2013

Consolidated Annual Report

Delivering **good growth**

We bring the benefit of our milk to more consumers.

CONTENT

In order to make this report more manageable and user-friendly, the Arla Foods Group has decided to publish a consolidated annual report that does not include the financial statements of the parent company, Arla Foods amba. In accordance with section 149 of the Danish Financial Statements Act, this consolidated annual report is an extract of the company's complete annual report. The full report, including the annual report for the parent company, is available at www.arlafoods.com. Profit appropriation and supplementary payment of the parent company are shown under equity in the consolidated financial statements. The Consolidated Annual Report is published in Danish, Swedish, German and English. Only the original Danish text is legally binding. The translation has been prepared solely for practical reasons.

Financial Highlights

				Not adjusted for IFRS	
(mDKK)	**2013**	**2012**	**2011**	**2010**	**2009**
Performance price					
DKK per kg cooperative owner milk	3.05	2.71	2.81	2.52	2.14
SEK per kg cooperative owner milk	3.63	3.37	3.75	3.49	2.91
EUR-cent per kg cooperative owner milk	40.33	35.80	37.40	-	-
GBP-pence per kg cooperative owner milk	33.91	30.21			
Total million kg milk weighed in by the group	**12,676**	**10,410**	**9,241**	**8,713**	**8,660**
Total number of owners	**12,629**	**12,256**	**8,024**	**7,178**	**7,625**
Income statement					
Revenue	73,600	63,114	54,893	49,030	46,230
EBIT (Earnings before interest and tax)	3,170	2,502	1,755	1,684	1,412
EBITDA (Earnings before interest, tax, depreciations and amortisations)	5,496	4,445	3,541	3,743	3,223
Net financials	-660	-518	-305	-294	-232
Net profit for the year	2,236	1,895	1,399	1,268	971
Balance sheet					
Total assets	46,165	43,478	35,146	30,097	30,094
Non-current assets	25,574	24,415	18,741	17,004	16,782
Investments in property, plant and equipment	-3,767	-3,303	-2,165	-1,508	-1,618
Current assets	20,591	19,063	16,405	13,093	13,312
Equity	12,736	10,918	9,526	8,580	8,281
Consolidation for the year:					
Individual capital	323	283	273	233	311
Common capital	978	469	606	4	0
Supplementary payment	900	1,112	491	1,031	660
Total non-current liabilities	16,324	15,285	11,464	7,359	7,816
Total current liabilities	17,105	17,275	14,156	12,060	11,768
Net interest bearing debt incl. pensions	17,859	17,145	12,243	10,041	10,257
Net working capital	6,760	5,891	6,147	4,691	4,546
Cash flows					
Cash flow from operating activities	2,542	3,799	2,301	2,552	3,402
Cash flow from investing activities	-3,502	-5,320	-2,482	-1,626	-2,392
Purchase of enterprises	0	-289	-149	0	-729
Cash flows from financing activities	820	1,748	245	-2,392	-526
Financials ratios					
Leverage	3.2	3.9	3.5	2.7	3.2
Interest cover	11.1	11.5	9.7	10.0	9.0
Equity ratio	28%	25%	27%	29%	28%

* The figures stated for 2009 and 2010 except for the balance sheet items for 2010 have been prepared in accordance with the Danish Financial Statements Act. All other figures have been prepared in accordance with IFRS.

Definitions

Net interest-bearing debt
Current interest-bearing liabilities
– Securities, cash and cash equivalents and other interest-bearing assets
+ Non-current liabilities.

Net interest-bearing liabilities cannot be derived directly from the balance sheet.

Net working capital:
Inventories
+ Trade receivables
– Trade payables

Leverage:
$\frac{\text{Net interest-bearing liabilities, including pension liabilities}}{\text{EBITDA}}$

Interest cover:
$\frac{\text{EBITDA}}{\text{Interest costs, net}}$

Equity ratio:
$\frac{\text{Equity}}{\text{Balance sheet total}}$

Organic growth:
Growth in revenue adjusted for acquisitions, divestments, foreign exchange rate changes as well as changes in accounting policy.

