandCampina's guaranteed price, these milk prices are weighted in proportion to the quantity of milk processed throughout a country. The performance payment depends on FrieslandCampina's financial performance and the reserving policy adopted. Twenty-five percent of the company's profit based on the guaranteed price, less the amounts owed on member certificates and bonds, is paid to members in cash as a performance payment. The performance payment is paid annually after adoption of the financial statements in proportion to the quantity of milk supplied in the year in question.

Strengthening of equity and registered reserve

FrieslandCampina's equity grows as a result of additions from the company's profits to reserves, by adding 60 percent of the company's profit based on the guaranteed price, less the amounts owed on member certificates and bonds, to the company's general reserve. In addition, 15 percent of the company's profit based on the guaranteed price, less the amounts owed on member certificates and bonds, is reserved in the names of member dairy farmers. In return, member dairy farmers receive non-negotiable member bonds referred to as 'fixed member bonds'.

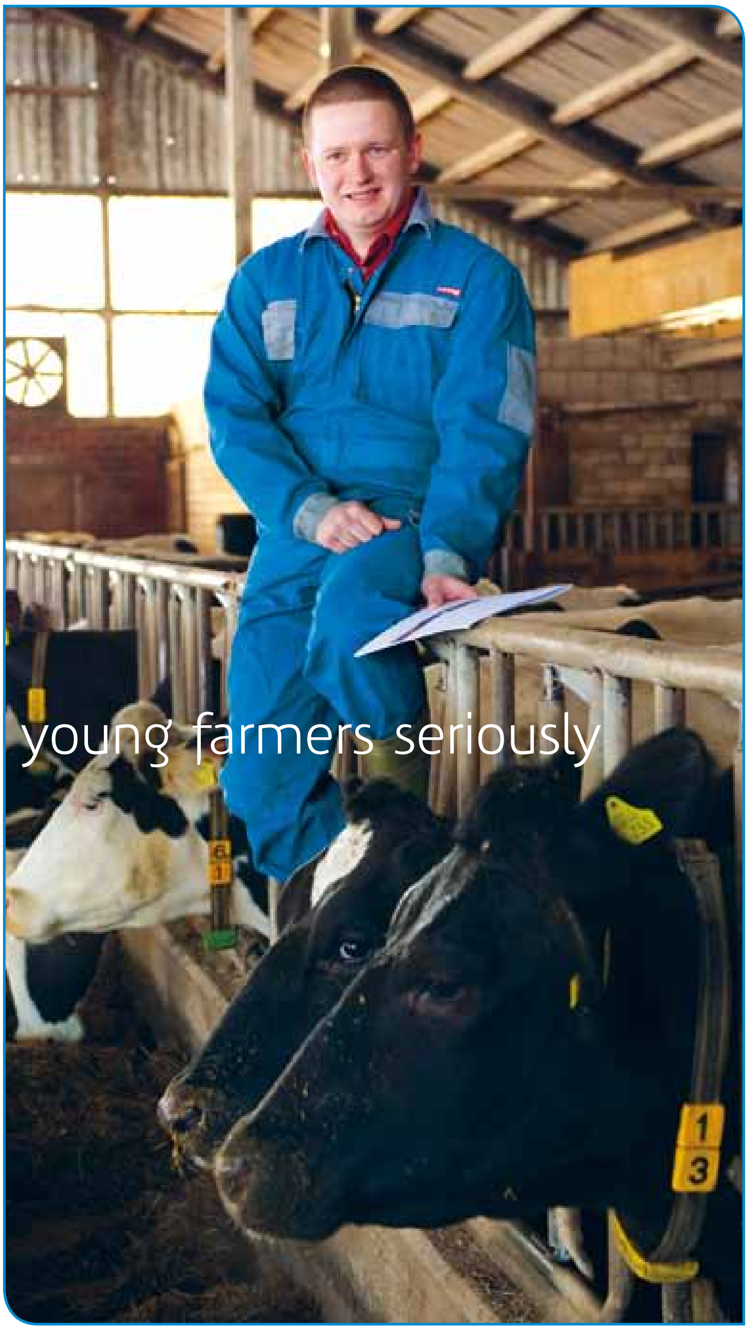
Member financing

At the start of the merger, Zuivelcoöperatie FrieslandCampina U.A. created and issued member certificates on a non-recurring basis to all dairy farmers who were members of Friesland Foods and Campina at the time of the merger. These member certificates are non-negotiable. Member certificate holders are given the opportunity to convert all or part of their member certificates into fixed member bonds issued by Royal FrieslandCampina N.V. Subject to approval from the Member Council, the Board of Zuivelcoöperatie FrieslandCampina U.A. may also take the initiative to convert member certificates into fixed member bonds. Should a FrieslandCampina member discontinue their business (or their participation in a business), the fixed member bonds and member certificates will be converted into negotiable member bonds referred to as 'free member bonds' issued by Royal FrieslandCampina N.V. Free member bonds may be converted into cash by offering them for sale on the internal market held no more than six times a year. Free member bonds are purchased and sold at face value, increased by any interest as yet unpaid for the member bonds. Interest on member certificates and bonds is in line with the market rate (six-month Euribor with a 2.5 percent mark-up) and is the same for both financing instruments.

Michael Benninghoven, member of the Young People's Council in the Rheinland District, Germany

"The interests of young and older dairy farmers do not necessarily differ. But young people do look at the future differently, so I'm pleased that FrieslandCampina has a Young People's Council. It enables the company to ask us what we find important with a view to later years and to do something with the answers. Management is genuinely interested in our opinion and is taking

FrieslandCampina is taking young farmers seriously



us seriously. That's why the Council works and why its members like doing work for the Council. For example, I spend a lot of time on informal contacts, also with young farmers of other cooperatives. I want to be able to pass on what issues are keeping them busy and, as far as I can, answer questions about the company's policies. The milk price for 2009 was low, but the farmers realise that FrieslandCampina did well in comparison with others. Members have confidence in the company, in part because the merger was not implemented top-down, but the farmers wanted it."

Composition of the Supervisory Board

C.H. (Kees) Wantenaar (1949)
Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A. and, as such, Chairman of the Supervisory Board of Royal FrieslandCampina N.V. since 31 December 2008
Occupation: dairy farmer
Other positions held: member of the Board of Nationale Coöperatieve Raad, Chairman of the NZO's sustainable milk production committee, member of the Board of the Dutch Dairy Board (Productschap Zuivel) and member of the Board of Rabobank Soest-Baarn-Eemnes

S.S.U. (Sybren) Attema (1960)
Vice-Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A. and, as such, Vice-Chairman of the Supervisory Board of Royal FrieslandCampina N.V. since 31 December 2008
Occupation: dairy farmer
Other positions held: Chairman of the Noordelijk Landbouwberaad

P. (Piet) Boer (1960)
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A. and member of the Supervisory Board of Royal FrieslandCampina N.V. since 31 December 2008
Occupation: dairy farmer
Other positions held: member of the Supervisory Board of Alfa Top-Holding B.V.

P.A.F.W. (Peter) Elverding (1948)
Member of the Supervisory Board of Royal FrieslandCampina N.V. since 31 December 2008
Other positions held: Chairman of the Supervisory Board of ING Groep N.V., Chairman of the Supervisory Board of Océ N.V., Chairman of the Supervisory Board of Camille Oostwegel Holding b.v., member of the Supervisory Board of SHV Holdings N.V., Vice-Chairman of the Supervisory Board of Q-Park and member of the Board of Stichting Instituut Gak

R. (Rob) ter Haar (1950)
Member of the Supervisory Board of Royal FrieslandCampina N.V. since 31 December 2008
Other positions held: Chairman of the Supervisory Board of Parcom Capital B.V., Chairman of the Supervisory Board of VVAA Groep B.V., member of the Supervisory Board of Unibail-Rodamco S.A., member of the Supervisory Board of Maxeda B.V., member of the Supervisory Board of B.V. Sperwer Holding and member of the Board of Univar Inc.

J. (Jorrit) Jorritsma (1954)
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A. and member of the Supervisory Board of Royal FrieslandCampina N.V. since 31 December 2008
Occupation: dairy farmer
Other positions held: Chairman of the Supervisory Board of Rabobank 'De Stellingwerven'

J.P.C. (Jan) Keijsers (1955)
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A. and member of the Supervisory Board of Royal FrieslandCampina N.V. since 31 December 2008
Occupation: dairy farmer
Other positions held: Chairman of the Board of Rabobank Dommelstreek

F.A.M. (Frans) Keurentjes (1957)
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A. and member of the Supervisory Board of Royal FrieslandCampina N.V. since 31 December 2008
Occupation: dairy farmer
Other positions held: Chairman of the Supervisory Board of Rabobank Noordenveld West-Groningen, member of the Northern Agricultural Tenancies Authority (Grondkamer Noord) and member of the Groningen Provincial Council

S.R.F. (Simon) Ruiter (1958)
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A. and member of the Supervisory Board of Royal FrieslandCampina N.V. since 31 December 2008
Occupation: dairy farmer
Other positions held: Provincial administrator of LTO-Noord, Province of Noord-Holland, and Vice-Chairman of the Supervisory Board of Rabobank Alkmaar e.o.

H. (Henk) Scheffers (1948)
Member of the Supervisory Board of Royal FrieslandCampina N.V. since 31 December 2008
Other positions held: Chairman of the Supervisory Board of Aalberts Industries N.V., member of the Supervisory Board of Royal Bam Groep nv, member of the Supervisory Board of Wolters Kluwer N.V., Chairman of the Audit Committee of Wolters Kluwer N.V., Vice-Chairman of the Supervisory Board of Flint Holding N.V. and member of the Investment Committee of NPM Capital N.V.

J.H.G.M. (Jan) Uijttewaal (1962)
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A. and member of the Supervisory Board of Royal FrieslandCampina N.V. since 31 December 2008
Occupation: dairy farmer
Other positions held: member of the Supervisory Board of Rabobank Maas en Waal

B. (Ben) van der Veer (1951)
Member of the Supervisory Board of Royal FrieslandCampina N.V. since 1 October 2009
Other positions held: member of the Supervisory Board of Reed Elsevier N.V., 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. and member of the Supervisory Board of Siemens Nederland N.V.

W.M. (Erwin) Wunnekink (1970)
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A and member of the Supervisory Board of Royal FrieslandCampina N.V. since 16 December 2009
Occupation: dairy farmer

Appointment and Remuneration Committee
Peter Elverding, Chairman
Kees Wantenaar
Sybren Attema

Audit Committee
Henk Scheffers, Chairman
Piet Boer
Jan Uijttewaal
Ben van der Veer

All Supervisory Board members are Dutch males.

Supervisory Board report

Financial statements and appropriation of profit
At the Supervisory Board meeting of 5 March 2010, the Supervisory Board members and the Executive Board signed the 2009 financial statements drawn up by the Executive Board. The financial statements were audited by KPMG Accountants N.V., which issued an unqualified auditors' report on them.
The Supervisory Board has approved the proposal by the Executive Board to add 87 million euros to the general reserve. In addition, an amount of 31 million euros was reserved in the form of fixed member bonds registered in the names of member dairy farmers. The Audit Committee discussed the financial statements for 2009 on 25 February 2010.
The financial statements for 2009 will be submitted to the General Meeting of Shareholders (i.e. the Board of Zuivelcoöperatie FrieslandCampina U.A.) for adoption on 26 April 2010. In accordance with Article 21, paragraph 2, subparagraph d., of the Articles of Association, that Meeting will also address the endorsement of the Executive Board members' conduct of affairs and, in accordance with Article 21, paragraph 2, subparagraph e., of the Articles of Association, the endorsement of the supervision exercised by the Supervisory Board of the Executive Board for the past financial year. On 26 April 2010, the Member Council of Zuivelcoöperatie FrieslandCampina U.A. will be requested, in its capacity as General Meeting of Shareholders, to approve the decision of the cooperative's Board to adopt the financial statements 2009 of Royal FrieslandCampina N.V.

Resignation and appointment
On 1 October 2009, Mr Ben van der Veer was appointed as a member of the Supervisory Board of Royal FrieslandCampina N.V., succeeding Mr Jan Hommen, who resigned in January 2009. On 6 May 2009, Mr Jentje de Boer resigned as a member of the Supervisory Board of Royal FrieslandCampina N.V., with Mr Erwin Wunnekink being appointed as his successor on 16 December 2009.

Report of the Supervisory Board
The Supervisory Board of FrieslandCampina met seven times during the year under review. Apart from the usual topics, such as the company's annual report and financial statements, as well as the audit of the financial statements (including consultations with the independent external auditor), financial developments, the company's budget, investments and disposals, the remuneration of the members of the Executive Board and the Supervisory Board, the meetings primarily dealt with the remedies imposed by the European Commission due to the merger, FrieslandCampina's strategy, the legal restructuring, the guaranteed price, the restructuring of production facilities and the visits paid to the business groups.

Audit Committee
The Audit Committee of FrieslandCampina consisted of Henk Scheffers (Chairman), Piet Boer, Jan Uijttewaal and Ben van der Veer. In 2009, Piet Boer succeeded Jentje de Boer on the Audit Committee, with Ben van der Veer filling the vacancy left by Jan Hommen.

The Audit Committee met on four occasions during the year to prepare the decision-making process by the Supervisory Board on the company's annual report and financial statements, as well as the audit of the financial statements (including consultations with the independent external auditor). In addition, the Audit Committee discussed, among other topics, the close of 2009, the management letter and its follow-up, the progress of the audit of the financial statements, the appointment of an independent external auditor, the outcome of the review by the Executive Board of the internal risk management and control system, FrieslandCampina's refinancing, the trade in free member bonds, and compliance with regulations and codes of conduct.
There were no transactions in the year under review involving material conflicts of interest of Executive Board or Supervisory Board members (as defined in the Supervisory Board regulations). All external Supervisory Board members are independent within the meaning of the Dutch corporate governance code.

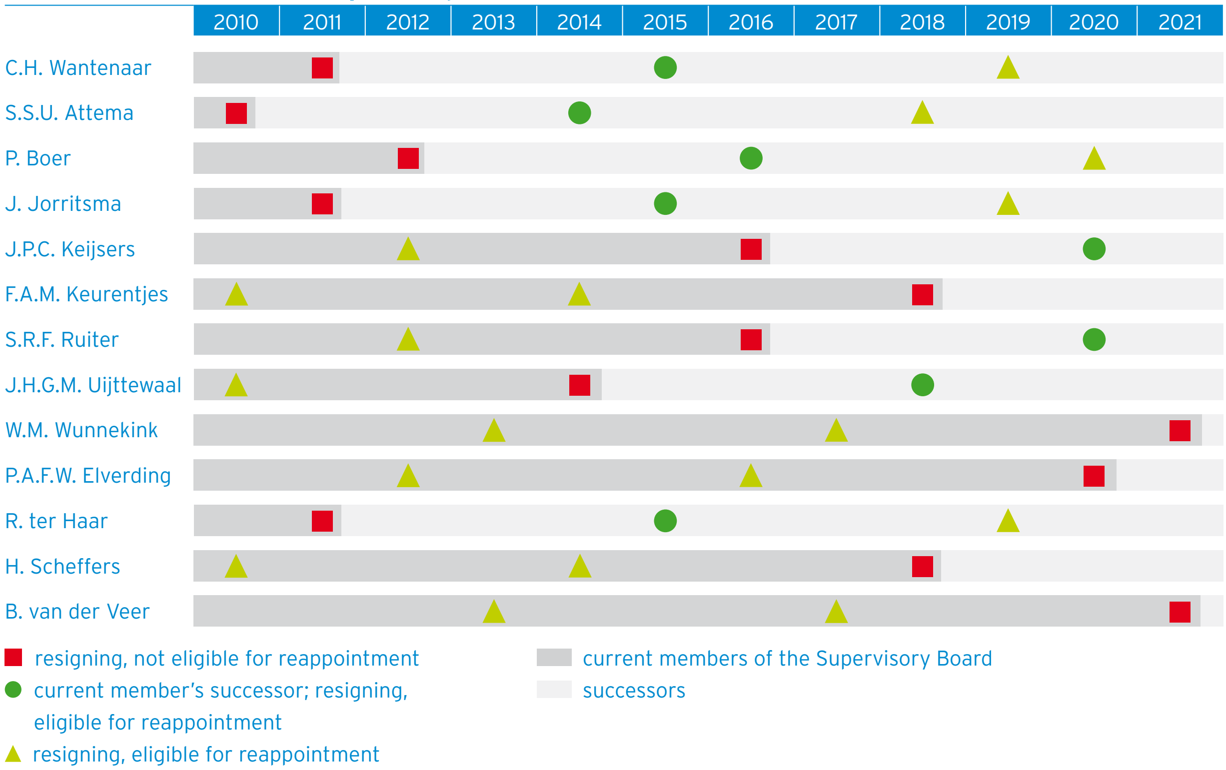
Appointment and Remuneration Committee
The Appointment and Remuneration Committee was constituted by Peter Elverding (Chairman), Kees Wantenaar and Sybren Attema. The Committee met five times during the year under review. The following topics were addressed during the Committee's meetings: the emoluments and variable remuneration of Executive Board members, the Supervisory Board's rotation schedule and the selection process for members of the Board and of the Supervisory Board.

The performance of the Supervisory Board and its individual members is evaluated regularly during progress interviews.

The Supervisory Board

Amersfoort, the Netherlands
5 March 2010

Rotation schedule of the Supervisory Board



- A Supervisory Board member's term of office will not exceed four consecutive years.
- At the Supervisory Board's discretion, Supervisory Board members will resign either:
  a. on the date on which they were Supervisory Board members for a term of four years following their latest appointment; or
  b. on the date of the first Member Council meeting after the term referred to in subsection a.
- Furthermore, the term of office of a Supervisory Board member who is also a member of the Board of Zuivelcoöperatie FrieslandCampina U.A. will end upon termination of that Board membership.
- In principle, Supervisory Board members resigning upon the expiry of their term of office will be eligible for immediate reappointment twice, unless the preceding section applies.
- The rotation schedule of the Supervisory Board of Royal FrieslandCampina N.V. ties in with that of the Board of Zuivelcoöperatie FrieslandCampina U.A. (4-year term of office).
- In principle, Supervisory Board members will resign and be appointed and reappointed following the cooperative's Member Council meeting held in the autumn.

Composition of the Executive Board

C.C. (Cees) 't Hart (1958)
Chief Executive Officer

Responsible for:
Cooperative Affairs
Corporate Communication
Corporate Human Resources
Corporate Legal & Company Secretary
Corporate Public Affairs & Quality Affairs
Corporate Research
Corporate Strategy
Business Group Consumer Products International

Other positions held:
Chairman of the Board of the Dutch Dairy Association (NZO)
Member of the Board of the Dutch Dairy Board (Productschap Zuivel)
Member of the Board of the Confederation of Netherlands Industry and Employers (VNO-NCW)

C.J.M. (Kees) Gielen (1959)
Chief Financial Officer

Responsible for:
Corporate Finance & Reporting
Corporate ICT
Corporate Internal Audit
Corporate Procurement
Corporate Tax
Corporate Treasury
Merger & Acquisitions
Shared Services

From left to right: Freek Rijna, Piet Hilarides, Cees 't Hart, Frans Visser and Kees Gielen.

P.J. (Piet) Hilarides (1964)
Chief Operating Officer

Responsible for:
Business Group Cheese & Butter

F. (Freek) Rijna (1955)
Chief Operating Officer

Responsible for:
Business Group Consumer Products Europe

Other positions held:
Chairman of the Board of the Dutch Food Industry Federation (Federatie Nederlandse Levensmiddelen Industrie, FNLI)
President of the Supervisory Board of Plastic Heroes B.V.

F.M.W. (Frans) Visser (1948)
Chief Operating Officer

Responsible for:
Business Group Ingredients
Milk valorisation

All individuals named above have been members of the Executive Board of Royal FrieslandCampina N.V. since 1 January 2009.

On 31 May 2009, André Boudewijns stepped down as a member of the Executive Board and as Chief Integration Officer. On 31 July 2009, Theo Spierings resigned as the member of the Executive Board responsible for the Consumer Products International business group. Both decided to continue their careers outside FrieslandCampina after the successful completion of the merger and the first months of the integration.

Xander van Leeuwen, Plan & Deliver Supply Coordinator, FrieslandCampina Benelux

"Our division was newly set up after the merger. In the organisational area, things also changed. We now come under the Commercial Director rather than under Operations. However, this makes sense if you think from a market perspective. Designing a new organisation is one thing, forging a truly new team is another. Apart from system and process integration, it's about the integration of people

New team, new roles

and methods, especially. The Plan & Deliver day we had was very effective in terms of team building. You bet you get to know each other thoroughly if you have to deal with each other intensively for a whole day and must accomplish the strangest tasks together! But it has resulted in improved collaboration and communications."

Executive Board review

Good financial performance in challenging dairy market

Royal FrieslandCampina N.V. performed well in 2009. In particular branded products in South-East Asia, Africa and Europe, and industrial specialties contributed to this good financial performance. Due to the challenging market conditions around the globe, demand for dairy products lagged behind, and both selling prices and volumes sold were under pressure. Selling prices of such products as milk powders, caseins (milk proteins) and basic cheese, in particular, were disappointing. In line with the dairy market, the milk price paid to member dairy farmers fell sharply compared with 2008.

Revenue was down 14 percent to 8.2 billion euros (2008: 9.5 billion euros). Operating profit before non-recurring expenses was up 26 percent (71 million euros) to 347 million euros. Operating profit after non-recurring expenses was up 4 percent (10 million euros) to 258 million euros. Profit for the year was up 35 percent to 182 million euros (2008: 135 million euros). Member dairy farmers of Zuivelcoöperatie FrieslandCampina receive a performance payment from the profit for the year 2009 of 0.59 euro per 100 kilograms of milk and an addition to the registered reserve of 0.35 euro per 100 kilograms of milk. The milk price (guaranteed price of 26.40 euros plus performance payment of 0.59 euro) amounts to 26.99 euros (excluding VAT) per 100 kilograms of milk (2008: milk price of 36.37 euros, guaranteed price of 35.89 euros, performance payment of 0.48 euro).

Challenging market conditions

In 2009, global demand for dairy products on the part of both consumers and business customers decreased further, due to the financial and economic crisis. Differences between continents and between product categories did show. In Europe, consumption and use of dairy products decreased, while Asia showed a lower growth rate. The strong euro and the weak dollar meant that exports of dairy products outside the European Union (EU) were difficult, due to the relatively high selling prices compared with selling price levels in other regions. Consequently, a relatively large quantity of milk remained available in the European market and selling prices of milk powder, caseins and basic cheese were under heavy pressure in the first half of 2009.

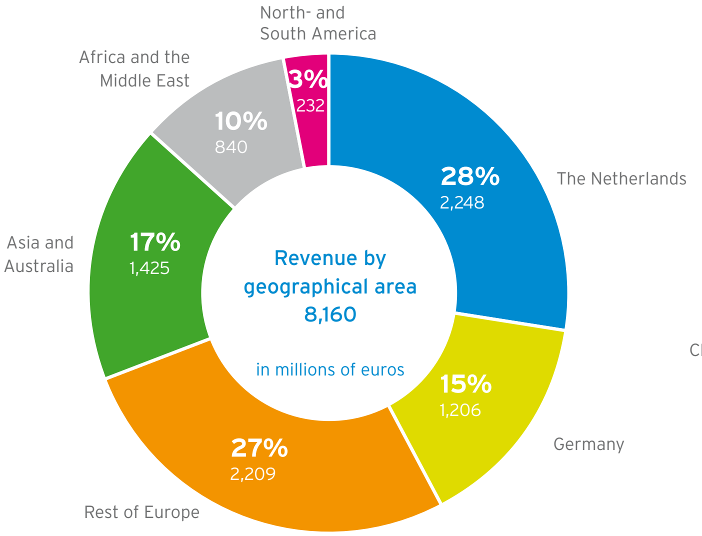
As from September, price levels of cream, butter, milk powder and caseins, in particular, picked up somewhat. Demand for these products edged up, because food producers, in particular, had more or less exhausted their stocks, and price levels were such that demand returned. However, during the last weeks of 2009, price levels fell, in part due to uncertainty about when intervention stocks would enter the market. Selling prices of basic cheese, in particular, but also of naturally matured cheese, were late to pick up. During the year under review, obtaining adequate financial security in respect of accepting orders played a key role.

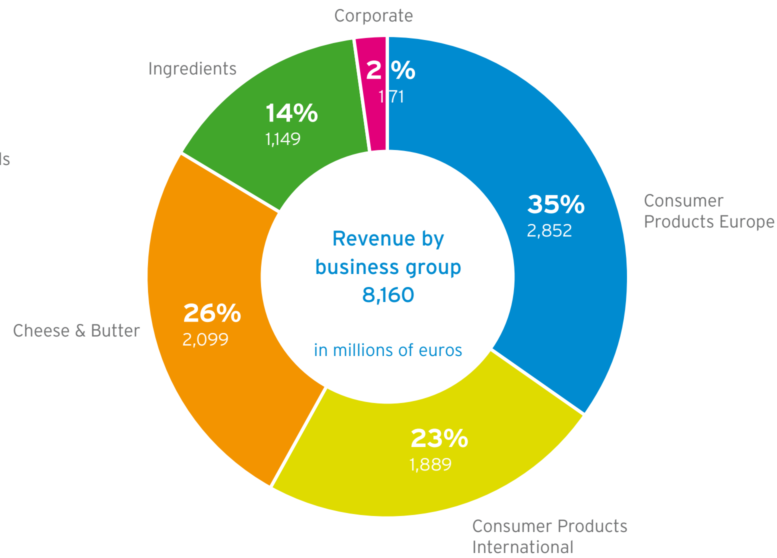
For the European Commission, the decreased sales volumes of dairy products and the increasing pressure on prices constituted sufficient reason to expand its support for the dairy market. Intervention purchases were made of batches of milk powder and butter. The intervention programme, which applied throughout 2009, created a floor in the market. The re-introduction of export refunds in January 2009 for milk powder and butter, among other products, and later also for cheese, provided support for the sale on the global market of dairy products produced in the EU. In addition, the private storage regulation for butter took effect earlier than in the previous year and continued to be applied longer than expected, as did the intervention. In October 2009, the EU reduced the export refunds to zero, in the light of prices picking up again. The EU is expected to again gradually start marketing the stocks in 2010. It is important that this will not disrupt the market.

The production of farm milk in the EU was down 0.6 percent to 133.7 billion kilograms in 2009 (2008: 134.5 billion kilograms). In the Netherlands, the production of farm milk increased by 1.6 percent in the same period to 11.4 billion kilograms. At FrieslandCampina, the quantity of milk supplied by members in the Netherlands, Belgium and Germany increased by 1.1 percent (96 million kilograms) to 8.7 billion kilograms of milk (2008: 8.6 billion kilograms).

Sharp decline in milk price

The milk price for 2009 comes to 26.99 euros (excluding VAT) per 100 kilograms of milk (at 4.41 percent fat and 3.47 percent protein) (2008: 36.37 euros) - a 26 percent decline compared with 2008. The guaranteed price for 2009 is 26.40 euros (2008: 35.89 euros). The guaranteed price is based on the level of milk prices paid including subsequent payments in Western Europe and has been calculated on the basis of the milk prices of 12 German dairy companies, 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. To calculate the guaranteed price, these milk prices are weighted in proportion to the quantity of milk processed throughout a country. Milk prices fell due to the lower selling prices of dairy products. The performance payment FrieslandCampina pays amounts to 0.59 euro per 100 kilograms of milk (2008: 0.48 euro). The performance payment was up 23 percent compared with 2008. The performance payment depends on FrieslandCampina's financial performance, which improved in 2009.





Creating value for member dairy farmers

Value creation for FrieslandCampina's member dairy farmers consists of the milk price (guaranteed price plus performance payment) and the registered reserve.
For 2009, FrieslandCampina paid a guaranteed price of 26.40 euros, excluding VAT, per 100 kilograms of milk at 4.41 percent fat and 3.47 percent protein. The performance payment amounts to 0.59 euro per 100 kilograms of milk, which means that the milk price amounts to 26.99 euro per 100 kilograms of milk. The reserve registered in the names of member dairy farmers amounts to 31 million euros, or 0.35 euro per 100 kilograms of milk. This brings the total of the milk price and the registered reserve for member dairy farmers to 27.34 euros per 100 kilograms of milk (2008: 36.66 euros). The compensation on member bonds totals 40 million euros.

Falling revenue

Revenue amounted to 8,160 million euros - a 1,294 million euro decrease (14 percent) compared with 2008 (9,454 million euros). The total volume of milk processed dropped slightly (6 percent).

