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Half-year report  
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A good  
result in  
**a volatile  
market**



We are driving our business forward according to the course set in Strategy 2017. And we stand firm on the strategy, even though events around the world can create challenges and setbacks in the short run as for example the Russian import ban that from one day to the next has removed Arla's export to Russia in August 2014.

**Our key focus is on creating the best possible earnings for our members,** and the half year results confirm that the strategy is serving its purpose well.

*Peder Tuborgh, CEO*

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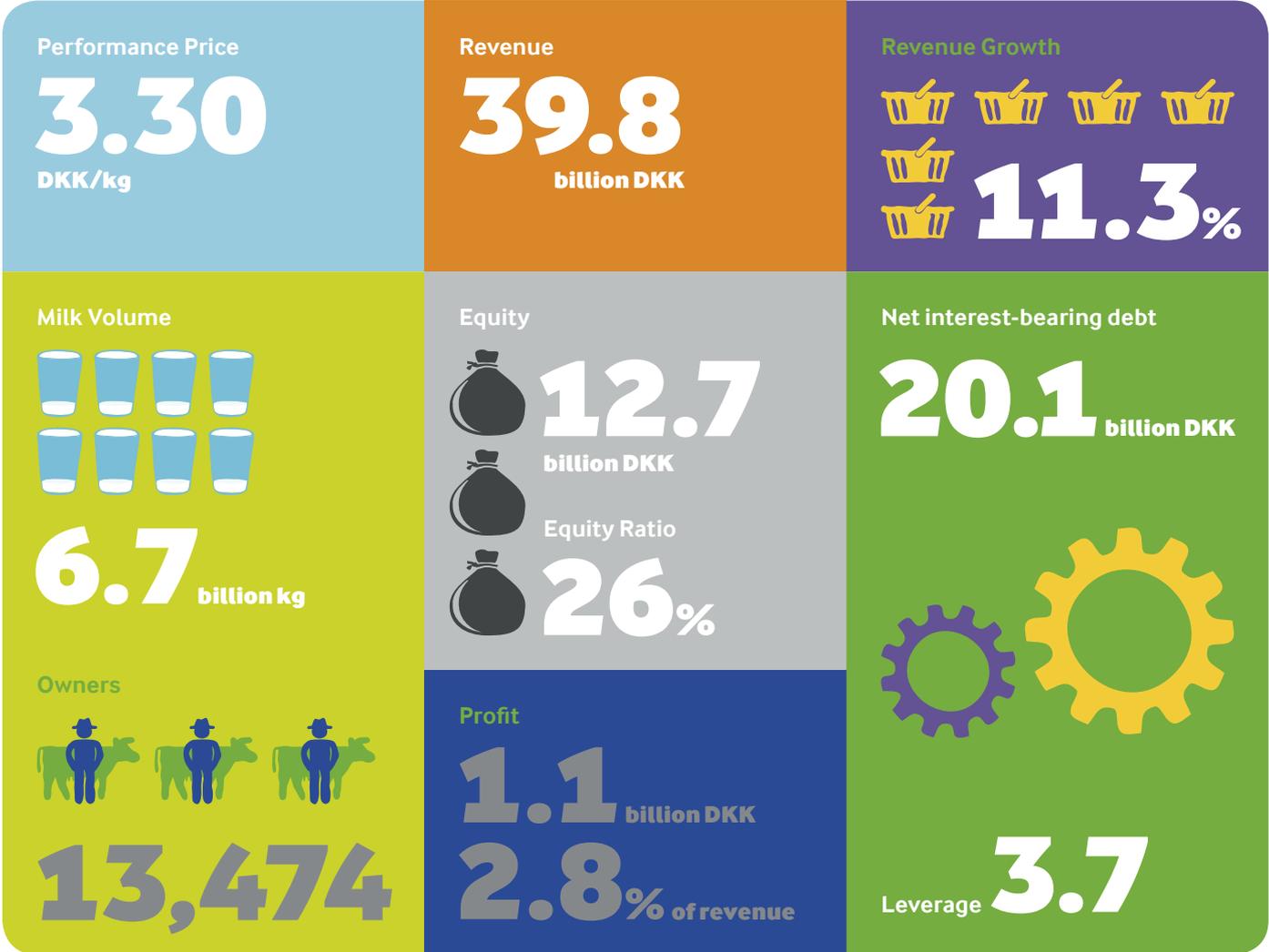
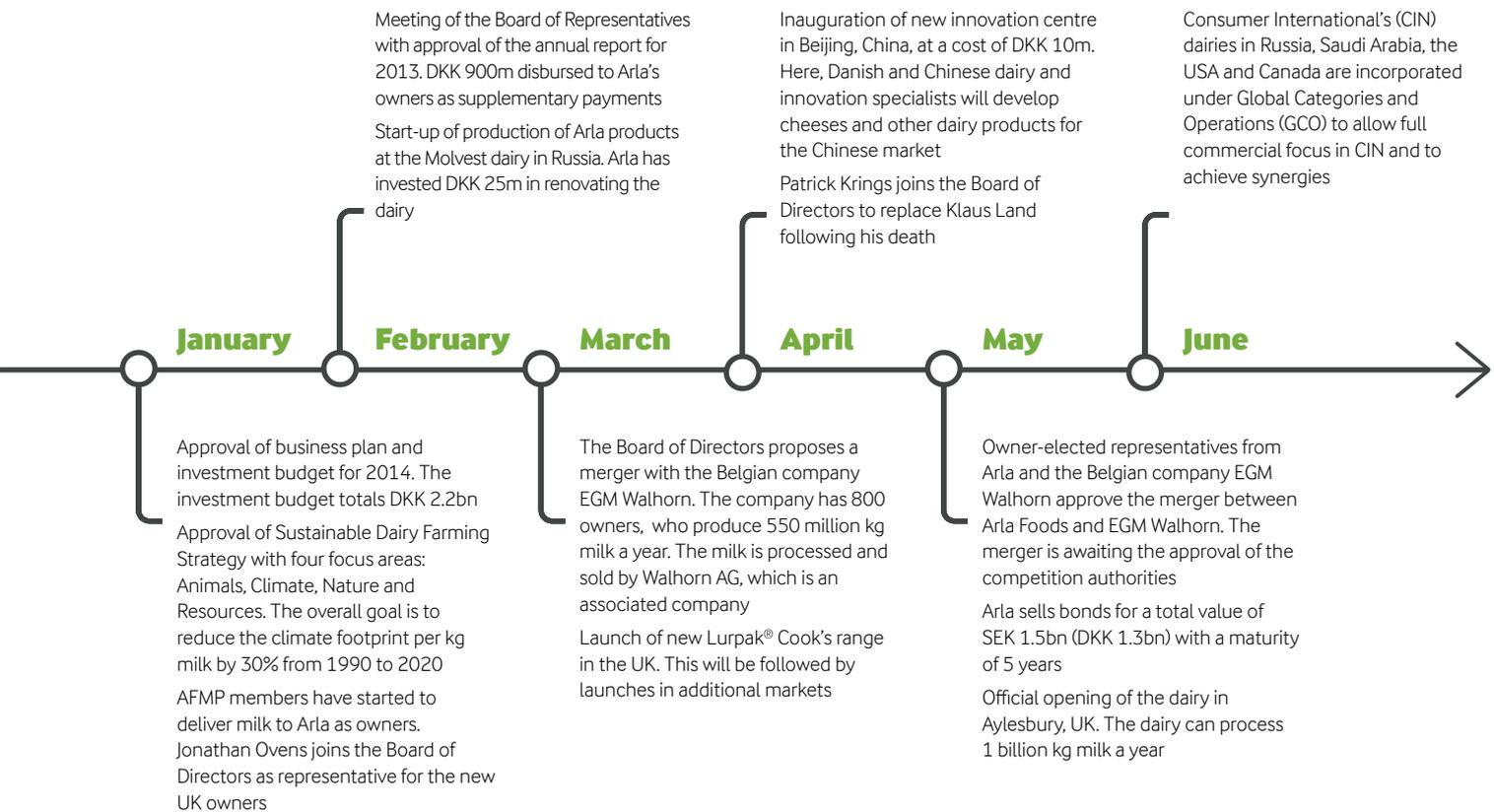
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*The half-year report has not been audited or reviewed by the Group's auditors*

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# 2014

## 1/2 IN SHORT



# Shoulder to shoulder into the future

Åke Hantoft, Chairman of the Board of Directors

## INFLOW OF RAW MILK (MIO.KG)



Arla is delivering on our strategy in 2014 and we even see possibilities to accelerate this to support our mission to create the highest value for our owners' milk. At the moment we see more opportunities than we have the capability to finance. That is why we currently discuss our future consolidation and investment in Arla in the owner group. By financing our company ourselves, we are also benefiting from the returns. For us, these constructive discussions are about taking full responsibility for our company as well as creating opportunities for Arla's future development – together.