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2013 in short

Performance price
3.05 DKK/kg

Revenue
73.6 bn DKK

Revenue growth
16.6%

Milk volume
12.7 bn kg

Equity
12.7 bn DKK

Equity ratio
28%

Net interest-bearing debt
17.9 bn DKK

Profit
2.2 bn DKK
3% of revenue

Owners
12,629

Leverage
3.2

May 2013

Issue of corporate bonds worth
1.3 bn DKK
for a broader financing platform.

October 2013

Deployment of the world's largest fresh milk facility in Aylesbury outside London.

1 bn kg
of milk per year

Investment of
1.4 bn DKK

October / November 2013

Arla's owners and AFMP farmers decide on merger.

1.5 bn kg
of milk
from owners

1,300 new owners
as per 31 December 2013

A solid platform inviting growth

The milk wheel illustrates Arla's business model. Milk is both our commodity and our growth engine. More milk means more power for the engine and more growth for the company. Milk is what drives the company's earnings and brings new opportunities for growth for its owners. Only a handful of dairy companies in Europe have openly declared that they want more milk. Arla is one of them. We must secure supplies for Arla's new dairies, Pronsfeld in Germany and Aylesbury in the UK as well as other production sites. In 2013, Arla increased its milk volume significantly. The company's current volume is the largest milk volume received by any cooperative in Europe. Nevertheless, we still have room for more milk and more owners. We need to keep the wheel turning to secure future supplies of the raw milk that is at the core of our existence.

Arla is a cooperative. We are committed to taking good care of the milk produced by our owners and to adding value to it. No matter how much is produced.

12.7

bn kg milk annually

More milk is a precondition for scalability and creates more value through innovation, product development and branding, and thereby performance.

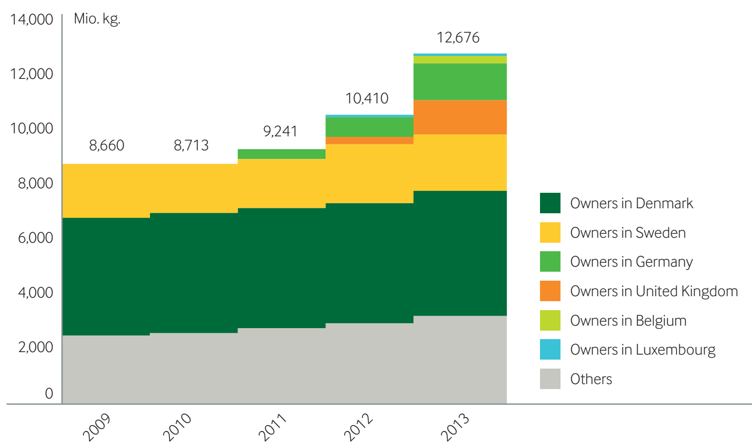
Globalisation opens new markets, and Arla is also seeking new distribution channels for its increasing milk volumes. Based on environmentally respectful production processes, Arla offers the safe and healthy products which are demanded by the consumers in the emerging markets. And with a stable base in our core European markets, we also have the courage to grow further worldwide.

For Arla, growth is about increasing earnings. Our growth drives market consolidation and attracts more raw milk. The agreement made with the AFMP partnership in 2013 brings security to the supply chain and signals that we take good care of our milk.

Raising the bar together

In 2013, Arla consisted of 12,300 milk producers in six countries, who all share the cooperative principle. Collaboration is in Arla's DNA and is a major strength of the business. Together, the business and the owners are creating the future of dairy and securing the highest value for the farmers' milk.

INFLOW OF RAW MILK



Arla's increased milk volume supports our increased activities. The increase mainly comes from new owners as a result of the merger activity.

Increase in weighed-in milk in past 5 years

46%

Milk volume 2013

12,676 mKG

Åke Hantoft, Chairman of the Board of Directors

Arla performed well in the markets in 2013, and the owners, the milk producers, experienced a much-needed improvement of their financial situation. The higher milk prices helped the finances of the farms. Milk production is soaring, and the relationship between farmers' income and costs has been improved. 2013 was also the year in which we started to understand the consequences of being a cross-national cooperative after the mergers in 2011 and 2012, and of continued growth. At the end of the year, we welcomed the supplier group Arla Foods Milk Partnership (AFMP) into the owner group. The growing number of owners made it clear that Arla's democratic structure needed to be updated, and in the spring we established a new structure that balances national and global perspectives.