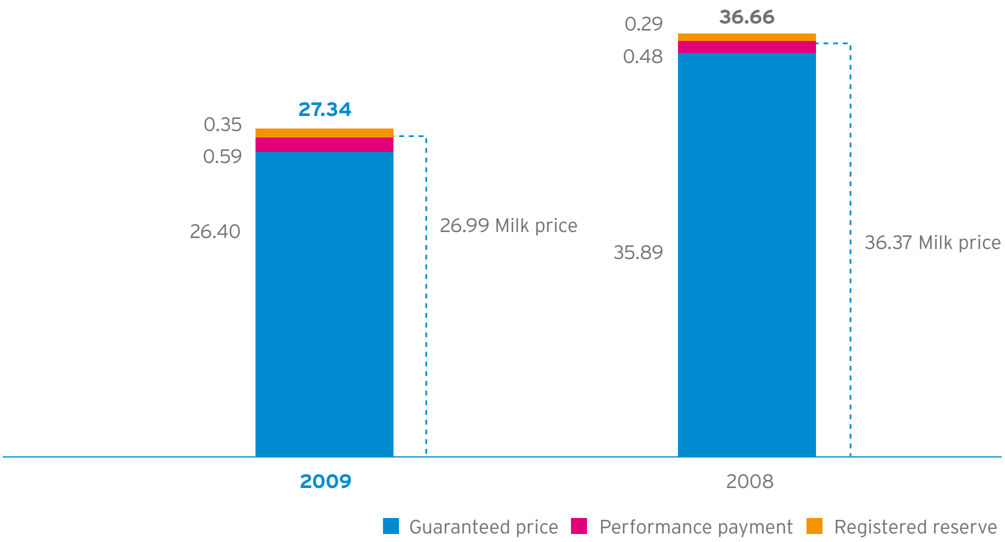
The Consumer Products International business group (Asia, Africa, the Middle East, Export) posted an increase in revenue of 2 percent to 1,889 million euros (2008: 1,858 million euros), in particular due to volume growth. The business group also managed to increase its market shares.

The other business groups recorded decreasing revenues. Revenue generated by the Consumer Products Europe business group fell 14 percent to 2,852 million euros (2008: 3,334 million euros), caused by lower selling prices and decreasing demand and, hence, lower volumes. The sale of Friesland Foods Fresh in Nijkerk, the Netherlands, adversely affected revenue by approximately 175 million euros. The business group did manage to increase market shares for a number of its product groups.

The Cheese & Butter business group faced a decline in turnover of 18 percent to 2,099 million euros (2008: 2,549 million euros), due to lower selling prices and declining sales volumes of cheese, in particular, as a consequence of decreasing consumption. There were also fewer purchases by a number of large customers as a consequence of the merger.

Value creation for member dairy farmers

in euros per 100 kilograms of milk (excluding VAT, at 4.41% fat and 3.47% protein)



For the Ingredients business group, the decrease was 16 percent, down to 1,149 million euros (2008: 1,372 million euros), primarily caused by the considerable decline in selling prices of such basic products as milk powder and caseins. The business group's volumes were up, due to the stepped-up production of skimmed milk powder in view of the reduced need for milk in other business groups.

Improved operating profit

Operating profit before non-recurring expenses was up 26 percent (71 million euros) to 347 million euros. Non-recurring expenses, which amounted to 89 million euros, relate to provisions for the restructuring announced in December 2009 of production in the Netherlands, Germany and Belgium, and for merger costs. Operating profit amounted to 258 million euros (2008: 248 million euros), a 10 million euro improvement (4 percent).

The Consumer Products International business group managed to improve its operating profit significantly. Up by 159 million euros to 290 million euros compared with 2008. The main reasons being volume growth, the lower costs of milk and raw materials together with cost control.

The Consumer Products Europe business group also performed well. Its operating profit before non-recurring expenses was up 18 million euros. Non-recurring expenses relate to a 51 million euro provision for the announced shut-downs in the Netherlands and Germany in 2010 and 2011. Hence, its operating profit amounted to 170 million euros (2008: 204 million euros), a 34 million euro decrease.

The Cheese & Butter business group managed to increase its operating profit before non-recurring expenses by 6 million euros, primarily as a result of cost control and a sound performance achieved with branded cheese. Non-recurring expenses relate to a 26 million euro provision for the contemplated shut-downs in the Netherlands and Belgium in 2010 and 2011. Its operating loss increased by 21 million euros to -98 million euros (2008: -77 million euros).

The Ingredients business group's 2008 operating profit of 71 million euros turned into a -20 million euro operating loss, a 91 million euro deterioration. This was caused, in particular, by the reduced selling prices of milk powder - of which much more had to be produced - and caseins. Considering the challenging market conditions, specialties performed well at the Ingredients business group.

The results on the sale of Friesland Foods Fresh (Nijkerk Dairy B.V.) in Nijkerk, the Netherlands, FrieslandCampina Cheese in Bleskensgraaf, the Netherlands, the Yogho! Yogho! and Choco! Choco! brands, the ice-cream activities in Romania and the Ingredients activities in Argentina did not materially affect the company's financial result.

In 2009, operating costs decreased by 14 percent to 7,929 million euros (2008: 9,233 million euros). The cost of raw materials and consumables and goods for resale amounted to 5,089 million euros in 2009 (2008: 6,422 million euros), with the decline being caused, in particular, by the lower price for milk supplied by members and costs of additional milk purchases being down, both in terms of volumes and price. In 2009, approximately 10.8 billion kilograms of milk were processed, 8.7 billion kilograms of which were supplied by member dairy farmers in the Netherlands, Germany and Belgium. In 2008, 11.4 billion kilograms were processed in total, 8.6 billion kilograms of which were supplied by member dairy farmers.
A total milk payment of 2,380 million euros was made to member dairy farmers, lower by 769 million euros (24 percent) than in 2008. The other cost of raw materials and consumables and goods for resale fell from 3,273 million euros in 2008 to 2,709 million euros in 2009, a 564 million euro decline (17 percent).

Year of extremes for caseinate

Henri Joosten, Commercial Director,
FrieslandCampina DMV, global market leader in caseinate

"2009 was an extreme year for caseinate. As a consequence of increasing stock levels at producers, prices plummeted in the spring. After July, stock levels decreased and prices picked up. The price difference between the second quarter and year-end was as high as 40 percent. The economic recession led to a shrinking global market. At the bottom end of the food industry, cheaper alternatives were more often chosen than the better but also more expensive milk protein. Despite it all, we managed to increase our market share and achieved our budgeted volume. That's really a reason to be proud, especially in a year in which we also reorganised our sales organisation in close cooperation with Domo, the partner with which we merged. We acquired new customers and interesting products from Domo and are now even better able to meet total customer needs in the food industry."

The employee benefits expense amounted to 817 million euros in 2009. In 2008, it was 796 million euros. The increase is due to higher pension charges. The average number of FTEs was 20,034 in 2009 (2008: 20,568). The decline by 534 FTEs was primarily due to the merger and the sale of Friesland Foods Fresh in Nijkerk, the Netherlands.

Expenses incurred for advertising and promotions rose 4 percent to 352 million euros, contributing to the increasing market shares. Research and development expenses amounted to 55 million euros, up 8 percent compared with 2008 (51 million euros). The cost of work contracted out and temporary staff was down 11 percent to 245 million euros.

Investments in property, plant, equipment and intangible assets came to 236 million euros in 2009 (2008: 242 million euros). Due to the curtailing of investments announced in late 2008, investments were slightly lower than in 2009. For 2010, a slight increase is expected.

The share of profits of joint ventures and associates increased by 15 million euros, from 6 million euros in 2008 to 21 million euros in 2009. Financing income and costs decreased by 45 million euros to 59 million euros (2008: 104 million euros), due to the lower cost of the put option on DMV Fonterra Excipients and the lower interest expenses because of the reduced financing need. The tax charge amounted to 38 million euros (2008: 15 million euros), the main reason for this increase being the higher profit in a number of countries.

Rising profit

The profit for 2009 is 182 million euros, a 47 million euro increase (35 percent) compared with 2008 (135 million euros). The main reasons for the increase are the sound performance with branded products in South-East Asia, Africa and Europe, in particular, the increase in the share of profits of non-consolidated associates and the lower financing income and costs. The tax charge, however, went up as a result.

A successful anniversary year for Mona

Brechje Albert, Mona Brand Group Manager, FrieslandCampina Benelux

"The festive year for Mona's 40th anniversary started in the autumn of 2009 with a new TV commercial, in which we see Dré, the main character, wearing a pudding cup on his head as a festive hat. Consumers picked up on that collectively; many of those who celebrated carnival this past year could be seen wearing festive Mona cup hats. You can only dream of such success. The introduction of the XL Verjaardagspudding, the anniversary pudding, and the pancake campaign were also a great success. It brought supermarkets a fast-moving newcomer on the shelves and more repeat purchases. And that was not the end: consumers elected Mona as the Brand of the Year 2009. We are back to what we want to be: a brand that represents enjoyment and happiness."

Of the profit, an amount of 40 million euros is attributed to interest on member bond loans, 9 million euros to providers of the perpetual notes, 46 million euros to minority interests and 87 million euros to Zuivelcoöperatie FrieslandCampina U.A., the shareholder, on the basis of additions to the reserve.

The profit based on the guaranteed price, less the amounts owed on member certificates and bonds, amounted to 152 million euros. A net amount of 38 million euros (25 percent) of this profit is paid to members in cash as a performance payment and a net amount of 23 million euros (15 percent) is added to a reserve registered in the names of member dairy farmers. Before tax, these amounts are 51 and 31 million euros, respectively.

Improved cash flows

Net cash flows from operating activities increased by 406 million euros to 757 million euros (351 million euros in 2008). Besides the increase in profit before tax, this is due, in particular, to the lower prices of basic products and improved working capital levels because of decreased inventory volumes. Investments in property, plant, equipment and intangible assets amounted to 231 million euros (2008: 240 million euros).

Reserve

An amount of 87 million euros was added to the company's reserve. An amount of 31 million euros will be reserved in the form of fixed member bonds registered in the names of member dairy farmers (0.35 euro per 100 kilograms of milk) (2008: 0.29 euro).

Financing

FrieslandCampina raises loans from different groups of lenders (member dairy farmers, banks and investors). This is beneficial to the company's flexibility. The major portion of the loan capital funding has been contracted from banks in and outside the Netherlands. The majority of bank loans comprise unconditional credit facilities of 1 billion euros. FrieslandCampina renegotiated these facilities with banks after the merger, reaching agreement in August 2009 on a new 3-year credit facility to refinance Friesland Foods' and Campina's facilities.

In December 2009, an agreement in principle was reached with a number of international investors for long-term financing with terms of 7 years (56 million euros) and 10 years (76 million euros).

In 2009, member dairy farmers of what used to be Zuivelcoöperatie Campina and those members that discontinued their businesses converted 36 million euros in subordinated Campina notes into free member bonds of Royal FrieslandCampina N.V. (perpetual subordinated notes with a variable interest rate based on the six-month Euribor with a 2.5 percent mark-up). As from the date of the merger, such members have received the interest payment on those free member bonds. In addition, they may offer the free member bonds for sale on the internal market. The non-converted Campina bonds will continue to be registered in the names of the bond holders in question and form part of Zuivelcoöperatie FrieslandCampina U.A.'s subordinated loan capital.

Strengthening of financial position

At year-end 2009, group equity amounted to 1.7 billion euros (2008: 1.5 billion euros). Group equity increased due to the addition to the reserve of 87 million euros from the profit for 2009. In 2009, an amount of 31 million euros was added to the reserve in the form of fixed member bonds registered in the names of member dairy farmers. In addition, equity was strengthened on the basis of the non-recurring conversion of an amount of 110 million euros from a loan of Zuivelcoöperatie FrieslandCampina U.A. into equity of Royal FrieslandCampina N.V. by way of a share premium on shares already issued. FrieslandCampina expects to be able to amply meet its financing need in 2010.

The solvency ratio (group equity as a percentage of total assets) was 36.7 percent. Compared with year-end 2008 (30.0 percent), this is a 6.7 percentage point improvement, due to the strengthening of equity and lower total assets (primarily as a result of lower working capital levels).

Dolapo Otegbayi, Innovation Manager,
FrieslandCampina WAMCO Nigeria

"The sale of milk in single portions offers huge opportunities in Nigeria. Most people cannot afford to buy tins of milk, but they can afford to buy small sachets. However, it was a long way from the initial idea to its implementation. Milk in sachets must have the same quality as milk in tins. In terms of production technology, it was a rather complicated

Peak reaches more consumers in Nigeria by

proposition. In November, a new plant was opened especially for the production of the sachets. At the same time, the marketing of the sachets was kicked off, with events being organised for the media, trade partners and consumers. We sell the sachets under the Peak brand, which is very well known in Nigeria. We aimed to be present and visible everywhere, and we were. The success has surpassed all our expectations. Currently, we are simply unable to meet demand and are compelled to invest in additional production capacity. The future looks bright for Peak."

In 2009, net debt fell to 842 million euros. Compared with year-end 2008 (1,494 million euros), this means a 652 million euro decrease. Net debt primarily fell due to the reduced financing need as a result of lower working capital levels and the partial repayment of the debt owed to Zuivelcoöperatie FrieslandCampina U.A. The company amply meets the requirements imposed by lenders, expressed as financial ratios.

Pension charges and coverage ratio

In 2009, pension charges increased by 26 million euros, the main reason being the lower return on plan assets, which was adversely affected by, in particular, the plan assets' price movements. The coverage ratio of the pension plan administered by the insurance company was 117 percent at year-end 2009 (2008: 115 percent). The coverage ratio of the company pension fund was 100.1 percent at year-end 2009 (2008: 93.7 percent).

Merger process and conditions set by the European Commission

FrieslandCampina formed from the merger between Friesland Foods and Campina on 30 and 31 December 2008. With the company forming from the merger, Friesland Foods and Campina expected they would be better able to anticipate and respond more decisively to the ever-increasing pace of changes in market conditions, such as:

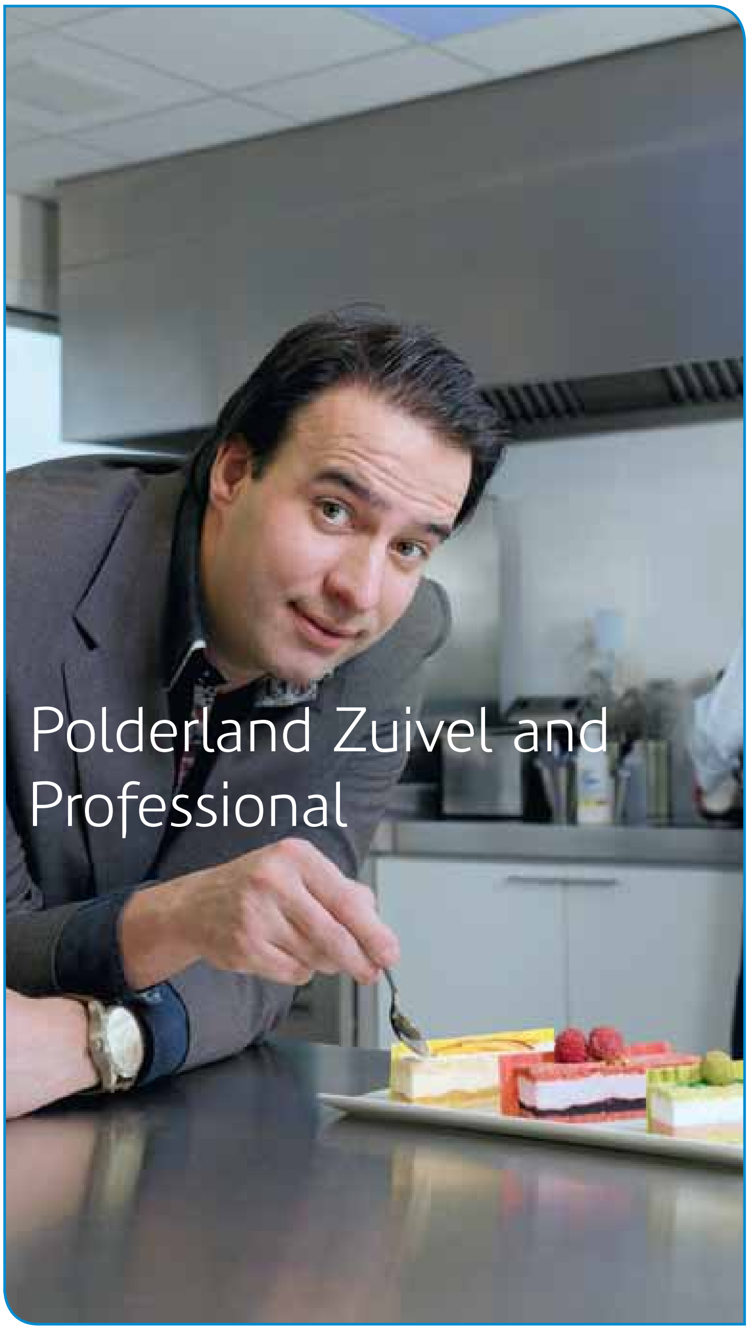
- the ongoing liberalisation and the deregulation (EU/WTO);
- a highly volatile world dairy market;
- increasing competition, regional as well as global;
- increasing dairy foods consumption levels on a global scale.

On 17 December 2008, the European Commission approved the merger, subject to a number of preconditions. To meet these, FrieslandCampina had to divest part of its fresh dairy activities in the Netherlands (Friesland Foods Fresh in Nijkerk), a cheese production plant in the Netherlands (Campina Holland Cheese in Bleskensgraaf), and the Yogho! Yogho! and

Erwin Wolterink, Senior Trade Manager, FrieslandCampina Professional

"Of course I didn't like to hear the news that the Oldenzaal location of Polderland Zuivel, a sales organisation targeting the professional market, would be shut down. I liked my job as product manager for the hospitality segment, and the commuting distance from Deventer, where I live, to Oldenzaal was short. The relocation to Nuenen would substantially increase my

Amalgamation of Polderland Zuivel and FrieslandCampina Professional



commuting time, and you don't want your social life to suffer. Fortunately, a good scheme is in place for people whose commuting time increases substantially due to the relocation. I was pleased with that, because I find the dairy business interesting and do not want to leave FrieslandCampina. The relocation leads to interesting innovations. As a result of the amalgamation, we can offer customers even more. As a senior trade manager, I am now even more closely involved with customers. Moreover, in the new organisation, I have to deal with more divisions and am getting to know many new people."

Choco! Choco! brands (long-life milk-based drinks) in the Netherlands and Belgium. In addition, to reduce its farm milk market share in the Netherlands and to guarantee the availability of milk for third parties, FrieslandCampina must annually offer a maximum of 1.2 billion kilograms of milk for sale to (new) producers of fresh dairy products or naturally matured cheese in the Netherlands until 2017, or until such earlier date as the EU will decide. All conditions were satisfied in 2009.

On 4 May 2009, Friesland Foods Fresh in Nijkerk was sold to Arla Foods (Denmark). A 10-year licence contract for the use of the Friesche Vlag brand was concluded for fresh dairy products in the Netherlands. The plant's 350 employees with permanent contracts transferred to the new owner.
On 31 October 2009, Inza, a subsidiary of the Belgian cooperative Milcobel, took over the sale of products under the Yogho! Yogho! and Choco! Choco! brands. The acquisition, which did not involve property, plant and equipment nor employees, relates to trademark rights in the European Union and to the recipes.

On 1 December 2009, DeltaMilk, a cooperative association of milk suppliers, took over FrieslandCampina's cheese activities in Bleskensgraaf. This plant's 50 employees also transferred to the new owner.

The independent Dutch Milk Foundation is responsible for satisfying the EU's condition that producers of fresh dairy products and naturally matured cheese must be able to purchase a maximum of 1.2 billion kilograms of Dutch farm milk annually from FrieslandCampina for FrieslandCampina's guaranteed price for farm milk, less 1 percent. Arla Foods and DeltaMilk use this option and have been guaranteed supplies until 1 January 2017 through the Dutch Milk Foundation. The foundation also administers the termination scheme applying to Dutch member dairy farmers of FrieslandCampina. Member dairy farmers that want to terminate their membership of FrieslandCampina in order to supply their milk to other parties receive a termination premium of 5.00 euros per 100 kilograms of milk. The quantity of milk that used to be supplied by the departing members is deducted from the volume of 1.2 billion kilograms of milk. At year-end 2009, just one member dairy farmer terminated his membership under the termination scheme.

Post-merger integration

In 2009, following the merger on 30 December 2008, FrieslandCampina faced the challenge of integrating the two merged companies and achieving the envisaged 175 million euro synergy in 2012. More than 200 integration projects were kicked off in 2009. A special integration team managed all of the company's integration projects in 2009. The integration team will continue to be operational through the third quarter of 2010, after which it will transfer its duties to line management.

The integration was very successful in virtually all respects, in particular thanks to the excellent way in which staff collaborated. Synergy costs and benefits were expected to balance each other in 2009. However, the benefits exceeded expectations, so that, on balance, the result was positive. Hence, synergy achievements are ahead of schedule and synergies to be expected will plainly exceed the amount of 175 million euros in 2012. Numerous measures contributed to cost reductions, such as procurement, relocating and combining offices and production facilities, and more efficient inventory management. Optimised production processes achieved by sharing knowledge also contributed to cost reductions. Redundancies, which are unavoidable in a merger of this scale, are on schedule.

On 30 and 31 December 2009, the legal structure of the underlying companies was changed. On that occasion, the former legal entities of Friesland Foods and Campina carrying out the same type of activities merged.

In 2009, various activities carried out by both the corporate staff departments and the various offices of the business groups and operating companies were combined. Where the corporate staff departments are concerned, the activities carried out at the offices in Meppel and Zaltbommel, the Netherlands, were gradually relocated to Amersfoort, the Netherlands. The Cheese & Butter activities, carried out at the offices in Tilburg, Wolvega, Nijkerk and Lochem, the Netherlands, were relocated to a joint office location in Amersfoort, the Netherlands. At Consumer Products Europe, most Dutch activities were amalgamated in Veenendaal, the Netherlands, and the R&D division was integrated in Wageningen, the Netherlands. In Germany, sales and marketing activities are now carried out in Heilbronn. At Ingredients, the activities carried out by the operating companies were regrouped, both from the commercial perspective and in terms of production area. At Consumer Products International, the export divisions were combined. The relocations also meant changes in staffing. For a number of employees, the commuting distance could not be bridged. Despite the staffing changes, the integration was successful.

By combining the production capacity of the most specialised production facilities, production batches may be increased, production may be organised more efficiently and overhead costs may be reduced. Production needs to be contracted out to a lesser extent, because capacity is available in-house. World Class Operation Management and Total Productive Management programmes ensure that production will improve further on the basis of, among other things, sharing and implementing best practices and training employees.

Reorganisation of production

In 2009, a number of decisions about the reorganisation of production and, thus, the shut-down of production facilities were announced. The objective of the proposed decisions is to pursue a necessary increase in scale and, hence, to enhance the company's efficiency.

In May 2009, it was announced that the production facility in Oud Gastel, the Netherlands, would be shut down in June 2010. The production of, among other things, cream products, spray cans and condensed milk will be relocated to Lummen and Aalter, Belgium. In addition, it was announced, in June 2009, that the activities carried out by Polderland Zuivel (cream products and ice-cream mixes) in Oldenzaal, the Netherlands, and FrieslandCampina Professional (cream, butter, pastry fillings, desserts and sauces), would be combined in Nuenen, the Netherlands, in 2010. A packaging line of FrieslandCampina Butter was relocated from Lochem to Den Bosch, the Netherlands.

In December 2009, a reorganisation of production was announced for the Consumer Products Europe and Cheese & Butter business groups. The organisational adjustment involves the contemplated shut-down of six facilities in the Netherlands, Belgium and Germany. As part of the reorganisation, 942 jobs will become redundant, but 318 jobs will be added in the facilities where production will be continued. On balance, 624 of the total of 11,027 permanent jobs of Consumer

Products Europe and Cheese & Butter will become redundant around the world as a consequence of the reorganisation.

For the Consumer Products Europe business group, the production facilities in Elsterwerda and Kalkar, Germany, are scheduled to be shut down in mid-2011. The production of, among other products, yoghurt, desserts, long-life milk and Chocomel will pass to Gütersloh, Heilbronn and Cologne, Germany, to Aalter, Belgium, and for a small part to Debreçen, Hungary. Furthermore, the Packaging-South site in Leeuwarden, the Netherlands, is scheduled to be shut down in the second quarter of 2011, with the activities being transferred to Aalter and Bornem, Belgium.

For the Cheese & Butter business group, the packaging facilities in Drachten and Tilburg, the Netherlands, are scheduled to be shut down in late 2010. The cheese production facilities in Tilburg and Dronrijp, the Netherlands, will be shut down in 2011. This production can be taken over by other cheese production facilities. The packaging activities will be relocated to Wolvega and Leerdam, the Netherlands. It is the intention to transfer the production of cream products in Klerken, Belgium, to Noordwijk and Lochem, the Netherlands, and to shut down the facility in Klerken in 2011.

FrieslandCampina's social plan applies to the relevant employees on permanent contracts in the Netherlands. FrieslandCampina will do its very best to find new jobs that are suitable for both the employee and the employer, preferably within FrieslandCampina, but if this is not possible within a reasonable term, outside the company. In Germany and Belgium, talks are being held with representative bodies of employees and work councils about local social plans within the context of the proposed shut-downs.

Pranee Yoosamran, Director Corporate Affairs, FrieslandCampina Thailand

"It is our objective to make drinking milk more popular among adults. As market leader, Foremost decided in 2009 to start educating people with the message that drinking milk will keep them healthy their entire life. 'On & On' became a real talk-of-the-town campaign in Thailand. The Foremost market share went up from 54 percent in February to 57 percent in October, which was a record high. The campaign won many advertising and media awards.

Foremost grows in Thailand with UHT and innovation in children's milk

In 2009, we also put Foremost Kids Omega 369, an innovative product, on the map in no time. This UHT children's milk focuses on children's brains developing properly, a message that immensely appealed to mothers. Eight months after the launch in April, the product's market share was already 25 percent, making us the second largest player in this market segment. You could say Foremost struck gold in 2009."

Developments by business group

FrieslandCampina has four business groups, i.e. Consumer Products Europe, Consumer Products International, Cheese & Butter and Ingredients. The allocation of activities to these business groups was changed compared with the allocation presented in the Annual report for 2008. The activities in Russia, Hungary, Romania and Greece currently form part of the Consumer Products Europe business group and no longer of the Consumer Products International business group. The comparative figures for 2008 have been adjusted to reflect the new allocation.

Consumer Products Europe

The Consumer Products Europe business group produces and sells consumer milk, milk-based drinks, fruit juices, fruit-based drinks, yoghurts, desserts, coffee enrichers, cream products, butter specialties, together with soft ice cream & milkshake mixes. The business group targets both consumers and professional customers. Consumer Products Europe brands are, among other brands: Appelsientje, Campina, Chocomel/Cécémel, Completa, CoolBest, Debic, DubbelFrisss, Extran, Friso, Fristi, Friesche Vlag (condensed milk and long-life milk), Fruttis, De groene koe (organic), Hollandia, Joyvalle, Landliebe, Milli, Mona, Napolact, NoyNoy, Optimel/Optiwell, Pöttyös, Puddis, Taksi, Vifit and Yazoo.

The business group is active in Europe and consists of operating companies FrieslandCampina Benelux, FrieslandCampina Dagvers, FrieslandCampina Germany, FrieslandCampina Hellas, FrieslandCampina Russia, FrieslandCampina Hungary, FrieslandCampina Spain, FrieslandCampina Romania, FrieslandCampina Professional and Supply Chain.

Revenue and operating profit

Revenue generated by Consumer Products Europe amounted to 2,852 million euros - a 482 million euro decrease (14 percent) compared with 2008 (3,334 million euros). The financial and economic crisis affected virtually all activities of Consumer Products Europe. Despite the crisis, the business group managed to increase its operating profit before non-recurring expenses by 18 million euros. In 2009, dairy product consumption levels decreased. In many cases, this led to fierce competition and, hence, to pressure on selling prices. Strong brands turned out to be the best guarantee for defending or even reinforcing market positions under these circumstances, although more promotional campaigns than before were required to maintain market shares. A strong focus on cost efficiency and the achievement of synergetic benefits following the merger made a significant contribution to the financial result. Operating profit amounted to 170 million euros - a 34 million euro decrease (17 percent) compared with 2008 (204 million euros). The decrease is the consequence of non-recurring expenses - a 51 million euro provision for the restructuring of announced shut-downs in the Netherlands and Germany in 2010 and 2011. Operating profit as a percentage of revenue rose to 5.3 percent (2008: 5.2 percent).

The Netherlands and Belgium

Thanks to its strong brands, FrieslandCampina managed to maintain its market positions in the Netherlands and Belgium, although some brands faced market conditions which were particularly difficult. The trend of private labels playing an increasingly important role in supermarket chains in the Netherlands and Belgium continued in 2009. Competition in the area of standard products such as milk, yoghurt and custards, in particular, still remained strong. The economic crisis and the ongoing concentration of supermarket chains inspired supermarkets to capitalise on consumers' price awareness by leveraging private labels to an even greater extent.

In the health & wellness segment, FrieslandCampina managed to reinforce its position with such products as Campina Optimel, Campina Vifit and Goedemorgen. In the desserts market, Mona, a brand that celebrated its 40th anniversary in 2009, again managed to expand its market share by building on its successful positioning; 'Mona: makes you happy'. After Chocomel/Cécémel's successful year in 2008, market growth stagnated slightly in 2009, although the popular brand clearly continued to be market leader. Ecomel, the business unit for organic dairy products that markets the Zuiver Zuivel and De groene koe brands, managed to improve its position in the Dutch market further.

With the Campina, Cécémel, Fristi, Joyvalle and Yazoo brands, the market position in Belgium was improved. DubbelFrisss managed to improve its market position in fruit juices, fruit-based drinks and fruit-based soft drinks again after a few challenging years. Market shares of Appelsientje and CoolBest decreased slightly, as a consequence of increasing price competition.