As farmers, we are familiar with growth. And in the Arla cooperative, we are committed to responsible growth – for nature, the society, our owners, employees and consumers. The milk, we produce, is a natural and healthy ingredient. Our production of milk is founded in the nature and we accept the responsibility for preserving the natural resources while bringing our milk to consumers that demand these healthy benefits.

Our cooperative heritage makes us stronger and helps us grow our business. All of this is part of our identity and serve as a platform for future growth. I'm proud to say that a company of Arla's size has influence in the global dairy market and the ability to make substantial change.

### More milk

Arla's future depends on having access to more milk and on more farmers joining us. We have long been preparing for the abolition of the EU's milk quotas in 2015. It is a question of due care and Arla has made the necessary investments in recent years so that we as owners can produce all the milk we want. It keeps the milk wheel turning for everyone's benefit.

The total milk volume for the first half of 2014 is 6.7 billion kilos compared to 6.2 billion kilos last year. Of this owner milk is 5.8 billion kilos.

This summer we welcome 800 farmers in Belgian EGM Walthorn adding more owners from Belgium and Germany and even, for the first time ever, the Netherlands. The merger adds 550 million kilos of owner milk annually to Arla's milk volume.

Moreover, we welcome additional owners in the UK over the next two years bringing 300 million kilos of owner milk. This proves that our cooperative and democratic approach is attractive to many farmers.

### Democratic process

Arla's ownership structure means that we are in a constant democratic process. In January, the Board of Directors decided on a new settlement model, which brings many different models down to one for Arla farmers. The decision was based on a solid work carried out by our National Councils.

At the moment, we are working on a proposal for a new retainment policy. Discussions started in February and they still go on. A decision on future consolidation will be made by the Board of Representatives in October 2014. Consolidation is about us farmers assuming responsibility for our company and creating opportunities for future development. The process shows the cooperative way – working together to find solutions for the future.

# We must seize the opportunities for **good growth**

Peder Tuborgh, CEO

PERFORMANCE PRICE  
(DKK PER KG)



In the first half of 2014 we continue to deliver good results with loyalty to our strategy. We focus our energy on developing new products, strengthening our brands, refining our approach to customers and building positions in new countries in cooperation with strong local partners. However, Volatility in the global milk supply is an unavoidable premise and Arla is affected by the past months' increasing supplies of milk in the global market and the following turbulence. Furthermore, the Russian import ban has from one day to the next eliminated the Russian demand on our owners' milk and put further pressure on the milk price as the product needs to be sold elsewhere.

At 3.30 DKK, the performance price is at a high level and seen separately satisfactory. But as the price trends are pointing downwards, earnings are under significant pressure even more than expected. Therefore we now aim for a performance price for 2014 below our expectations stated earlier but still better than 2013 thanks to our broad product portfolio and

strong brands in many markets. The declining market prices for milk has forced us to reduce the prepaid milk price.

### **We accept our owners challenge**

Many Arla farmers have already prepared for the abolishing of the EU quotas and have started to increase the milk production. We accept this challenge and the fact that a larger supply of milk is putting the company under considerable, yet positive pressure to deliver a long-term competitive milk price for a growing milk volume. The extra milk is flowing into our production sites and into the market. This means that our facilities can run at full capacity while improving efficiency and keeping processing costs per unit down.

Even so, more milk on the global market is currently a challenge in the commercial end of our value chain and in the short run, the situation in Russia stresses this point. It takes time to establish new profitable sales channels in order to get the full value for our owners' milk. This task is a key priority and we work hard on building new markets, attracting new customers and developing products that match different needs.

Our strategy is to deliver results for our brands and on the growth markets our activity levels are growing. Revenue for the first half year totalled DKK 39.8 billion, representing a growth of 11.3 per cent.

### **The value of our identity**

Arla possesses considerable unexploited potential, which essentially relates to who we are, where we come from and how we contribute. As people across the world increase their living standards, more will share an interest in healthy living and sustainable production.

Arla has much to offer in these areas. We are responsible by nature and grow through cooperation to bring health and sustainable choices to consumers in all parts of the world. We will meet consumers with innovative thinking and strong global brands that can create synergies between our core markets. Our identity supports commercial opportunities and provides clear competitive advantages.

# OUR IDENTITY

Arla has a unique story. As we grow and welcome new owners, colleagues, customers, and consumers we need a clear common understanding of our identity. Being a large cooperative, people expect more from us. Good Growth shows who we are and how we want to create the future of dairy. The newly defined four principles are already a part of our solid foundation and represent clear growth opportunities.

**Responsible**  
Growth

**Natural**  
Growth

**Good**  
Growth

**Cooperative**  
Growth

**Healthy**  
Growth



## Responsible growth

### **Growing our responsibility**

As we grow, so does our responsibility and we will make sure that our company is governed and operated responsibly. We expand the responsibility to cover our suppliers. We expect them to acknowledge their social and environmental responsibilities so that we meet our aim to purchase sustainable goods and service into our products.

### **Sustainable farming strategy**

We have launched a sustainable strategy that will enhance animal welfare, conserve resources such as water, energy and food, reduce greenhouse gases and promote biodiversity on our owners' farms. Carbon assessments on the farms and Arlagården® are some of the tools used to expand sustainable farming.

### **Responsible soy**

As a farmer owned cooperative we will make a difference all the way through the value chain. One of our recent initiatives is securing RTRS (Round Table of Responsible Soy) certificates to cover 100 per cent of the soy that Arla farmers use in feedstuff for their dairy cows. Arla owners use approximately 480,000 tonnes of soy every year, which corresponds to 0.18 per cent of the global production.



# Cooperative growth

## Joint forces

Arla is a cooperative owned by dairy farmers, who have joined forces to secure influence on the development of the business and earnings to the farmers. We continuously grow the cooperative, recently by gaining more owners in the UK, Germany, Belgium and new owners in the Netherlands. Arla now processes more than 11 billion kilograms of owner milk per year.

## Cooperative roots

The cooperative is a conscious choice of owner model – because we believe we will create better results throughout cooperation. The cooperative approach is part of how we deliver as an organisation and how we create value for our customers. We share knowledge across geographies and professional areas to be efficient and grow for the benefit of all.

## Working with local partners

In February 2014, we established a local production of Arla Natura® Havarti cheeses in cooperation with Russia's third largest dairy Molvest Group. The goal is to produce approximately 1,500 tonnes in 2014 and after this 8,000 tonnes per year. This is only one of many partnerships with local entities on our markets.





## Natural growth

### **Milk is a natural source of nutrients**

Our products are based on milk from cows. We believe that natural products are in the modern consumers interest, and we will maintain milk's natural benefits and develop new ways of using the benefits of this natural food source, for example by adjusting the protein level for child nutrition as close as possible to the natural composition of human milk.