A clear mission

During the past year, we have updated Arla's mission, vision and strategy to better reflect who we are as a company, where we are heading and how we want to deliver on our targets. Our mission clearly states what we have always known: that Arla was founded to create value for our milk.

What makes Arla attractive for a dairy farmer is that the company is owned by farmers. We are united by the strength of the cooperative and its promise of a better milk price. It is important for dairy farmers, customers and consumers in Europe that the money Arla earns is returned to us, the owners. The profits are shared, and together we create a strong foundation for dairy farmers to grow – now and in the future.

Ready for more milk

Only a handful of dairy companies in Europe are openly asking for more milk. Arla is one of them. The explanation can be found in the basic story of the 'milk wheel'. Receiving more milk gives us the strength to grow. Arla, therefore, increased its milk volume significantly in 2013. The company's current volume of 12.7bn kg of milk is the largest cooperative milk volume in Europe. Nevertheless, we still have room for more milk and more owners. We need to keep the wheel turning to secure future supplies of the raw material that is the very basis of our existence.

Seen in that light, the vote in favour of AFMP by the Board of Representatives, Arla's supreme body, was the single most important decision made by us, as owners, in 2013. I am proud that we had a lively debate, and stood together and made a clear decision to bring our UK suppliers into our group. This decision shows that we are remaining true to the cooperative principle. We want to share both investments, risks and profits. Because even though the merger in itself does not increase milk volumes, the new owners help safeguard the supply chain. The merger signals that we are a European cooperative with a strong focus on European milk to boost the value of raw milk. Having many owners is attractive for us because it translates into stable milk supplies. The greater the number we are, the better we can do things together.

Closeness and cohesion

The cooperative democracy is a living instrument for Arla. It is our most important strength, but cohesion obviously comes under pressure when we expand our numbers so quickly. Today, Arla has owners in six countries speaking their own languages. It adds to the complexity of our business, and there have been concerns that it will compromise the sense of closeness and involvement. We have therefore established four national councils which are helping to apply the provisions of the merger agreements in the individual owner countries. The national councils are, among other things, involved in the work to introduce the Arlagården® quality assurance programme in all owner countries and in establishing a joint settlement model.

The new democratic structure will empower the business and ensure closeness to our cooperative's owners, the dairy farmers. But as owners, we must also make an active effort to exercise our influence as part of the cooperative democracy.We must read the Owner Update newsletter and participate in the debate – also across national borders. Because without communication the cooperative idea falls apart. But, most importantly, we must share the responsibility for the strategy. I still see Strategy 2017 as a winning one because it creates a sense of security, both for the business and on the individual farms. The strategy creates new opportunities for us following the abolition of the quotas in 2015. We are able to sell all that we can produce. Arla will buy the milk and add value to it.

The basic idea behind a cooperative more than 100 years ago still holds true today in Arla: We shoulder the responsibility, we solve tasks together and we share what we achieve. We do things better when we do them together.

Creating the future of dairy requires funding, and in 2014 we need to have a discussion about the future consolidation policy as the company and owner group have changed significantly since we agreed on the current consolidation policy.

We are raising the bar

Arla's growing cooperative strength brings certain obligations. We will therefore meet consumer demands for traceability and quality. We will manage the entire value chain from cow to consumer. Our most important tool is the quality assurance programme Arlagården®, which is being implemented in Germany, Luxembourg and Belgium, and which will be rolled out in the UK in 2015. Arlagården® creates added value in the market and confidence among customers and consumers. The quality assurance programme is a key element in our corporate reputation and benefits both our business and the individual farm. Also in this context, the company and its owners have a common task: the owners must comply with the programme, and the company must convert it into market value.

Arla now has the size to make a real difference. Other milk producers, customers and consumers will look at us and see that we are leading the way in a number of areas. When we are realising our mission of creating growth – also in terms of the milk price level and quality. When we keep focusing on paying for the milk in accordance with the cooperative principle. And in our work with Arlagården® and the promotion of sustainable milk production. This focus will confirm that we are creating the future of dairy.