Germany

For the second year in a row, FrieslandCampina Germany improved its financial result. The company stood its ground in a market characterised by a great deal of competition and supermarket chains seeking distinction by offering very low prices. In Germany, FrieslandCampina focuses on growth in the sale of products under their brands, as well as growth in the foodservice segment. FrieslandCampina is the number three supplier of branded dairy products in Germany.

In 2009, Landliebe further expanded its market share. The brand was repositioned in 2008 and distinguishes itself by offering natural and fair dairy products. The claim that Landliebe products are GMO-free is important, as the cows from which the milk for the products originates are exclusively fed with feed from Germany and other European countries.

Although the German desserts market is under pressure and private labels continue to grow, Puddis in Love posted an increase in the sale of sweet desserts in Germany. Where German consumer preference for tasty and pure seems to get stronger, interest in products with a health claim is reduced. Consequently, Optiwell, a brand that has created a profile for itself with health products with little or no fat and just a few calories, had a challenging year. In the area of foodservice, FrieslandCampina Germany is successful with school milk, to which more and more children and parents attach importance.

Rest of Europe

In Russia, Consumer Products Europe had a tough year. Due to the crisis, Russian consumers had considerably less to spend, as a consequence of which both volumes and selling prices came under pressure. Moreover, the rouble exchange rate moved downward. The product range is in the process of being adjusted, in order to be better able to capitalise on the requirements of Russian consumers. Yoghurt product Fruttis managed to reinforce its market position further.

In Hungary and Romania, income levels suffered heavily from the financial and economic crisis. In Romania, in particular, this led to a decline in turnover. Nonetheless, sales volumes in Hungary regarding Pöttyös Tùrò Rudi, a fresh dairy bar and bonbon in a chocolate covering, were satisfactory. The launch onto the Romanian and Hungarian markets of desserts produced by FrieslandCampina in Germany under the Milli Mia brand was exceptionally successful. The ice-cream activities in Romania were sold to Unilever.

FrieslandCampina Hellas further improved its financial result in 2009. The NoyNoy brand celebrated its 80th anniversary in 2009. The share of the key market for evaporated milk and baby food continued to grow. Ready-made milk-based drinks and cheese products also performed well.

In the UK, FrieslandCampina UK posted a sound performance with Yazoo. Both volumes and market share of the milk-based drink grew. However, because of the relatively weak position of the British pound, FrieslandCampina UK's financial result was under pressure.

Professional market

The situation in the professional market was difficult in 2009. Volumes were under pressure, due to reluctant spending by consumers in restaurants and the fast food sector. Sales to traditional processors such as bakeries also declined. In 2009, FrieslandCampina Professional integrated the activities carried out by Friesland Foods and Campina, as well as updating its product range, among other things. For example, the number of cream brands was brought back from seven to four. In part within this context, the effectiveness of marketing and sales efforts went up, costs went down, and the leading Debic, Hollandia and Campina brands could be marketed in a more focused way. However despite this, FrieslandCampina Professional managed to maintain its financial result due to strong cost management.

Consumer Products International

The Consumer Products International business group produces and sells dairy products for consumers in Asia, Africa (in Nigeria and surrounding countries, in particular) and the Middle East. In addition, products are exported around the world from the Netherlands. This business group comprises operating companies FrieslandCampina Export, FrieslandCampina Middle East, FrieslandCampina WAMCO Nigeria, FrieslandCampina Malaysia/Singapore, FrieslandCampina Thailand, Betagen (Thailand), FrieslandCampina Vietnam, FrieslandCampina Indonesia, FrieslandCampina China and FrieslandCampina Hong Kong.

Revenue and operating profit

2009 was an excellent year for Consumer Products International. Revenue amounted to 1,889 million euros. Despite a 60 million euro adverse exchange rate impact, this represents a 91 million euro increase (4.9 percent) compared with 2008. Operating profit amounted to 290 million euros, a 159 million euro increase (121 percent) compared with 2008 (131 million euros). Operating profit as a percentage of revenue rose to 15.3 percent (2008: 7.0 percent).

Total sales volumes grew 6 percent, with FrieslandCampina increasing its market share in most markets. Raw material price trends, prices fell sharply compared with 2008, were favourable for the business group's operating profit. The power of the brands and the brand awareness in the regions in which FrieslandCampina is active also made a significant contribution to the financial result. The strong brands made it possible to maintain or expand volumes in challenging markets as well. In addition, the relatively fast recovery of confidence in dairy products in Asia after the Chinese melamine crisis underscores the confidence consumers have in the FrieslandCampina brands. Furthermore, improvements initiated earlier in the areas of logistics, distribution, production efficiency and marketing were key to the sound performance in 2009.

Nigeria

The company's market share grew in the year but due to the sharp fall in the naira exchange rate, revenue in euros decreased significantly compared with 2008. FrieslandCampina is by far the largest player in the Nigerian dairy market. Last year's introduction of Peak Choco and condensed milk in single portions meant an important step towards expanding that position. The low price of the small packs made the products of FrieslandCampina affordable for more people, as well as doubling the number of consumers FrieslandCampina can serve in Nigeria. Production capacity in the facility in Lagos was further expanded and new distribution centres were set up in locations across the country.

Felix van Brussel, Customer Service Manager, FrieslandCampina Cheese

"The 'One Face to the Customer' project was kicked off in the autumn of 2008. On 1 June 2009, we were operational, exactly according to schedule. Since that date, the invoices we send our customers have featured the FrieslandCampina logo. The Customer Service staff, external consultants and IT staff bent over backwards to meet the

One Face to the Customer, at high speed

deadlines. On top of that, it was business as usual. When the project was completed, the summer season started, which meant that it was a few more months until staffing was back to normal. It was tough for everybody, but together we accomplished a mission impossible. I think that's just great."

The number of sales outlet were considerably increased in 2009, resulting from collaboration with villagers, so that consumers can also buy Peak products in places where there are no shops.

Indonesia

After disappointing results in 2008, FrieslandCampina Indonesia had a strong year. The Frisian Flag brand is dairy product market leader. The company's market share rose slightly, in particular as a result of increasing sales of sterilised milk and UHT milk. The development of the baby and infant foods segment experienced some stagnation due to the decline in disposable income of many consumers in Indonesia.

Vietnam

FrieslandCampina once again succeeded in improving its market share, revenue and financial result in Vietnam. Almost all product groups contributed to this. In the growth experienced by FrieslandCampina in Vietnam, the improvement of distribution was one of the key success factors. Baby and infant food powders Friso and Dutch Lady 123 posted excellent results while the Yomost and Fristi milk-based drinks, which target young people, also performed well. However, the UHT milk market share was under pressure as a consequence of increasing competition. In November 2009, Dutch Lady UHT milk, a product with Vivinal GOS, was recalled after reports of allergic reactions in a number of users. Extensive research has shown no direct relation between the product and the complaints. The confidence of Vietnamese consumers in Dutch Lady products seems to be recovering at a very fast pace.

Thailand

FrieslandCampina had a good year in Thailand. Revenue grew as a result of both an increase in volumes and selling prices. Thailand has a system of selling prices that is, in part, government-regulated. A successful comeback was made under the Foremost brand with a milk-based drink for children. Long-life milk also performed well. Foremost OMEG is a new milk-based drink with added omega fatty acids. Betagen, the joint venture, recorded sound results in 2009. The company specialises in the production and sale of probiotic milk-based drinks, which are currently also sold in Vietnam.

Malaysia, Singapore, China, Hong Kong

In Malaysia, FrieslandCampina had a tough year. Due to the economic crisis and the damaged consumer confidence in dairy products as a consequence of the melamine crisis in China in 2008, consumption of all types of dairy products was under pressure. However, due to temporary price decreases, volumes could be maintained. In Hong Kong and Singapore, turnover and market share of Friso baby and infant foods grew. In Hong Kong, turnover of Black & White condensed milk also increased slightly. In Shanghai, China, a new sales office was opened in 2009, which sells baby and infant food products under the Friso brand, the products being imported from the Netherlands. After the melamine crisis, interest in reliable dairy products from Western Europe is significant.

The Middle East

FrieslandCampina has its own sales and production facility in Jeddah, Saudi Arabia. Dairy products are exported to other countries in the Middle East from that facility and from the Netherlands. Rainbow evaporated milk, which is mainly used in tea, is the main product. Due to the general economic conditions and problems with local distributors, the company's market share was under pressure. Organisational improvements have been implemented.

Export

FrieslandCampina Export, which sells dairy products around the world from the Netherlands, had a tough year in 2009. Turnover was lower than expected, due to the economic conditions, the disappointing trends in purchasing power in emerging economies, the strong euro, the low prices of dairy products and the fierce worldwide competition.

Cheese & Butter

The Cheese & Butter business group consists of operating companies FrieslandCampina Cheese Specialties, FrieslandCampina Cheese and FrieslandCampina Butter.

FrieslandCampina Cheese Specialties sells and markets such branded cheeses as Milner and Slankie, and cheese made of milk from the Dutch Province of Noord-Holland on the basis of authentic recipes and traditional maturing (with an EU-protected designation of origin). In addition, Dutch cheese is sold in international markets on all continents under such brands as Frico, Kroon, Hollandia and Castillo. The operating company also comprises the specialty product Valess, a dairy-based alternative to meat.

FrieslandCampina Cheese sells cheese to wholesalers, supermarkets and the food industry. The operating company comprises all of FrieslandCampina's cheese production, ripening and packaging facilities, which produce and pack a wide range of naturally ripened and foil cheeses, with Gouda, Edam and Maasdam being its key kinds of cheese.

FrieslandCampina Butter produces butter in many varieties for the consumer market under the Campina Botergoud brand. FrieslandCampina manufactures specialties for professional customers in the bakery sector and the food industry under the NedGold and Campina brands.

Revenue and operating loss

Revenue generated by Cheese & Butter amounted to 2,099 million euros, a 450 million euro decline (18 percent) compared with 2008 (2,549 million euros). Due to the decreased demand for cheese and lower selling prices, revenue was under pressure. Operating profit before non-recurring expenses increased by 6 million euros. The sound performance achieved with brand products, as well as cost control, contributed to this. Non-recurring expenses relate to 26 million euro provisions for the restructuring of announced shut-downs in the Netherlands and Belgium in 2010 and 2011. Operating loss increased by 21 million euros (27 percent) to -98 million euros (2008: -77 million euros). Operating loss as a percentage of revenue increased to -4.5 percent (2008: -2.8 percent).

Hong Kong Tea Masters choose Black & White

Catherine Yip, Foodservice Marketing and Sales Director, FrieslandCampina Hong Kong

"Black & White full-cream condensed milk has been a household name in Hong Kong for 60 years. We meticulously worked on our market leadership, resulting in a market share of 42 percent. Our products are for sale in almost all tea shops in Hong Kong. Black & White is produced in Leeuwarden, the Netherlands. We are the only European brand in this market. There's competition from Asia. It is our challenge to maintain this market position, show growth and protect our brand. We are also gradually reinforcing our position in the Chinese market outside Hong Kong. A lot of work is to be done there, from determining the best way to enter the market to teaching consumers to drink traditional Hong Kong-style tea."

Cheese

In 2009, demand for cheese decreased due to the deteriorated economic conditions. Germany, Spain, the United Kingdom, Japan and Korea were particularly hit, sales decreased in some countries even by 5 percent or more. Depressed by these decreasing consumption levels, the prices of basic cheese came under pressure. In addition, further sales losses were experienced as a number of large customers curtailed their businesses as a result of the merger, to reduce their dependence. In the first part of the year under review, cheese prices were lowered, whereas better prices could be made in the second part of the year. The latter was possible because the offer of farm milk dropped under the influence of the season and the EU decided to intervene by purchasing skimmed powder and butter. As could be expected, prices of foil cheese responded earlier and stronger to the changed market conditions. In early 2009, foil cheese prices decreased stronger, as well as increasing stronger in the second part of 2009 than other kinds of cheese, such as natural cheese. FrieslandCampina responded to those market trends by adjusting cheese production downwards and shifting part of the milk flows to skimmed milk powder and butter.

Cheese Specialties

The market of value-added cheese also experienced the negative market effects. Due to the lower purchasing power, demand for cheaper products increased or consumers could no longer afford the luxury of cheese. The expensive euro depressed demand for cheese even further. However, it is promising that the FrieslandCampina brands managed to maintain or even improve their market positions. Brands such as Milner, a low-fat cheese with a refined flavour, regional specialties such as cheese from the Dutch Province of Noord-Holland, and Valess, a dairy-based alternative to meat, performed well.

Hans Nijborg, Market Group Manager, FrieslandCampina Cheese Specialties, Central and Eastern Europe

"Last year's economic crisis caused our volume in the Russian market to decline. On top of that we were faced with new legislation, compelling us to amend all our certificates and labels, and it will be clear that we are not looking back on the easiest year. Fortunately, 2010 has started out okay; the market is strengthening. Russians love cheese. Coffee with cheese is a delicacy. Foreign cuisine is becoming

Seducing critical Russian consumers with freshness and quality

more and more common, and all those pizzas and lasagnes naturally come with cheese. Russian consumers have a very critical attitude and do not buy on impulse. We seduce them with the freshness and quality of Frico, our A brand, that we managed to position firmly. FrieslandCampina represents approximately half of the annual import of Dutch cheese in Russia."

Butter

Intervention by the EU prevented surpluses from arising in the butter market. A substantial excess supply at the beginning of the year, with the accompanying price decreases, were turned into a serious shortage, with the subsequent price increases following suit, at the end of the year. 2009 was another turbulent year for the butter market. In addition to the developments in the industrial market, FrieslandCampina also took action in the market for consumer products. In the autumn, the Campina Botergoud range was fully renewed and expanded by a variety of herb butter and a blend of butter and vegetable fats. With these new products, FrieslandCampina Butter can offer a complete range of consumer products.

Ingredients

The Ingredients business group produces dairy ingredients for industrial producers in the food, infant food, pharmaceutical and animal feed industries. The business group has significant experience in milk components and their application in foodstuffs, infant foods and ingredients for medicines. Key products are nutritional and functional ingredients, basic powders for infant foods, total infant food formulas, encapsulated products, milk proteins, pharma lactose and cream liqueurs.

The Ingredients business group consists of the operating companies FrieslandCampina Domo (high-quality milk and whey ingredients for use in infant foods, medical food and cell food), FrieslandCampina Kievit (spray-dried composite ingredients for the food industry) and FrieslandCampina Dairy Feed (young animal feed). The business group furthermore comprises business unit FrieslandCampina Creamy Creation (cream liqueurs and non-alcoholic beverages) and joint venture DMV Fonterra Excipients, which specialises in the production and sale of excipients

(binding material in pills) for the pharmaceutical industry. FrieslandCampina DMV (milk and whey proteins, lactose, milk powder and milk powder substitutes for the food industry) also processes the milk that cannot be sold within FrieslandCampina for marketing purposes into milk powders and caseinates. When assessing the figures of the Ingredients business group, this specific role has to be considered.

Revenue generated by Ingredients amounted to 1,149 million euros, a 223 million euro decline (16 percent) compared with 2008 (1,372 million euros). Its 2008 operating profit of 71 million euros decreased with 91 million resulting in an operating loss of -20 million euros. Operating profit as a percentage of revenue decreased to -1.3 percent (2008: 4.0 percent). The decreases in revenue and operating profit were caused, in particular, by the lower selling prices of the standard products marketed by FrieslandCampina DMV, such as milk powder and caseins, with higher volumes being produced due to more milk being processed into these products. Operating profit was adversely affected by the lower valuation of the inventories due to lower selling prices and lower prices of raw materials and milk. Selling prices dropped due to the decreased milk powder demand around the globe. Industrial specialties, the activities carried out by the business group excluding FrieslandCampina DMV, achieved growth as expected, as well as a profit, although at a slightly lower level than in 2008. The activities in Argentina were terminated.

FrieslandCampina Domo's volume in the infant foods segment grew. Together with current and new customers, the basis for further growth in this strategically important segment was reinforced. A key role was played in this by Domo's product range (broadened as a result of the merger) that can be offered to those customers. In China and Mexico, in particular, the market position improved. Production in Australia of such ingredients as galacto-oligosaccharides (GOS), in joint venture Great Ocean Ingredients, was started in 2009. As a result, a second production facility is available, in addition to the production activities in Borculo, the Netherlands. This is important to customers from the perspective of security of supply

and risk spreading, in view of a possible outbreak of animal diseases. In Bedum, the Netherlands, production capacity for demineralised whey powder, an important ingredient for infant foods, is being further expanded. Due to the financial and economic crisis, the financial result of the medical food and cell food (hydrolysates) activities was under pressure in the United States.

FrieslandCampina Kievit specialises in the production of spray-dried and encapsulated functional ingredients for the beverages, baby food, food and bakery sectors. By combining the similar activities carried out by Satro (Germany) and DMV Foodsystems in Kievit, customers in the food industry can be offered an even more interesting range. Co-innovation, together with customers, will remain a key specialism of Kievit. Despite a minor decline in volumes and turnover due to reluctance on the part of a number of key customers, Kievit managed to stabilise its financial result. Volumes and turnover in Europe and the Middle East were under pressure, which could, in part, be offset by higher volumes and turnover in Asia, where new customers were attracted, and stepped-up production in the production facility in Indonesia.

FrieslandCampina DMV processes milk into milk powders and caseinates, among other products. Due to lagging demand on the global market as a consequence of the poor economic conditions, selling prices of these products dropped over 40 percent to particularly low levels. During the first eight months of 2009, in particular, prices were low, whereas the quantity of milk supplied was high. During the last months of 2009, prices had improved slightly. The higher volumes processed at low selling prices led to disappointing yields.

FrieslandCampina Creamy Creation succeeded in maintaining its market positions and keeping margins at acceptable levels. Due to the challenging economic market conditions, interest in cream liqueurs was slightly under pressure in the United States. However, thanks to innovative new concepts and new types of packaging, for instance cream liqueur in sachets for the African market, Creamy Creation managed to offset these effects.

The best possible production network for butter

Dennis Vinken, Operations Project Manager, FrieslandCampina Butter

"By combining or outsourcing the production of our butter and butter ghee products, we succeeded in achieving considerable cost savings in 2009. In the summer, the production of small packs was concentrated in our butter plant in Den Bosch, the Netherlands. Large volumes of small packs were already produced there. Despite the tight deadline, our customers were not to suffer from the relocation of the activities, and they didn't. I'm proud of the fact that we completed this large-scale project within such a short time and without any problems worth mentioning. We shut down 7 of our 35 production lines, thus saving 800,000 euros. That's a lot of money for the FrieslandCampina Butter operating company!"

DMV Fonterra Excipients developed in line with market trends, both in terms of volumes and financial result, although selling prices were substantially lower than during the previous year. In late December 2009, it was announced that DMV Fonterra Excipients would take over Domo's pharma lactose activities effective March 2010. This will create a stronger organisation that will be able to capitalise on the demand for innovative products in the pharmaceutical industry in a more decisive manner.

FrieslandCampina Dairy Feed's activities developed as expected, with the calf milk powder market being under pressure. Some compensation was provided by the piglet feed markets, due to new product introductions, among other things. In Thailand, programmes were developed to guide local dairy farmers supplying milk to FrieslandCampina Thailand and to provide them with better animal feed.

Research and development

The Research and Development activities focus not only on the development of consumer products and ingredients, but also on process innovation. This always involves the creation of added value. In this respect, FrieslandCampina actively seeks to collaborate with knowledge institutions and companies. The company aims to improve its distinctive power on the basis of innovation. In so doing, it focuses mainly on the larger growth segments and growth markets. Following the merger, choices were again made in respect of the R&D platforms and research themes, which were fleshed out in further detail in close consultation with the business groups. In 2009, the sum of 55 million euros was spent on research and development. Expectations for 2010 are that research and development costs will increase slightly.

By nature, milk is one of the richest natural sources of food. Dairy products provide proteins, fats, vitamins, minerals and lactose - building materials and fuels that are important to people. Health, well-being and sustainability indicate the direction for the development

Janneke Dijksterhuis, Ingredients Sales Manager, FrieslandCampina Domo

"Domo and DMV were active with ingredients in the same markets. After the merger, their portfolios were put together, and products, markets and customers were reallocated. FrieslandCampina Domo currently fully focuses on basic powders and end-formulas for infant foods, and on ingredients for medical food, cell food and sports nutrition. The DMV products and customers were added. This makes us extremely strong. We have more to offer and are able to

Domo and DMV divide markets, products

meet a customer's comprehensive needs more often than before. Management properly involved everybody in the approach. Because of the new division, many customers were assigned new account managers. As we let the account managers personally introduce their successors, the transition went very smoothly. We can build on this now. By combining knowledge, we can present ourselves even better as experts and continue to develop products together with customers and reinforce our relationship."

of dairy products. The quality and flavour of these products must be tailored to consumer preferences. The development of knowledge in this area forms an integral part of the development programme. The current knowledge about milk and processes forms a strong basis for the further expansion of brands and markets.

Health is and will be the key theme for the development of dairy products. In all this, FrieslandCampina will concentrate on the theme of 'healthy weight', by developing dairy products that contribute to 'good and healthy' food. Obesity will continue to demand attention in the coming decades, also from food producers which, from the social perspective, want to contribute to consumers' health. The development of innovative ingredients for baby and infant food is a key area for attention, for instance hypoallergenic hydrolysates for babies to fight cow's milk protein allergies, and easily digestible food. In view of the many positive properties of dairy products, FrieslandCampina can contribute to a healthy life for consumers.

FrieslandCampina and its staff

In terms of Human Resources an extensive programme of themes was developed and implemented as part of the integration. It was remarkable how fast employees of the two now merged partners started working together as a team throughout the company.

The filling of the 70 most senior positions in late 2008 was the first key step in building a single organisation, followed by the appointments of the second management layer, comprising 250 positions. Prior to appointing the senior managers, the positions were evaluated and documented. The entire process of deciding on the terms and conditions of employment and the appointments was completed in September 2009.

The harmonisation of terms and conditions of employment formed an important part of the integration. Key issues in the harmonisation of salaries, benefits together with terms and conditions and of the other staff schemes were market-orientation, attractiveness and transparency.

Human Resources took a fresh look at assessment, development and career planning. The new approach is based on setting and evaluating, where possible, measurable performance goals. Not only is an employee's professional and technical performance considered, but also his or her attitude, conduct and personal development. Career planning is also addressed. The new performance management system will be implemented in 2010.

FrieslandCampina renewed its take on talent management, in view of filling more senior management posts in the future. To be able to recruit talented people, FrieslandCampina wants to be one of the most attractive employers. Terms and conditions are based on an international framework but may vary by country. A key principle underlying terms and conditions of employment is that they contribute to maximum employee performance.

In 2009, a view was developed, in tandem with the Executive Board and top management, on the desirable way of working and collaborating at FrieslandCampina around the world. 'The Way We Work' describes the attitude and conduct required for a company to go from 'good' to 'great'. This will be made measurable at an individual level in the new assessment system.

The employee benefits expense amounted to 817 million euros in 2009. The average number of FTEs was 20,034 in 2009 (2008: 20,568). The decline by 534 FTEs was primarily due to the merger and the sale of Friesland Foods Fresh in Nijkerk, the Netherlands. The number of employees will go down further as a consequence of the announced restructuring of a number of production facilities.

Where employee representation is concerned, the Works Councils of the two now merged partners were dissolved in 2009. In their stead, new Works Councils were elected in all facilities of FrieslandCampina in the Netherlands, followed by the creation of a new central Works Council for the Netherlands. The composition of the European Works Council is now also revised.

The Way We Work

FrieslandCampina aspires to be the world's most professional, successful and attractive dairy company. This involves a way of working that allows employees to grow together. 'The Way We Work' was introduced at FrieslandCampina as a guiding principle in creating the right culture and atmosphere at work to realise ambitions. The envisaged way of working is based on three pillars, targeting all employees, in each country and at any level.

- 'Embrace challenge' - representing an attitude of daring and doing, clearing the way for the company to address things in an even more creative way and to generate more added value with milk
- 'Grow together' - indicating the importance of working together, helping each other and learning from each other. The merger from which FrieslandCampina ensued so recently only makes working together and sharing knowledge more important and valuable, allowing the company and its employees to reach their full potential.
- 'Feel accountable' - with results rather than duties occupying a central position from now on. Clear expectations about each party's responsibility in achieving results are part of this approach. But, more importantly, so is an attitude of assuming and bearing responsibility.

The three pillars of 'The Way We Work' contribute to the further development of a company that will be more than the sum of the two now merged partners. Eventually, the sustainable value FrieslandCampina wants to create for its member dairy farmers, society at large and the people constituting the company will benefit from this.

Outlook

With prices of dairy products peaking in 2007 and plunging in 2009, volatile selling prices of dairy products and, hence, milk prices for dairy farmers can be expected for 2010 and the foreseeable future. For 2010, we expect demand for dairy products to edge up slightly around the world, as a result of the slight economic recovery. Minor fluctuations in the supply and demand of milk powder, basic cheese and butter on the global market, in particular, will have substantial consequences for the proceeds of all product categories. Therefore, short-term and medium-term developments are very difficult to forecast. As a consequence no statement is being made on the expected result for 2010.

Responsibility statement

The Executive Board of Royal FrieslandCampina N.V. represents that the financial statements give a true and fair view of the assets, liabilities, financial position and profit of Royal FrieslandCampina N.V. and the businesses included in the consolidation; and that the Annual report gives a true and fair view of the situation at the balance sheet date, the affairs during the financial year of Royal FrieslandCampina N.V. and of the businesses affiliated with it, whose information has been included in its financial statements, and that the Annual report describes the material risks facing Royal FrieslandCampina N.V.

The Executive Board

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

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

P.J. (Piet) Hilarides
Chief Operating Officer

F. (Freek) Rijna
Chief Operating Officer

F.M.W. (Frans) Visser
Chief Operating Officer

Amersfoort, the Netherlands
5 March 2010

Corporate Social Responsibility

Corporate social responsibility and sustainability form an integral part of the operations of FrieslandCampina. FrieslandCampina undertakes various activities to create sustainable value. The company implements corporate social responsibility (CSR) in a practical and relevant way, without losing sight of economic return. FrieslandCampina attaches a great deal of value to sound relationships with consumers, customers, employees, business partners, civil-society organisations and the communities in which FrieslandCampina is active. Collaboration and consultations with these and other stakeholders are important instruments to realise the sustainability ambition.

CSR policy

In 2009, the first year following the merger, the sustainability themes and priorities relevant to FrieslandCampina were determined on the basis of an extensive review of all markets in which FrieslandCampina is active. FrieslandCampina's ideas of how to be a corporate citizen will be expanded further in 2010. Four principal themes were defined to form the context which the company's CSR policy is to be build upon, i.e.:

- food & health;
- environmental care;
- sustainable agriculture;
- healthy staff.

ISO 26000 is used as a framework for FrieslandCampina's CSR policy. In 2009, this international corporate social responsibility standard was adopted in virtually complete form. Expectations as to staff's conduct are laid down in the Staff Code of Conduct. FrieslandCampina consults with and works together with government agencies and non-governmental organisations (NGOs), and actively participates in initiatives such as the Stichting Ik Kies Bewust, Stichting Weidegang, the Round Table for Responsible Soy Association and the Sustainable Agricultural Initiative (SAI).

Health & food

By offering a wide range of foodstuffs, FrieslandCampina caters to the daily requirements and needs of customers and consumers in different cultures and with different nutritional needs and patterns. Sustainability criteria play an increasingly important role in developing trademarks and products, which may differ according to region or country. Key areas for attention are healthy products, fighting obesity, curbing malnutrition and hunger, food safety and quality control, and the quality of (drinking) water.
In many countries, FrieslandCampina offers consumers the possibility of choosing those products from a product range that best suit their needs. Choices are offered as to fat content or added vitamins and minerals. A number of countries pursue the policy of gradually reducing sugar content. FrieslandCampina was one of the initiators of the Ik Kies Bewust logo in the Netherlands and the Choices logo internationally (labelling on products containing less fat, salt and sugar) and is an active participant in the campaign today.

Clean water programme

In Nigeria and Ghana, wells are constantly dug for local communities, so as to provide them with good-quality drinking water. The pumps of the drinking-water wells partially run on solar energy. The proceeds from the water savings achieved by FrieslandCampina in Leeuwarden, the Netherlands, are fully spent on the digging of more drinking-water wells in Africa.

Environmental care

FrieslandCampina is in the process of actively improving energy efficiency and reducing air pollution and carbon emissions in its plants. In addition, FrieslandCampina is committed to reducing water pollution, optimising water waste and reducing packaging weights and sizes.

Within the context of the Dutch Dairy Association (NZO), FrieslandCampina made arrangements with the Minister of Housing, Spatial Planning and the Environment and with the Minister of Agriculture, Natural Resources and Food Quality. Those arrangements have been laid down in the Sustainability Agreement on Clean and Energy-Efficient Agricultural Sectors. In addition, FrieslandCampina has signed the Long-Term Agreement on the Improvement of Industrial Energy Efficiencies for its plants. The object of this covenant is to effect an energy-efficiency improvement of at least 2 percent

Health & food

Environmental care

Sustainable agriculture

Healthy staff

annually. In Belgium, FrieslandCampina is also party to energy-saving covenants, such as the Benchmarking Covenant and the Audit Covenant. All Dutch facilities drew up energy-savings plans in 2009 and submitted them to the government. In the plans, the energy-saving measures for the next four years were laid down.

