



PRESS RELEASE

18-02-2015

Resilient strategic focus leads to strong results 2014

2014 was a complex year for Arla. The farmer-owned company achieved one of its best results ever in a market impacted by volatility and international politics. A strong first half of the year produced record-high earnings, but the global market shifted in the second half, reducing the farmer milk price significantly.

Seldom has a business year been split in two so opposing halves. 2014 was a year that first saw strong economic tail winds in the global market that carried Arla into the summer with record-high milk prices for its cooperative farmers in Sweden, Denmark, Germany, the UK, Belgium, Luxembourg and the Netherlands.

Then things changed. The tail winds became head winds as global supplies rapidly outstripped demand, Chinese consumption ebbed off, and inventories were full. Finally, when Russia imposed a ban on dairy products from the EU, the headwinds grew in strength.

Performance price higher than ever

Summing up both halves, Arla came out of 2014 with an overall performance stronger than ever. The performance price, which indicates the value Arla has generated from each kilo of milk supplied by the owners, was 41.7 eurocent pr. kilo with a total volume of owner milk of 11.7 billion kilos in 2014 (compared to 41.0 eurocent pr. kilo with a total volume of owner milk of 9.5 billion kilos in 2013).

Arla's profit in 2014 reached 0.3 billion euro, which corresponds to the set target of three per cent of the total revenue. The company's Board of Representatives will decide how to appropriate profits in a meeting on February 25-26.

"In a rollercoaster year for the global dairy industry, Arla's strong brands and focus on efficiency and cost control enabled us to make the most of the upturn and to be competitive through the downturn. The record-high performance price of 41.7 eurocent in 2014 confirms this, however it does not fully reflect the fact that the year ended with much lower milk prices than it began. Market conditions and the Russian embargo are making the financial situation difficult for our owners, but we have worked hard to minimise the effects by sticking to our strategy of creating growth outside Europe and strengthening our business across our European core markets," says CEO of Arla Foods, Peder Tuborgh.

More milk into brands

Arla posted its highest-ever revenue of 10.6 billion euro, with much of it attributable to organic growth of 6.7 per cent. Given the market situation, the strategic global brands – Arla®, Lurpak® and Castello® – produced satisfactory results in 2014 with a total volume growth of 2.1 per cent.

"We are seeing growth for Arla's strategic brands and our overall market shares in an otherwise stagnating or declining European dairy market. Throughout 2014 we have worked hard to move more milk into value-added brands, by enhancing our portfolio to our customers through further investment in innovation. Our grip on costs has never been more firm. Our

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owners gave us more milk in 2014, and we are ready to shift up to 500 million kilo of additional owners' milk into value-added products in 2015," says CFO Frederik Lotz.

Entering new markets

While Arla continues to move more milk into branded products, the company is also working hard to move those branded products into new markets. Arla's international operations and ingredients business had yet another strong year with growing opportunities.

"We saw 14 per cent growth in our international business despite the Russian embargo. There has been steady growth in China, and we have created growth of 20 per cent in the Middle East and Africa. In 2014 we have begun to enter new markets in Asia and Africa, and in 2015 we will continue to move into new markets where safe and high-quality dairy products are in growing demand," says Frederik Lotz.

Although Denmark continues to be the country that supplies the most milk to Arla, the UK remains Arla's biggest market by revenue followed by Sweden and Germany.

Expectations for 2015

2014 showed that the global milk price is extremely volatile, and therefore Arla cannot announce any expectations for its revenue nor the performance price for 2015.

"The global dairy industry has never been as unpredictable as it is now, but we believe that our strategy is the right one to take us forward. We continue to rigidly streamline and control costs, while investing significant sums in marketing and new products. Arla's ability to profitably handle larger milk volumes will define the success of the business in 2015. We will enhance the quality of our product range and our positions and stand strong when the market turns," says Peder Tuborgh.

The annual results were presented to Arla's Board of Directors on Tuesday. They will now be submitted for approval to Arla's Board of Representatives at a meeting in Nyborg, Denmark on February 25-26 2015, after which the Annual Report will be published.

2
14

FINANCIAL
HIGHLIGHTS

A stronger
cooperative
**in a difficult
market**

thanks to efficient
operations, global brands
and expanding markets





Greater responsibility in a **stronger cooperative**

Åke Hantoft, Chairman of the Board of Directors

Satisfactory results in a **difficult market**

Peder Tuborgh, CEO

2014 was a complex year for Arla. We achieved one of the best results ever in a market impacted by economic trends and the Russian embargo.