Mission

To secure the highest value for our farmers' milk while creating opportunities for their growth

Peder Tuborgh, CEO

2013 was an exciting year for Arla. We have worked to create a robust platform for growth after several years of mergers. Concurrently with the expected synergies, Arla has realised a 16.6 per cent growth in revenue over the past year. At the same time, we have seen an increase in milk volumes, a widening of the owner group and a broadening of our mindset. At present, we are consolidating the platform on which the global dairy company of the future will be built and which will secure a market beyond Europe for the milk supplied by the company's owners. We are strengthening the global mindset of our business and sharpening our focus on efficiency improvements, quality and sustainability. It is ultimately about meeting our targets, which we did to a large extent in 2013.

Focus on the business

We have realised a profit of DKK 2.2bn, corresponding to the decided 3 per cent of revenue, which totalled DKK 73.6bn. At DKK 3.05, Arla's performance price is the highest in the history of the company, while leverage has been reduced to 3.2, which is within the agreed target range.

Arla had a good 2013. The 16.6 per cent growth in revenue is driven by organic growth of 6.6 per cent in our core and growth markets, and especially by the realised effect of last year's mergers in the UK and Germany. The integration of these companies is progressing faster than expected. We have successfully increased the profitability of the additional milk which is weighed in, resulting in a strengthening of the European core business. At the same time, we have followed the price increases in the global market for dairy products.

Over the past five to ten years, a relatively stable dairy industry has developed into an industry characterised by considerable volatility. Arla is strongly positioned to navigate short-term market variations without losing sight of our long-term goals. Price fluctuations have refined our ability to identify and seize new market opportunities as they arise.

The industry and private-label prices follow the volatility of the market prices, while the prices of branded products are traditionally slightly behind and generally more stable. In a situation with increasing market prices, as in 2013, our branded products therefore come under pressure. Arla's three global brands have stood still in Europe, primarily due to the negative economic climate and a strong preference among consumers for private-label products.

All in all, we have not met the targets set for our three global brands Arla®, Castello® and Lurpak®, and the strengthening of these brands in our core markets will remain a strategic focal point.

On the other hand, Arla's brands are doing well in our growth markets where consumers are becoming more affluent and in a position to buy healthy, and good quality food products. Arla's strategic growth markets account for an ever-increasing share of the group's growth because our brands are gaining ground in these markets. For example, we are seeing organic growth of 44 per cent in Russia and growth in excess of 12 per cent in the Middle East and Africa. This confirms that the strategy which we have identified as the driver of growth in these markets in the period up until 2017 is working.

Status of our strategy

Today, Arla has owners in six European countries and a clear global presence. However, there is no doubt that our presence in emerging markets needs to become even more prominent if we are to keep up with our competitors. In 2013, we presented a revised version of Arla's strategy, which previously had a strong European focus. Strategy 2017 is still very much about being part of the consolidation which is taking place in Europe and about developing our products and activities for European consumers. The new part of the strategy will prepare us for the expected growth in Russia, the Middle East, Africa and China.

The world population is growing at 78 million people a year, and is projected to reach 9bn in 2050. By then, far more than half of the population will be middle-class citizens who can afford more and better products for the whole family. Growth will come both from these emerging markets as well as from Arla Foods Ingredients (AFI). AFI is a company which is truly realising Arla's vision today with its innovation programmes and advanced technology. AFI is a genuinely global company which is actively engaged in creating the future of dairy. AFI is helping to improve the utilisation of milk-based ingredients, tailoring its products to consumer requirements.

Arla's ingredients is among other things used for child nutrition, that already is so popular that our production capacity cannot keep pace with demand. We are currently expanding our facilities in Videbæk in Denmark so that in 2014 we will be able to export 48,000 tonnes of specialised powder products, primarily to China. We can still sell more than we can produce.

Arla offers safe and healthy products, produced with respect for the environment, and demanded by the world's new middle classes. And with a stable base in our core markets, we also have the courage to explore opportunities in the world market.

In step with the successful implementation of the strategy, the proportion of revenue from the original owner countries, Denmark and Sweden, will naturally decline. However, this does not detract from the strategic importance of these countries.