ISO 14001 and OHSAS 18001

FrieslandCampina's policy is to implement the safety and environmental policies for staff systematically. All facilities in the Netherlands, Belgium and Germany have introduced an environmental care system that satisfies the requirements of ISO 14001 and OHSAS 18001. FrieslandCampina's standardised environmental management programme rolled out globally. The intention is to bring all FrieslandCampina facilities in Russia, the United States and the South-East Asia up to ISO 14001 level. Production plants have been ISO 14001 certified in Vietnam, Malaysia and Indonesia. Where staff safety is concerned, many facilities now apply the systematic approach provided by OHSAS 18001. The proper recording and reporting of environmental data and data on safety at work forms part of the environmental and safety management system. In 2009, a standardised system was developed and in 2010, all production facilities will report using this system.

FrieslandCampina's covenants and types of collaboration

FrieslandCampina makes long-term arrangements on the basis of covenants to effect improvements in the environmental field. The government monitors whether the arrangements laid down in the covenants are adhered to. In the Netherlands, FrieslandCampina is party to the Covenant on Integral Environmental Duties and the Long-Term Agreement on Energy Efficiencies, under which new environmental and energy objectives are formulated every four years. The objectives are fleshed out for each facility in what is referred to as a Business Energy and Environmental Plan, and are reviewed annually. The permit-issuing government agency assesses the Plan and monitors its implementation.

Water usage

Apart from saving energy, saving water is an important theme for FrieslandCampina. Various facilities are in the process of reducing water usage and of reusing water. New technologies have been developed in collaboration with drinking-water suppliers to facilitate reuse. In the plant in Gerkesklooster, the Netherlands, an innovative approach has resulted in a new water-saving technology for the dairy processing industry in 2009.

Sustainable agriculture
As a business and as part of the dairy chain, FrieslandCampina feels co-responsible for reducing the environmental impact throughout the chain. In the longer run, the Dutch dairy industry wants to operate in an energy-neutral way as a whole. This means that the entire chain, from dairy farm to dairy products plant, should be able to meet its own energy needs in the longer run, by generating energy from biomass and using wind and solar energy. In 2009, plans were made to construct fermentors, in tandem with the Dutch Agricultural and Horticultural Organisation (LTO) and member dairy farmers. Consultations were held with the government, so that the plans could be effected. On 9 September 2009, Dutch Sustainability Day, a plan was launched for a special energy liaison office that member dairy farmers can contact with questions about renewable energy generation. It was also announced that FrieslandCampina is willing to purchase the 'green' certificates of its member dairy farmers, so as to meet its own need for renewable energy.

Cows at pasture
Cows at pasture are a socially relevant topic. FrieslandCampina supports its member dairy farmers in making a well-considered choice for cows at pasture, thus promoting the visibility of cows in the Dutch and German landscape. All of FrieslandCampina's dairy farmers opting for cows at pasture (120 days a year for at least 6 hours a day) have signed a statement that they have cows at pasture in this way. Qlip, an independent and acknowledged auditing body, uses a checklist to check how the dairy farmers apply the principle of cows at pasture. In its audit, it considers the business features needed to have cows at pasture (based on business system, feed supply during the year, drinking troughs in the pasture, walking pasture paths, etc.). Effective 1 January 2010, the concept of cows at pasture forms an optional part of Foqus, FrieslandCampina's quality assurance system.

successfully takes natural production as angle

Alexandra Ferrari, Marketing, Landliebe, FrieslandCampina Germany

"When we repositioned Landliebe, we took the enjoyment of naturally produced dairy products as our angle, based on a story of feeding cows with home-grown crops and the guarantee that our milk is GMO-free. The large-scale campaign that was kicked off in early 2009 also featured the traditional workmanship of farmers. All this resulted in growth for Landliebe, despite fierce competition in the German market and a higher selling price based on the additional added value. The volume of the Landliebe brand grew over 10 percent and that of fresh milk 15 percent. For us as marketeers, this project was a unique experience, mainly because of the collaboration with farmers. It is great to see how proud they are of Landliebe. They were even the main characters in the commercials. This success has boosted our energy levels, with which we can expand the concept to the other product groups."

Socially responsible soy

Soy forms a small part of cow feed. FrieslandCampina has adopted active policies to contribute to socially responsible soy production and making the soy chain sustainable. FrieslandCampina is a member of the international initiative referred to as the Round Table for Responsible Soy Association (RTRS). FrieslandCampina works together with the World Wildlife Fund, Solidaridad and Stichting Natuur & Milieu to make soy production sustainable in countries such as India and Brazil. Together with Solidaridad, it is setting up a programme teaching the local farmers to grow soy in a sustainable way, which means no excess use of pesticides and herbicides, no soil depletion, a fair price and no destruction of valuable nature, thus supporting small family businesses in India and southern Brazil in making their production sustainable under the SOYPSI programme (Soy Producer Support Initiative). FrieslandCampina has undertaken to purchase certificates for soy produced under SOYPSI in quantities that are compatible with the milk produced by its member dairy farmers and intended for FrieslandCampina's own brands in the Netherlands, Belgium and Germany. This is implemented through a book-and-claim system audited and assured by Solidaridad. Furthermore, in collaboration with the animal feed industry (united in Nevedi) and foodstuffs producers Vion, Van Beek Group and Storteboom Group, the Dutch Sustainable Soy Initiative (IDS) was started up. Under the Initiative, field pilots are supported, helping the local farmers satisfy the RTRS criteria. Together with other IDS partners, South American soy that does not originate from deforested areas is purchased. The quantities in question will continue to increase over the next few years.

Improved Friso Gold infant foods in Vietnam

Dr Nguygen Tri Hung, Nutritional Operations Manager, FrieslandCampina Vietnam

"We never cease to improve our infant foods. 2009 was the first year in which we applied synbiotics in Friso Gold, our premium brand. This combination of ingredients demonstrably reduces the chance of internal diseases in children. We tested this extensively in cooperation with research institutes in Vietnam and the Netherlands. The launch of the renewed Friso Gold brand was a success. The TV commercials and advertisements showing good bacteria beating the bad ones worked very well. Three months after the launch, Friso Gold scored best on the themes of immunity and protection in measurements of the effects among consumers. Friso Gold's market share rose to 10 percent and its financial performance was well above target."

Healthy staff

FrieslandCampina wants to be a challenging employer that respects its staff and inspires them to give their best. Areas for attention are training, the remuneration system, performance-oriented management, safety at work and staff health. Safety at work takes pride of place in the plants' priority lists. All facilities assure safety at work using a management system as per OHSAS 18001.

2010

The corporate social responsibility policy will be fleshed out further in 2010. The elements of the four principal themes will be translated into concrete policies and activities. In mid-2010, FrieslandCampina's first sustainability report with results for 2009 and targets will be published.

Corporate governance

Corporate governance at FrieslandCampina involves the Member Council, the Board and the Cooperative Council of Zuivelcoöperatie FrieslandCampina U.A., as well as the General Meeting of Shareholders, the Supervisory Board and the Executive Board of Royal FrieslandCampina N.V. The cooperative is the sole shareholder of the company. The cooperative is an exempted statutory two-tier cooperative. The company is an exempted statutory two-tier company, but has opted to apply the two-tier regime voluntarily.

The cooperative's Member Council

The members of the cooperative are assigned by the Board to one of 21 geographical districts. The members of each district elect the Board for their district, known as the District Council and consisting of at least 10 persons. The cooperative's Member Council comprises 210 members from the 21 District Councils. At least one Member Council meeting is to be held each year, within six months of the end of the financial year.

The Board of the cooperative comprises nine members. The Board members are appointed by the Member Council upon the binding nomination of the Cooperative Council. The Cooperative Council comprises of the 21 chairs of the districts. A Board member can be suspended or removed at any time by the Member Council or be suspended by the Cooperative Council. The Board of the cooperative requires the approval of the Member Council for specific important decisions on operations, as well as for major decisions concerning the legal and capital structure of the company, and decisions concerning major investments, all of which are described in the Articles of Association. Approval is required, inter alia, for proposed amendments to the Articles of Association of the cooperative and of the company, and for the adoption of the financial statements of the company. The Cooperative Council will be consulted in the event of specific investments, disposals, mergers and acquisitions, and it will issue its advice to the Board on practical regulations and to the Member Council on intended acquisitions requiring the Member Council's approval. The Cooperative Council acts as oversight for the Board and makes binding nominations to fill vacancies on the Board.

The Board of the cooperative

The Board of the cooperative is responsible for the affairs of the cooperative, in particular protecting the interests of the members in the cooperative and in the business activities carried out by the company and its subsidiaries. The maximum term of office for a Board member is four consecutive financial years. A member of the Board who stands down at the end of his term of office can be immediately reappointed, for at most two more terms.

The company's General Meeting of Shareholders

The cooperative is the sole shareholder of the company, which gives the cooperative full control at the General Meeting of Shareholders of the company. The Board of the cooperative exercises its voting rights at the General Meeting of the company on behalf of the cooperative, in certain cases subject to formal approval by the Member Council. The company's financial statements are submitted for adoption to the company's General Meeting of Shareholders. A decision on the appropriation of profit is also taken at this meeting. The General Meeting of Shareholders of the company has the authority to approve certain decisions of the Executive Board as described in the Articles of Association. These concern important decisions on operations, as well as major decisions concerning the legal structure and the capital structure of the company (and the companies in which it holds shares) and decisions concerning major investments.

The company's Executive Board

The Executive Board is responsible for the policy and the operational affairs of the company. The Executive Board members are appointed for an indefinite period. Their employment terms and conditions are set by the Supervisory Board, including their remuneration.

The company's Supervisory Board

The Supervisory Board supervises the conduct of company affairs by the Executive Board and has the authority to approve certain decisions of the Executive Board described in the Articles of Association. The Supervisory Board has the powers as laid down in the provisions of Book 2 of the Dutch Civil Code regarding two-tier companies, such as the appointment of members of the Executive Board, the determination of the number of members of the Executive Board and the approval of a number of other statutory decisions by the Executive Board. In the performance of their duties, the members of the Supervisory Board must be led by the interests of the company and its related businesses. An agreement has been concluded with the Central Works Council concerning the composition of the Supervisory Board, the required profile for members of the Supervisory Board, the strengthened recommendation rights of the Central Works Council in the appointment of members of the Supervisory Board, and the way in which the Central Works Council will exercise these rights. Based on this agreement, the Supervisory Board is properly composed if two-thirds of its members are Board members of the cooperative (the internal members) and if one-third of its members are recruited from outside (the external members). The chosen composition reflects the member dominance of two-thirds of the total number of Supervisory Board members permitted by law for large cooperatives. This member dominance is carried through to company level. The external members of the Supervisory Board are selected and appointed based on the following criteria: social experience involving the practical aspects of being a supervisory director, insight into international business, general social background and specific affinity with social relations, human resources and organisation, and experience in the multinationals arena. One of the members of the Supervisory Board is a financial expert, meaning that he has gained relevant knowledge of, and experience in, finance and accounting with a major legal entity.

The members of the Supervisory Board are appointed for a term of four years. External members of the Supervisory Board stand down after 12 years. The term of office of a Supervisory Board member who is also a member of the cooperative's Board, always ends upon termination of this Board membership. The Supervisory Board has a Remuneration and Appointment Committee and an Audit Committee. The Remuneration and Appointment Committee consists of the Supervisory Board member with the social profile, the Chairman and the Vice-Chairman of the Supervisory Board. The Remuneration and Appointment Committee provides the input for decisions of the Supervisory Board on the selection and appointment of members of the Executive Board and the Supervisory Board. Furthermore, it provides the input for decisions on the remuneration policy, the remuneration of individual members of the Executive Board and the remuneration policy for senior management. The Audit Committee consists of the financial expert and another external member of the Board and two members of the Supervisory Board who are also Board members of the cooperative. The duties of the Audit Committee are preparatory in nature and concern the accuracy and completeness of the financial reporting, the internal accounting and control systems, risk management, regulatory compliance, and the appointment and procedures of the independent external auditor. Neither the Remuneration and Appointment Committee nor the Audit Committee has the authority to make decisions independently. Both committees report to the full Supervisory Board.

The Dutch Corporate Governance Code

On 10 December 2008, the Monitoring Committee finalised its proposal for a revised Corporate Governance Code. Key revisions pertained to risk management, the remuneration of directors, the responsibility of shareholders, diversity in the composition of the Supervisory Board and corporate social responsibility. The revised Corporate Governance Code has applied as of financial years beginning on or after 1 January 2009. In other words, FrieslandCampina's annual report for the 2009 financial year addresses compliance with the revised Corporate Governance Code.

Although neither the Corporate Governance Code nor the related Order in Council directly applies to the company, the company will actively apply the principles and best practice provisions of the Code and the Order in Council. This notwithstanding, the company has evaluated these principles and best practice provisions in relation to the cooperative nature of the business and the private character of the company. As a result, it has decided not to apply a number of them. Moreover, some other principles and best practice provisions are rendered inappropriate due to certain policy decisions that the company has made. For FrieslandCampina, the Member Council of the cooperative is the body to which an account is rendered each year on the structure of the company in broad terms and on its compliance with the Code, as well as on major changes relating to either aspect. FrieslandCampina has a code of conduct and whistle-blowing procedures. Obviously, FrieslandCampina will continue to devote attention to the principles and provisions of the Corporate Governance Code in the future as well.

Deviations from the Code ensuing from the special structure of the Company

Due to the special structure of FrieslandCampina and the resulting member dominance on the Supervisory Board, the Code's best practice provision that all Supervisory Board members, with the exception of not more than one person, will be independent cannot be complied with (best practice provision III.2.1). This best practice provision will only be applied to the external members of the Supervisory Board. It follows from the chosen control structure that final control is indirectly in the hands of the Member Council of the cooperative. The business activities are carried out by the company. Within this framework, the cooperative is involved in defining corporate strategy, including the related policy principles. The Member Council of the cooperative is to approve the adoption of the financial statements and the appropriation of profit of the company.

Deviations from the Code ensuing from the private character of the company

The private character of the company means that the remuneration of individual Executive Board members and other important provisions in their employment contracts are not published (best practice provision II.2). FrieslandCampina does not grant share options to its employees. Against this background, no rules have been drawn up regarding private investments in other companies by members of the Executive Board (best practice provision II.3) and the Supervisory Board (best practice provision III.2). FrieslandCampina has an Insider Trading Regulation in place with respect to the bonds issued by the company.

Deviations from the Code ensuing from policy decisions of the company

The members of the Executive Board of the company are appointed for an indefinite period. The influence of the cooperative on the members of the Executive Board in the exercise of their duties is intrinsic in the overlap of persons who are members of the Board of the cooperative, the General Meeting of Shareholders of the company and the internal members of the Supervisory Board. For this reason, as well as because of the possible upward pressure on remuneration, the best practice provision of appointing members of the Executive Board for a four-year term is not followed (best practice provision II.1.1). For practical reasons, FrieslandCampina has placed the duties that the Corporate Governance Code confers upon the Appointment Committee and the Remuneration Committee in the hands of a single committee: the Remuneration and Appointment Committee. The holding of seats on other supervisory boards and of other positions by members of the Supervisory Board and the Executive Board is decided on a case-by-case basis by the Supervisory Board according to their nature and the demands placed on the time of the member concerned. Each member of the Supervisory Board and the Executive Board must ensure that he devotes sufficient time and attention to the company to guarantee proper fulfilment of his duties as a Board member.

Risk management

Doing business means taking risks. The achievement of business objectives is contingent, in part, on external economic factors, the unpredictability of market developments, environmental impacts and human factors. The introduction of a more integrated approach to identifying the corporate objectives, the risks and uncertainties inherent therein, and their internal management and control, as well as securing the effectiveness of the internal control structure was continued in 2009.

Responsibility

The Executive Board bears the ultimate responsibility for managing the risks associated with the company's objectives and the reliability of the internal and external financial and other reports. FrieslandCampina bases its internal control structure on the principle that the management boards of the business groups and operating companies bear the primary responsibility for the day-to-day performance, compliance and monitoring of the systems that have been put in place to manage the key operational risks, to which the company is exposed, as best as possible.

Characteristics of internal risk management and control systems

In designing and evaluating the structure of our risk management and control systems, the international COSO framework is used as a frame of reference. This has been expanded in the FrieslandCampina Internal Control Framework, a joint, risk-based framework of internal controls. The company believes it is an ongoing process of identifying, analysing, validating, monitoring and evaluating significant risk areas and the controls put in place, and of communicating and reporting about such process.

FrieslandCampina also has the following standards, procedures, systems and organisational measures in place for controlling its business processes:

- principles for the code of conduct governing all employees of FrieslandCampina;
- whistle-blowing procedures;
- systems for operational and financial planning, such as setting budgets and other operational and financial targets;
- guidelines and procedures for the format and drafting of management reports and financial reporting;
- periodic review of the achievement of set targets based on pre-defined critical success factors for all operational and functional disciplines;
- guidelines and procedures for financing activities and controlling currency and interest rate risks;
- guidelines and procedures for business insurance;
- a system of internal management representations about compliance with guidelines, procedures and standards;
- guidelines for the continuity and reliability of electronic data processing;
- guidelines for the management of production processes and quality controls based on internationally recognised and certified methodologies and in line with the applicable laws and regulations in the countries in which FrieslandCampina operates;

- a quality assurance system for milk and raw materials;
- standards, procedures and guidelines for food safety;
- procedures for crisis management;
- a system of internal control and monitoring, including authorisation procedures and segregation of duties.

The complete set of the controls listed above ensures that reasonable assurance is obtained that strategic and operational objectives are achieved, that the company's (financial) reporting is reliable, and that relevant laws and rules are complied with.

In 2009, according to a programme set up in consultation with the Audit Committee of the Supervisory Board, the Corporate Internal Audit department performed independent audits, in order to check to what extent the risk management measures taken were effective. The information collected is used to improve the internal risk management and control systems. In addition, the department performed engagements on an ad-hoc basis. The ensuing findings and recommendations were confirmed with the responsible management and reported to the Executive Board and the Audit Committee of the Supervisory Board.

With however much care these systems and controls are designed, they do not provide absolute assurance that operational and financial corporate objectives will be achieved. Neither can all inaccuracies, errors or violations of laws and regulations be prevented using these systems.

Business planning and review

The company pursues a process of budgeting and internal recording using standard procedures and detailed guidelines. The Executive Board regularly consults with the management boards of the business groups and operating companies about the achievement of the strategic and operational objectives, in part further to the periodic financial and operational reports, and the annual budget cycle and risk analysis.

Business risks

What follows is a brief description of a number of significant business risks incurred by FrieslandCampina and the related specific controls.

Financial and economic crisis

The lasting crisis entails major adverse economic consequences around the world, such as for bank lending. This has already led and may further lead to adverse consequences for the economies in countries in which FrieslandCampina is active. The crisis may also entail consequences for FrieslandCampina's ability to fulfil the agreements concluded with lenders, to raise additional credit and to satisfy the conditions attaching to such credit. In other words, in the short, medium and long terms, the crisis could adversely affect FrieslandCampina's operating profit and financial position, as well as the value of its assets. To mitigate those adverse consequences, to the extent possible, FrieslandCampina applies diversification as to its lenders, and the Executive Board has taken measures in the fields of cost control and production efficiency for 2010.

In addition, the crisis may have consequences for the creditworthiness of customers. FrieslandCampina regularly reviews the creditworthiness of its customers. However, this does not provide an absolute guarantee that customers will always be able to satisfy their obligations. The failure by customers to fulfil their obligations or their late fulfilment of those obligations adversely affects FrieslandCampina's operating profit and financial position. FrieslandCampina's operations cover a large number of sectors and regions. This protects the company as a whole, as there are no customers that account for more than 5 percent of total turnover. On the other hand, certain customers can have a significant share in the operations of a single operating company. The loss of such a customer may considerably affect the operations, financial position and profit trends of the operating company in question. In addition, insurance for part of the receivables from customers has been taken out with a reputable insurance company.

Acquisition and disposals

To retain and expand its market position, it is important that FrieslandCampina successfully completes major projects, such as acquisitions, the conclusion of collaborative structures, joint ventures and major investments. These types of major projects give rise to risks, such as with adjusting and integrating the business activities, or differences in corporate culture. FrieslandCampina believes that its customers will benefit from the projects referred to. However, specific customers could look out for alternative suppliers, as a consequence of which the envisaged benefits of certain projects might not be achieved or might be achieved to a lesser extent. FrieslandCampina applies tried and tested methods to successfully carry out such processes.

Milk quota system

In June 2003, the EU Ministers for Agriculture reached a compromise in Luxembourg. The key arrangement is that milk quotas will be maintained through 2014/2015. The intervention price has since been lowered annually.

This is expected to result in an increase in the volume of and fluctuations in the quantities of milk offered by members. Should FrieslandCampina not be able to adjust its processing capacity or change the milk allocation, strong fluctuations in the quantities of milk offered by members may adversely affect the company's results. Any consequences of changes to the milk quota system constitute an important point to consider in strategic and operational planning.

Product and service variances

FrieslandCampina's business activities carry many risks that could lead to product and/or service level variances, for example production interruptions, product contamination, raw materials, products and supplies that do not meet the proper specifications and disruption of logistical services. FrieslandCampina anticipates these risks by using various quality assurance systems, including HACCP, ISO, HALAL and Foqus, its own quality assurance system for the production of farm milk, which tracks products throughout the production chain. The effectiveness of and compliance with the quality systems are assessed periodically on the basis of internal and external verification. In addition, FrieslandCampina pursues a policy of organising its liability insurance in such a way that it suits the operations. Operational policy also includes educating and training employees, using and updating crisis manuals, evaluating variances and taking measures to prevent variances. FrieslandCampina works with natural products. A large-scale or long-term outbreak of (contagious) animal disease, notably in cattle, could have an adverse effect on the production and sale of dairy products, i.e. on the financial performance of FrieslandCampina.

Price fluctuations and reduced security of supply

FrieslandCampina purchases and sells dairy products and vegetable, non-dairy-based products (such as fruit juices and ingredients) in various markets. For instance, FrieslandCampina sells cheese, butter, baby foods, milk powder and fresh and long-life dairy products traded on consumer markets in various countries. These products are subject to price fluctuations. FrieslandCampina also purchases products from third parties, such as unprocessed raw milk, dairy-related raw materials, milk powder, fruit concentrates, fruit preparations, sugar, cocoa, vegetable oil, energy, tin, ingredients and (raw materials for) packaging materials. FrieslandCampina's operating profit and financial position may be affected by price fluctuations due to changes in the supply and availability of those products (for instance due to weather conditions). Considerable price increases that cannot or that can only partially be passed on to customers, or a continuing shortage in the supply of certain products, may adversely affect FrieslandCampina's operating profit and financial position. To limit these risks, FrieslandCampina's strategy aims to increase the share of products with added value in total turnover and to minimise costs by operating as efficiently as possible. The risk of price fluctuations is also mitigated by concluding long-term contracts and entering into forward positions. In addition, security of supply is improved on the basis of acquiring preferred customer status, as a result of which FrieslandCampina has a preferential right to buy supplies in times of shortage.

Market changes

The dairy sector is subject to changes that happen in quick succession. Customers are tightening the conditions they set for the purchase of FrieslandCampina products. Consumers expect more and more of products and their uses. Consumer preferences are also changing. In addition, there are major differences among the countries in which FrieslandCampina is active. In its key sales markets, FrieslandCampina has to compete not only with a large number of smaller (local) producers, but also with large multinational companies. These companies, some of which are listed, have the financial resources to capitalise on specific trends, for instance, or to develop and market new products. If FrieslandCampina were not sufficiently able to anticipate market changes and to be innovative, such may adversely affect its competitive position and, hence, its operating profit and financial position. The approach to these changes and the regular review of the competitive position are priorities in the company's strategy, its innovation initiatives, organisational structure, annual planning and policy implementation.

Currency risks

As FrieslandCampina conducts operations in various countries around the world, as well as being active on the global market to purchase raw materials, a considerable portion of its assets, liabilities and results is sensitive to currency fluctuations. This may also put the company's competitive power under pressure. This means, among other things, that a change in the exchange rate of foreign currencies, such as the US dollar, the Indonesian rupiah and the Nigerian naira, against the euro may adversely affect FrieslandCampina's operating profit and financial position. FrieslandCampina's currency risk management aims to avoid undesirable fluctuations in operating profit due to those currency fluctuations. In hedging currency risks with respect to operational transactions, specific product and market conditions are taken into account. Some of the transaction risks are hedged. Additional information on financial risk control, including sensitivities, is contained in Note 33 to the consolidated financial statements.

Interest rate risks

FrieslandCampina may face the risk of interest rate fluctuations with respect to its non-current and current liabilities with variable interest rates. With respect to a portion of those liabilities (for instance subordinated bond loans and amounts owed to banks), FrieslandCampina entered into interest rate swaps, so that, on balance, it pays a fixed interest. Consequently, approximately only 4 percent of FrieslandCampina's net debt was sensitive to interest rate fluctuations at year-end 2009. Interest rate fluctuations may have a negative or positive effect on FrieslandCampina's operating profit and financial position.

Pension plan risks

The principal pension plans for Dutch FrieslandCampina employees are administered by a company pension fund and an insurance company. Under the pension plan administered by the insurance company, any return achieved by a separate investment fund holding the plan assets is shared. Interest rate trends, the global capital markets and other factors which are beyond FrieslandCampina's control may adversely affect the financial position (coverage ratio) of the pension fund and/or the separate investment fund, and could result in FrieslandCampina having to make additional payments. In the case of the company pension fund, such payments have been limited and capped in conformity with arrangements made with the fund. In the case of the plan administered by the insurance company, a minimal coverage ratio must be maintained. Due to the market developments referred to, the value of plan assets and the scope of the liabilities in accordance with IFRS (IAS 19) may also adversely affect FrieslandCampina's operating profit and financial position.

Political risks

FrieslandCampina occupies important market and brand positions in Asia, West Africa, Eastern and Central Europe and the Middle East, among other regions. Political or economic changes in these regions might have consequences for the market positions in these countries and could thus affect the financial performance and position of FrieslandCampina. Moreover, public statements and developments in the Netherlands or other Western European or other countries may adversely affect FrieslandCampina's operating profit and financial position, for instance due to a boycott of FrieslandCampina's products. Despite the fact that a number of countries in which FrieslandCampina operates experienced dramatic political and economic changes over the past few years, FrieslandCampina occupies a relatively stable position in the different regions. The company translates changes into adjustments to its product range, pricing, organisational measures and the embedding of its operations in the local environment. Risks are spread through the spreading of activities, both where products and geographical presence are concerned.

Personnel, organisation and culture

The capability to recruit and retain the right people, and to create a culture characterised by both entrepreneurial drive and a sense of responsibility is a key condition to achieving the objectives of FrieslandCampina. In 2009, organisational changes were announced and initiated. To support the process, programmes were started to promote the desirable entrepreneurial spirit and corporate culture.

The list of risks outlined above is not necessarily exhaustive and has not been prioritised. Risks that have not been recognised at present or are not considered material may subsequently have a significant adverse effect on FrieslandCampina's ability to achieve its operational objectives. The internal reporting systems, the budget cycle and the standards, procedures, systems and organisational measures of FrieslandCampina are geared, in part, to the timely identification of these risks.

Management statement

With due observance of the limitations that are inevitably inherent in any risk management and internal control system, our internal risk management and control systems provide reasonable assurance that our financial reports are free of material misstatement and that these systems were adequate and effective in 2009.

The phrase 'reasonable assurance' is taken to mean the level of assurance that would be provided by a director acting with due care under the given circumstances. The set of procedures involving the internal risk management and control systems, and the related findings, recommendations and measures have been discussed with the Audit Committee, the Supervisory Board and the independent external auditor.

Anja van der Wurff, Customer Service Manager

"At FrieslandCampina Kievit in Meppel, the Netherlands, we faced the post-merger task of amalgamating the teams of three different facilities into one streamlined organisation. It was the typical moment at which

Accelerated growth in a year of integration

competitors will strike, because they expect you to spend a lot of time getting the house in order for a while. We didn't want that to happen. We decided to surprise them and actively started attracting new customers. As 'Accelerate' project leader, it was my task to provide proper support to sales and customers, even though internally matters had not yet been sorted out. We are proud of what we have achieved. We have been able to add more new customers than expected and we hardly lost any customers in the contract renewals at the end of the year. And we are staying alert. New customers are important!"

Financial statements **2009**

Royal FrieslandCampina N.V.