Arla's profit in 2014 totalled EUR 0.3 bn, which corresponds as promised to 3 per cent of the total revenue. The performance price of 41,7 EUR-cent is the highest ever, despite the fact that we had to repeatedly lower the milk price.

The performance price is the sum of a well-run and efficient business, strong brands, good customer service and an innovative ingredients business which has created increasing growth outside Europe and strengthened our position in our core markets. This strength is particularly important now given the growing milk volumes.

The board is proud of the strong results achieved in 2014. The year saw good earnings for Arla's owners, and we should not let this be overshadowed by the difficult situation at present. The business is characterised by loyalty and efficiency, and cooperation amongst Arla's owners has been strengthened. However, 2015 will be a very challenging year for milk producers.

EUR reporting

Arla is a Danish registered company, and we have historically been reporting in DKK. However, ninety per cent of Arla's business is generated outside Denmark, and our circle of owners is growing and becoming more international. Reporting in EUR have been requested by our owners and will satisfy the general need for most users of the financial information. Consequently, we have chosen to report in euro in the financial statements going forward. The performance price is calculated in both EUR, DKK, SEK and GBP.



STRATEGY

We drive our business forward according to the course set in Strategy 2017. We must develop the core to maintain a stable base in Europe and develop our global brands. We must deliver the growth by moving more milk to markets with high demand for milk to create profitable growth. And we must do it faster, simpler and leaner to achieve cost leadership.



CORPORATE GOVERNANCE

In 2014, Arla launched Good Growth – an identity with new opportunities. Being a large cooperative is an important differentiator. Good growth shows who we are and how we want to create the future of dairy. Our identity fuels our business and represents clear growth opportunities.

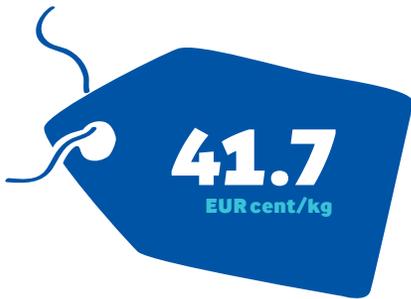
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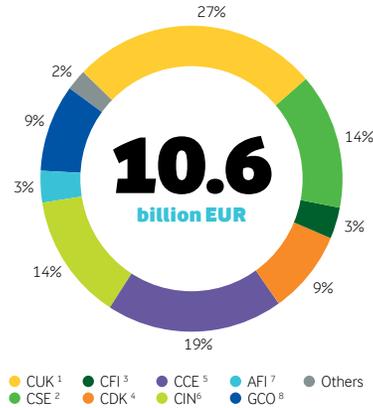
2014

in short

Performance Price



Revenue



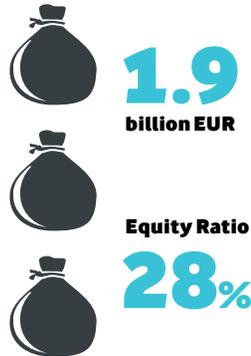
Revenue Growth



Milk Volume



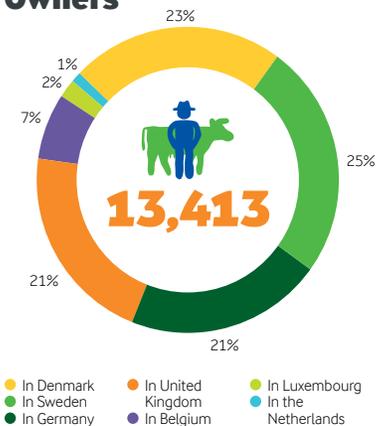
Equity



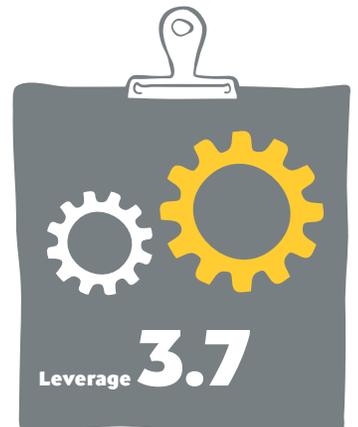
Net interest-bearing debt



Owners



Profit



Developments

In preparing the financial statements, the management makes estimates and assumptions that form the basis for presentation, recognition and measurement. Significant accounting estimates are particularly related to pensions, non-current assets and provisions.