### **Reducing additives**

The majority of our products have always been free of artificial ingredients and additives. In some cases we develop more natural ingredients or additives, which can replace the chemically modified additives available on the market today. Stevia replace artificial sweeteners in some of our products, as we believe it is a great alternative to sugar.

### **Minimising the use of limited natural resources**

We respect limited natural resources and work on reducing consumption of energy and water and changing from fossil to renewable energy sources. Saving the natural resources also has a direct positive economic effect for example when our transport systems trucks use less fuel to collect the milk and distribute products to our customers.



# Healthy growth

## **Our products have the power to improve people's lives**

Milk is naturally rich in nutrients and we are able to transform it into a wide range of products that fit the individual needs across the demographics and health state – from young children to elderly citizens, malnourished to overweight. As an example we have developed Arla Protino® that has a high protein level, based on whey.

## **Delivering health to new markets**

Arla is entering new markets in Africa where there is a growing demand for healthy and nutritious food. Recently we have established a joint venture with a local partner in Ivory Coast

regarding packaging and sale of small portion bags of milk powder. We expect to sell 2,000 tonnes of milk powder corresponding to 80 mio. portion bags a year and expect to expand with similar packaging facilities in the coming years for the milk to reach more consumers.

## **Creating social moments**

We believe that a healthy life includes great food and the social moments that come from enjoying it together. Our activities and recipes will inspire people to explore the wonders of dairy in their everyday cooking and on special occasions.



# We take the long view

Arla shows growth in 2014. We seek opportunities to create the future of dairy and seize them as they appear. Our growth in milk is approximately 3 per cent, which together with increased prices have created an organic growth of 11.9%. Arla's investments support the strategy and overall, the half-year of 2014 has been good. However, we face challenges due to the falling market prices and the changed situation in Russia.

*Frederik Lotz, CFO*

We have provided a high performance price for the first half of 2014, and at a level 0.43 DKK per kg above that for the same period last year. Even though the market prices in the end of the first half of 2014 are under pressure. We see a number of market opportunities which create new sales possibilities, but in the coming time we are also challenged by the import ban in Russia.

Our revenue is ahead of expectations for the first half year, and has now reached DKK 39.8 billion. The growth in revenue is purely organic, because more owners are producing more milk, and because the general price level in the market has been on a high level, leading to higher payments.

At 3.7, leverage is higher than at year-end 2013, partly due to the supplementary payment for 2013 paid out in March and partly to the building-up of stocks, in particular in the UK for a large cheese contract. The leverage is naturally seasonal, as it is affected by the payments to farmers – both the supplementary payments in March, but also the timing of the on-account payments which are due every 14 days. We expect the leverage for 2014 to be in the the upper end of the target range defined as 2.8-3.4.

## **Growth in and outside our core markets and for brands**

An important part of Arla's strategy is to accelerate the growth outside our European core markets, and it is working. Our growth in the Middle East & Africa (22 per cent), Russia (68 per cent) and China (251 per cent) has accelerated significantly. In addition, our sales of infant nutrition is up 30 per cent relative to the first half of 2013. During the past years, Arla has had a considerable revenue growth especially resulting from a number of mergers on our core markets. Despite this the growth markets' share of total revenue is increasing without additional growth from mergers on these markets and today account for a total share of 10 per cent of total revenue.

During the first half year, the growth in brands shows that our initiatives are working. During the first half year, our strategic brands have grown 3 per cent by volume and 7 per cent by revenue. Arla's strategic brands include the global brands Arla®, Lurpak® and Castello®, supported brands such as Puck® in the Middle East and retail powder brands such as Dano® and Milex®.

## REVENUE GROWTH

# 11%

### Focus on ingredients

Arla Foods Ingredients (AFI) is playing a key role in Arla's growth story. Revenue for the half year totalled DKK 1.3 billion relative to DKK 1.2 billion in the prior-year period, up 8 per cent. AFI is a global business with innovative programmes and state-of-the-art technology, and in the past few years we have boosted investments to develop this business area, thereby increasing Arla's profit.

During the first half year, AFI's new production facilities in Nordhackstedt in Germany have been finalised. The factory is being set up and run in collaboration with the German dairy company DMK on a joint-venture basis. We are finalising AFI's new lactose factory, which is an extension of Danmark Protein in Nr. Vium, Denmark. Production will begin in October 2014.

The two sites are expected to significantly increase AFI's sales of lactose, with the company's total revenue expected to increase by more than 35 per cent. AFI's target is a doubling of revenue in 2017 relative to 2012.

### Scalable growth

The accelerating growth in AFI and on the non-European growth markets create scalability in the business because our fixed costs are not increasing at the same rate.

Efficiency is increasing due to the growing milk volumes increasing economies of scale, but also as a result of our efficiency programmes, scalability and conversion costs in production. We are also beginning to see the benefits of OPEX and the lean programmes.

### Investments

Arla has a strong base in its core markets both to support these markets but also for export to other markets. Our investments are at the moment moving to support the growth markets in the quest for sales opportunities for the growing milk volumes. Arla is investing in a number of dairy expansions and new facilities both in Europe and on the growth markets with a view to growing the production of profitable products globally.

In first half year, we have seen additional investments – in Bislev and Branderup in Denmark and in Danya in Saudi Arabia – to expand production of white cheese and

mozzarella and support the sales in the MEA region. The need for agility in this area has fuelled the debate this year among the owners about increased consolidation. Strengthened consolidation will support Arla's accelerating growth.

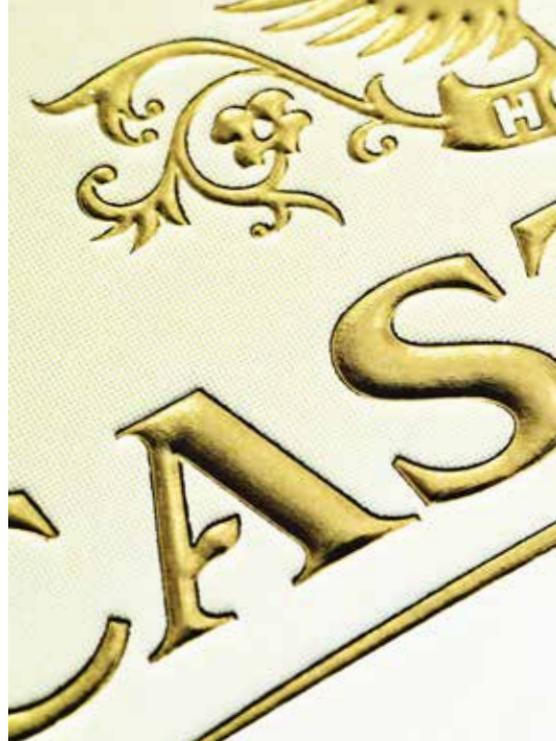
### Risks

As we expand our business, a growing share of the total revenue will come from markets outside the EU. Therefore, we are increasingly exposed to both political and economic risks. However, Arla is taking a long view, and we have faith in the markets we are entering. We have a relatively large market spread, and a solid footing in our core markets in Europe.

Russia has announced a ban on agricultural import from countries involved in sanctions against Russia, which hits the import of Arla products from Denmark and Sweden. This is a serious setback on an important growth market. Furthermore, a surplus of butter and cheese in Europe is expected to put further pressure on prices. Focus is now on converting the production to products for other markets. Arla's revenue in Russia prior to the import ban was approximately DKK 1bn a year corresponding to 1.3 per cent of revenue.

### 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 beyond Denmark and becoming more international. Consequently, we are considering whether to report in Euro. The half-year report 2014 may be the last formal report we produce in which figures are stated in Danish kroner. Reporting in EUR have been requested by our owners and will satisfy the general need for most users of the financial information. However, there will still be a performance price in DKK, as there is in SEK and GBP, but Euro will be used in the financial statements.