Consolidated income statement [1]

in millions of euros, unless stated otherwise		2009	2009	2008	2008
Revenue	(3)		**8,160**		9,454
Other operating income	(4)		**27**		27
Operating income			**8,187**		9,481
Cost of raw materials, consumables and goods for resale	(5)	**- 5,089**		- 6,422	
Employee benefits expense	(6)	**- 817**		- 796	
Depreciation and amortisation	(12)(13)	**- 206**		- 219	
Other operating expenses	(7)	**- 1,817**		- 1,796	
Operating expenses			**- 7,929**		- 9,233
Operating profit			**258**		248
Share of profits of joint ventures and associates			**21**		6
Finance income and costs	(8)		**- 59**		- 104
Profit before tax			**220**		150
Income tax expense	(9)		**- 38**		- 15
Profit for the year			**182**		135
Profit attributable to:					
- providers of member bonds			**40**		29
- providers of perpetual notes			**9**		9
- shareholders of the company	(10)		**87**		71
- shareholders and other providers of capital of the company			**136**		109
- minority interests			**46**		26
			182		135
Profit attributable to shareholders of the company in euros	(11)				
Per share of EUR 100					
Earnings per share			**23.50**		19.17

Consolidated statement of comprehensive income

	2009			2008		
	Attributable to share holders of the company and other providers of capital	Minority interests	**Total**	Attributable to share holders of the company and other providers of capital	Minority interests	Total
Profit for the year	136	46	**182**	109	26	135
Effective portion of cash flow hedges	- 2		**- 2**	- 44		- 44
Tax on the above item				11		11
Change in value of cash flow hedges recognised through profit or loss				- 9		- 9
Tax on the above item				2		2
Tax on amounts paid on perpetual notes and member bonds	7		**7**	3		3
Currency translation differences	- 8	- 2	**- 10**	- 35	- 3	- 38
Gains and losses recognised in equity	133	44	**177**	37	23	60

1 See pages 76 to 105 for the notes

Consolidated balance sheet

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

		2009	2008
Assets			
Non-current assets			
Property, plant and equipment	(12)	**1,463**	1,471
Intangible assets	(13)	**910**	909
Deferred tax assets	(21)	**193**	113
Investments in joint ventures and associates	(14)	**90**	79
Pensions and other long-term employee benefits	(20)	**43**	20
Other financial assets	(15)	**55**	47
		2,754	2,639
Current assets			
Inventories	(16)	**817**	960
Trade and other receivables	(17)	**886**	1,031
Government grants		**6**	7
Income tax receivable		**11**	32
Derivative financial instruments	(32)	**3**	8
Receivable from affiliated companies		**17**	
Cash and cash equivalents	(18)	**272**	180
		2,012	2,218
Assets held for sale	(19)	**4**	73
Total assets		**4,770**	4,930
Equity and liabilities			
Equity			
Issued capital		**370**	370
Share premium		**110**	
Perpetual notes		**130**	130
Member bonds		**868**	799
Hedging reserve		**- 29**	- 27
Currency translation reserve		**- 59**	- 51
Retained earnings		**262**	174
Equity attributable to equity holders of the company and other providers of capital		**1,652**	1,395
Minority interests		**97**	85
Total equity		**1,749**	1,480
Non-current liabilities			
Pensions and other long-term employee benefits	(20)	**221**	178
Deferred tax liabilities	(21)	**27**	40
Provisions	(22)	**53**	11
Derivative financial instruments		**67**	48
Zuivelcoöperatie FrieslandCampina U.A. borrowing	(23)	**290**	400
Non-current interest-bearing borrowings	(24)	**525**	560
Other long-term debts	(25)	**93**	
		1,276	1,237
Current liabilities			
Current borrowings	(26)	**309**	684
Trade and other payables	(27)	**1,349**	1,413
Income tax payable		**49**	38
Provisions	(22)	**26**	10
Derivative financial instruments	(32)	**4**	11
Payable to affiliated companies	(28)	**8**	30
		1,745	2,186
Liabilities held for sale	(19)		27
Total equity and liabilities		**4,770**	4,930

Consolidated cash flow statement

in millions of euros, unless stated otherwise		2009		2008	
Cash flows from operating activities					
Profit before tax			220		150
Adjustments for:					
Interest expense		59		72	
Depreciation and amortisation		206		219	
Impairment of property, plant and equipment, intangible assets and assets held for sale		27		10	
Movements in joint ventures and associates		- 14			
Put option costs [1]		11		34	
Movements in the measurement of securities [1]		- 4		2	
Movements in inventories		141		122	
Movements in receivables		163		73	
Movements in liabilities		26		- 114	
Movements in pensions and other long-term employee benefits		19		- 22	
Movements in provisions		58		- 33	
			692		363
Cash flows from operating activities			912		513
Income tax paid			- 97		- 85
Interest paid			- 58		- 77
Net cash flows from operating activities			757		351
Cash flows used in investing activities					
Investment in property, plant, equipment and intangible assets		- 231		- 240	
Disposals of property, plant and equipment, intangible assets and assets held for sale		11		33	
Acquisitions	(34)	- 15		- 7	
Disposals of business activities		39			
Net cash flows used in investing activities			- 196		- 214
Cash flows from financing activities					
Dividends paid to equity holders of the company				- 60	
Dividends paid to minority interests		- 30		- 18	
Amounts paid to providers of perpetual notes		- 9		- 9	
Amounts paid to providers of member bonds		- 34			
Amounts paid on conversion of depositary receipts for class B shares				- 157	
Repayment of Zuivelcoöperatie FrieslandCampina U.A. borrowing		- 110			
Share premium paid in on shares by Zuivelcoöperatie FrieslandCampina U.A.		110			
Non-current interest-bearing borrowings drawn		390		19	
Repayment of non-current interest-bearing borrowings		- 353		- 8	
Movements in current borrowings and derivative financial instruments [1]		- 429		124	
Net cash flows used in financing activities			- 465		- 109
Net cash flows			96		28
Cash and cash equivalents at 1 January			180		158
Net cash flows			96		28
Translation differences in cash and cash equivalents			- 4		- 6
Cash and cash equivalents at 31 December			272		180

1 In 2008, the put option costs and movements in the measurement of securities were reclassified from movements in current borrowings to cash flows from operation activities.

Consolidated statement of changes in equity

in millions of euros, unless stated otherwise

2009

	Issued capital	Share premium	Perpetual notes	Member bonds	Hedging reserve	Currency translation reserve	Retained earnings [1]	Equity [2]	Minority interests	**Total**
At 1 January	370	0	130	799	- 27	- 51	174	1,395	85	**1,480**
Effective portion of cash flow hedges					- 2			- 2		**- 2**
Tax on amounts paid on perpetual notes and member bonds							7	7		**7**
Currency translation differences						- 8		- 8	- 2	**- 10**
Gains and losses recognised directly in equity					- 2	- 8	7	- 3	- 2	**- 5**
Profit for the year			9	40			87	136	46	**182**
Total recognised gains and losses	0	0	9	40	- 2	- 8	94	133	44	**177**
Dividends paid to minority interests									- 30	**- 30**
Amounts paid to providers of perpetual notes			- 9					- 9		**- 9**
Amounts paid to providers of member bonds				- 34				- 34		**- 34**
Registered reserve for the year				31				31		**31**
Conversion of subordinated notes into member bonds				32				32		**32**
Capital contribution by Zuivelcoöperatie FrieslandCampina U.A.		110						110		**110**
Acquisition of shares from minority interest holders							- 6	- 6	- 2	**- 8**
At 31 December	370	110	130	868	- 29	- 59	262	1,652	97	**1,749**

1 Including the appropriation of profit of prior years and the undistributed profit for the current year.

2 Equity attributable to equity holders of the company and other providers of capital.

Consolidated statement of changes in equity

in millions of euros, unless stated otherwise

2008

	Issued capital	Share premium	Perpetual notes	Member bonds	Hedging reserve	Currency translation reserve	Retained earnings	Equity [1]	Minority interests	Total
At 1 January	40					- 12	471	499	80	579
At 1 January, share premium	516	19	130		13	- 4	428	1,102		1,102
Total at 1 January	556	19	130		13	- 16	899	1,601	80	1,681
Adjustment to pro forma result for 2007 [2]							- 41	- 41		- 41
Effective portion of cash-flow hedges					- 44			- 44		- 44
Tax on the above item					11			11		11
Change in value of cash-flow hedges recognised through profit or loss					- 9			- 9		- 9
Tax on the above item					2			2		2
Tax on amounts paid to providers of perpetual notes and member bonds							3	3		3
Currency translation differences						- 35		- 35	- 3	- 38
Gains and losses recognised directly in equity					- 40	- 35	3	- 72	- 3	- 75
Profit for the year [3]			9	12			88	109	26	135
Total recognised gains and losses			9	12	- 40	- 35	91	37	23	60
Dividends paid to equity holders of the company							- 60	- 60		- 60
Dividends paid to minority interests									- 18	- 18
Amounts paid to providers of perpetual notes			- 9					- 9		- 9
Registered reserve for the year				25				25		25
Member bonds issued from general reserve [4]				298			- 298	0		0
Member bonds issued from general reserve [5]				177			- 177	0		0
Conversion of depositary receipts for Class B shares for member bonds and cash [6]	- 186			287			- 258	- 157		- 157
Conversion of depositary receipts for Class B shares for member bonds and cash: share premium [6]		- 19					19	0		0
Shares acquired from minority interest holders							- 1	- 1		- 1
At 31 December	370	0	130	799	- 27	- 51	174	1,395	85	1,480

1 Equity attributable to equity holders of the company and other providers of capital

2 In 2008, the activities of the Zuivelcoöperatie FrieslandCampina U.A. were transferred to Royal FrieslandCampina N.V. For comparative purposes, these activities were transferred pro forma in 2007. The result on these activities in 2007 was adjusted at the beginning of 2008.

3 Retained earnings are the addition to the general reserve (EUR 71 million) and interest on the depositary receipts for Class B shares (EUR 17 million).

4 Member bonds issued from general reserve related to the member bonds issued to members of the former Friesland Foods. Bonds of EUR 6.00 were issued for each 105 kilograms of milk supplied in the quota-year 2007/2008.

5 The number of member bonds issued to Zuivelcoöperatie FrieslandCampina U.A. corresponds to the number of outstanding Zuivelcoöperatie FrieslandCampina U.A. membership certificates of former Campina members.

6 EUR 287 million of depositary receipts for Class B shares were converted into member bonds and EUR 157 million were redeemed in cash. The depositary receipts for Class B shares with a nominal value of EUR 46 were converted or redeemed at EUR 106 each.

Notes to the consolidated financial statements

General and basis of consolidation

Royal FrieslandCampina N.V. has its registered office in Amersfoort, the Netherlands. The consolidated financial statements for the year-ended 31 December 2009 comprise the financial statements of Royal Friesland-Campina N.V. and its subsidiaries (jointly referred to as FrieslandCampina). Zuivelcoöperatie FrieslandCampina U.A. is the sole shareholder
of Royal FrieslandCampina N.V. (the company).

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

After having been approved by the Supervisory Board, the consolidated financial statements for the year ended 31 December 2009 will be authorised for issue by the Executive Board on 17 March 2010. These financial statements are subject to approval by the members' council of Zuivelcoöperatie FrieslandCampina U.A. during its meeting to be held on 26 April 2010.

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

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

Accounting policies

General

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

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

Effect of new and amended IFRS standards

The accounting policies applied in 2009 are consistent with those of the previous financial year. Where applicable, changes and future changes in disclosures as a result of new and or amended standards and interpretations have been incorporated in the 2009 financial statements. The company has applied the following new or amended IFRS and IFRIC interpretations:

- IFRS 2 'Share-based payment - Vesting Conditions and Cancellations', applied from 1 January 2009
- IFRS 7 'Financial Instruments - Disclosures', applied from 1 January 2009
- IFRS 8 'Operating Segments', applied from 1 January 2009
- IAS 1 'Presentation of Financial Statements - A revised presentation', applied from 1 January 2009
- IAS 23 'Borrowing Costs' (revised), applied from 1 January 2009
- IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements - Puttable Financial Instruments and Obligations arising on Liquidation', applied from 1 January 2009
- IFRIC 9 and IAS 39 'Embedded Derivatives', applied for reporting periods ending on or after 30 June 2009
- IFRIC 13 'Customer Loyalty Programmes', applied from 1 July 2008
- IFRIC 16 'Hedges of a Net Investment in Foreign Operations', applied from 1 October 2008
- Annual improvements to IFRSs (May 2008)

Application of IAS 23 and IFRIC 13 does not have a material effect on the result. Application of IAS 1 and IFRS 8 has resulted in changes to disclosures as set out below. The other new or amended IFRSs and IFRIC interpretations do not affect the company.

IAS 23 'Borrowing Costs' (revised)

The revision of the standard requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Previously, FrieslandCampina's policy was to expense borrowing costs as incurred. In accordance with the transitional arrangements in the revised version of IAS 23, FrieslandCampina applies this standard prospectively and so borrowing costs on qualifying assets are being capitalised with effect from 1 January 2009.

IFRIC 13 'Customer Loyalty Programmes'

IFRIC 13 requires loyalty award credits (savings points) to be accounted for as a separate component of the sales transaction in which they are granted. Part of the fair value of the proceeds must be allocated to the award credits and revenue recognition has to be deferred. This portion is then recognised as revenue for the period in which award credits are redeemed. FrieslandCampina has limited customer loyalty programmes and until 2008 recognised a liability at the time of the sale based on the costs it expected to incur in the future. IFRIC 13 has no specific transitional arrangements. As the impact of IFRIC 13 is not material, the effect has been recognised in 2009.

IAS 1 'Presentation of Financial Statements'

The revised standard distinguishes between equity transactions with shareholders and other equity transactions. The statement of changes in equity only presents details of equity transactions with shareholders. The standard introduces a statement of comprehensive income. The company has decided to present comprehensive income in separate statements.

IFRS 8 'Operating Segments'

IFRS 8 replaces IAS 14 'Segment Reporting'. FrieslandCampina has concluded that its operating segments as determined under IFRS 8 are in accordance with the segments determined under IAS 14. Only the distinction between primary and secondary segmentation has been abandoned. The disclosures in Note 1 on segment information are in accordance with IFRS 8.

Future changes

The IASB regularly publishes new standards, revisions to existing standards and interpretations. These new standards, revisions to existing standards and interpretations then have to be endorsed by the European Union. The new standards, revisions to existing standards and interpretations published by the IASB will apply from 1 January 2010 or later. These new standards, revisions to existing standards and interpretations are not expected to have an impact on equity and the result.

- IFRS 2 'Group Cash-settled and Share-based Payment Transactions'
- IFRS 9 'Financial Instruments'
- IAS 39 'Financial Instruments: Recognition and measurement of exposures qualifying for hedge accounting'
- IFRIC 17 'Distributions of non-cash assets to owners'
- IFRIC 18 'Transfers of assets from customers'
- Annual improvements to IFRSs (April 2009)

The following revisions to existing standards will have an impact in the future:
IFRS 3 'Business Combinations' (revised) and IAS 27 'Consolidated and separate financial statements' (amended).

The revisions of IFRS 3 and IAS 27 apply to partial acquisitions and disposals that take place in financial years starting after 1 July 2009. IFRS 3 introduces changes in the treatment of acquisitions that affect the value of goodwill, the result for the period in which an acquisition takes place and future results. Under IAS 27, changes in ownership that do not result in loss of control are accounted for as equity transactions. The company will apply the revisions prospectively from 1 January 2010.

Judgements, estimates and assumptions

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

Foreign currency translation

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

Non-monetary items that are measured at historical cost in foreign currencies are translated at the exchange rates at the date of the initial transaction. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair value was determined.

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

Translation differences relating to foreign subsidiaries are recognised in the currency translation reserve in group equity. Upon the sale of a foreign subsidiary, the cumulative gain or loss previously recognised in equity for that subsidiary is recognised through profit or loss.

Segment information

The segments for which financial information is provided are defined based on profitability and risk profiles, with primary segment reporting by the Consumer Products Europe, Consumer Products International, Cheese & Butter and Ingredients business groups. FrieslandCampina charges sales between segments at arm's length basis. Secondary information is reported by geographical area based on the location of the assets. Segment assets and liabilities disclose the situation at year-end. Eliminations show inter-segment balances.

Revenue recognition

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

Revenue

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

FrieslandCampina has customer loyalty programmes in place in which customers can save points when they purchase certain products from the company. When a minimum number of points have been earned, they can then be redeemed 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 they are redeemed.

Government grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all related conditions will be complied with. Where 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. Where a grant relates to an asset, it is deducted from the carrying amount of the asset and is released to the income statement over the expected useful life of the relevant asset through the lower depreciation charge.

Cost of raw materials, consumables and goods for resale

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

Finance income and costs

Finance income comprises interest received on loans to, and other interest-bearing receivables from, third parties. Finance costs comprise interest paid on borrowings and other interest-bearing borrowings from third parties. Furthermore included are currency translation gains and losses on financial assets and liabilities, and value differences on derivative financial instruments, except for those relating to trade receivables and trade payables.

Dividends

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

Property, plant and equipment

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

Property, plant and equipment also include assets of which FrieslandCampina has acquired beneficial ownership under finance lease agreements. Leased assets are capitalised at the inception of the lease at the lower of fair value of the leased property and the present value of the minimum lease payments. Capitalised leased assets are depreciated over the estimated useful life of the asset or valued at the lower recoverable amount.

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

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

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

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

Intangible assets

Intangible assets are separately identifiable, non-financial assets that have no physical substance, e.g. goodwill and computer software.
Goodwill acquired in a business combination is capitalised. Goodwill represents the excess of the cost of an acquisition over the fair value of FrieslandCampina's share of the net identifiable assets and contingent liabilities of the acquired operations. Goodwill acquired in a business combination is allocated, from the acquisition date, to each cash-generating unit that is expected to benefit from the synergies of the combination.
Goodwill is not systematically amortised. Goodwill is reviewed for impairment annually. For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date to each of FrieslandCampina's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of FrieslandCampina are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

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

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

Where the recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment loss is recognised through profit or loss.
Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating

unit retained.
If shares are acquired from minority interest holders, the difference between the consideration and the carrying amount of the minority interest is recognised directly in equity.

The useful lives of intangible assets other than goodwill are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the asset may be impaired. The amortisation period and method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.
Computer software is recognised at cost less amortisation over the useful life of the asset, taking into account any impairment losses. The asset's residual value and useful life are reviewed and adjusted if appropriate at each financial year-end. An impairment loss is recognised where the recoverable amount of computer software is lower than the carrying amount.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and the expenditure is recognised through profit or loss in the year in which it is incurred.
Licences and intellectual property, including patents and trademarks, obtained from third parties are capitalised at cost.
Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when FrieslandCampina can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Any capitalised expenditure is amortised over the period of expected future sales from the related project. The carrying value of development costs is reviewed for impairment annually if the asset is not yet in use or if an indication of impairment arises during the year under review.

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

Income tax expense

Tax assets and liabilities for current and previous years are measured at the amount that is expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted at the balance sheet date. Deferred income tax is provided for using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.
Income tax relating to items recognised directly in equity is recognised directly in equity and not through profit or loss.
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied on the taxable entity by the same taxation authority.

Investments in joint ventures and associates

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

Other financial assets

Other financial assets are recognised at amortised cost, taking into account any allowance for uncollectible amounts deemed necessary. Securities are carried at fair value. In connection with this, listed securities are carried at the market value ruling at the balance sheet date. Unlisted securities whose value cannot be reliably determined are carried at the lower of cost and market value.

Inventories

Raw materials and consumables are valued at the lower of cost on a first-in, first-out basis, net of an allowance for obsolescence, and net recoverable amount if appropriate. Finished goods are stated at the lower of full absorption cost, net of an allowance for obsolescence where necessary, and net recoverable amount if appropriate. Full absorption cost comprises the cost of direct materials and other production costs based on normal operating capacity. Net recoverable amount is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. Inventories are stated net of unrealised gains on transactions between group companies.

Trade and other receivables

Trade and other receivables are carried at amortised cost less a provision for doubtful debts. Such a provision is formed if there is objective evidence that Friesland-Campina will not be able to collect the debts. Bad debts are written off when uncollectibility has been identified.

Cash and cash equivalents

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

Pensions and other long-term employee benefits

The pension plans are defined benefit and defined contribution plans. Obligations for contributions to defined contribution plans are recognised as an expense in the income statement when they fall due.
The pension obligations in respect of defined benefit plans are calculated annually on the basis of expected future developments in discount rates, salaries and life expectancy. The present value of the obligations is calculated actuarially using the projected unit credit method. The present value of the obligations less the fair value of the plan assets, allowing for unrecognised actuarial results and unrecognised past-service costs, is recognised as the pension obligation or as a pension asset in 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 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 profit or loss over the expected average remaining service period. This only applies if and to the extent that the actuarial gains or losses exceed 10% 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 gives 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, the portion of the changed benefits relating to past service is recognised straight-line in the income statement over the average period until the benefits become unconditional. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

The net obligation for other deferred employee remuneration is recognised in the same way as for defined benefit plans, except for the actuarial gains and losses which are recognised immediately in the income statement.
FrieslandCampina has insured certain pension obligations with industry-wide pension funds in the Netherlands. Although these plans have the characteristics of defined benefit plans, the funds have stated that they are unable to provide the information necessary for the calculations and so these plans are treated as defined contribution plans in the financial statements.

Provisions

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

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

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

Non-current interest-bearing borrowings

Non-current borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, non-current borrowings are subsequently measured at amortised cost using the effective interest method. In calculating amortised cost, allowance is made for all costs, premiums or discounts in relation to the issue of the borrowing.

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

Leases

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

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

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

Derecognised financial assets and liabilities

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

Derivative financial instruments

FrieslandCampina uses derivative financial instruments such as forward currency contracts, interest rate swaps and forward rate agreements (FRAs) to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are recognised at fair value in the balance sheet.
IFRS 7 uses a hierarchy of levels for fair value.
- Level 1: Fair value measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measured using inputs other than those in level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices).
- Level 3: Fair value measured using inputs that are not based on observable market data.

The fair value of the financial instruments recognised at fair value in the financial statements are classified as level 2 as in the above fair value hierarchy stated in IFRS 7.
Where appropriate, further information on the accounting policies for measuring the fair value are disclosed in the section of these notes relating specifically to the assets or liabilities concerned.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments or by calculating their present value based on current market information.

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

For fair value hedges that qualify for hedge accounting, any changes in the fair value of the derivative financial instrument are recognised through profit or loss. The carrying amount of the hedged item or hedged contractual obligation is adjusted for gains and losses attributable to the risk being hedged, and gains and losses are recognised through profit or loss. Any adjustment to the carrying amount of a hedged financial instrument stated at amortised cost for which the effective interest method is used is amortised through profit or loss.

For cash flow hedges that qualify for hedge accounting, the effective portion of the gain or loss on the derivative financial instrument is recognised directly in equity, while the ineffective portion is recognised through profit or loss.
Gains or losses from hedges of investments in foreign operations are recognised directly in equity.

Any accumulated amounts previously recognised in equity are subsequently reclassified into profit or loss in the same period during which the hedged future cash flows, forecast future transaction or contractual obligation affect profit or loss, such as when a forecast sale or purchase occurs. If, however, a hedged forecast future transaction should subsequently result in recognition in the balance sheet of a non-financial asset or liability, or an anticipated future transaction regarding a non-financial asset or liability should be reclassified as a contractual obligation subject to fair value hedge accounting, any amounts previously recognised in equity are added to the original cost or other carrying amount of the asset or liability or of the contractual obligation.

Derivative financial instruments that do not qualify for hedge accounting are classified as held for sale and any changes in their fair value are recognised directly in the income statement.

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

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

Cash flows

The cash flow 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 was prepared using the indirect method.

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

1 Segment information

Segmentation by business groups

2009	Consumer Products Europe	Consumer Products International	Cheese & Butter	Ingredients	Eliminations and unallocated	Total
Sales to external customers	2,852	1,889	2,099	1,149	171	**8,160**
Inter-segment sales	370	4	96	356	- 826	**0**
Total revenue	3,222	1,893	2,195	1,505	- 655	**8,160**
Other operating income	8	4	1	2	12	**27**
Total operating income	3,230	1,897	2,196	1,507	- 643	**8,187**
Operating profit	170	290	- 98	- 20	- 84	**258**
Share of profits of joint ventures and associates	3	5	3	2	8	**21**
Finance income and costs					- 59	**- 59**
Income tax expense					- 38	**- 38**
Profit for the year						**182**
Operating profit as a % of revenue	5.3	15.3	- 4.5	- 1.3		**3.2**
Carrying amounts of assets employed in operating activities [1]	1,856	490	853	919	10	**4,128**
Carrying amounts of other assets						**642**
						4,770
Liabilities resulting from operating activities [2]	664	310	341	249	156	**1,720**
Other liabilities						**1,301**
						3,021
Investment in property, plant, equipment and intangible assets	71	47	37	74	7	**236**
Depreciation and amortisation of property, plant, equipment and intangible assets	- 86	- 21	- 46	- 46	- 7	**- 206**
Impairment of property, plant, equipment, intangible assets and assets held for sale	- 16		- 10	- 1		**- 27**
Additions to and releases from provisions and non-cash expense pension costs	51	11	18	2	57	**139**
Investments in joint ventures and associates	4	56	12	8	10	**90**

The 'unallocated' item in the 'Eliminations and unallocated' category relates to Corporate Centre.

Segmentation by geographical location of assets

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

'Other' is mainly West Africa and the Middle East.

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

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

3 Please see page 86 for a breakdown of revenue by the customer's geographical location.

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

Segmentation by business group [4]

2008	Consumer Products Europe	Consumer Products International	Cheese & Butter	Ingredients	Eliminations and unallocated	Total
Sales to external customers	3,334	1,858	2,549	1,372	341	9,454
Inter-segment sales	602	6	217	421	- 1,246	0
Total revenue	3,936	1,864	2,766	1,793	- 905	9,454
Other operating income	7	5	1	3	11	27
Total operating income	3,943	1,869	2,767	1,796	- 894	9,481
Operating profit	204	131	- 77	71	- 81	248
Share of profits of joint ventures and associates	3	1	3	- 1		6
Finance income and costs					- 104	- 104
Income tax expense					- 15	- 15
Profit for the year						135
Operating profit as a % of revenue	5.2	7.0	- 2.8	4.0		2.6
Carrying amounts of assets employed in operating activities [1]	1,929	506	1,061	970	- 60	4,406
Carrying amounts of other assets						524
						4,930
Liabilities resulting from operating activities [2]	563	301	314	419	74	1,671
Other liabilities						1,779
						3,450
Investment in property, plant, equipment and intangible assets	93	43	41	51	14	242
Depreciation and amortisation of property, plant, equipment and intangible assets	- 90	- 21	- 48	- 48	- 12	- 219
Impairment of property, plant, equipment, intangible assets and assets held for sale	- 2			- 1	- 7	- 10
Additions to and release from provisions and non-cash expense pension costs	7	5	- 1	- 2	21	30
Investments in joint ventures and associates	6	53	13	6	1	79

The ‘unallocated’ item in the ‘Eliminations and unallocated’ category relates to Corporate Centre.

Segmentation by geographical location of assets

2008	The Netherlands	Germany	Rest of Europe	Asia	Other	Eliminations	Total
Sales to external customers [3]	5,041	1,229	1,572	1,081	531		9,454
Carrying amounts of assets employed in operating activities [1]	2,685	525	1,569	381	157	- 911	4,406
Investment in property, plant, equipment and intangible assets	143	23	29	36	11		242
Depreciation, amortisation and impairment of property, plant, equipment, intangible assets and assets held for sale	- 139	- 34	- 32	- 17	- 7		- 229

‘Other’ is mainly West Africa and the Middle East.

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

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

3 Please see page 86 for a breakdown of revenue by the customer’s geographical location.

4 The figures for segmentation by business group differ from those in the 2008 financial statements because of changes in allocation between the Consumer Products Europe and Consumer Products International business groups.

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

2 Exchange rates

Principal exchange rates [1]	2009 Year-end	2009 Average	2008 Year-end	2008 Average
US dollar	**1.43**	**1.39**	1.40	1.48
Pound sterling	**0.89**	**0.89**	0.96	0.79
Hungarian forint (100)	**2.71**	**2.81**	2.64	2.50
Hong Kong dollar	**11.10**	**10.81**	10.83	11.49
Indonesian rupiah (10,000)	**1.35**	**1.45**	1.54	1.42
Malaysian ringgit	**4.90**	**4.90**	4.83	4.90
Nigerian naira (100)	**2.14**	**2.08**	1.93	1.75
Romanian leu	**4.24**	**4.23**	4.02	3.68
Russian rouble (1,000)	**4.34**	**4.43**	4.27	3.66
Thai baht (100)	**0.48**	**0.48**	0.48	0.48
Vietnamese dong (10,000)	**2.65**	**2.49**	2.46	2.43

3 Revenue

Revenue by geographical sales market	2009	%	2008	%
The Netherlands	**2,248**	**28**	2,798	30
Germany	**1,206**	**15**	1,482	16
Rest of Europe	**2,209**	**27**	2,630	28
Asia and Australia	**1,425**	**17**	1,355	14
Africa and the Middle East	**840**	**10**	879	9
North and South America	**232**	**3**	310	3
	8,160	**100**	9,454	100

Differences between the breakdown of sales to external customers by geographical location of the assets as presented in note 1 and the breakdown in note 3 arise from the fact that note 3 is based on the area where the sales were generated.
Revenue includes EUR 40 million (2008: EUR 4 million) of government grants (temporary export grants were issued in 2009) relating principally to cheese, butter and milk powder exports, and to butter processing. The conditions for these grants have been met and the related obligations are fulfilled.

4 Other operating income

Other operating income includes proceeds from services provided to external customers, rental income and insurance compensation received and the sale of property, plant and equipment and business activities.
Business activities were sold during the year, generating a gain of EUR 3 million (2008: EUR 7 million). These transactions involved a net amount of EUR 25 million in assets and liabilities in 2009 (2008: no assets or liabilities).