Market prices starting at a high level but significantly declining during the year primarily due to declining Chinese demand and Russian embargo.

Result is at 0.3 bn EUR as promised 3 per cent of the revenue. Performance price at EUR cent 41,7.



Revenue rose to 10.6 bn EUR. Especially growth markets showed high organic growth. But the development on core markets was also positive showing growing volumes.

Active cost management led to significant efficiency gains. Synergies have been realised after the mergers and growing milk volumes bring economies of scale.



Net interest-bearing debt increased by 150 mEUR leading to a leverage of 3,7. Investments levels for 2015 have been lowered to reduce the leverage.

Milk volume increase and contract milk turned into owner milk as AMFP farmers joined Arla in the end of 2013.



Performance price and global market prices

Arla's performance price has increased over the period to reach an all time high for 2014. However, the milk price is very volatile and has dropped over the year to enter 2015 at a level significantly below the level in January 2014. Global market prices for milk show a dramatically decreasing trend. The volatile global market prices are affected by the global demand mainly the stop in demand from China and the Russian embargo flooding the markets with excess milk. This has a significant impact on Arla's performance price.

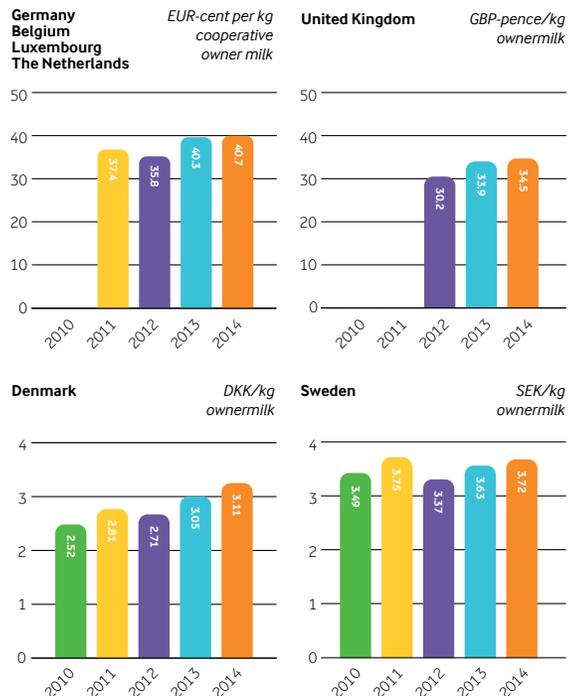
MARKET PRICES / GDT DEVELOPMENT WMP, USD MT



Source: Global Dairy Trade

PERFORMANCE PRICES

Average performance price is EUR cent 41,7. Performance price is translated into currency of our owner countries using a currency model. The result is shown below.



Summarised income statement

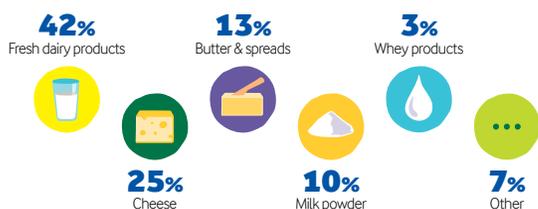
INCOME STATEMENT 1 JANUARY – 31 DECEMBER (EURm)

	2014	2013
Revenue	10,614	9,870
Production costs	-8,395	-7,587
Gross profit	2,219	2,283
Sales and distribution costs	-1,454	-1,466
Administration costs	-468	-456
Other operating income and costs and financial items	41	-24
Tax	-18	-37
Profit for the period	320	300
Minority interests	-6	-5
Owners of Arla Foods amba	314	295

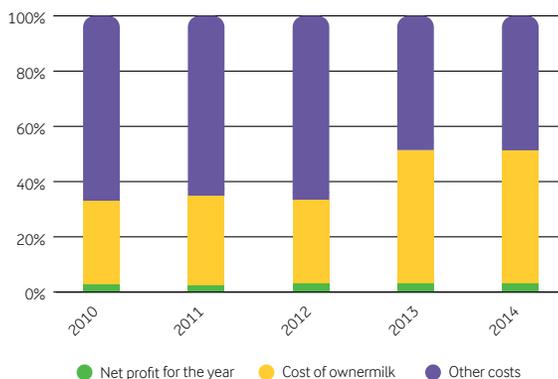
Income statement

Revenue and profits have increased significantly in the past years. Revenue growth is primarily driven by a sound organic growth of 6.7 per cent in 2014. Profits are decided to be three per cent of revenue, which is achieved through adjustments to the prepaid milk price.