## Let in the goodness

Many of us take dairy for granted.  
Through the Arla brand campaign

'Let in the Goodness' we want to  
remind our consumers that

**goodness not only comes from  
eating healthy and natural**

**dairy products,** it also comes  
from the moments that naturally  
happen around these occasions.





## Consolidated **Income Statement**

(DKKm)	NOTE	HALF-YEAR 2014	HALF-YEAR 2013	FULL YEAR 2013
Revenue	1.1	39,774	35,721	73,600
Production costs	1.2	-31,635	-27,351	-56,576
<b>Gross profit</b>		<b>8,139</b>	<b>8,370</b>	<b>17,024</b>
Research and development costs	1.2	-152	-144	-279
Sales and distribution costs	1.2	-5,140	-5,023	-10,647
Administration costs	1.2	-1,779	-1,754	-3,406
Other operating income and costs		311	63	338
Results after tax in joint ventures and associates		83	54	140
<b>Earnings before interest and tax (EBIT)</b>		<b>1,462</b>	<b>1,566</b>	<b>3,170</b>
<b>Specification:</b>				
Earnings before interest, tax, depreciation and amortisation (EBITDA)		2,629	2,692	5,496
Depreciation, amortisation and impairment		-1,167	-1,126	-2,326
<b>Earnings before interest and tax (EBIT)</b>		<b>1,462</b>	<b>1,566</b>	<b>3,170</b>
Financial income and costs	3.1	-308	-395	-660
<b>Profit before tax</b>		<b>1,154</b>	<b>1,171</b>	<b>2,510</b>
Tax		-34	-123	-274
<b>Profit for the period</b>		<b>1,120</b>	<b>1,048</b>	<b>2,236</b>
Minority interests		-26	-25	-35
<b>Owners of Arla Foods amba</b>		<b>1,094</b>	<b>1,023</b>	<b>2,201</b>

Arla presents its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as approved by the EU. The half-year report is presented in accordance with IAS 34, Interim Financial Reporting, as approved by the EU.

The accounting policies remain unchanged from the Annual Report for the year ended 2013.

# 2.8%

*Profit accounts for 2.8% of revenue, which is just below the Group's performance target of 3.0%.*

## Consolidated **Statement of Comprehensive income**

(DKKm)

**HALF-YEAR 2014    HALF-YEAR 2013    FULL YEAR 2013**

<b>Profit for the period</b>	<b>1,120</b>	<b>1,048</b>	<b>2,236</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to the income statement:</b>			
Actuarial gains/(losses) on defined-benefit plans etc.	-111	72	168
Income tax on actuarial gains/(losses) on defined benefit plans	26	-17	-41
<b>Items that may be reclassified subsequently to the income statement:</b>			
Deferred gains/(losses) on cash flow hedges arising during the period	-345	273	70
Value adjustments of hedging instruments reclassified to other operating income and costs	-10	-52	92
Value adjustments of hedging instruments reclassified to financial items	107	17	188
Value adjustments of hedging instruments reclassified to production costs	-7	7	-12
Value adjustments of financial assets for the period classified as held for sale	-4	15	33
Foreign exchange adjustments of foreign entities	134	-100	-58
Income tax on items that may be reclassified to profit or loss	8	-35	-54
<b>Other comprehensive income, net of tax</b>	<b>-202</b>	<b>180</b>	<b>386</b>
<b>Total comprehensive income</b>	<b>918</b>	<b>1,228</b>	<b>2,622</b>
Allocated as follows:			
Owners of Arla Foods amba	891	1,204	2,600
Minority interests	27	24	22
<b>Total</b>	<b>918</b>	<b>1,228</b>	<b>2,622</b>

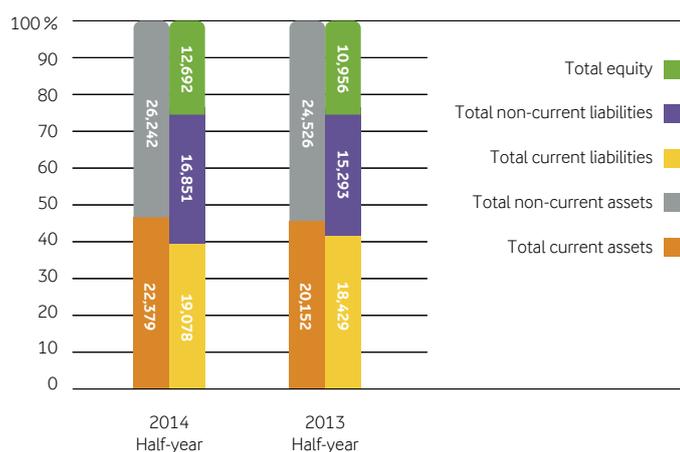
Comprehensive income shows the value creation/impairment during the period. It covers income and changes in equity for the period that are not transactions with owners, e.g. actuarial movements on defined-benefit plans and changes in value of cash flow hedge instruments. The milk price is only affected by the net profit for the period and not by the changes in other comprehensive income.

## Consolidated Balance Sheet

(DKKm)

	NOTE	HALF-YEAR 2014	HALF-YEAR 2013	FULL YEAR 2013
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets		5,715	5,322	5,569
Property, plant and equipment		17,262	16,039	16,851
Other non-current assets		3,265	3,165	3,154
<b>Total non-current assets</b>		<b>26,242</b>	<b>24,526</b>	<b>25,574</b>
<b>Current assets</b>				
Inventories	2.1	8,427	6,919	7,562
Trade receivables	2.1	7,450	7,089	6,762
Derivatives		137	289	208
Other current assets		1,354	1,142	1,299
Securities, cash and cash equivalents	3.2	4,803	4,362	4,560
<b>Total current assets excl. assets held for sale</b>		<b>22,171</b>	<b>19,801</b>	<b>20,391</b>
Assets held for sale		208	351	200
<b>Total current assets incl. assets held for sale</b>		<b>22,379</b>	<b>20,152</b>	<b>20,591</b>
<b>TOTAL ASSETS</b>		<b>48,621</b>	<b>44,678</b>	<b>46,165</b>

### BALANCE SHEET SPLIT BY MAIN ITEMS



◀ The balance sheet composition is sound and stable. The share of non-current assets is on par with other companies in the dairy business. Non-current assets are mainly financed by equity and non-current liabilities. Current assets exceed current liabilities, which is a sound overall measure for liquidity.

(DKKm)

NOTE HALF-YEAR 2014 HALF-YEAR 2013 FULL YEAR 2013

**EQUITY AND LIABILITIES****EQUITY**

Equity before proposed supplementary payments to owners		12,514	10,800	11,676
Proposed supplementary payments to owners		-	-	900
<b>Equity attributable to the parent company's owners</b>		<b>12,514</b>	<b>10,800</b>	<b>12,576</b>
Minority interests		178	156	160
<b>Total equity</b>		<b>12,692</b>	<b>10,956</b>	<b>12,736</b>

**LIABILITIES****Non-current liabilities**

Pension liabilities		2,566	2,754	2,593
Provisions		79	92	66
Deferred tax		226	149	266
Loans		13,932	12,234	13,346
Other payables		48	64	53
<b>Total non-current liabilities</b>	3.2	<b>16,851</b>	<b>15,293</b>	<b>16,324</b>

**Current liabilities**

Loans		8,416	8,447	6,600
Trade payables	2.1	7,266	6,461	7,564
Provisions		231	75	314
Derivatives		1,031	759	623
Other current liabilities		2,134	2,658	2,004
<b>Total current liabilities excl. liabilities reg. assets held for sale</b>		<b>19,078</b>	<b>18,400</b>	<b>17,105</b>
Liabilities regarding assets held for sale		-	29	-
<b>Total current liabilities incl. liabilities reg. assets held for sale</b>	3.2	<b>19,078</b>	<b>18,429</b>	<b>17,105</b>

<b>Total liabilities</b>		<b>35,929</b>	<b>33,722</b>	<b>33,429</b>
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<b>TOTAL EQUITY AND LIABILITIES</b>		<b>48,621</b>	<b>44,678</b>	<b>46,165</b>
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## Consolidated **Cash Flow Statement**

The cash flow statement shows the ability to generate cash. In the first half of 2014 Arla has obtained new financing through a bond issue in May of DKK 1.3 billion. Obtained cash has primarily been invested in new and more efficient production facilities but also inventory to support the growth.