5 Cost of raw materials, consumables and goods for resale

	2009	%	2008	%
Milk from member dairy farmers	**- 2,380**	**47**	- 3,149	49
Cost of other raw materials, consumables and goods for resale	**- 2,709**	**53**	- 3,273	51
	- 5,089	**100**	- 6,422	100

6 Employee benefits expense

	2009	%	2008	%
Wages and salaries [2]	**- 625**	**76**	- 629	79
Social security charges [2]	**- 105**	**13**	- 106	13
Pension costs	**- 87**	**11**	- 61	8
	- 817	**100**	- 796	100

Employees by business group (average number of FTEs) [3]	2009	%	2008	%
Consumer Products Europe	**8,455**	**43**	8,878	43
Consumer Products International	**5,855**	**29**	5,706	28
Cheese & Butter	**2,572**	**13**	2,603	13
Ingredients	**2,454**	**12**	2,337	11
Other	**698**	**3**	1,044	5
	20,034	**100**	20,568	100

1 EUR 1 expressed in the relevant currency.

2 In 2008 there was a reclassification of EUR 9 million between wages and salaries and social security charges

3 The figures for segmentation by business group differ from those in the 2008 financial statements because of changes in allocation between the Consumer Products Europe and Consumer Products International business groups

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

Employees by geographical segment (average number of FTEs)	2009		2008	
		%		%
The Netherlands	7,103	35	7,473	36
Germany	2,208	11	2,282	11
Rest of Europe	4,659	24	5,024	24
Asia	4,975	25	4,631	23
Other	1,089	5	1,158	6
	20,034	100	20,568	100

7 Other operating expenses

	2009	2008
Transport	- 397	- 369
Advertising and promotions	- 352	- 339
Work contracted out and temporary staff	- 245	- 274
Utilities	- 218	- 241
Maintenance and repairs	- 136	- 147
Other	- 469	- 426
	- 1,817	- 1,796

Other operating expenses include:
- research and development expense of EUR 55 million (2008: EUR 51 million);
- leasing charges that qualify as operating lease payments of EUR 16 million (2008: EUR 19 million);
- various government grants of EUR 7 million (2008: EUR 14 million). The conditions for these grants have been met and the related obligations fulfilled;
- impairment of property, plant and equipment and software of EUR 27 million (2008: EUR 10 million);
- the line item 'Other' includes EUR 89 million (2008: EUR 28 million) of non-recurring expenses in connection with restructuring and the merger.

- audit fees:	Total KPMG network	Total KPMG and Deloitte network
- audit of the financial statements	- 1.8	- 3.3
- other audit engagements	- 0.3	- 0.4
- tax consultancy	- 0.5	- 0.3
- other non-audit-related services	- 0.8	- 2.6
Total	- 3.4	- 6.6

8 Finance income and costs

	2009	2008
Interest income	8	6
Interest expense	- 59	- 72
Put option costs	- 11	- 34
Other	3	- 4
	- 59	- 104

Interest expense includes EUR 10 million (2008: EUR 9 million) resulting from financing by Zuivelcoöperatie FrieslandCampina U.A. to Royal FrieslandCampina N.V.

9 Income tax expense

	2009	2008
Breakdown of tax expense		
Current tax expense, current year	- 123	- 23
Deferred tax expense	85	8
	- 38	- 15
Breakdown of deferred tax expense		
Property, plant and equipment	- 2	- 5
Intangible assets	11	13
Employee benefits	15	- 4
Inventories, receivables, debts and provisions	- 4	- 5
Unused tax losses and facilities	66	11
Other	- 1	- 2
	85	8
Profit before tax	220	150

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

Effective tax rate	2009 Amount	2009 %	2008 Amount	2008 %
Theoretical tax rate in the Netherlands	**56**	**26**	38	26
Effect of different tax rates in other countries	**7**	**3**	5	3
Effect of change in tax rate	**- 5**	**- 3**		
Share of profits of joint ventures and associates	**- 3**	**- 1**	- 2	- 1
Withholding tax on dividends	**4**	**2**	2	1
Non-deductible expenses	**17**	**8**	3	2
Tax exempt income	**- 13**	**- 6**	- 1	- 1
Recognition of tax losses	**- 29**	**- 13**	- 13	- 9
Sale of subsidiaries			- 6	- 4
Changes of estimates relating to prior years	**1**		- 6	- 4
Other	**3**	**1**	- 5	- 3
Effective tax rate	**38**	**17**	15	10

The theoretical tax rate is calculated by applying the tax rate in the Netherlands of 25.5% to the result before tax.
Unrecognised tax losses available for relief amounted to EUR 102 million at year-end 2009 (2008: EUR 118 million) and expire as follows: EUR 14 million within 5 years, EUR 54 million between 5 and 10 years and EUR 34 million after 10 years.

10 Proposed appropriation of profit attributable to share holders of the company

With the approval of the Supervisory Board, the Executive Board has proposed that the entire profit attributable to shareholders of the company be added to the retained profit.

11 Number of shares and earnings per share

Basic earnings per share attributable to equity holders are calculated by dividing the profit for the year attributable to equity holders of the company by the weighted average number of shares outstanding during the year.

	2009	2008
Number of shares in Royal FrieslandCampina N.V.	**3,702,777**	3,702,777
Per share of EUR 100 (in euros)		
Basic earnings per share	**23.50**	19.17

12 Property, plant and equipment

2009	Land and buildings	Plant and equipment	Other non-current assets	Not employed in business operations	Total
Carrying amount at 1 January	468	915	73	15	**1,471**
Consolidation and deconsolidation	6	3			**9**
Additions	34	159	20	1	**214**
Disposals		- 7	- 1	- 2	**- 10**
Currency translation differences	- 1				**- 1**
Transfers	- 1	- 1		2	**0**
Transfer to assets held for sale				- 2	**- 2**
Depreciation	- 37	- 134	- 20		**- 191**
Impairment	- 5	- 22			**- 27**
Carrying amount at 31 December	464	913	72	14	**1,463**
Cost	1,004	2,727	273	43	**4,047**
Accumulated depreciation and impairment	- 540	- 1,814	- 201	- 29	**- 2,584**
Carrying amount at 31 December	464	913	72	14	**1,463**

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

2008	Land and buildings	Plant and equipment	Other non-current assets	Not employed in business operations	Total
Carrying amount at 1 January	500	968	75	18	1,561
Consolidation and deconsolidation	- 1	- 1			- 2
Additions	33	170	22		225
Disposals	- 9	- 9	- 2	- 4	- 24
Currency translation differences	- 6	- 13	- 2		- 21
Transfers	- 12	- 42	1	53	0
Transfer to assets held for sale				- 51	- 51
Depreciation	- 37	- 149	- 21		- 207
Impairment		- 9		- 1	- 10
Carrying amount at 31 December	468	915	73	15	1,471
Cost	983	2,618	262	59	3,922
Accumulated depreciation and impairment	- 515	- 1,703	- 189	- 44	- 2,451
Carrying amount at 31 December	468	915	73	15	1,471

The annual depreciation rates vary between 4% and 10% for buildings, between 5% and 20% for plant and equipment and between 5% and 33% for other non-current assets.
Impairment relates mainly to the downward revaluation of the appraised net recoverable amount of property, plant and equipment affected by proposed restructuring decisions. Impairment is classified as other operating expenses in the income statement.
The carrying amount of financial leased buildings, plant and equipment was EUR 19 million (2008: EUR 22 million).
The carrying amount at 31 December included EUR 119 million (2008: EUR 128 million) non-current assets under construction.
At year-end FrieslandCampina is committed to investments in property, plant and equipment for EUR 25 million (2008: EUR 28 million).
Additions include less than EUR 1 million of capitalised interest (2008: nil).

13 Intangible assets

2009	Goodwill	Software	Other	**Total**
Carrying amount at 1 January	850	38	21	**909**
Consolidation and deconsolidation			4	**4**
Additions	5	13	4	**22**
Transfers	- 6		6	**0**
Disposals	- 8			**- 8**
Currency translation differences	- 4			**- 4**
Amortisation		- 12	- 3	**- 15**
Change in value in connection with put option	2			**2**
Carrying amount at 31 December	839	39	32	**910**
Cost	1,007	142	46	**1,195**
Accumulated amortisation and impairment	- 168	- 103	- 14	**- 285**
Carrying amount at 31 December	839	39	32	**910**

2008	Goodwill	Software	Other	Total
Carrying amount at 1 January	869	32	25	926
Additions	2	15		17
Transfers	1	1	- 2	0
Currency translation differences	- 8			- 8
Amortisation		- 10	- 2	- 12
Change in value in connection with put option	- 14			- 14
Carrying amount at 31 December	850	38	21	909
Cost	1,087	140	25	1,252
Accumulated amortisation and impairment	- 237	- 102	- 4	- 343
Carrying amount at 31 December	850	38	21	909

The annual amortisation rates are 20% to 33% for software and 5% for other intangible assets.
See note 25 for the change in value in connection with the put option.

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

Goodwill per business group is as follows:	2009	2008
Consumer Products Europe	777	787
Cheese & Butter	4	1
Ingredients	58	62
	839	850

Goodwill and other intangible assets with indefinite useful lives are tested for the recoverable amount of each cash-generating unit or group of cash-generating units annually during the fourth quarter, or at any other time if there is an impairment trigger. The level at which the value of goodwill is monitored and tested was changed in 2009 as a result of changes in the organisational and reporting structure following the merger at the end of 2008. With effect from 2009, goodwill is monitored and tested at the business group level (being groups of cash-generating units).
The principal assumptions for the annual impairment test are revenue growth and gross margin along with discount rates for calculating the present value of the forecasted cash flows. Future growth in revenue and gross margin are based on current experience, specific expectations for the near future and market-based growth rates. The discount rates are based on statements from financial advisers. The discount rates (pre-tax, in accordance with IAS 36.55) are set for each cash-generating unit and were 9.9% to 17.0% (2008: 7.0% to 14.3%).
The recoverable amount of the cash-generating units was determined from the 2010 budget and extrapolations for the subsequent four years. For the period after 2014, a growth rate has been used that is equal to expected long-term inflation rates up to 2%.
The outcome of the impairment tests is that the recoverable amounts exceed the carrying amounts of the cash-generating units. In addition to the impairment test, the principal assumptions were subject to sensitivity analyses, which led to the conclusion that no impairments would arise from reasonable possible changes in a key assumption.

14 Investments in joint ventures and associates

	2009	2008
Carrying amount at 1 January	79	74
Investment	3	5
Disposals		- 2
Transfers to subsidiaries	- 5	
Currency translation differences	- 1	3
Profit	21	6
Dividends received	- 7	- 7
Carrying amount at 31 December	90	79
Share of profit	21	6
Share of revenue	136	123
Share in balance sheet:		
Non-current assets	73	44
Current assets	47	36
Equity	65	26
Non-current liabilities	22	20
Current liabilities	33	34

Please see the list of principal subsidiaries and joint ventures and associates on pages 106 and 107 for the names of joint ventures and associates.

15 Other financial assets

	2009	2008
Loans	43	33
Securities	8	4
Long-term receivables	4	10
	55	47

The loans relate to the Great Ocean Ingredients Pty Ltd joint venture, to a minority shareholder and to other third parties. The average interest rate on the loans was 5.5% at 31 December 2009 (2008: 5.5%).

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

16 Inventories

	2009	2008
Raw materials and consumables	**224**	250
Finished goods and goods for resale	**593**	710
	817	960

Inventories of finished goods and goods for resale included EUR 242 million (2008: EUR 223 million) are carried at lower market value.
The total downward revaluation of inventories of finished goods and goods for resale to market value was EUR 29 million (2008: 45 EUR million).

17 Trade and other receivables

	2009	2008
Trade receivables	**794**	893
Provision for doubtful debts	**- 19**	- 18
Other receivables	**61**	80
	836	955
Tax (other than income tax) and social security contributions receivable	**50**	76
	886	1,031

Provision for doubtful debts

	2009	2008
At 1 January	**- 18**	- 24
Currency translation differences		1
Charged to the income statement	**- 7**	- 3
Released to the income statement	**2**	2
Trade receivables written off	**3**	6
Recovered on trade receivables written off	**1**	
At 31 December	**- 19**	- 18

Payment term exceeded: trade and other receivables

	2009	2008
Within payment term	**711**	782
Past due up to 3 months	**110**	159
Past due between 3 and 6 months	**8**	6
Past due more than 6 months	**7**	8
	836	955

Trade and other receivables are non-interest-bearing and generally fall due between 10 and 90 days. FrieslandCampina has accepted security on trade receivables, which can be cashed in, sold or re-pledged. The fair value of this security totals EUR 25 million (2008: EUR 12 million).

18 Cash and cash equivalents

	2009	2008
Deposits	**88**	50
Other cash and cash equivalents	**184**	130
	272	180

Deposits of EUR 88 million (2008: EUR 50 million) are not at FrieslandCampina's free disposal.

19 Assets and liabilities held for sale

Assets held for sale are property, plant and equipment of EUR 3 million (2008: EUR 54 million) and current assets of EUR 1 million (2008: EUR 19 million). Liabilities held for sale are current and non-current liabilities. These assets and liabilities will be sold within one year.
The assets held for sale in 2009 mainly relate to the Oud Gastel site.
In 2008, assets were held for sale as a result of the conditions set by the European Commission for allowing the merger of Friesland Foods and Campina. Accordingly, it was decided that Friesland Foods Fresh activities and some of the cheese activities of Campina Holland Cheese had to be disposed of. The assets and liabilities of these activities were included in assets and liabilities held for sale per year-end 2008.

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

Assets held for sale	2009	2008
At 1 January	**73**	24
Consolidation and deconsolidation of property, plant and equipment	**- 53**	
Consolidation and deconsolidation of other assets	**- 4**	
Transfer of property, plant and equipment	**2**	51
Addition of current assets	**1**	17
Disposals	**- 1**	- 20
Reversal of impairment	**- 14**	1
At 31 December	**4**	73

20 Pensions and other long-term employee benefits

FrieslandCampina operates a number of defined benefit plans with obligations that mainly relate to the Dutch and German divisions. These plans are principally an indexed average salary plan. FrieslandCampina also has a number of defined contribution plans for its Dutch and foreign activities. The average salary plan of the Dutch employees is insured with a company pension fund and an insurance company. The plan insured with the insurance company has a profit-sharing agreement based on a segregated investment fund and has a required coverage ratio (the ratio of plan assets to the pension obligation calculated under the conditions of the insurance contract) of at least 115%. At year-end 2009, the coverage ratio of the pension plan insured with the insurance company was 117% (2008: 115%), thereby fulfilling the contractual obligation towards the insurance company. A non-recurring pension charge of EUR 5 million and a gain of EUR 6 millions were recognised in 2008 as a result of the final settlement of the transfer of pension obligations to another insurance company and making the pension obligations of active members involved in the sale of business units non-contributory respectively. Also in 2008, a single premium of EUR 14 million for indexation was paid into the Campina pension fund, recognised as a non-recurring past service cost. In 2009, additional pension entitlements were purchased for EUR 3 million in connection with the sale of business units. The tables below summarise the assumptions used in determining the present value and movements in the present value of the pension obligation and plan assets and the components of the net benefit expense recognised in the consolidated balance sheet and income statement.

Assumptions	2009	2008
Discount rate	**4.8 - 5.0%**	5.5 - 5.7%
Age-related salary increases	**0.0 - 1.4%**	0.0 - 1.4%
Wage inflation	**2.6%**	2.3%
Price inflation	**2.1%**	1.8%
Indexation		
- actives	**2.6%**	2.3%
- deferreds and pensioners	**0.0 - 2.1%**	0.0 - 1.8%
Increase in contribution-free salary	**2.1%**	1.8%
Mortality tables	**Pension table 2006**	Pension table 2006
Expected rate of return on plan assets in the financial year	**5.4 - 5.7%**	6.1 - 6.2%
Expected rate of return on plan assets in the following financial year	**5.5 - 5.7%**	5.4 - 5.7%
Breakdown of pension costs payable at year-end		
Present value of pension benefits	**2,221**	1,862
Fair value of plan assets	**1,745**	1,569
	476	293
Unrecognised actuarial gains and losses at 31 December	**- 283**	- 115
Past-service costs not yet recognised	**- 15**	- 17
	178	161
Movements in pension costs payable		
At 1 January	**161**	184
Consolidation and deconsolidation	**- 3**	1
Pension costs of defined benefit plans	**74**	43
Contributions paid	**- 55**	- 65
Currency translation differences	**1**	- 2
	178	161
Classified as non-current assets	**43**	20
Classified as assets held for sale		- 3
	221	178

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

Present value of pension benefits	2009	2008
At 1 January	1,862	1,876
Consolidation and deconsolidation	- 3	1
Increase in present value of pension benefits	55	46
Past-service costs		15
Interest	103	100
Benefits paid	- 75	- 65
Currency translation differences	1	- 2
Made non-contributory in connection with sale		- 6
Actuarial gains and losses	278	- 103
At 31 December	**2,221**	1,862
Funded pension benefits	2,031	1,676
Pension benefits not yet funded	190	186
At 31 December	**2,221**	1,862
Movements in fair value of plan assets		
At 1 January	1,569	1,863
Expected return on plan assets	87	115
Contributions received	55	65
Benefits paid	- 75	- 65
Transfer of pension obligations (single premiums)		- 4
Actuarial gains and losses	109	- 405
At 31 December	**1,745**	1,569
Unrecognised actuarial gains and losses		
At 1 January	- 115	189
Present value of pension benefits	- 278	103
Plan assets	109	- 405
Actual gains and losses	1	- 3
Release due to transfer of pension obligations		1
At 31 December	**- 283**	- 115
Past-service costs not yet recognised		
At 1 January	17	18
Amortisation	- 2	- 1
At 31 December	**15**	17
Pension costs recognised through profit or loss		
Increase in present value of pension benefits	55	46
Past-service costs		15
Interest	103	100
Expected return on plan assets	- 87	- 115
Amortisation of past-service costs	2	1
Actuarial gains and losses	1	- 3
Gain/loss on transfer of pension obligations		5
Made non-contributory in connection with sale		- 6
Expense item disclosed in income statement for IAS 19-based defined benefit plans	74	43
Pension costs for defined contribution plans and contributions to multi-employer pension plans	18	23
Employees' share in pension costs	- 5	- 5
	87	61

The multi-employer plans are defined benefit plans but the funds are unable to provide FrieslandCampina with the required information and so the related contributions are recognised as being for defined contribution plans. Contributions may increase in the next few years as a result of the situation in the financial markets.

FrieslandCampina expects to contribute EUR 78 million to its defined benefit plans in 2010.

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

	2009	2008
Principal investment categories, by percentage of fair market value of total assets:		
Equities	**36%**	32%
Fixed-income securities	**58%**	61%
Property	**2%**	3%
Other	**4%**	4%

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.

Financial history	2009	2008	2007
Present value of the pension benefits	**2,221**	1,862	1,876
Fair value of plan assets	**1,745**	1,569	1,863
Deficit of cover	**476**	293	13
Actuarial gains and losses on the pension benefits (surplus)	**- 278**	103	337
Actuarial gains and losses on plan assets (deficit)	**109**	- 405	- 63

The financial history summary presents only three years as the former Campina has only applied IFRS since 1 January 2007.

21 Deferred tax assets and liabilities

2009

Assets by type of temporary difference	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, receivables, derivative financial instruments, debts and provisions	Unused tax losses and relief facilities	Other	Total
At 1 January	5	38	21	12	101		**177**
Recognised through profit or loss		16	5	- 2	66		**85**
Recognised in equity	- 2			7			**5**
At 31 December	3	54	26	17	167		**267**
Liabilities by type of temporary difference							
At 1 January	40	29	18	6		11	**104**
Recognised through profit or loss	2	5	- 10	2		1	**0**
Recognised in equity	- 2						**- 2**
Currency translation differences						- 1	**- 1**
At 31 December	40	34	8	8		11	**101**

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

Assets by type of temporary difference	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, receivables, derivative financial instruments, debts and provisions	Unused tax losses and relief facilities	Other	Total
							2008
At 1 January	6	21	15	16	91		149
Recognised through profit or loss	- 1	17	6	- 4	10		28
At 31 December	5	38	21	12	101		177
Liabilities by type of temporary difference							
At 1 January	37	26	8	11		46	128
Recognised through profit or loss	3	3	10	- 5		- 35	- 24
At 31 December	40	29	18	6		11	104

	2009			2008		
	Gross	Netting	**Net**	Gross	Netting	Net
Disclosed as follows in the balance sheet						
Deferred tax assets	267	- 74	**193**	177	- 64	113
Deferred tax liabilities	101	- 74	**27**	104	- 64	40
Net deferred tax asset			**166**			73

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

22 Provisions

	2009			2008		
	Restructuring	Other provisions	**Total**	Restructuring	Other provisions	Total
At 1 January	12	9	**21**	31	23	54
Additions	61	16	**77**	8	2	10
Released	- 9	- 3	**- 12**	- 8	- 15	- 23
Utilised	- 4	- 3	**- 7**	- 19	- 1	- 20
At 31 December	60	19	**79**	12	9	21
Non-current provisions	48	5	**53**	7	4	11
Current provisions	12	14	**26**	5	5	10
	60	19	**79**	12	9	21

Restructuring provisions

The restructuring provisions relate to the reorganisation of production and packaging sites in the next few years. In all, eight sites will be closed. For Consumer Products Europe, the affected sites are Elsterwerda and Kalkar in Germany and the Oud Gastel and Polderland sites and part of the Leeuwarden facility in the Netherlands. For Cheese and Butter, the affected sites in the Netherlands are the cheese packaging sites in Drachten and Tilburg, and the cheese production facilities in Tilburg and Dronrijp. In addition, the production site for butter oil and cream products in Klerken in Belgium will close. Restructuring provisions will result in future cash outflows. Non-current provisions are discounted using a discount rate of 7.6%.
The restructuring provisions in 2008 related to a number of projects, mainly the termination of leases for premises and corporate staff departments.

Other provisions

These provisions are formed for obligations whose extent or likelihood is uncertain at the balance sheet date. The timing of the cash outflow of these provisions is uncertain. These provisions are stated at current value since their present value is not materially different. Non-current provisions are mainly medium-term in nature.
Other provisions included EUR 11 million (2008: EUR 1 million) for onerous contracts.

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

23 Zuivelcoöperatie FrieslandCampina U.A. borrowing

This borrowing finances the assets of Royal FrieslandCampina N.V. In 2009, it was converted into a subordinated borrowing. The average interest rate for this borrowing was 3.1% (2008: 5.0%).

24 Non-current interest-bearing borrowings

2009

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

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

2008

	Amounts owed to syndicate of credit institutions	Amounts owed to institutional investors	Other amounts owed to credit institutions	Other debts	Total
At 1 January	250	149	2	31	432
Additions			16	3	19
Repayments			- 1	- 7	- 8
Transfer to/from current borrowings	100			- 1	99
Currency translation differences				- 1	- 1
Adjustment for currency/interest rate swap		19			19
At 31 December	350	168	17	25	560

Repayment schedule and interest rates	2010 - 2013	After 2013	Total repayment	Year-end interest rate (%)
Amounts owed to syndicate of credit institutions	350		350	3.3
Amounts owed to institutional investors	168		168	4.1
Other amounts owed to credit institutions	17		17	4.0
Other debts	15	10	25	5.9
Total	550	10	560	3.7

In August 2009, agreement was reached with a syndicate of financial institutions on a EUR 1 billion refinancing of the credit facility. EUR 520 million was drawn under the credit facility on 31 December 2009. The unconditional credit facility expires in August 2012.
The principal terms and conditions on the credit facility are:
- The ratio of senior net debt to EBITDA must not exceed 3:1. EBITDA is the operating profit before depreciation and amortisation plus dividends from joint ventures and associates, and excluding exceptional items, plus the performance payment.
- the ratio of EBITDA to interest must be at least 3.5 : 1.

The senior net debt is non-current interest-bearing borrowings, current borrowings, the net amount payable to and receivable from affiliated companies less cash and cash equivalents. The senior net debt was EUR 552 million (2008: EUR 1,494 million).
The interest payable on amounts owned to the syndicate of credit institutions has been fixed by means of a number of interest rate swaps within a range of 4.9% to 6.9%. Within this range, the interest rate only varies with the ratio of net debt to EBITDA.

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

Amounts owed to institutional investors are private placements for a total amount of USD 112 million (2008: USD 213 million). These borrowings are recognised at amortised cost at the exchange rate ruling at the balance sheet date, adjusted for the unamortised difference between amortised cost and fair value further to the termination of the fair value hedge. Cash flow hedge accounting is applied to these amounts owed, which was effective.

By means of cross-currency interest rate swaps, USD repayment and interest obligations have been converted into EUR liabilities. USD 112 million of borrowings (2008: 213 million) have been fixed at EUR 95 million (2008: EUR 181 million) through the swaps referred to above.
Until November 2009, the interest was 6-month Euribor plus a mark-up. From December 2009, the cross-currency interest rate swaps were revised and the interest rate on amounts owed to institutional investors has been converted to fixed rate.
In December 2009, agreement in principle was reached with institutional investors on the financing of USD 155 million and EUR 25 million, which is expected to be received in April 2010.
By means of a cross-currency interest rate swap, repayment and interest obligations on these borrowings denominated in USD have already been converted into EUR, at fixed interest rates. In order to hedge cash flows, the cross-currency interest rate swaps were entered into. Cash flow hedging has been applied to them. The cross-currency interest rate swaps have been recognised at fair value. The portion of the gains and losses made on these hedge instruments regarded as effective is recognised direct in equity.

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

The net debt is the senior net debt plus the subordinated borrowing from Zuivelcoöperatie FrieslandCampina U.A. Net debt was EUR 842 million (2008: EUR 1,494 million).

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

Finance leases	2009	2008
Total lease instalments	27	34
Present value of lease instalments	19	24
Recognised in current borrowings	- 2	- 3
	17	21

The finance leases are recognised as 'Other debts'. EUR 8 million will be repaid in the years 2011 to 2014 and EUR 9 million in subsequent years. The average interest rate on these debts at year-end 2009 was 6.1% (2008: 6.2%).
The lease instalments payable in 2009 include EUR 21 million (present value EUR 15 million) for a joint venture agreement with a third party for ripening, storing and packaging cheese. This agreement expires in 2015.

25 Other long-term debts

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

	2009	2008
At 1 January	0	96
Accrued interest	4	5
Change in value recognised through goodwill	2	- 14
Transfers to/from current liabilities	87	- 87
At 31 December	93	0

The liability in connection with the put option is recognised under the terms of the agreement with Fonterra in respect of DMV Fonterra Excipients. If Fonterra exercises the put option, FrieslandCampina is obliged to buy the 50% interest in DMV Fonterra Excipients currently held by Fonterra, for at least the value of the contribution by Fonterra at the time of entering into the agreement in 2006.
Under IAS 32, the option must be treated as if Fonterra exercised the option, thus creating a liability which is determined in accordance with the exit clause in the agreement. The present value of this liability is calculated as at the balance sheet date. Changes in the value of the liability are recognised through goodwill. Per year-end 2008, the put option liability was classified as current given the exercise date per 1 June 2009. The option was not exercised per 1 June 2009. Future exercise dates are 1 June 2011 and 1 June 2013.

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

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

At the time of preparing the financial statements, FrieslandCampina's management had no indication that Fonterra wishes to exercise the option. The next exercise date for the option is 1 June 2011.

26 Current borrowings

	2009	2008
Current portion of non-current borrowings	**70**	1
Bank overdrafts	**239**	683
	309	684

At year-end 2009, 'Bank overdrafts' included EUR 120 million in the form of a current drawing on the unconditional EUR 1 billion multi-currency credit facility disclosed in 'Non-current interest-bearing borrowings'.
Other amounts under 'Bank overdrafts' relate mainly to conditional credit facilities. This item also includes short-term borrowings from institutions other than banks.
The average interest rate on current borrowings at year-end 2009 was 3.8% (2008: 4.5%).

27 Trade and other payables

	2009	2008
Amounts owed to member dairy farmers	**345**	355
Trade creditors	**604**	588
Tax (other than income tax) and social security contributions payable	**34**	37
Liability in connection with put option	**6**	87
Other debts	**360**	346
	1,349	1,413

Trade creditors and other payables are non-interest-bearing and generally fall due between 10 and 90 days, except for a portion of the amounts owed to member dairy farmers which are paid in the month of May following the financial year.
Please see note 25 for information on the liability in connection with the put option relating to DMV Fonterra Excipients.

28 Payable to affiliated companies

The current payable is a current account which does not bear interest.

29 Security

No security has been provided for current and non-current borrowings except as reported under finance lease obligations (note 33).

30 Commitments and contingencies

				2009
	2010	2011 - 2014	After 2014	**Total**
Guarantees to third parties	35	1	4	**40**
Lease obligations	15	24	2	**41**
Rental obligations	13	35	13	**61**
Purchase commitments for non-current assets	25			**25**
Other liabilities	6	6	2	**14**
	94	66	21	**181**

				2008
	2009	2010 - 2013	After 2013	Total
Guarantees to third parties	6	11	13	30
Lease obligations	16	33	2	51
Rental obligations	17	38	24	79
Purchase commitments for non-current assets	28			28
Other liabilities	1			1
	68	82	39	189

The guarantees to third parties are mainly in connection with export grants.

