FrieslandCampina

press release

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Wednesday, 17 March 2010

2009 Royal FrieslandCampina figures

Good financial performance in challenging dairy market
Successful integration after merger

Good financial performance in challenging dairy market

- Sound performance achieved with brands in South-East Asia, Africa and Europe, and industrial specialties
- Volumes in South-East Asia and Africa on the rise; decreasing consumption of dairy products puts volumes under pressure in Europe
- Market shares for key categories up
- 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
- Revenue down 14 percent to 8.2 billion euros due to low prices of such products as milk powder, caseins and basic cheese
- Net cash flows from operating activities increase significantly from 351 million euros to 757 million euros
- 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

Milk price down, performance payment up

- Guaranteed price down 26 percent to 26.40 euros per 100 kilograms of milk (excl. of VAT, at 4.41% fat and 3.47% protein) due to lower dairy product prices on the global market
- Performance payment up 23 percent to 0.59 euro per 100 kilograms of milk
- Milk price down 26 percent to 26.99 euros per 100 kilograms (excl. of VAT, at 4.41% fat and 3.47% protein)

Successful integration after merger

- Will and enthusiasm throughout the company and cooperative to turn FrieslandCampina into a success
- Synergies already exceeded expectations in 2009

Headline figures
in millions of euros, unless stated otherwise

	2009	2008
Results		
Revenue	**8,160**	9,454
Operating profit before non-recurring expenses	**347**	276
Operating profit	**258**	248
Profit for the year	**182**	135
Value creation for members in euros per 100 kilograms of milk (excl. of VAT, at 4.41% fat and 3.47% protein)		
Guaranteed price	**26.40**	35.98
Performance payment	**0.59**	0.48
Milk price	**26.99**	36.37
Registered reserve in euros per 100 kilograms of milk	**0.35**	0.29
Balance sheet		
Total assets	**4,770**	4,930
Group equity	**1,749**	1,480
Equity attributable to equity holders of the company and other providers of capital	**1,652**	1,395
Net debt	**842**	1,494
Cash flows		
Net cash flows from operating activities	**757**	351
Investment in property, plant, equipment and intangible assets	**231**	240
Depreciation and amortisation	**206**	219
Other information		
Group equity as a % of total assets	**36.7**	30.0
Employees (*average number of FTEs*)	**20,034**	20,568
Number of member dairy farms at year-end	**15,326**	15,837
Number of members at year-end	**21,062**	21,583
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

Good financial performance in challenging dairy market

Royal FrieslandCampina N.V. performed well in 2009. In particular brand products in South-East Asia, Africa and Europe, and industrial specialties contributed to this good financial performance. Due to the recession, 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 income and expenses was up 26 percent (71 million euros) to 347 million euros. Operating profit 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). Net cash flows from operating activities increased by 406 million euros to 757 million euros (351 million euros in 2008). 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 and performance payment of 0.48 euro).

Very successful integration after merger
Cees 't Hart, Chief Executive Officer, is pleased with FrieslandCampina's development in 2009: "Despite the challenging market conditions, we were able to improve the company's financial result compared with 2008. We also 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." For FrieslandCampina's member dairy farmers, results in 2009 were down on 2008. The poor dairy market conditions led to a sharp decline in the milk price and, hence, in member dairy farmers' income.

On 2 January 2009, the collaboration following the merger between Friesland Foods and Campina actually started. 't Hart: "Throughout the company and cooperative, we sense the will and the enthusiasm to turn FrieslandCampina into a success. Staff have excelled in working together from day one. 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 success: the benefits of the merger that were achieved already exceeded expectations in 2009."

Challenging market conditions
In 2009, global demand for dairy products on the part of both consumers and industrial producers 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.

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.

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. 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. It was up 159 million euros to 290 million euros compared with 2008, the main reasons being volume growth, the lower costs of milk and raw materials, and 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 brand cheeses. 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, 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.

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).

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 number of employees was 20,034 in 2009 (2008: 20,568). The decline by 534 employees 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 item of work contracted out and temporary staff was down 11 percent to 245 million euros.

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 expense 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 brand 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.

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.

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 are comprised of unconditional credit facilities of 1 billion euros. FrieslandCampina renegotiated these facilities with banks after the merger, reaching agreement in August 2009 about 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 seven 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 an additional payment 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).

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.

Creating value for member dairy farmers
Value creation for FrieslandCampina's member dairy farmers consists of the milk price (guaranteed price plus performance payment), the registered reserve and the compensation paid on fixed and free member bonds.

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 value creation for member dairy farmers to 27.34 euros per 100 kilograms of milk (2008: 36.66 euros). The compensation paid on member bonds totals 40 million euros.

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 subsequent years as well. 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. No statement is being made on the expected result for 2010.

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Royal FrieslandCampina is a multinational dairy company that produces and markets natural, nutritional and high-quality dairy products and ingredients. Flavour, health, ease of use and reliability take pride of place. On the basis of the 2009 figures, Royal FrieslandCampina N.V.'s sales amount to 8.2 billion euros. The company employs some 20,000 people and operates over 100 production facilities and sales offices in 24 countries. 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 consumption milk, powdered and concentrated milk, milk-based drinks, yoghurts, desserts, cream, coffee enrichers, baby and infant food, cheese, butter and ingredients. Well-known FrieslandCampina brands are Campina, Chocomel, Completa, Dutch Lady, Frisian Flag, Foremost, Betagen, Friesche Vlag, Fruttis, Fristi, Vifit, Landliebe, Milli, Mona, Optimel, Optiwell, Puddis, Pöttyös, NoyNoy, Peak, Rainbow, Yazoo, Appelsientje, DubbelFrisss, CoolBest, Debic, Frico, Milner, Buttergold, Valess, DMV, Kievit, Domo, Creamy Creation and Nutrifeed. The company's base is constituted by a cooperative. The 15,300 member dairy farms, united in Zuivelcoöperatie FrieslandCampina U.A., supply milk to and own Royal FrieslandCampina N.V.