View of the future

We are fully dedicated to realising Arla's potential in the updated Strategy 2017 which aims to attract more milk and create more sales opportunities in a globalised world.

In 2013, Arla formulated a new mission and vision and is now putting its words into action. Creating the future of dairy is about contributing to the industry's development and about setting and driving new standards for efficiency, innovation, food safety, animal welfare, social responsibility and sustainability. The vision is already providing a clear direction for our decision-making.

In 2013, the business delivered satisfactorily on the seven essential goals defined in connection with the strategy. In China, the building of a future business based on sales of products under the Arla® brand is continuing, while sales of highly processed infant nutrition products for the growing middle classes continue to grow. In Africa, we are entering into strategic partnerships to prepare a stable platform on a new continent, and in Europe, the integration of Arla Milk Link in the UK and MUH Arla in Germany is progressing according to plan.

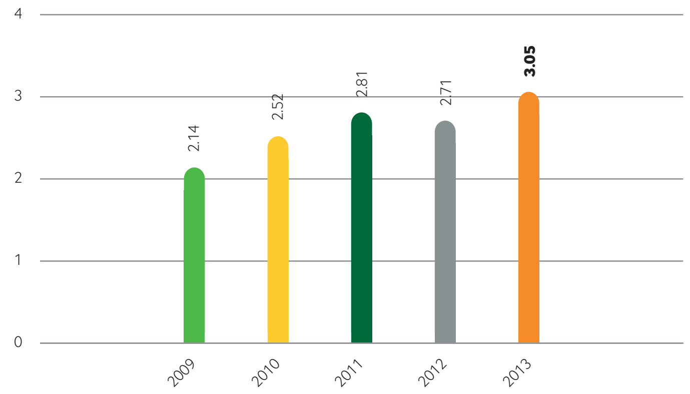
In Germany, Arla has become a leading company with a completely new status. A few years ago, Arla was only an export office with imported products to offer. However, with owners and milk, production and a broad range of products, Arla is now in a very different league in Germany. Now, we truly stand out as

On track for sustainable growth

Arla is a strong European dairy company with global visions and a determination to seek opportunities for growth. Organic growth goes hand in hand with growth through mergers and the consolidation of the cooperative across borders. These are achievements which are rooted in the robustness of the cooperative model and the determination of the company's owners.

PERFORMANCE PRICE

DKK per kg cooperative owner milk



Arla's performance price has increased over the period to reach an all time high for 2013

Vision

Creating the future of dairy to bring health and inspiration to the world, naturally a force to be reckoned with. In 2013, Germany became our third-largest market and a brand new driver of growth in Arla. Our expertise is lifting milk out of Europe, and we have shown the new owners and customers that Arla will create the future of dairy in Germany. The organisation is four times larger than last year, and our German employees deserve praise for their committed efforts to streamline the business. Their commitment is a precondition for a strong future in Germany.

The UK business is performing well. With Milk Link, Arla UK now offers a complete portfolio of fresh products, UHT products and – as something new – cheese. In 2013, efforts have been devoted to restructuring and streamlining production, and this is a process which is revealing the true value of the merger. Not least, Arla has won a large cheddar contract with Asda, which means that we will be supplying 100,000 tonnes of cheese to the retail chain over the next three years. This is a historic contract which cements Arla's position as the largest dairy company in the UK.

At the same time, we have strengthened the cooperative through the admission of the Arla Foods Milk Partnership (AFMP) as new owners in the UK. In so doing, our owners have made an important decision which will secure Arla's milk supplies and enable us to seize future business opportunities. AFMP's membership of Arla increases the security of supply of raw milk. However, we need more milk if we are to be able to meet customer demand, grow accordingly and scale our business to create the highest value for our owners.

Increased responsibility

Consumers and retailers not only judge Arla on the basis of our products. They also look at the way in which we conduct ourselves, how we produce our products and generally go about our business. As a cooperative, our responsibility extends to the entire supply chain. We must use our strengths as a cooperative to grow, but we are very aware of how we are growing. With size comes increased responsibility, and our growth must benefit the farmers and our customers as well as consumers, our employees, the environment and society at large. Since the start of the cooperative movement in the 1880s, Arla has pursued the same philosophy: Creating something greater and better together. This is a mindset which remains part and parcel of our business to this day.