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

FrieslandCampina has granted a third party the right, subject to certain conditions, to acquire 4% of the shares in PT Frisian Flag Indonesia indirectly in the period from 2007 to 2011, and an additional 4% indirectly in the period 2012 to 2015. The option was not exercised between 2007 and 2009.
In the context of the merger, Friesland Foods and Campina made two commitments to the European Commission with the aim of reducing the quantity of raw milk processed by FrieslandCampina in the Netherlands by 1.2 billion kilograms per year.
The first commitment requires member dairy farmers of FrieslandCampina who resign their membership to be paid a lump-sum pay off 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 pay off is made. The eligibility requirement for the lump-sum pay off is that the dairy farmer becomes a supplier to another purchaser of raw milk in the Netherlands.
The second commitment is that raw milk must be made available to purchasers who have a dairy plant and who produce fresh dairy products or naturally matured Dutch cheese, or either of them in combination with other dairy products. Purchasers may only obtain this milk to expand production in existing plants, for production in new plants or for production in the plants disposed of in Nijkerk (fresh dairy products) and Bleskensgraaf (cheese) by FrieslandCampina under 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) applying 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 remain in force until member dairy farmers with a 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.

A liquidity agreement has been concluded with Rabobank in respect of the internal market for free member bonds. If the supply of free member bonds exceeds the demand on the internal market for free member bonds, Rabobank will absorb the excess for its own account up to a maximum of EUR 50 million.

31 Related party disclosures

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 from the cooperative the milk supplied to it by its members. This was 8.7 billion kilograms for 2009 (2008: 8.6 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, representing 46 billion kilograms of milk in total. The milk price thus computed is guaranteed and is, therefore, referred to as the guaranteed price. Under the current profit appropriation policy, the members also receive a premium on the guaranteed milk price equal to 25% of the profit calculated using the guaranteed price as the basis for the cost of milk. A further 15% of that result is appropiated to a registered reserve (member bonds).
Royal FrieslandCampina N.V. has granted a loan of EUR 25 million to the Great Ocean Ingredients Pty Ltd joint venture.
The remuneration of the Executive Board and the Supervisory Board is disclosed in Note 36.

32 Financial instruments and derivatives financial instruments

Please see note 33 for the objectives, guidelines and policies for the use of derivatives and other financial instruments in FrieslandCampina's activities.

Carrying amounts and fair values of financial instruments	**2009**		2008	
Assets	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Other financial assets	**55**	**55**	47	47
Trade and other receivables	**886**	**886**	1,031	1,031
Derivative financial instruments	**3**	**3**	8	8
Receivable from affiliated companies	**17**	**17**		
Cash and cash equivalents	**272**	**272**	180	180
Liabilities				
Zuivelcoöperatie FrieslandCampina U.A. borrowing	**290**	**290**	400	400
Non-current interest-bearing borrowings	**525**	**529**	560	560
Other long-term debts	**93**	**93**		
Current borrowings	**309**	**313**	684	684
Trade and other payables	**1,349**	**1,349**	1,413	1,413
Derivative financial instruments	**71**	**71**	59	59
Payable to affiliated companies	**8**	**8**	30	30

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

The fair value is the amount that would have been received or paid had the assets or liabilities been settled at the balance sheet date without further obligations. The fair value of derivative financial instruments relating to forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of the financial instruments recognised through profit or loss in the above table is measured using level 2 valuation methods. These financial instruments are derivative financial instruments with a negative value of EUR 2 million recognised as liabilities (2008: capitalised derivative financial instruments of EUR 5 million).

With respect to interest rate swap contracts, fair value is determined by calculating their present value based on current market information. The fair value of all other items is determined from the discounted value of the estimated future cash flows at discount rates that reflect current market assessments.

Hedging activities	2009		2008	
	Contract volume at year-end	**Fair value at year-end**	Contract volume at year-end	Fair value at year-end
Fair value hedges				
Cross-currency interest rate swaps			181	- 12
Cash flow hedges				
Cross-currency interest rate swaps for fixing interest rates on non-current liabilities	**289**	**- 28**		
Interest rate swaps for fixing interest rates on non-current liabilities	**600**	**- 37**	650	- 35
Constant maturity swap for fixing interest rates on non-current liabilities	**100**	**- 2**	100	- 1
Other derivative financial assets carried as assets	**89**	**3**	46	3
Other derivative financial assets carried as liabilities	**71**	**- 2**	140	- 11
Derivative financial instruments not subject to hedge accounting				
Carried as assets	**14**		67	5
Carried as liabilities	**58**	**- 2**	53	
	Contract volume at year-end	**Fair value at year-end**		Fair value at year-end
Total derivative				
Carried as assets		**3**		8
Carried as liabilities		**71**		59
Hedges of a net investment in a foreign operation				
Bank overdraft liability	**9**	**- 9**		

Fair value hedge
FrieslandCampina has contracted cross-currency interest rate swaps on borrowings of USD 213 million as a result of which the USD repayment and interest obligations to institutional investors have been converted into obligations denominated in EUR and the fixed interest rate has been converted into a variable interest rate.

Cash flow hedges
Cross-currency interest rate swaps have been contracted for borrowings of USD 213 million and of USD 155 million to be received in 2010, as a result of which the USD repayment and interest obligations to institutional investors have been converted into EUR liabilities.
The interest rate swaps and constant maturity swap have been contracted to convert the floating-interest obligations on non-current liabilities into fixed-interest obligations.
Of the other derivative financial instruments carried as assets, USD 195 million (2008: USD 227 million) relates to the hedging of estimated future cash flows from export income and HKD 258 million (2008: HKD 264 million) from payments for imports.
The hedges to which hedge accounting is applied meet the documentation requirements for hedge accounting in IAS 32/39 and are tested for effectiveness prior to and during their term. These hedges were effective.

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

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

Hedges of a net investment in a foreign operation

Bank overdraft financing has been drawn in the currency of the net investment to hedge the net investment in a foreign operation. Hedge accounting is applied meeting the documentation requirements for hedge accounting in IAS 32/39 and is tested for effectiveness prior to and during their term.

Maturity schedule of derivative financial instruments	2009 2010	2009 2011 - 2014	2009 Contract volume at year-end After 2014	2008 2009	2008 2010 - 2013	2008 Contract volume at year-end After 2013
Fair value hedges						
Cross-currency interest rate swaps					181	
Cash flow hedges						
Cross-currency interest rate swaps for fixing interest rates on non-current liabilities	86	95	108			
Interest rate swaps for fixing interest rates on non-current liabilities	200	400		50	600	
Constant maturity swap for fixing interest rates on non-current liabilities		100			100	
Other derivative financial instruments carried as assets	89			46		
Other derivative financial instruments carried as liabilities	71			140		
Derivative financial instruments not subject to hedge accounting						
Carried as assets	14			67		
Carried as liabilities	58			53		

Derivative financial instruments relating to foreign currency risks	At Year-end 2009 Forward-bought currencies EUR	At Year-end 2009 Forward-sold currencies	At Year-end 2008 Forward bought currencies EUR	At Year-end 2008 Forward-sold currencies
Contract volumes				
US dollar	165	237	258	365
Hong Kong dollar	24	258	23	264
Pound sterling	17	15	27	23
	206		308	

Derivative financial instruments hedging interest rate and currency risk on other non-current borrowings	2009	2008
Contract volume in EUR		
Euro	700	750
US dollar	289	181

33 Financial risk management: objectives and policy

FrieslandCampina's principal financial instruments, other than derivatives, 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 diversity of markets and investors. FrieslandCampina has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. FrieslandCampina closely monitors the market risks relative to all financial derivative instruments. FrieslandCampina also enters into derivative transactions, principally forward currency contracts and interest rate swaps, in order to manage the interest rate and currency risks arising from its operations and sources of finance. 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 risk, interest rate risk, liquidity risk and credit risk. FrieslandCampina has policies in place to manage these risks.

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

Currency fluctuations

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

Receivables and liabilities denominated in currencies other than the local currency

	2009		2008	
	Receivables and cash and cash equivalents	Liabilities	Receivables and cash and cash equivalents	Liabilities
US dollar	34	34	41	54
Euro	23	32	11	70
Hungarian forint		1	8	1
Pound sterling	5		5	1
New Zealand dollar			3	15
Indonesian rupiah	3			

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

FrieslandCampina is mostly sensitive to the US dollar exchange rate with the euro because of its sales in dollars. The breakdown below summarises the impact of a 10% strengthening of the US dollar exchange rate on the measurement of monetary assets and liabilities as at year-end which are denominated in US dollars. A 10% exchange rate change is assumed to be a realistic possibility. The impact is apparent from a change in profit and equity. A positive figure means an increase in profit and in the amount of the Hedging reserve equity component, while a negative figure means a decrease.

	2009	2008
Impact on:		
Profit before tax	0	- 1
Hedging reserve	- 14	- 18

A 10% weakening in the US dollar exchange rate with the euro would mean the above amounts for 2009 were EUR nil and EUR +11 million respectively. The impact on the profit for the year comes mainly from movements in the fair value of monetary assets and debts. The impact on the Hedging reserve equity component comes mainly from the measurement of derivatives for cash flow hedges.

Interest rate risk

The objective of interest rate risk management is to limit the effect of interest rate fluctuations on profit and to reduce interest expense where possible. Interest rate derivatives are used to match borrowings to the intended interest rate risk profile.

Interest on borrowings

	2009		2008	
	Carrying amount excluding hedging	Carrying amount including hedging	Carrying amount excluding hedging	Carrying amount including hedging
Fixed rate	192	893	611	1,000
Floating rate	940	239	1,063	674
	1,132	1,132	1,674	1,674

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

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

	2009	2008
Impact on:		
Profit before tax	**0**	2

The impact comes from floating-rate financial instruments.

Liquidity risk

FrieslandCampina's objective is to maintain a balance between continuity and flexibility of funding by using a range of financial instruments. Total net debt should be largely hedged by long-term borrowings and unconditional credit facilities. At year-end 2009, this hedging was complete. FrieslandCampina manages its liquidity risk mainly by keeping available a significant amount of the unconditional credit facilities of EUR 1,181 million (2008: EUR 1,231 million) which expire in the third quarter of 2012 and the second quarter of 2010. Of these facilities, EUR 480 million (2008: EUR 270 million) was unused at year-end 2009.
The table below sets out the maturity dates of borrowings according to the nominal amounts in the contract, including related interest obligations.

Cash flows on current borrowings

				2009
	2010	**2011 - 2014**	**After 2014**	**Total**
Zuivelcoöperatie FrieslandCampina U.A. borrowing	**- 9**	**- 326**		**- 335**
Non-current interest-bearing borrowings	**- 55**	**- 557**	**- 10**	**- 622**
Other long term debts		**- 93**		**- 93**
Current borrowings	**- 309**			**- 309**
Trade and other payables	**- 1,349**			**- 1,349**
Payable to affiliated companies	**- 8**			**- 8**
Operating leases	**- 15**	**- 24**	**- 2**	**- 41**
Rental agreements	**- 13**	**- 35**	**- 13**	**- 61**
Investment commitments	**- 25**			**- 25**
	- 1,782	**- 1,035**	**- 25**	**- 2,843**

				2008
	2009	2010 - 2013	After 2013	Total
Zuivelcoöperatie FrieslandCampina U.A. borrowing	- 20	- 480		- 500
Non-current interest-bearing borrowings	- 26	- 579	- 12	- 617
Current borrowings	- 684			- 684
Trade and other payables	- 1,413			- 1,413
Payable to affiliated companies	- 30			- 30
Operating leases	- 16	- 33	- 2	- 51
Rental agreements	- 17	- 38	- 24	- 79
Investment commitments	- 28			- 28
	- 2,234	- 1,130	- 38	- 3,402

Credit risk

FrieslandCampina is exposed to credit risks associated with its trade receivables, cash and cash equivalents and derivative financial instruments. FrieslandCampina manages credit risk by systematically monitoring credit ratings of its customers and financial counterparties. FrieslandCampina generally trades with reputable third parties with whom it maintains long-standing trading relationships. The credit position of customers who are considered less creditworthy or subject to political transfer risks is covered by documentary credit or credit insurance in accordance with FrieslandCampina's financial risk management policy. Thanks to the spread of geographical areas and business groups, there is no significant concentration of credit risk in FrieslandCampina's trade receivables. Please see note 17 for further information on trade receivables.

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

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

Management of risks relating to assets

FrieslandCampina manages its assets to maintain a good credit standing (investment grade according to relevant financial parties) and to safeguard the continuity of the subsidiaries as going concerns. In this context, FrieslandCampina applies guidelines for the solvency ratios of different types of subsidiary.
The capital structure of FrieslandCampina comprises debt (including non-current interest-bearing borrowings and current borrowings) and equity in the form of equity attributable to equity holders of the company, member bonds and perpetual notes, and minority interests. Please see note 24 for the financial covenants.

34 Acquisitions

	2009	2008
Fair value of acquired net asset value		
Goodwill	**10**	2
Acquisition of shares from minority interests	**2**	
Holding in other joint ventures and associates	**3**	5
	15	7
Cash flows from acquisitions		
Cash payments	**- 15**	- 7

In 2008, FrieslandCampina contributed capital to the joint venture, Great Ocean Ingredients Pty Limited, Allansford, Victoria, Australia which was incorporated in 2007.

35 Consolidated statement of changes in equity

Hedging reserve

Hedging reserve represents changes in the fair value of the effective hedging interest rate swaps and unrealised results on foreign currency hedges.

Currency translation reserve

The currency translation reserve represents accrued gains and losses on foreign currency translation at subsidiaries, and currency valuation gains and losses on loans granted to subsidiaries.

Retained earnings

Retained earnings represent the balance of accrued profits which have not been distributed to the shareholders. Pursuant to the articles of association, a dividend may be distributed if and to the extent that equity exceeds the issued share capital plus the reserves that have to be held by law. The hedging reserve and the currency translation reserve are statutory reserves and are not distributable.

Perpetual notes

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

Notes to the consolidated financial statements | in millions of euros, unless stated otherwise

Member bonds

Member bonds were issued to Zuivelcoöperatie FrieslandCampina U.A. and its members. The member bonds issued to Zuivelcoöperatie FrieslandCampina U.A. are the same in amount as the membership certificates it issued to its members.

Breakdown of member bonds

	2009			2008		
	Nominal	**Interest**	**Total**	Nominal	Interest	Total
Member bonds member dairy farmers	**501**	**9**	**510**	355	12	367
Zuivelcoöperatie FrieslandCampina U.A. member bonds	**349**	**9**	**358**	432		432
	850	**18**	**868**	787	12	799

36 Remuneration of members of the Supervisory Board and the Executive Board

	2009	2008
Supervisory Board		
Short-term remuneration	**0.9**	1.4
Severance pay	**0.1**	0.4
	1.0	1.8
Executive Board		
Short-term remuneration	**4.4**	4.2
Long-term remuneration	**1.2**	1.6
Severance pay	**1.1**	1.1
Pension plans	**0.1**	0.6
	6.8	7.5

37 Events after balance sheet date

On 31 December 2009, agreement was reached on the sale of the pharmaceutical lactose activities of FrieslandCampina Domo to DMV-Fonterra Excipients. The sale is expected to take place during the first half of 2010. The sale transaction will not lead to a result for FrieslandCampina as DMV-Fonterra Excipients is included in the consolidation.

Principal subsidiaries, joint ventures and associates [1]

at 31 December 2009

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

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

Germany
CMG Grundstücksverwaltungs- und Beteiligungs AG, Heilbronn (94.5%)
DMV-Fonterra Excipients GmbH & Co. KG, Heilbronn (50%) [2]
Friesland Foods Deutschland GmbH, Kalkar (94.9%)
FrieslandCampina Cheese GmbH, Essen
FrieslandCampina Germany GmbH, Heilbronn
FrieslandCampina Professional GmbH, Aachen
Sahnemolkerei Hubert Wiesehoff GmbH, Schoppingen (49%)
Satro GmbH, Lippstadt

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

Greece
Campina Hellas A.E., Maroussi, Athens
FrieslandCampina Hellas S.A.C.I., Maroussi, Athens

United Kingdom
Campina UK Ltd, Horsham

Hungary
FrieslandCampina Hungária zRt, Debrecen

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

Austria
FrieslandCampina Austria GmbH, Stainach

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

Russia
Campina OOO, Moscow

Spain
FrieslandCampina Iberia, S.L.U., Barcelona
Friesland Foods Canarias S.A., Las Palmas
Friesland Foods Cheese Ibérica S.L., Barcelona

China
DMV International Ltd, Hong Kong
FrieslandCampina (Hong Kong) Limited, Hong Kong

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

Malaysia/Singapore
Dutch Lady Milk Industries Berhad, Petaling Jaya (50.1%)
FrieslandCampina (Singapore) Pte Ltd, Singapore

Saudi Arabia
Friesland Arabia Ltd, Jeddah

Thailand
Campina (Thailand) Ltd, Bangkok (74.3%)
Foremost Dairies Co (Bangkok) Ltd, Bangkok (99.6%)
Friesland Foods Foremost (Thailand) Public Company Ltd., Bangkok (99.6%)

Vietnam
Campina Vietnam Co. Ltd, Ho Chi Minh City
FrieslandCampina HaNam Company Limited, Phu Ly (70%)
FrieslandCampina Vietnam Company Limited,
Binh Duong province (70%)

Ghana
Friesland Ghana Ltd, Accra

Nigeria
FrieslandCampina WAMCO Nigeria Plc, Lagos (54.5%)

Curaçao / Netherlands Antilles
DMV-Vitalus Ingredients N.V., Curaçao (50%) [2]

USA
Creamy Creation LLC, Wilmington
DMV USA LP, Wilmington

New Zealand
DMV-Fonterra Excipients (NZ) Ltd, Auckland (50%) [2]

Investments in joint ventures and associates [3]
Betagen Holding Ltd, Hongkong, China (50%)
Coöperatieve Zuivelinvesteerders U.A., Oudenhoorn, Netherlands (49%)
CSK Food Enrichment B.V., Leeuwarden, Netherlands (82.33%)
El Castillo Debic Food Service S.L., Barcelona, Spain (50%)
Great Ocean Ingredients Pty Limited, Allansford, Victoria, Australia (50%)
Het Kaasmerk B.V., Leiden, Netherlands (74.48%)
Unifine Debic Ingredientes de Pastelaria S.A., Lisbon, Portugal (50%)

1 Wholly-owned unless stated otherwise.

2 FrieslandCampina has control over these entities

3 FrieslandCampina does not have control these joint ventures and associates.

Company balance sheet [1]

at 31 December, before appropriation of profit, in millions of euros, unless stated otherwise		2009	2008
Assets			
Non-current assets			
Investments in subsidiaries	(2)	1,481	1,096
Loans to subsidiaries	(3)	797	1,483
Deferred tax assets	(4)	7	2
		2,285	2,581
Current assets			
Amounts due from subsidiaries	(5)	772	300
Derivative financial instruments		6	15
Cash and cash equivalents		9	14
		787	329
Total assets		3,072	2,910
Equity and liabilities			
Equity			
Equity attributable to equity holders of the company and other providers of capital	(6)	1,652	1,395
Non-current liabilities			
Deferred tax liabilities		31	21
Zuivelcoöperatie FrieslandCampina U.A. borrowing	(7)	290	400
Non-current interest-bearing borrowings	(8)	478	519
		799	940
Current liabilities			
Current borrowings		223	274
Trade and other payables		2	8
Borrowings from subsidiaries	(9)	390	278
Derivative financial instruments	(10)	6	15
		621	575
Total equity and liabilities		3,072	2,910

Company income statement

in millions of euros, unless stated otherwise	2009	2008
Share of profit of subsidiairies	144	113
Finance income and costs	- 9	- 3
Other results	1	- 1
Profit for the year	136	109

1 See pages 109 to 113 for the notes

Notes to the company financial statements

in millions of euros, unless stated otherwise

1 General

Accounting policies and notes

These financial statements were prepared in accordance with Dutch statutory provisions and regulations. The financial statements are presented in accordance with the provisions of Section 362(8) of Part 9 of Book 2 of the Dutch Civil Code, which stipulates the application of consistent accounting policies in the company and consolidated financial statements

Please see the accounting policies on pages 76 to 83 for the accounting policies for the measurement 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 recognised using the equity method.

A statutory reserve is 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.

2 Investments in subsidiaries

	2009	2008
At 1 January	**1,096**	1,140
Adjustment to pro forma result for 2007		- 32
Capital contribution by Zuivelcoöperatie FrieslandCampina U.A.	**340**	
Profit for the year	**144**	113
Currency translation differences	**- 8**	- 35
Dividend	**- 89**	- 60
Other movements	**- 2**	- 30
At 31 December	**1,481**	1,096

3 Loans to subsidiaries

	2009	2008
At 1 January	**1,483**	1,513
Transferred to current	**- 436**	- 30
Repayments	**- 250**	
At 31 December	**797**	1,483

2009

Repayment schedule	2011 - 2014	After 2014	**Total repayment**
Loans to subsidiaries	247	550	**797**

2008

Repayment schedule	2010 - 2013	After 2013	Total repayment
Loans to subsidiaries	683	800	1,483

The loans granted mainly serve to finance subsidiaries. The average interest rate at year-end was 1.5% on EUR 247 million and 0% on EUR 550 million (2008: 5.0% on EUR 683 million and 0% on EUR 800 million).

4 Deferred tax assets

The group companies located in the Netherlands form a single fiscal unity. Zuivelcoöperatie FrieslandCampina U.A., the company's shareholder, is the party with first liability for the income tax debts.

5 Amounts due from subsidiaries

The amounts due from subsidiairies relate to loans granted to subsidiaries. The average interest rate at year-end was 1.9% on EUR 582 million and 0% on EUR 190 million (2008: 5.8% on EUR 247 million and 0% on EUR 53 million).

Notes to the company financial statements | in millions of euros, unless stated otherwise

6 Equity attributable to equity holders of the company and other providers of capital

Issued capital

The authorised capital amounts to EUR 1,000 million, divided into 10,000,000 shares of EUR 100 nominal value each. The shares are held by Zuivelcoöperatie FrieslandCampina U.A. The number of shares in issue was 3,702,777 at 1 January and 31 December 2009. EUR 370 million has been paid up on these shares.

	2008				
	Number of Friesland Campina shares	Number of Class A shares Friesland Foods	Number of Class B shares Friesland Foods	Number of Campina shares	Total
At 1 January		7,179,950	4,033,865	400,000	11,613,815
Repurchased shares			- 4,033,865		- 4,033,865
Conversion of shares	3,702,777	- 7,179,950		- 400,000	- 3,877,173
At 31 December	3,702,777	0	0	0	3,702,777
Capital paid in	370				370

The merger took place on 31 December 2008 with retroactive effect to 1 January 2008.
Movements in equity were as follows:

	2009							
	Issued capital	Share premium	Perpetual notes	Member bonds	Hedging reserve	Currency translation reserve	Retained earnings [1]	**Total**
At 1 January	370	0	130	799	- 27	- 51	174	**1,395**
Effective portion of cash-flow hedges					- 2			**- 2**
Tax on interest on perpetual notes and member bonds							7	**7**
Currency translation differences						- 8		**- 8**
Gains and losses recognised directly in equity					- 2	- 8	7	**- 3**
Profit for the year			9	40			87	**136**
Total recognised gains and losses			9	40	- 2	- 8	94	**133**
Amounts paid to providers of perpetual notes			- 9					**- 9**
Amounts paid to providers of member bonds				- 34				**- 34**
Registered reserve for the year				31				**31**
Conversion of subordinated notes into member bonds				32				**32**
Capital contribution by Zuivelcoöperatie FrieslandCampina U.A.		110						**110**
Shares acquired from minority interest holders							- 6	**- 6**
At 31 December	370	110	130	868	- 29	- 59	262	**1,652**

1 Including the appropriation of profit of prior years and the undistributed profit for the current year.

Notes to the company financial statements | in millions of euros, unless stated otherwise

2008

	Issued capital	Share premium	Perpetual notes	Member bonds	Hedging reserve	Currency translation reserve	Retained earnings [1]	Total
At 1 January, Campina	40					- 12	471	499
Merger with Friesland Foods	516	19	130		13	- 4	428	1,102
At 1 January, Royal FrieslandCampina N.V.	556	19	130		13	- 16	899	1,601
Adjustment to pro forma result for 2007 [1]							- 41	- 41
Effective portion of cash flow hedges					- 44			- 44
Tax on the item above					11			11
Change in value of cash flow hedges recognised through profit or loss					- 9			- 9
Tax on the item above					2			2
Tax on amounts paid on perpetual notes and member bonds							3	3
Currency translation differences						- 35		- 35
Gains and losses recognised directly in equity					- 40	- 35	3	- 72
Profit for the year [2]			9	12			88	109
Total recognised gains and losses			9	12	- 40	- 35	91	37
Dividends paid to equity holders of the company							- 60	- 60
Amounts paid to providers of perpetual notes			- 9					- 9
Registered reserve for the year				25				25
Member bonds issued from general reserve [3]				298			- 298	0
Member bonds issued from general reserve [4]				177			- 177	0
Conversion of depositary receipts for Class B shares for member bonds and cash [5]	- 186			287			- 258	- 157
Conversion of depositary receipts for Class B shares for member bonds and cash: share premium 5		- 19					19	0
Acquisition of shares from minority interest holders							- 1	- 1
At 31 December	370	0	130	799	- 27	- 51	174	1,395

A statutory reserve is formed for the retained earnings of subsidiaries where distribution is subject to restrictions. This was, however, not required in 2009 and 2008. The hedging reserve and the currency translation reserve are statutory reserves and as such undistributable.

1 In 2008, the activities of the Zuivelcoöperatie FrieslandCampina U.A. were transferred to Royal FrieslandCampina N.V. For comparative purposes, these activities were transferred pro forma in 2007. The result on these activities in 2007 was adjusted at the start of 2008.

2 Retained earnings are the addition to the general reserve (EUR 71 million) and interest on the depositary receipts for Class B shares (EUR 17 million).

3 Member bonds issued from general reserve related to the member bonds issued to members of the former Friesland Foods. Bonds of EUR 6.00 were issued for each 105 kg milk supplied in the quota-year 2007/2008.

4 The number of member bonds issued to Zuivelcoöperatie FrieslandCampina U.A. corresponds to the number of outstanding Zuivelcoöperatie FrieslandCampina U.A. membership certificates of former Campina members.

5 EUR 287 million of depositary receipts for Class B shares were converted into member bonds and EUR 157 million were redeemed in cash. The depositary receipts for Class B shares with a nominal value of EUR 46 were converted or redeemed at EUR 106 each.

Notes to the company financial statements | in millions of euros, unless stated otherwise

7 Zuivelcoöperatie FrieslandCampina U.A. borrowing

This borrowing finances the assets of Royal FrieslandCampina N.V. In 2009, it was converted into a subordinated borrowing and bears interest at 3.1% (2008: 5.0%).

8 Non-current interest-bearing borrowings

2009

	Amounts owed to syndicate of credit institutions	Amounts owed to institutional investors	Other amounts owed to credit institutions	**Total**
At 1 January	350	168	1	**519**
Additions	400			**400**
Repayments	- 350			**- 350**
Transfer to/from current borrowings	4	- 73	- 1	**- 70**
Transaction costs	- 11			**- 11**
Amortisation of transaction costs	1			**1**
Adjustment for currency/interest rate swap		- 11		**-11**
At 31 December	394	84	0	**478**

Repayment schedule and interest rates	2011 - 2014	After 2014	**Total repayment**	**Year-end interest rate (%)**
Amounts owed to syndicate of credit institutions	394		**394**	**6.2**
Amounts owed to institutional investors	84		**84**	**3.5**
Total	478		**478**	**5.7**

2008

	Amounts owed to syndicate of credit institutions	Amounts owed to institutional investors	Other amounts owed to credit institutions	Total
At 1 January	250	149		399
Transfer to/from current borrowings	100			100
Amortisation of transaction costs			1	1
Adjustment for currency/interest rate swap		19		19
At 31 December	350	168	1	519

Repayment schedule and interest rates	2010 - 2013	After 2013	Total Repayment	Year-end interest rate (%)
Amounts owed to syndicate of credit institutions	350		350	3.3
Amounts owed to institutional investors	168		168	4.1
Other amounts owed to credit institutions	1		1	5.9
Total	519		519	3.6

Please see note 24 for amounts owed to syndicate of credit institutions and amounts owed to institutional investors.

9 Borrowings from subsidiaries

The interest rate at year-end 2009 was 1.0% on EUR 173 million and 0% on EUR 217million (2008: 3.4% on EUR 116 million and 0% on EUR 162 million).

10 Derivative financial instruments

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

11 Commitments and contingencies

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

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

The remuneration of members of the Supervisory Board and the Executive Board is as disclosed in the notes to the consolidated financial statements.

Amersfoort, 5 March 2010

Executive Board
Royal FrieslandCampina N.V.

C.C. 't Hart, CEO
C.J.M. Gielen
P.J. Hilarides
F. Rijna
F.M.W. Visser

Supervisory Board
Royal FrieslandCampina N.V.

C.H. Wantenaar, chairman
S.S.U. Attema, vice-chairman
P. Boer
P.A.F.W. Elverding
R. ter Haar
J. Jorritsma
J.P.C. Keijsers
F.A.M. Keurentjes
S.R.F. Ruiter
H. Scheffers
J.H.G.M. Uijttewaal
B. van der Veer
W.M. Wunnekink

Auditor's report

To: the shareholder of Royal FrieslandCampina N.V.

Report on the financial statements

We have audited the accompanying financial statements 2009 of Royal FrieslandCampina N.V., Amersfoort, as presented on pages 71 up to and including 113 of this Annual report. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2009, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2009, the company profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Executive Board review in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 2009, 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 2009, 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 requirement under 2:393, subsection 5, paragraph f. of the Netherlands Civil Code, we report, to the extent of our competence, that the Executive Board report, as presented on pages 27 up to and including 67, is consistent with the financial statements as required by 2:391, subsection 4, of the Netherlands Civil Code.