(DKKm)	HALF-YEAR 2014	HALF-YEAR 2013	FULL YEAR 2013
<b>Cash flows from operating activities:</b>			
Profit for the the period	1,120	1,048	2,236
Depreciation and impairment	1,167	1,126	2,326
Share of results in joint ventures and associates	-83	-54	-140
Change in primary working capital	-2,052	-1,679	-973
Change in other working capital	217	-90	-886
Other operating items without cash impact	-253	-97	-207
Dividends received, joint ventures and associates	-	-	15
Financial income	-37	-27	-37
Financial costs	345	422	697
Interest paid	-270	-203	-481
Interest received	43	17	37
Change in deferred tax	-66	36	73
Tax paid	-62	-79	-118
<b>Total Cash flow from operating activities</b>	<b>69</b>	<b>420</b>	<b>2,542</b>
Investment in intangible fixed assets	-56	-58	-253
Investment in property, plant and equipment	-1,369	-1,814	-3,767
Sale of property, plant and equipment	25	36	345
<b>Total operating investing activities</b>	<b>-1,400</b>	<b>-1,836</b>	<b>-3,675</b>
<b>Free operating cash flow</b>	<b>-1,331</b>	<b>-1,416</b>	<b>-1,133</b>
Sale of financial assets	90	113	173
Sale of enterprises	100	-	-
<b>Total financial investing activities</b>	<b>190</b>	<b>113</b>	<b>173</b>
<b>Total cash flow from investing activities</b>	<b>-1,210</b>	<b>-1,723</b>	<b>-3,502</b>
<b>Total free cash flow</b>	<b>-1,141</b>	<b>-1,303</b>	<b>-960</b>

(DKK.m)

**HALF-YEAR 2014    HALF-YEAR 2013    FULL YEAR 2013****Cash flows from financing activities:**

Supplementary payment regarding the previous financial year	-904	-1,112	-1,126
Paid in funds from new owners	147	-	396
Paid out from equity regarding terminated membership contracts	-85	-47	-51
Loans obtained, net	1,386	-	1,202
Change in current liabilities	824	741	321
Net change in marketable securities	5	1,354	78
<b>Total Cash flow from financing activities</b>	<b>1,373</b>	<b>936</b>	<b>820</b>
<b>Net cash flow</b>	<b>232</b>	<b>-367</b>	<b>-140</b>
Cash and cash equivalents at 1 January	566	734	735
Exchange rate adjustments of cash funds	1	-21	-29
<b>Cash and cash equivalents at 30 June</b>	<b>799</b>	<b>346</b>	<b>566</b>

**Financial Review**

Cash flows from operating activities were DKK 69 million for the half year 2014 compared to DKK 420 million for the same period in 2013. The change in cash flows from operating activities represented a decline of DKK 351 million which is primarily attributable to an increase in primary working capital. Our effort to reduce working capital continues to bring cash effects, which is estimated to DKK 0,3 billion for the first half of 2014. However growth adds working capital and the total net working capital primarily inventories has increased in the period.

Cash flows from investment activities were DKK -1,210 million compared with DKK -1,723 million in 2013. Main investments in first half 2014 are related to facilities in Arinco (DK), AFI facilities in Videbæk (DK), Falkenberg (SE), Pronsfeld (GE) and finalisation of the dairy in Aylesbury (UK). Free cash flows totalled DKK -1,141 million in the first half of 2014 compared with DKK -1,303 million in 2013. These are calculated as cash flows from operating activities less cash flows from investment activities.

Cash flows from financing activities were DKK 1,373 million, which are mainly affected by the supplementary payment and the issue of new bonds.

Cash and cash equivalents combined represented DKK 799 million, compared with DKK 346 million in the first half of 2013.

## Consolidated Statement of Changes in Equity

The Group statement of changes in equity shows the development of the period in net assets, that is, the Group's assets less liabilities. In the period equity has mainly been affected by the supplementary payment related to 2013 paid out in March 2014 and profit for the period. Furthermore items in other comprehensive income – changes in hedging instruments and pension schemes defined as defined benefit plans – are recorded in equity.

(DKK m)	CAPITAL ACCOUNT	DELIVERY-BASED OWNER CERTIFICATES	CONTRIBUTED CAPITAL	RESERVE FOR SPECIAL PURPOSES	RESERVE FOR VALUE ADJUSTMENT OF HEDGING INSTRUMENTS	RESERVE FOR FOREIGN EXCHANGE ADJUSTMENTS	PROPOSED SUPPLEMENTARY PAYMENT TO OWNERS	PROFIT FOR THE PERIOD	EQUITY ATTRIBUTABLE TO ARLA FOODS AMBA	MINORITY INTERESTS	TOTAL EQUITY
<b>Equity at 1 January 2014</b>	<b>6,893</b>	<b>796</b>	<b>2,407</b>	<b>1,947</b>	<b>-336</b>	<b>-31</b>	<b>900</b>	<b>-</b>	<b>12,576</b>	<b>160</b>	<b>12,736</b>
Profit for the period	-	-	-	-	-	-	-	1,094	1,094	26	1,120
Other comprehensive income	-78	-	-	-	-255	130	-	-	-203	1	-202
<b>Total comprehensive income</b>	<b>-78</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-255</b>	<b>130</b>	<b>-</b>	<b>1,094</b>	<b>891</b>	<b>27</b>	<b>918</b>
Capital issued to new owners	-	-	36	-	-	-	-	-	36	-	36
Payments to owners	-	-41	-44	-	-	-	-	-	-85	-	-85
Dividend to minority shareholders	-	-	-	-	-	-	-	-	-	-9	-9
Supplementary payment to owners	-	-	-	-	-	-	-904	-	-904	-	-904
Exchange rate adjustments	-4	-	-	-	-	-	4	-	-	-	-
<b>Total transactions with owners</b>	<b>-4</b>	<b>-41</b>	<b>-8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-900</b>	<b>-</b>	<b>-953</b>	<b>-9</b>	<b>-962</b>
<b>Equity at 30 June 2014</b>	<b>6,811</b>	<b>755</b>	<b>2,399</b>	<b>1,947</b>	<b>-591</b>	<b>99</b>	<b>-</b>	<b>1,094</b>	<b>12,514</b>	<b>178</b>	<b>12,692</b>
<b>Equity at 1 January 2013</b>	<b>6,894</b>	<b>835</b>	<b>1,628</b>	<b>969</b>	<b>-673</b>	<b>-10</b>	<b>1,112</b>	<b>-</b>	<b>10,755</b>	<b>163</b>	<b>10,918</b>
Profit for the period	-	-	-	-	-	-	-	1,023	1,023	25	1,048
Other comprehensive income	21	-	-	-	245	-85	-	-	181	-1	180
<b>Total comprehensive income</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>245</b>	<b>-85</b>	<b>-</b>	<b>1,023</b>	<b>1,204</b>	<b>24</b>	<b>1,228</b>
Payments to owners	-	-26	-21	-	-	-	-	-	-47	-	-47
Supplementary payment to owners	-	-	-	-	-	-	-1,112	-	-1,112	-	-1,112
Dividend to minority shareholders	-	-	-	-	-	-	-	-	-	-31	-31
Exchange rate adjustments	31	-7	-24	-	-	-	-	-	-	-	-
<b>Total transactions with owners</b>	<b>31</b>	<b>-33</b>	<b>-45</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-1,112</b>	<b>-</b>	<b>-1,159</b>	<b>-31</b>	<b>-1,190</b>
<b>Equity at 30 June 2013</b>	<b>6,946</b>	<b>802</b>	<b>1,583</b>	<b>969</b>	<b>-428</b>	<b>-95</b>	<b>-</b>	<b>1,023</b>	<b>10,800</b>	<b>156</b>	<b>10,956</b>

### Financial Review

As at 30 June 2014, equity amounted to DKK 12,692 million, up DKK 1,736 million compared with 30 June 2013. 25 per cent of the total equity is individual capital. Solvency measured as equity in relation to the balance sheet total was 26 per cent compared with 25 per cent the year before.