Nature is one of the areas for which we assume responsibility. We have an ambitious environmental strategy for dairy production and distribution, and in 2013, for example, we completed the construction of the world's largest fresh milk dairy in Aylesbury outside London, which is environmentally focused. However, we also want to shoulder our share of responsibility on the farms which account for the majority of the milk's environmental and climate impact. Arla's owners have adopted a sustainable milk production strategy. A decisive element in the strategy is a shared commitment to reduce the total climate impact of the farms. No individual targets are set for the farms, but a joint target based on voluntary climate checks and other initiatives.

The owners' willingness to contribute to the company's profile is a key factor. Their quality assurance programme Arlagården® is a commercial bonus. For example, Arlagården® was one of the reasons why Chinese Mengniu chose Arla as their new strategic partner in 2012. The agreement is a reflection of Arla's globally leading position when it comes to quality and food safety. People trust us. Therefore, we must conduct ourselves accordingly.

Focus on sustainability is a precondition for realising our vision of being a natural, healthy, global and innovative business. I am therefore pleased that our owners are working to strengthen Arla's sustainability platform.

OUTLOOK 2014

Arla operates in a complex world. Production and thereby the supply of milk decide the prices in a global and interconnected world. A drought in New Zealand has an impact on prices in Europe. At the same time, it is a two-speed world. The European crisis drove consumer conversion from brand to discount products in 2013, while consumers outside Europe are experiencing growing affluence and creating a demand for high-quality brand products. This is the world in which we operate. And we have to keep an eye on every continent.

The price of milk as a commodity is heavily influenced by market prices as a consequence of the global market for milk. A higher supply of milk will affect prices as global demand is growing at a more stable rate. 2014 has got off to a good start, but we are well aware that a lot of milk is being produced in the world at the moment. 2014 is the last year with the EU milk quota system, and the milk sector is preparing for the abolition of the quotas. This is good for farmers, but will lead to further price volatility.

We are strongly focused on the successful realisation of our strategy and targets. Our business will continue to grow, and we are maintaining our focus on efficiency throughout the organisation. We expect our brands to do better – helped by several of our own initiatives, but also by general market conditions. At the same time, we are gaining a foothold in the emerging markets which will account for a growing share of Arla's earnings in future. We are working hard to optimise all controllable aspects of our business. This will enable us to maintain a market premium over and above the market price for milk.

Rather than absolute target milk prices, we define targets for the relative milk price compared with the prices paid by our competitors. The target is a milk price index of 103-105 compared with our peer group. We expect to attain this target.

SEVEN ESSENTIAL GOALS FOR 2014

In 2014, the seven essential goals will focus on the execution of the strategy and the commercialisation of initiatives. All in all, this will add the highest possible milk value.

1. Re-establish market price premium on consumer products
   Goal: A market premium of five Danish øre
2. Create strong volume growth from three global brands in all business groups and commercialise Corporate Identity
   Goal: Three per cent growth for Arla®
   Ten per cent growth for Castello®
   Five per cent growth for Lurpak®
   Successful launch of Corporate Identity
3. Create commercial breakthrough in China and accelerate Africa, Russia and the ingredients business
   Goal: Continue strong growth in Middle East & Africa (MEA), Russia, China, Arla Foods Ingredients and third-party manufactured child nutrition. Establish new joint ventures in Africa
4. Continue integration and secure more owner milk in Consumer UK and Consumer Germany & the Netherlands
   Goal: Complete integration of MUH and Milk Link. New owner milk in Germany and the UK
5. Progress efficiency agenda and strengthen balance sheet
   Goal: Savings of 0.7-0.8bn DKK and reduction of DKK 1bn in working capital from efficiency agenda. Leverage of 3.0-3.4
6. Increase profitability through further scaling across core markets
   Goal: Successful relaunch of the Arla brand
   Positive financial impact from four innovation platforms
7. Finalise IT turnaround
   Goal: Clear operational stability throughout the year. Implementation of newly approved IT strategy

Seven essential goals for 2013

To deliver good results for the company's owners and ensure growth in accordance with Arla's strategic ambition, the Group Management and the Board of Directors each year establish seven essential goals and priorities for the group. In effect, they serve as our lodestars.