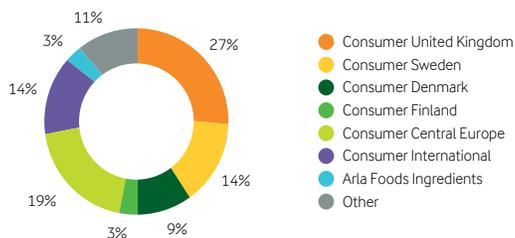
REVENUE SPLIT BY PRODUCT CATEGORY



REVENUE AND COSTS (%)



REVENUE SPLIT BY BUSINESS GROUPS/COUNTRY



Total revenue
10,614 EURm

Revenue growth

**2010-
2014**

61%

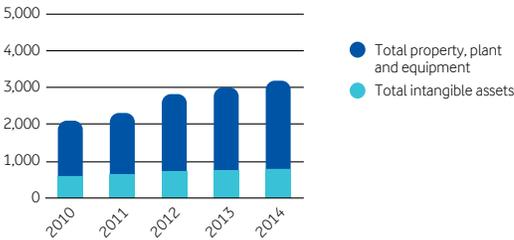
Summarised balance sheet

ASSETS AT 31 DECEMBER (EURm)	2014	2013
ASSETS		
Non-current assets:		
Intangible assets	791	746
Property, plant and equipment	2,399	2,259
Other non-current assets	584	422
Total non-current assets	3,774	3,427
Current assets:		
Inventories	988	1,014
Trade receivables	917	906
Other current assets	293	230
Securities, cash and cash equivalents	641	610
Total current assets incl. assets held for sale	2,839	2,760
TOTAL ASSETS	6,613	6,187
EQUITY AND LIABILITIES AT 31 DECEMBER (EURm)	2014	2013
EQUITY		
Equity attributable to the parent company's owners	1,851	1,687
Minority interests	23	21
Total equity	1,874	1,708
LIABILITIES		
Non-current liabilities:		
Pension liabilities	376	348
Loans	1,702	1,789
Other non-current liabilities	59	52
Total non-current liabilities	2,137	2,189
Current liabilities:		
Loans	1,130	885
Trade payables	977	1,014
Other current liabilities	495	391
Total current liabilities incl. liabilities reg. assets held for sale	2,602	2,290
TOTAL LIABILITIES	4,739	4,479
TOTAL EQUITY AND LIABILITIES	6,613	6,187

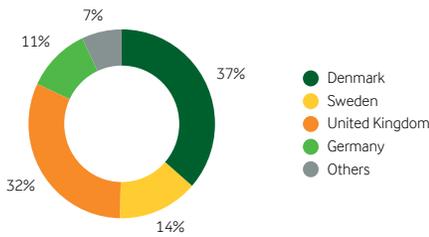
Non-current assets

In 2014, Arla mainly invested in capacity expansions in our core markets, but at the same time our core markets supported the increased export mainly to the growth markets and the ingredients business. Investments also support the efficiency agenda and environmental improvement.

NON-CURRENT ASSETS (EURm)



INVESTMENTS SPLIT BY COUNTRY 2014



Equity

Equity has increased over the years due to consolidation and mergers. A part of equity is on name and can be paid out if owners decide to leave the company. The common capital will remain in the company and this includes reserve for accounting purposes such as pensions and hedging.

Total equity by the end of 2014

1,874
EURm

Cash flows

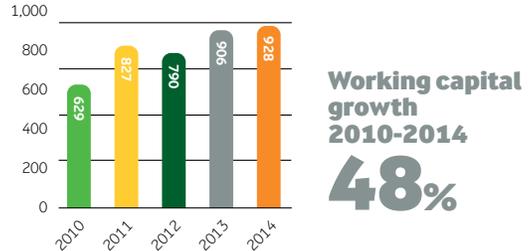
CASH FLOWS (EURm)

	2014	2013
Cash flow from operating activities	467	342
Cash flow from investing activities	-416	-470
Free cash flow	51	-128
Cash flows from financing activities	-49	110
Net cash flow	2	-18

Current assets

Net working capital has increased due to growing activity. We work continuously to reduce net working capital to release funds to financing of new opportunities.