Supplementary payment for 2013 was paid out from equity in March 2014. The payment including interest on paid-in capital amounted to DKK 904 million after exchange rate adjustments. Additionally DKK 85 million was paid out to owners who had decided to leave the company.

Other adjustments for the period are primarily attributable to adjustments of hedging instruments regarding foreign currencies and interest rate risks as considered to form part of investments. Further there is an actuarial loss on pension liabilities of DKK 111 million primarily as a result of a declining interest level on the Swedish liabilities.



## Note 1 Operating profit

This note section focuses on the Group's performance – growing activity shows in revenue and efficiency is a priority affecting the cost levels. 2014 started out well for Arla. Revenue growth of 11.3 per cent solely achieved by organic growth and currency effects as there has been no mergers in 2013 and the first half of 2014. Arla's organic growth was driven in particular by growth in non-core markets and global market price increases. Costs have been in control creating increased earnings shown in the performance price of DKK 3.30 compared to DKK 2.87 per kg owner milk in the first half of 2013.

### Note 1.1. Revenue

(DKKm)	HALF-YEAR 2014		HALF-YEAR 2013	FULL YEAR 2013
	ORGANIC GROWTH	REVENUE	REVENUE	REVENUE

#### Note 1.1.a Revenue split by Business group/market

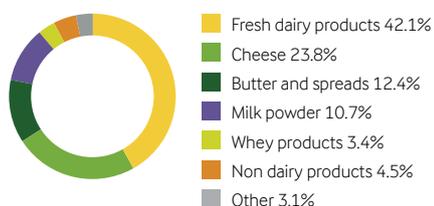
Consumer United Kingdom	9.1%	10,481	9,240	19,217
Consumer Sweden	2.7%	5,647	5,771	11,592
Consumer Finland	1.3%	1,317	1,300	2,677
Consumer Denmark	10.1%	3,495	3,173	6,569
Consumer Germany	19.2%	6,460	5,205	10,782
Consumer Netherlands	29.7%	931	785	1,746
<b>Core markets</b>	<b>11.1%</b>	<b>28,331</b>	<b>25,474</b>	<b>52,583</b>
Consumer International – Russia	67.7%	501	351	857
Consumer International – Middle East & Africa	22.2%	2,101	1,796	3,337
Consumer International – China*	250.7%	120	34	119
Consumer International – TPM	30.0%	708	545	1,084
Arla Food Ingredients	8.8%	1,288	1,191	2,392
<b>Growth markets</b>	<b>29.8%</b>	<b>4,718</b>	<b>3,917</b>	<b>7,789</b>
Value markets	5.9%	2,148	2,180	4,667
Global categories and Operations – trading	18.0%	3,940	3,199	6,712
Others	n/a	637	951	1,849
<b>Total revenue</b>	<b>11.9%</b>	<b>39,774</b>	<b>35,721</b>	<b>73,600</b>

\* Total sales to China including TPM and other areas total DKK 828m compared to DKK 494m in first half year 2013.

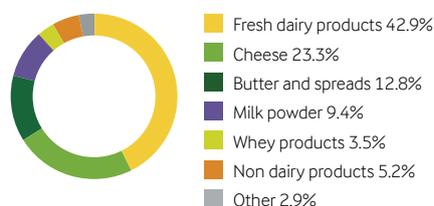
#### Note 1.1.b Revenue split by product category

(DKKm)	HALF-YEAR 2014		HALF-YEAR 2013		FULL YEAR 2013	
	REVENUE	REVENUE SHARE	REVENUE	REVENUE SHARE	REVENUE	REVENUE SHARE
Fresh dairy products	16,762	42.1%	15,307	42.9%	31,479	42.8%
Cheese	9,476	23.8%	8,336	23.3%	17,222	23.4%
Butter and spreads	4,925	12.4%	4,582	12.8%	9,572	13.0%
Milk powder	4,242	10.7%	3,348	9.4%	6,992	9.5%
Whey products	1,365	3.4%	1,252	3.5%	2,529	3.4%
Non dairy products	1,783	4.5%	1,867	5.2%	3,743	5.1%
Other	1,221	3.1%	1,029	2.9%	2,063	2.8%
<b>Total revenue</b>	<b>39,774</b>	<b>100%</b>	<b>35,721</b>	<b>100%</b>	<b>73,600</b>	<b>100%</b>

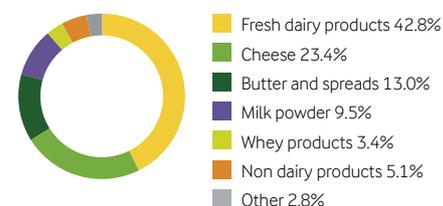
### REVENUE SHARE SPLIT BY PRODUCT CATEGORY, HALF-YEAR 2014



### REVENUE SHARE SPLIT BY PRODUCT CATEGORY, HALF-YEAR 2013



### REVENUE SHARE SPLIT BY PRODUCT CATEGORY, FULL YEAR 2013



## Financial Review

Revenue for the first half of 2014 totalled DKK 39.8 billion and DKK 35.7 billion in 2013 – an increase of 11.3 per cent. Revenue growth is primarily driven by a solid organic growth of 11.9 per cent. Core markets in total show an organic growth of 11.1 per cent primarily related to price increases, while growth markets in total display an organic growth of 29.8 per cent and now represent 11.9 per cent of the total revenue. Especially Russia and the Middle East show high growth rates in the first half of 2014.

However this is prior to the changed situation in Russia. In the table Consumer International – China only consist of export of consumer goods in Consumer International. Our sales of consumer goods to China together with the export of TPM products and other areas total DKK 828 million compared to DKK 494 million in the first half of 2013.

The largest category is fresh dairy product (FDP) that is mainly sold in core markets. The category is responsible for almost half of total revenue. FDP

contain milk, cream, cooking ingredients, UHT and yogurts. The sale of cheese represent 23.8 per cent of total revenue and contains yellow cheese primarily on the core markets and other cheese categories around the world – cream cheese, white cheese and mould cheese. Organic growth in this area is limited. Substantial growth can be found in the milk powder category, which, however, only represents a relatively small part of the business – about 10.7 per cent of total revenue.