The seven essential goals reflect the company's priorities each year. They break long-term strategies down into short-term targets and create the foundation for Arla's improved year-on-year performance.

In 2013, we have been working to execute and realise synergies following the mergers and acquisitions made in 2011 and 2012. For this reason, we decided to change our focus from the top line to our bottom line. This change is reflected in our seven essential goals, which maintain our focus on our working capital and on reducing the group's leverage.

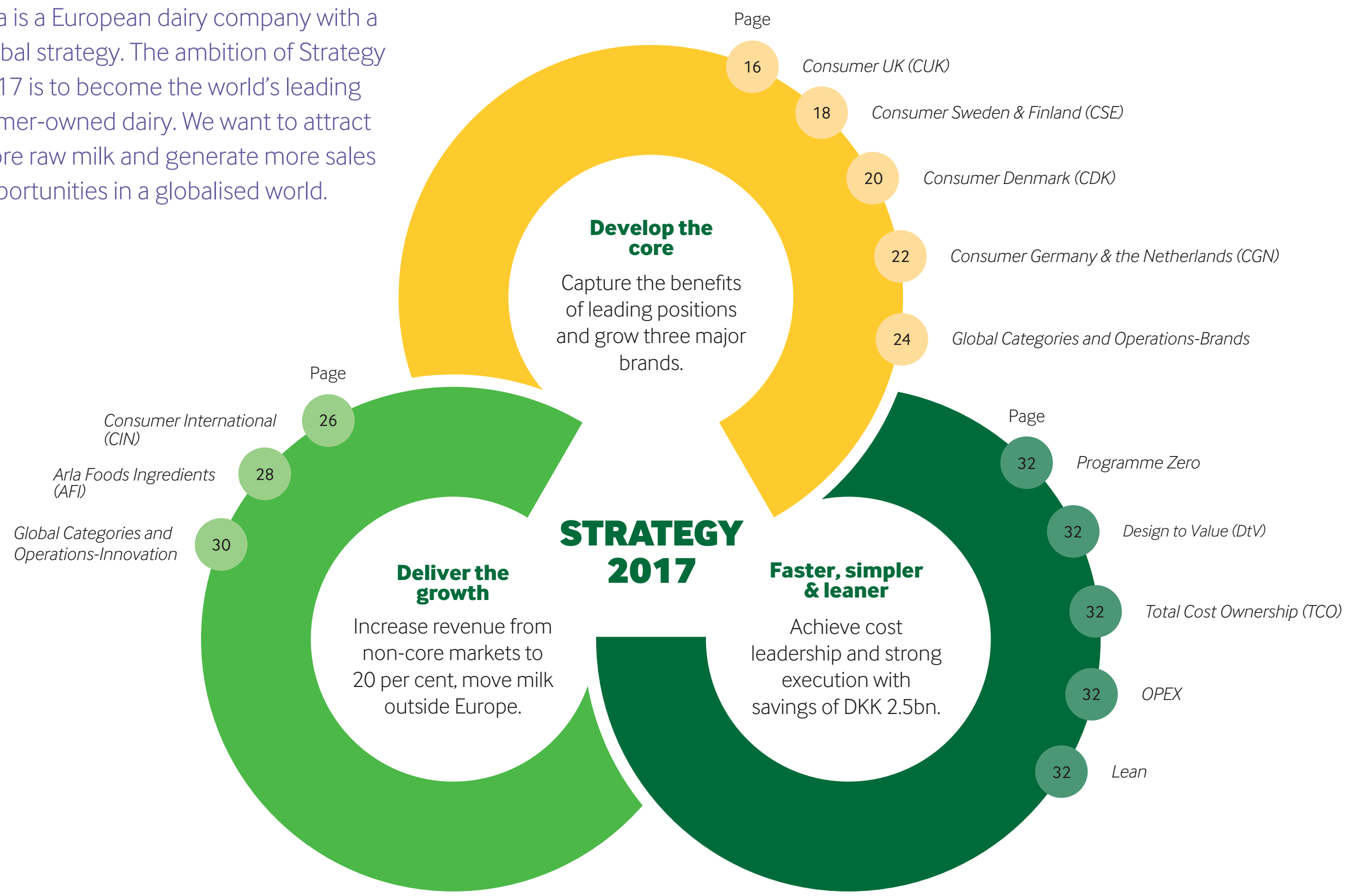
GOALS FOR 2013	RESULT
1. Performance price above peer group Goal: Index 103-105	Arla's performance price relative to the peer group is under pressure, but is expected to reach the low end of the index – 103. Peer group earnings cannot be calculated in full as some figures are still not available.
2. Bottom line a top priority Goal: Savings from efficiency programmes and improved scalability totalling DKK 1bn	The performance price is DKK 3.05 compared with DKK 2.71 in 2012. Scalability (calculating revenue growth in relation to growth of costs) is up from 1:0.3 to 1:1.6 contributing with savings of DKK 0.5 bn. Other efficiency programmes, Tetris ect. contribute to ensure the total savings target.
3. Efficient integration of Milk Link and MUH Goal: Delivery according to business plans	The integration of Milk Link and MUH is progressing according to plan, and the expected synergies are being realised after the planned structural changes. The efficiency programmes OPEX and Design to Value are being rolled out both in the UK and in Germany.
4. Developing a Chinese platform for growth Goal: Double revenue in China	Revenue in China has almost doubled at DKK 1.2bn against DKK 0.7bn in 2012. Growth is driven by other product types than expected – primarily third-party manufacturing (TPM). 2014 will see the launch of further initiatives concerning Arla's own brands in China.
5. Increase volume and strengthen global trademarks and categories Goal: 2-4 per cent growth for Arla® 4 per cent growth for Castello® 6 per cent growth for Lurpak®	The following growth rates have been realised for the three global brands: ■ Arla®: Volume growth -0.7 per cent. ■ Castello®: Volume growth 2.7 per cent. ■ Lurpak®: Volume growth 3.0 per cent.
6. Strengthen balance sheet Goal: Reduce working capital and free up DKK 1bn Reduce leverage from 3.9 to approx. 3.5	Working capital has been reduced by an additional DKK 1.1bn in 2013. Leverage has been reduced to 3.2 and is now within the group's target range.
7. Stabilise IT operations Goal: New IT strategy Improve the user experience MUH and Milk Link integrated with Arla's IT platform	Transition of IT infrastructure and support to NNIT. IT strategy REBOUND: Adopted by EMG in November. Improve user experience: total user satisfaction score up from 67 per cent to 70 per cent. MUH and Milk Link integrated with Arla's IT platform. "One face to the customer" implemented. Supply chain and infrastructure integration in progress