KPMG ACCOUNTANTS N.V.

Amstelveen, the Netherlands
5 March 2010

E.H.W. Weusten

Provisions of the Articles of Association governing profit appropriation

The provisions on the appropriation of profit are included in Article 28 of the Articles of Association. These can be summarised as follows: profit will be distributed after adoption of the financial statements showing such distribution to be legitimate. The profit will be at the disposal of the General Meeting of Shareholders. The General Meeting will adopt the company's reserving policy 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.

Milk price

Milk price In euros per 100 kilograms of milk at 4.41% fat and 3.47% protein, excl. VAT	**2009**	2008
Fat	**11.29**	13.45
Protein	**15.11**	22.44
Guaranteed price	**26.40**	35.89
Performance payment	**0.59**	0.48
Milk price	**26.99**	36.37
Registered reserve	**0.35**	0.29
Total	**27.34**	36.66

Financial history [1]

in millions of euros, unless stated otherwise

	2009	2008	2007
Headline figures			
Income statement			
Revenue	8,160	9,454	9,008
Operating profits before non-recurring expenses	347	276	
Operating profit	258	248	373
Profit for the year	182	135	256
Milk price			
Guaranteed price	26.40	35.89	
Performance payment in euros per 100 kilograms	0.59	0.48	
Milk price in euros per 100 kilograms (excl. VAT, 4.41% fat, 3.47% protein)	26.99	36.37	34.85
Registered reserve in euros per 100 kilograms	0.35	0.29	
Balance sheet			
Total assets	4,770	4,930	5,128
Equity	1,749	1,480	1,681
Equity attributable to equity holders of the company and other providers of capital	1,652	1,395	1,601
Net debt [2]	842	1,494	1,343
Cash flows			
Net cash flows from operating activities	757	351	234
Investment in property, plant, equipment and intangible assets	231	240	304
Depreciation and amortisation	206	219	226
Ratios			
Equity as a % of total assets	36.7	30.0	32.8
Employees (average number of FTEs)	20,034	20,568	20,774
Total milk processed (in million kilograms)	10,755	11,446	11,700
Milk supplied by members (in million kilograms)	8,685	8,589	8,734

1 The 2007 figures are pro forma.

2 Net debt represents the Zuivelcoöperatie FrieslandCampina U.A. borrowing, non-current interest-bearing borrowings, current borrowings and the payable to relating parties less cash and cash equivalents and the receivable from associates.

Summary report of Zuivelcoöperatie FrieslandCampina

Profile
Zuivelcoöperatie FrieslandCampina U.A. is a collaborative structure of dairy farmers in the Netherlands, Germany and Belgium. The cooperative's object is to realise the value of its members' milk, thus creating sustainable value for all of its member dairy farmers. This is expressed in the milk price and in the compensation paid on the capital members make available to FrieslandCampina. FrieslandCampina is a cooperative with a wide variety of dairy farms and owners' development requirements. The cooperative exercises the voting rights attaching to the shares in Royal FrieslandCampina N.V.

Report of the Board of Zuivelcoöperatie FrieslandCampina U.A.
The Board of FrieslandCampina met 14 times during the year under review. The following topics, among others, were addressed at those meetings.
- Financial statements 2008
- Annual Programme 2009
- Termination scheme within the context of the conditions set by the European Commission in relation to the merger
- Policies on the admission of members of the cooperative
- Guaranteed price and milk price developments
- Conversion of Campina bonds
- Harmonisation of quality assurance system
- FrieslandCampina's 2010 Regulations
- Appointment of Board member
- Communications to members
- Strategy project

During the Member Council meeting of 6 May 2009, Mr J. de Boer retired as a Board member. Mr W.M. Wunnekink in Haarlo, the Netherlands, was appointed as his successor during the Member Council meeting of 31 August 2009, taking up office as of the close of the Member Council meeting of 16 December 2009.

In 2009, the Board started paying visits to FrieslandCampina districts. The following districts were visited.
- District 21, Westfalen/Hessen
- District 1, Groningen
- District 15, Zuid-Holland
- District 4, Centraal Friesland

Cooperative Council of FrieslandCampina
The Cooperative Council met 11 times in 2009, addressing the following topics.
- Orientation on the Cooperative Council's role and methods
- Annual plans of the districts
- Training plan of District Councils
- Financial statements 2008, for advice to Member Council
- The cooperative's strategy
- Appointment of Board member, upon binding nomination to Member Council
- Practical regulations 2010, for advice to the Board

In addition, the Cooperative Council organised a seminar aiming to obtain an insight into how the District Councils and the Cooperative Council function.

Member Council meetings and central meetings of District Councils
During the first year following the merger, the 210 District Council members met several times, sometimes in the form of a Member Council meeting (at which decision are made) and sometimes in the form of a central meeting of District Councils at which topics are discussed without any decisions being made.

Key figures of Zuivelcoöperatie FrieslandCampina

	2009	2008
Total volume of milk processed (in millions of kilograms)	10,755	11,446
Volume of milk supplied by members (in millions of kilograms)	8,685	8,589
Content in percentages of:		
fat	4.367	4.370
protein	3.499	3.498
Milk price in euros per 100 kilograms of milk (exclusive of VAT, at 4.41% fat and 3.47% protein)	26.99	36.37
Average volume of milk supplied per farm (in kilograms)	556,000	524,000
Number of members at year-end	21,062	21,583
Number of member dairy farms at year-end	15,326	15,837

Ad Ketelaars, District Council member, Zwolle

"FrieslandCampina is often called a 'dairy giant'. That's exactly why we, the members of the District Council, must ensure that the distance between the member dairy farmers and their cooperative stays small. When the District Council was set up in 2009, after the merger was approved, we first actively started approaching members to hear from them how they saw the cooperative. Members must know you before they see you as their contact, and we must know about their concerns. Although the guaranteed price was very low

Proud of our cooperative

last year, our talks mainly addressed the future. For instance, many members wonder how FrieslandCampina will deal with the additional production of milk once the system of milk quotas will be abolished in 2015. But we also noted that they are proud of our cooperative. This year, we are organising meetings addressing important themes, such as the method for determining milk prices and Foqus, FrieslandCampina's quality system - not only to explain things, but, in particular, to engage in dialogue. Once key decisions get to the vote, you must have broad-based backing. Half plus one does not work in a cooperative."

On 26 and 27 January 2009, the District Council members were present when FrieslandCampina was introduced and the new logo was revealed. The new cooperative structure was explained and District Council members' roles and duties were discussed and shared in an interactive way.

Member Council

During various Member Council meetings, several topics were discussed with respect to which decisions were made. The Member Council made decisions on the following topics.

- The financial statements
- Amendment to the Articles of Association
- Member admission policies
- Termination scheme
- Appointment of the members of the Appeals Committee
- Appointment of the auditor
- Milk Payment Regulation 2010
- Appointment of Mr Wunnekink as successor of Mr de Boer on the Board of Zuivelcoöperatie FrieslandCampina

Central meeting of District Councils

In addition to Member Council meetings, several central meetings of District Councils were organised. The company's Board presented itself at a central meeting, the compensation system and the annual and interim figures were explained, and notes were compared on the District Councils' annual plans. In addition, Foqus, FrieslandCampina's new quality assurance system was discussed several times. During the last central meeting held on 18 November, the guaranteed price system and the replacement of ZMP as part of the guaranteed price fixing were extensively considered.

District Councils

For the District Councils, 2009 was primarily characterised by the preparation of the annual plans. All District Councils drew up annual plans indicating how the district intends to commit and involve members. Within that context, initiatives were already taken in 2009 to actually achieve such member commitment and involvement. In addition, member meetings were prepared and evaluated, information of the Board and the Cooperative Council was shared, and Member Council meetings were prepared. At the end of the year, a start was made with the elections to be held in 2010.

Youth work

In 2009, FrieslandCampina's youth work programm was started up. The target group in question consists of 4,200 young people/successors, 50% of whom are members. Besides all young people, three organisational levels were created on the basis of district representation: the Young People's Council, the Young People's Committee and the Executive Committee.

This youth work aims to increase the involvement of young people in FrieslandCampina, by organising low-threshold activities that appeal to young people, with the 21-member Young People's Committee being the driving force.

In 2009, seven district nights for young people were held for the first time, and with success. The formula of discussion nights at a dairy farm, plus a tour of the farm, turned out to work well. A start was also made with setting up a youth section on the Milk web. In addition, preparations were started up in 2009 for a youth day to be held on 14 January 2010.

Appeals Committee of FrieslandCampina

During the year under review, two appeals were submitted to the Appeals Committee of Zuivelcoöperatie FrieslandCampina U.A. by dairy farmers requesting to be admitted as members of the cooperative. The Board had denied their requests. The appeals are still before the Committee and will be dealt with in conformity with the procedure laid down in the Appeals Committee's regulations.

Amersfoort, the Netherlands
5 March 2010

The Board of Zuivelcoöperatie FrieslandCampina U.A.

C.H. (Kees) Wantenaar, Chairman
S.S.U. (Sybren) Attema, Vice-Chairman
P. (Piet) Boer
J. (Jorrit) Jorritsma
J.P.C. (Jan) Keijsers
F.A.M. (Frans) Keurentjes
S.R.F. (Simon) Ruiter
J.H.G.M. (Jan) Uijttewaal
W.M. (Erwin) Wunnekink

Report of Stichting Toezicht Ledenobligaties-vrij FrieslandCampina

One of the objectives of Stichting Toezicht Ledenobligaties-vrij FrieslandCampina is to supervise the administration and trade of the free member bonds issued by Royal FrieslandCampina N.V. To that end, the foundation must represent the interests of bond holders, FrieslandCampina and the administrator of the internal market on which the free member bonds may be traded. In the 2009 financial year, the foundation's Administration was comprised of three independent officers plus the Chairman of the Board of Royal FrieslandCampina N.V. and the Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A. The said three independent officers also act as arbitrators in disputes with respect to the trade in free member bonds.

In the 2009 financial year, the foundation's Administration met five times. The meetings primarily addressed the question as to whether the free member bonds were traded on the internal market in an orderly fashion and in accordance with the procedures laid down. The Administration noted that this was the case on all trading days in 2009. In addition, the conversion of subordinated Campina bonds into free member bonds was addressed and the new Insider Trading Model Code [Modelcode voorkoming gebruik van voorwetenschap] was discussed. Furthermore, the foundation's role and the organisation of its Administration were addressed and the decision was made to reduce the number of officers from five to three. The Administration will retain its independent character, as two out of its three officers will be independent. The third officer will be the Chairman of the Board of the cooperative. These changes will be implemented in 2010.

On 20 July 2009, Mr F.K. van Zinderen Bakker, one of the independent officers and a member of the foundation's Administration since 2004, died after a protracted illness. This meant that the Administration lost a capable and keen member, who applied his specific knowledge of the securities trade to the foundation, FrieslandCampina and the cooperative.

In early 2010, Mr F.H.J. Boons stepped down as an officer. The foundation, FrieslandCampina and the cooperative owe him a debt of gratitude for the way in which he fulfilled his duties since 2001. As an independent officer, Mr Boons will be succeeded by Mr J. Boven, a former Board member of SNS Reaal and currently still adviser to that company, among other activities.

Holders of free member bonds receive interest equal to the six-month Euribor with a 2.5 percent mark-up. The interest rate is determined twice a year. For the period from 1 December 2009 through 31 May 2010, it is 3.493 percent. For the period from 1 June 2009 through 30 November 2009, it was 3.973 percent and for the period from 1 December 2008 through 31 May 2009, it was 6.428 percent.

The total value of the free member bonds is 320 million euros.

Further to the offer to convert subordinated Campina bonds into free member bonds of FrieslandCampina, an amount of 36 million euros in subordinated Campina bonds were converted into free member bonds of FrieslandCampina in 2009.

Price and trading volumes of free member bonds

	price in euros	demand, quantity	supply, quantity	purchased/sold [1] by Rabobank	
2009					
2 April	53.02	91,802	122,771	30,969	(purchased)
4 June	50.04	20,791	131,092	110,301	(purchased)
6 August	50.39	14,282	129,414	115,132	(purchased)
1 October	50.70	13,501	70,163	56,662	(purchased)
3 December	51.04	90,359	70,084	20,275	(sold)
2010					
18 February	51.42	141,875	75,410	66,465	(sold)

[1] Where supply exceeds demand, Rabobank purchases the excess at its own expense under the liquidity contract entered into with Rabobank. Where demand exceeds supply, Rabobank sells such a number of free member bonds that supply will equal demand (provided that Rabobank's portfolio contains free member bonds).

Product introductions 2009

Consumer Products Europe

Optimel Chocolate milk
Chocolat milk with 0% fat
Reason for introduction:
Meeting the need for healthy alternatives that taste good while containing fewer calories
Target group:
Consumers in the Netherlands who care about their daily calorie intake

Mona Oud-Hollandsche Luchtige Stroopwafel & Appeltaartpudding
Dessert
Reason for introduction:
Offering more variation; a traditional pudding product in new-fashioned flavours
Target group:
Families with children in the Netherlands

Vifit Superfruit
Probiotic milk-based drink with LGG and antioxidants vitamins C and E for natural resistance
Reason for introduction:
Additional product series for the Vifit range that is characterised by being tasty and healthy
Target group:
Consumers in the Netherlands heart young

Appelsientje Multi Vitamientje Hollands Fruit
Multifruit drink with 10 added vitamins
Reason for introduction:
Capitalising on the strong growth of the multivitamin segment in fruit juices
Target group:
Families with children in the Netherlands




CoolBest Mild; orange, tangerine and multifruit
Cooled juices
Reason for introduction:
Creating a more differentiated basic CoolBest range by offering consumers fruit juices that are made of fruit that is naturally less sour
Target group:
Families with children in the Netherlands

CoolBest World's Best; Brazilian oranges and Italian pear/raspberry
Cooled juices
Reason for introduction:
Opportunities for top-quality juices made of the best fruit available around the world in a transparent bottle sending the message of top quality and freshness
Target group:
Young adults aged 25 to 39 in the Netherlands with a busy and active lifestyle

Puddis 'in Love' coffee cup and nut cup
The coffee cup contains cappuccino and chocolate mousse with chocolate and espresso sauce; the nut cup contains white and plain chocolate/nut mousse with chocolate sauce (plain chocolate and skimmed milk)
Reason for introduction:
Offering two new varieties to give the desserts market new impulses
Target group:
Smaller households and senior consumers in Germany

Landliebe Buttermilch
Buttermilk; natural, lemon, cherry and strawberry
Reason for introduction:
Generating additional turnover and margin for Landliebe
Target group:
Families in Germany

Landliebe
Long-life milk mixes; chocolate and vanilla
Reason for introduction:
Generating additional turnover and margin for Landliebe
Target group:
Families in Germany

NoyNoy
Corn products for babies aged 6 months and older in user-friendly packagings
Reason for introduction:
Further reinforcing the market position of NoyNoy in corn products for babies by offering mothers a smart solution for out-of-home consumption moments
Target group:
Mothers with babies aged 6 to 18 months in Greece

Frisogrow plus
Milk in powder form for children aged 3 to 5
Reason for introduction:
Reinforcing market share in the growing infant segment and expanding powdered milk consumption
Target group:
Mothers with children aged 3 to 5 in Greece

Professional

Nutroma cappuccino milk
Cappuccino milk, 5-litre bag in box, excellent foaming characteristics, for coffee-with-milk varieties in catering
Reason for introduction:
Capitalising on the increased interest in caffè latte in Belgium
Target group:
Caterers in Belgium

Pöttyös 10Pontos
10 separately packed mini bonbons in a bag
Reason for introduction:
Increasing the snack share by generating a new consumption moment
Target group:
Consumers in Hungary

Napolact Sana
A traditional yoghurt type of dairy product in 300 ml PET bottle
Reason for introduction:
Creating a new consumption moment
Target group:
Women aged 36 to 50 in Romania

Milli Mia Piruet
Pudding
Reason for introduction:
Reinforcing the desserts market (of which puddings form an important part) in Hungary and Romania
Target group:
Mothers aged 25 to 45 in Hungary and Romania with average and high incomes who love to treat themselves and their families

Debic Crème Caramel
Ready-to-use dessert, user-friendly solution for a popular, authentic dessert with room for creativity
Reason for introduction:
Expanding the standard dessert range by a 1-litre bottle
Target group:
Hotels, restaurants, catering

Cheese & Butter

Milner in zip-up packaging
New packaging for prepacked slices and chunks of Milner cheese
Reason for introduction:
Marketing a packaging that is easy to open and reseal, so that the freshness of the cheese can be enjoyed longer
Target group:
Conumers from 25 in the Netherlands

Milner Jong
Prepacked, 450 gr chunk of Milner Jong cheese and entire cheese for freshly cut slices of cheese
Reason for introduction:
Offering families more choice
Target group:
Families with children in the Netherlands

Botergoud butter blend
Botergoud butter blend, refined with vegetable oil, 250 gr and 450 gr tubs
Reason for introduction:
Creating several and more daily consumption moments for Botergoud butter
Target group:
Margarine users in the Netherlands

Salted Botergoud Grasboter
Soft, spreadable, salted grass-butter, available in wrapper and dish
Reason for introduction:
Growing market need for salted butter and creating several consumption moments for Botergoud butter
Target group:
Butter lovers in the Netherlands

Consumer Products International

Foremost Omega 369 UHT milk
UHT children's milk in the varieties natural, sweet and chocolate
Reason for introduction:
Being market leader in children's dairy products by offering milk for children, with an excellent price/quality ratio
Target group:
Mothers of toddlers and children in Thailand

Frisian Flag 123/456
Baby and infant food
Reason for introduction:
Improving the recipe with choline and prebiotic inulin
Target group:
Mothers of children aged 1 to 6 in Indonesia

35 gr Peak sachets
Non-sweetened condensed full-cream milk in 35 gr sachet
Reason for introduction:
Offering affordable condensed milk for consumers on a low budget
Target group:
Families in Nigeria

Friso GOLD
Milk powder for babies and children
Reason for introduction:
Reinforcing Friso GOLD's positioning on the basis of a new Friso synbiotics recipe (prebiotics and probiotics)
Target group:
Mothers of children aged 0 to 6 in Vietnam

Ingredients

YoMost
Yoghurt drink
Reason for introduction:
Meeting changing consumer needs by adding real fruit juice and reducing fat and sugar content
Target group:
Older teenagers and young adults in Vietnam

DP 90
Instant topping bases
Reason for introduction:
Meeting the growing market demand, in particular in Western Europe, for unhardened vegetable fats
Target group:
The retail market for instant desserts and the professional bakery market in Western Europe

Nutrifizz
Effervescent electrolyte for young calves and piglets
Reason for introduction:
Nutrifizz contains lactose for energy, and essential minerals, prebiotics and probiotics to restore the water and salt balance
Target group:
Young calves and piglets

DOMO MCI 10
Micellar casein isolate
Reason for introduction:
A strong demand from the medical nutrition industry for good tasting, high quality casein based protein source
Target group:
Nutritional products for vulnerable consumers who need short or long term nutritional assistance

kievit

DOMO®

kievit

DOMO®

Dutch Lady milk and milk powder
Milk and milk powder in various packagings
Reason for introduction:
Renewing interest in the Dutch Lady brand by introducing a new packaging for the Dutch Lady 'Everyday Family Nutrition' range
Target group:
Families with children aged 7 and older in Malaysia

1 Kievit Vana Sana Protein Free
2 Kievit Vana Sana DHA Golden Standard
Encapsulated ARA and DHA for baby food
Reason for introduction:
1 DHA and ARA encapsulates for simple processing in hypoallergenic baby food
2 Improved quality DHA powder for top-quality baby food
Target group:
Producers of baby food, follow-up milk and growth milk for babies

WE80F-HA
Hydrolysed whey protein
Reason for introduction:
Meeting the growing market demand for hydrolysed whey proteins that help prevent the development of cow's milk allergies in babies
Target group:
Babies and children at risk to develop cow's milk allergies

Cream liqueur sachets
Cream liqueur in sachets
Reason for introduction:
New packaging for traditional product for new market in Nigeria
Target group:
Consumers on a low budget

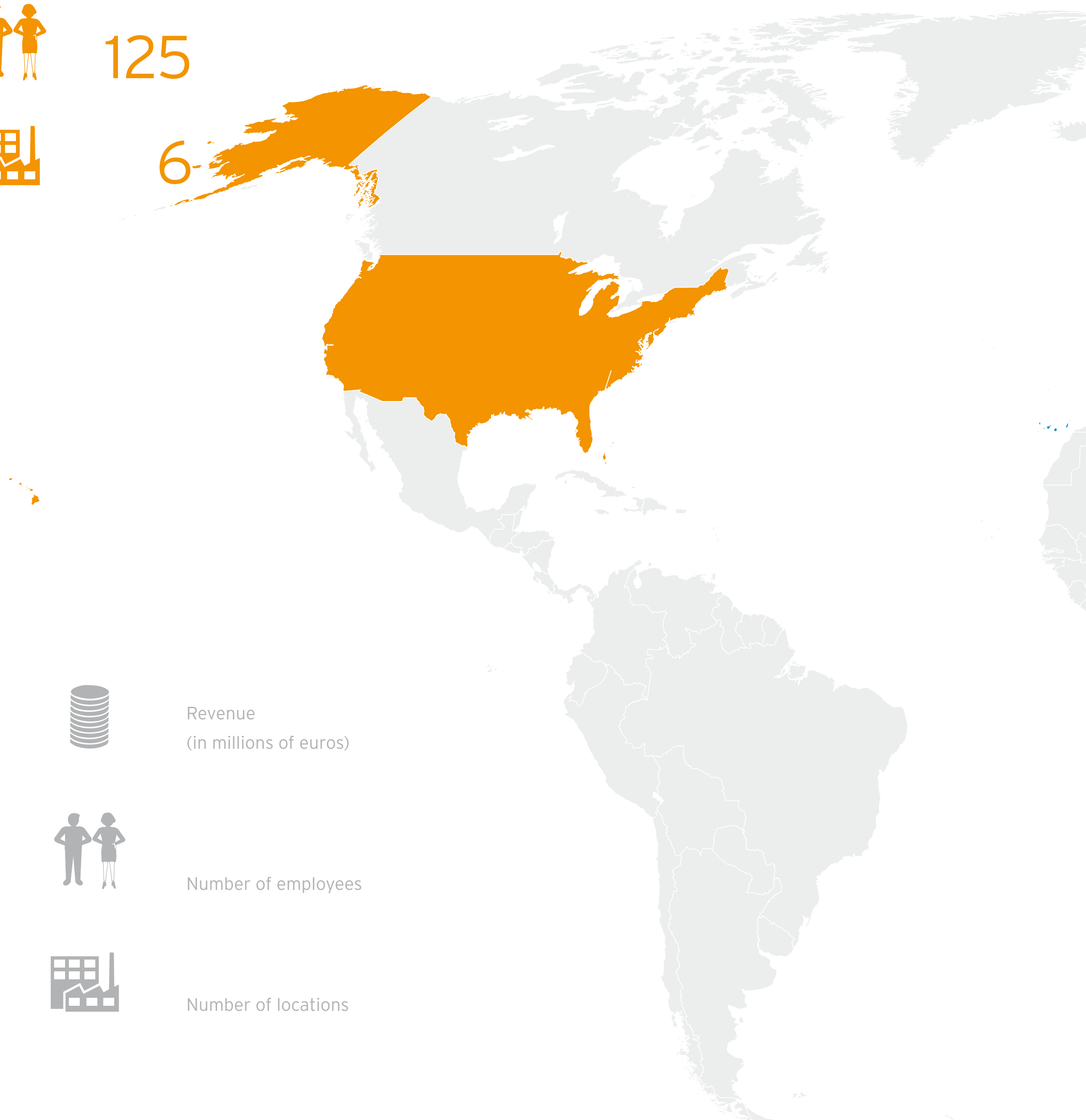
Worldwide

North- and South-America

232

125

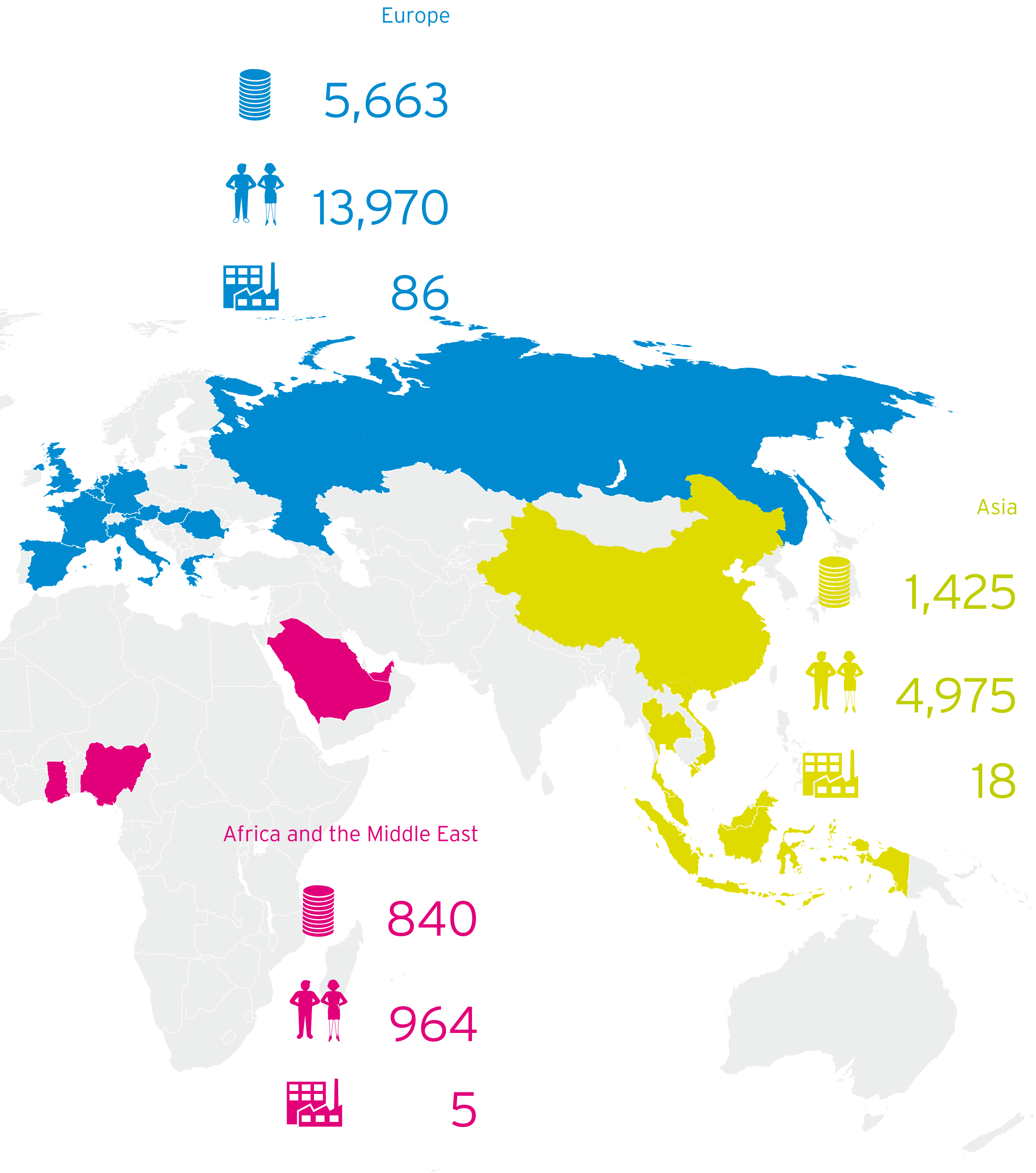
6



Revenue
(in millions of euros)

Number of employees

Number of locations


Europe
5,663
13,970
86
Asia
1,425
4,975
18
Africa and the Middle East
840
964
5

Senior management and addresses

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C.C. 't Hart	Chief Executive Officer
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C.J.M. Gielen	Chief Financial Officer
responsible for:	Corporate Finance & Reporting Corporate ICT Corporate Internal Audit Corporate Procurement Corporate Tax Corporate Treasury Mergers & Acquisitions Shared Services
P.J. Hilarides	Chief Operating Officer
responsible for:	Cheese & Butter
F. Rijna	Chief Operating Officer
responsible for:	Consumer Products Europe
F.M.W. Visser	Chief Operating Officer
responsible for:	Ingredients Milk Valorisation & Allocation

Executive Director

K. Garg	Consumer Products International

Corporate Directors

T.J.C.M. Albers	Director, Corporate Strategy
W.S.J.M. Buck	Director, Corporate Public & Quality Affairs
G. Hagedoorn	Director, Corporate Internal Audit
P. van der Hoek	Director, Corporate Finance & Reporting
A.C.M. van Hooijdonk	Director, Corporate Research & Development
J. van Hout	Director, Corporate Tax
J. Jongsma	Director, Corporate Procurement
S. Klarenbeek	Director, Corporate Shared Services
R.J.P. Koning	Director, Corporate Legal & Company Secretary
A.K. Schaap	Director, Cooperative Affairs
N. Simo Vila	Director, Corporate ICT
K.A. Springer	Director, Corporate Treasury
A.E. Traas	Director, Mergers & Acquisitions
J.C. de Vries	Director, Corporate Human Resources
C.J. van Wees	Director, Corporate Milk Valorisation & Allocation
vacancy	Director, Corporate Communication

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