### Note 1.2. Costs

(DKKm)

HALF-YEAR 2014    HALF-YEAR 2013    FULL YEAR 2013

#### Note 1.2.a. Costs split by function and nature

Production costs	-31,635	-27,351	-56,576
Research and development costs	-152	-144	-279
Sales and distribution costs	-5,140	-5,023	-10,647
Administration costs	-1,779	-1,754	-3,406
<b>Total</b>	<b>-38,706</b>	<b>-34,272</b>	<b>-70,908</b>

of this:

Cost of raw milk	-20,783	-16,647	-35,635
Staff costs	-4,361	-4,164	-8,342
Depreciation, amortisation and impairment	-1,167	-1,126	-2,326
Other costs	-12,395	-12,335	-24,605
<b>Total</b>	<b>-38,706</b>	<b>-34,272</b>	<b>-70,908</b>

	HALF YEAR 2014		HALF-YEAR 2013		FULL YEAR 2013	
	Weighed in mio. kg.	Costs DKKm	Weighed in mio. kg.	Costs DKKm	Weighed in mio. kg.	Costs DKKm
<b>Note 1.2.b. Cost of raw milk</b>						
Ownermilk	5,842	-18,031	4,741	-12,667	9,474	-26,901
Other milk	860	-2,752	1,494	-3,980	3,202	-8,734
<b>Total</b>	<b>6,702</b>	<b>-20,783</b>	<b>6,235</b>	<b>-16,647</b>	<b>12,676</b>	<b>-35,635</b>

## Financial Review

Production costs, research and development costs, sales and distribution costs and administration costs have in total risen 12.9 per cent which is above the revenue growth of 11.3 per cent. The reason for this is the increased milk price, that on average has been

16 per cent higher than in the first half of 2013. The prepaid milk price is determined to reach a profit of three per cent of revenue. However focus is on keeping all other costs down to pass on the highest possible milk price to the owners through the milk price and supplementary payment. In general the variable costs have risen due to increased activities

while fixed costs has increased less. Hence, the cost per kg milk processed has decreased due to economies of scale. The total inflow of raw milk has increased by 467 million kg. milk, which is mainly delivered by our owners. The greater volume and prepaid price has increased costs by 12 per cent.

## Note 2 Net working capital

Working capital is one of the measures, which in recent years have contributed to financing growth, and it requires continuous focus as the business grows. At Arla we focus on reducing funds tied up in the primary working capital, i.e. inventories and trade receivables less trade payables. There is an intensified focus on reducing inventories by optimising internal planning and forecasting accuracy.

### Note 2.1. Primary net working capital

	HALF-YEAR 2014	HALF-YEAR 2013	FULL YEAR 2013
(DKKm)			
Inventories	8,427	6,919	7,562
Trade receivables	7,450	7,089	6,762
Trade payables	-7,266	-6,461	-7,564
<b>Total primary net working capital</b>	<b>8,611</b>	<b>7,547</b>	<b>6,760</b>
Payables for member milk	2,243	1,742	2,018
<b>Total primary net working capital excl. member milk</b>	<b>10,854</b>	<b>9,289</b>	<b>8,778</b>

### Financial Review

Processes across the group have been optimised with focus on terms of payment from customers and to suppliers. The main reason for the increase in inventory relates to increased activity including large amounts of stock volumes being held in order to secure supply for new contracts.

Inventory is further influenced by the increase in the prepaid milk price. In total initiatives related to working capital have an estimated positive effect of DKK 0,3 billion in the first half of 2014.

## Note 3 Financial items and debt

Arlas investments are financed both with equity and with external funding. This note shows the composition of net interest bearing debt and the related financial income and costs.

### Note 3.1. Financial income and financial costs

	HALF-YEAR 2014	HALF-YEAR 2013	FULL YEAR 2013
(DKKm)			
<b>Note 3.1.a. Financial income:</b>			
Interest, cash and cash equivalents	2	10	8
Interest, securities	16	-	18
Exchange rate gain (net)	3	-	-
Fair value adjustments	2	-	7
Other financial income	14	17	4
<b>Total financial income</b>	<b>37</b>	<b>27</b>	<b>37</b>
<b>Note 3.1.b. Financial costs:</b>			
Financial expenses on financial instruments measured at amortised cost	-274	-249	-434
Exchange rate losses (net)	-	-133	-165
Fair value adjustments	-	-	-3
Interests, pension liabilities	-54	-24	-112
Interests transferred to property, plant and equipment	-	6	30
Other financial costs	-17	-22	-13
<b>Total financial costs</b>	<b>-345</b>	<b>-422</b>	<b>-697</b>
<b>Net financial cost</b>	<b>-308</b>	<b>-395</b>	<b>-660</b>

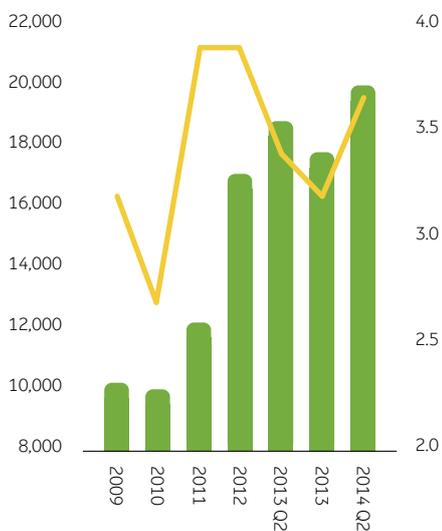
**Note 3.2. Net interest-bearing debt**

(DKKm)

**HALF-YEAR 2014    HALF-YEAR 2013    FULL YEAR 2013**

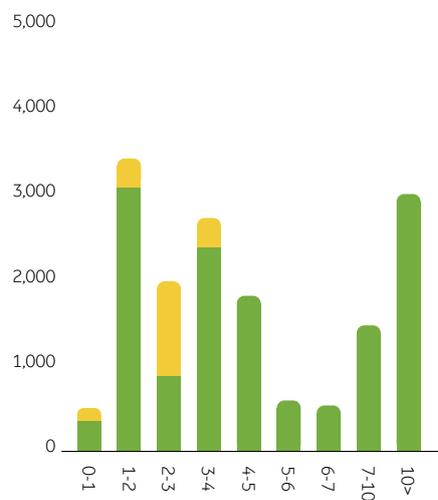
Securities, cash and cash equivalents	-4,803	-4,362	-4,560
Other interest-bearing assets	-118	-290	-190
Current liabilities	8,437	8,472	6,616
Non-current liabilities	13,980	12,310	13,400
<b>Net interest-bearing debt excl. pension liabilities</b>	<b>17,496</b>	<b>16,130</b>	<b>15,266</b>
Pension liabilities	2,566	2,754	2,593
<b>Net interest-bearing debt incl. pension liabilities</b>	<b>20,062</b>	<b>18,884</b>	<b>17,859</b>

**NET INTEREST-BEARING DEBT (DKKm)**



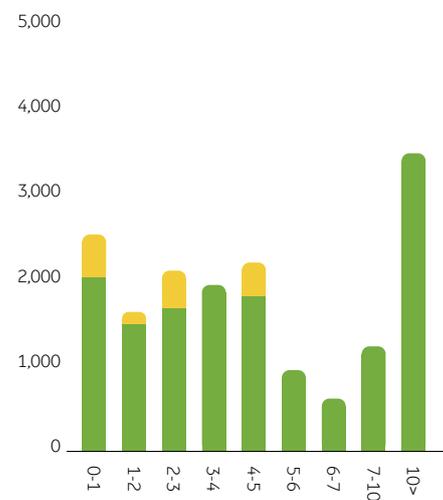
■ NIBD  
■ Leverage

**MATURITY OF NET INTEREST-BEARING DEBT (DKKm)**



■ Maturity profile  
■ Unused committed facilities

**MATURITY OF NET INTEREST-BEARING DEBT 30 JUNE 2013 PERSPEKTIVE (DKKm)**



■ Maturity profile  
■ Unused committed facilities

**Note 3.3. Liquidity reserves**

(DKKm)

**HALF-YEAR 2014    HALF-YEAR 2013    FULL YEAR 2013****Liquidity reserves**

Cash and cash equivalents	799	352	566
Securities (free cash flow)	161	138	92
Unutilised committed loan facilities	1,955	1,486	1,932
Unutilised other loan facilities	3,038	2,376	3,513
<b>Total</b>	<b>5,953</b>	<b>4,352</b>	<b>6,103</b>

**Financial Review**

Finance income and costs totalled a net DKK -308 million for the first half-year 2014 against DKK -395 million in 2013. The decrease primarily relates to foreign exchange adjustments. As a result of increasing borrowing activities, the Group's finance costs increased compared with last year. The average interest rate, excluding pensions, for the half year totalled 3,0% compared 2,8% for the first half year 2013.