NET WORKING CAPITAL (EURm)



Net interest-bearing debt

Net interest bearing debt has increased over the past years as a result of Arla's growth strategy and investments. Due to our rapid growth, the leverage has been challenged and is by the end of 2014 above our target range. We are committed to reduce the leverage.

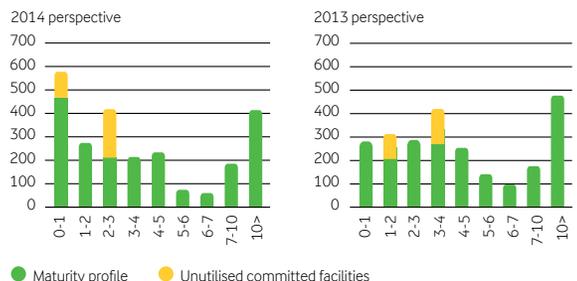
NET INTEREST-BEARING DEBT (EURm)



Net interest-bearing debt

2,547
EURm

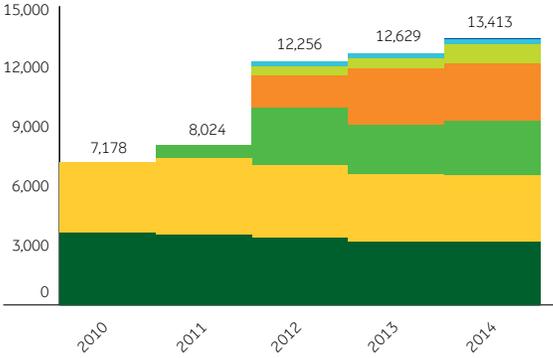
MATURITY NET INTEREST BEARING DEBT (EURm)



Owners

Our number of owners has increased during the past 5 years mainly due to the mergers: Swedish Milko and German Hansa Milch in 2011, British Milk Link and German Milch-Union Hocheifel (MUH) in 2012, Arla Foods Milk Partnership (AFMP) in 2013 and EGM Walhorn in 2014.

NUMBER OF OWNERS



Owners by the end of 2014

13,413

Growth in owners 2010 to 2014

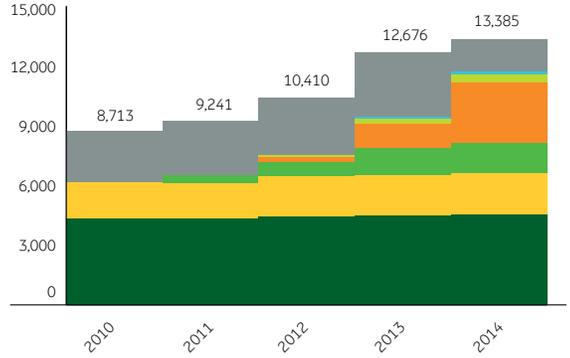
87%

- Owners in Denmark
- Owners in Sweden
- Owners in Germany
- Owners in United Kingdom
- Owners in Belgium
- Owners in Luxembourg
- Owners in the Netherlands

Milk volume

Arla's increased milk volume supports our increased activities. Starting 2014 the former AFMP farmers in the UK are Arla owners transforming contract milk into owner milk.

INFLOW OF RAW MILK (mkg)



Total milk inflow

13,385 mkg

Total owner milk

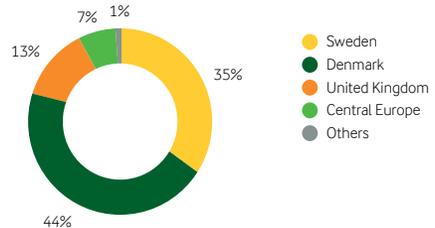
11,738 mkg

Growth in milk volume 2010-2014

54%

- Owners in Denmark
- Owners in Sweden
- Owners in Germany
- Owners in United Kingdom
- Owners in Belgium
- Owners in Luxembourg
- Owners in the Netherlands
- Others

ORGANIC MILK PER COUNTRY



Total organic milk

816 mkg



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The annual report will be approved by the Board of Representatives on 25-26 February 2015 and published after this. Please read our full report for more information and details www.arla.com