Arla's net-interest-bearing debt, including pensions, increased from DKK 18,884 million at 30 June 2013 to DKK 20,062 million at 30 June 2014.

In May, Arla issued nominal SEK 1.5 billion under the Euro Medium Term Note programme as a supplement to other financing sources.

As per 30 June 2014 the leverage including pensions is 3.7, which is outside the target range of 2.8-3.4. At year end Arla still expects the leverage to be within the upper end of the target range.

Net pension liabilities, primarily in United Kingdom and Sweden have been recognised at DKK 2,566 million compared with DKK 2,754 million last year. The present value of defined benefit plans declined due to payments to these plans and curtailment gains.



**DANO** Daily/Quotidien Instant Milk Powder with vegetable fat 22%

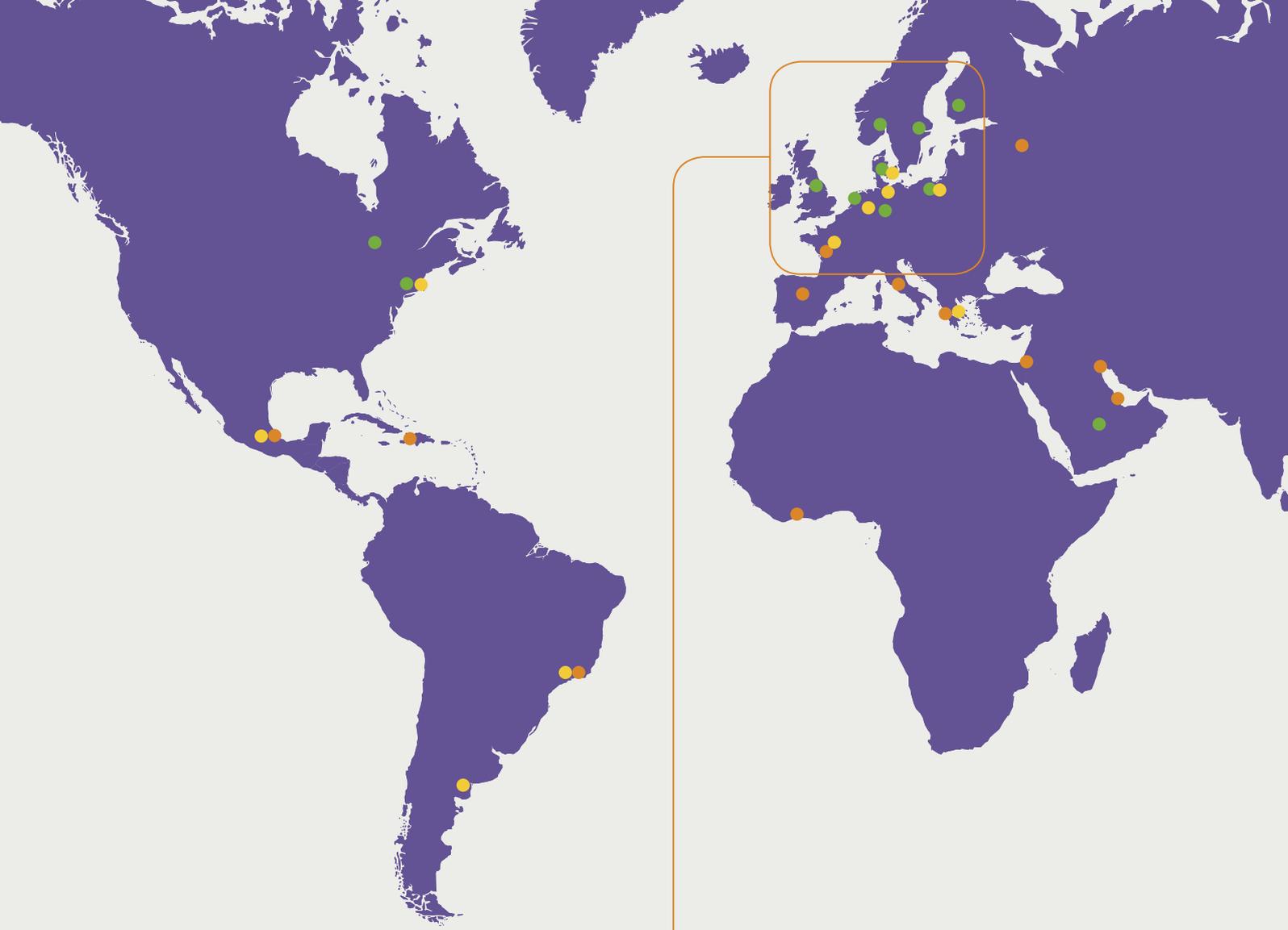
**DANO** Daily/Quotidien Instant Milk Powder with vegetable fat 22%

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**DANO** Daily/Quotidien Instant Milk Powder with vegetable fat 22%



# Arla worldwide

- Production and Sales
- Sales offices
- AFI



	CUK	CGN	CSE	CDK
 Employees	<b>3,734</b>	<b>1,824</b>	<b>2,680</b>	<b>1,779</b>
 Production sites	<b>13</b>	<b>5</b>	<b>10</b>	<b>6</b>
 Revenue	<b>10,481</b>	<b>7,391</b>	<b>6,964</b>	<b>3,495</b>



# Financial Highlights

	HALF-YEAR 2014	HALF-YEAR 2013	FULL YEAR 2013
<b>Inflow of raw milk (mkg):</b>			
Owners in Denmark	2,308	2,246	4,508
Owners in Sweden	1,049	1,029	2,016
Owners in Germany	716	666	1,332
Owners in United Kingdom	1,551	624	1,254
Owners in Belgium	157	119	253
Owners in Luxembourg	61	57	111
Others	860	1,494	3,202
<b>Total million kg milk weighed in by the group</b>	<b>6,702</b>	<b>6,235</b>	<b>12,676</b>

<b>Performance price</b>			
DKK per kg cooperative owner milk	3.30	2.87	3.05
SEK per kg cooperative owner milk	3.91	3.45	3.63
EUR-cent per kg cooperative owner milk	43.5	37.8	40.33
GBP-cent per kg cooperative owner milk	36.8	31.9	33.91

<b>Key figures (DKKm)</b>			
<b>Income statement</b>			
Revenue	39,774	35,721	73,600
EBIT (Earnings before interest and tax)	1,462	1,566	3,170
EBITDA (Earnings before interest, tax, depreciations and amortisations)	2,629	2,692	5,496
Net financials	-308	-395	-660
Net profit for the period	1,120	1,048	2,236

<b>Balance sheet statement</b>			
Total assets	48,621	44,678	46,165
Non-current assets	26,242	24,526	25,574
Investments in property, plant and equipment	-1,369	-1,814	-3,767
Current assets	22,379	20,152	20,591
Equity	12,692	10,956	12,736
Total non-current liabilities	16,851	15,304	16,324
Total current liabilities	19,078	18,418	17,105
Net interest bearing debt incl. pensions	20,062	18,884	17,859
Net working capital	8,611	7,547	6,760

<b>Cash flows statement</b>			
Cash flow from operating activities	69	420	2,542
Cash flow from investing activities	-1,210	-1,723	-3,502
Cash flows from financing activities	1,373	936	820

<b>Financials ratios</b>			
Leverage	3.7	3.4	3.2
Interest cover	8.5	10.3	11.1
Solvency ratio	26%	25%	28%

	CIN	AFI	Others
<b>Revenue</b>	<b>1,774</b>	<b>492</b>	<b>6,398</b>
<b>EBIT</b>	<b>3</b>	<b>1</b>	<b>31</b>
<b>EBITDA</b>	<b>5,578</b>	<b>557</b>	<b>5,308</b>



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