As Arla continues to grow, more people will make our products part of their everyday diet. Milk enables children to grow, learn and play. It brings natural energy to their parents, so that they can meet the challenges of the day. We have something for everybody at all ages and we believe that our products have the power to improve lives.

Arla products in the supermarket Hiperglobus in the small town, Klimovsk, 14 km from Moscow, Russia.

Dedicated to long-term targets

Arla is a European dairy company with a global strategy. The ambition of Strategy 2017 is to become the world's leading farmer-owned dairy. We want to attract more raw milk and generate more sales opportunities in a globalised world.



Strategy 2017 was launched at the beginning of 2013 with the purpose of realising Arla's potential and activating the organisation, which had delivered in full for Strategy 2015. The revised strategy reflects the global market conditions and Arla's strong position in the dairy industry. The strategy has provided the company with extra fuel and clear, long-term goals to steer towards.

Develop the core

Arla has a good basis in our branded business, which is of value both on core markets and growth markets. We want to strengthen our three global brands Arla®, Lurpak® and Castello® and maintain focus on customer relations, innovation, efficiency and value creation. And while we are building new markets for our products, we continue to maintain Arla's core markets. We want to remain the best dairy company for consumers in our core markets in the United Kingdom, Sweden, Denmark and Germany by inspiring them with new products and appealing concepts that we can share across borders. We have four business groups supporting our core markets to secure the right presence and focus. We will develop both our strong brands and play a major role in developing our customers' own-label dairy products. Brands are centrally supported by Global Categories and Operations.

Deliver the growth

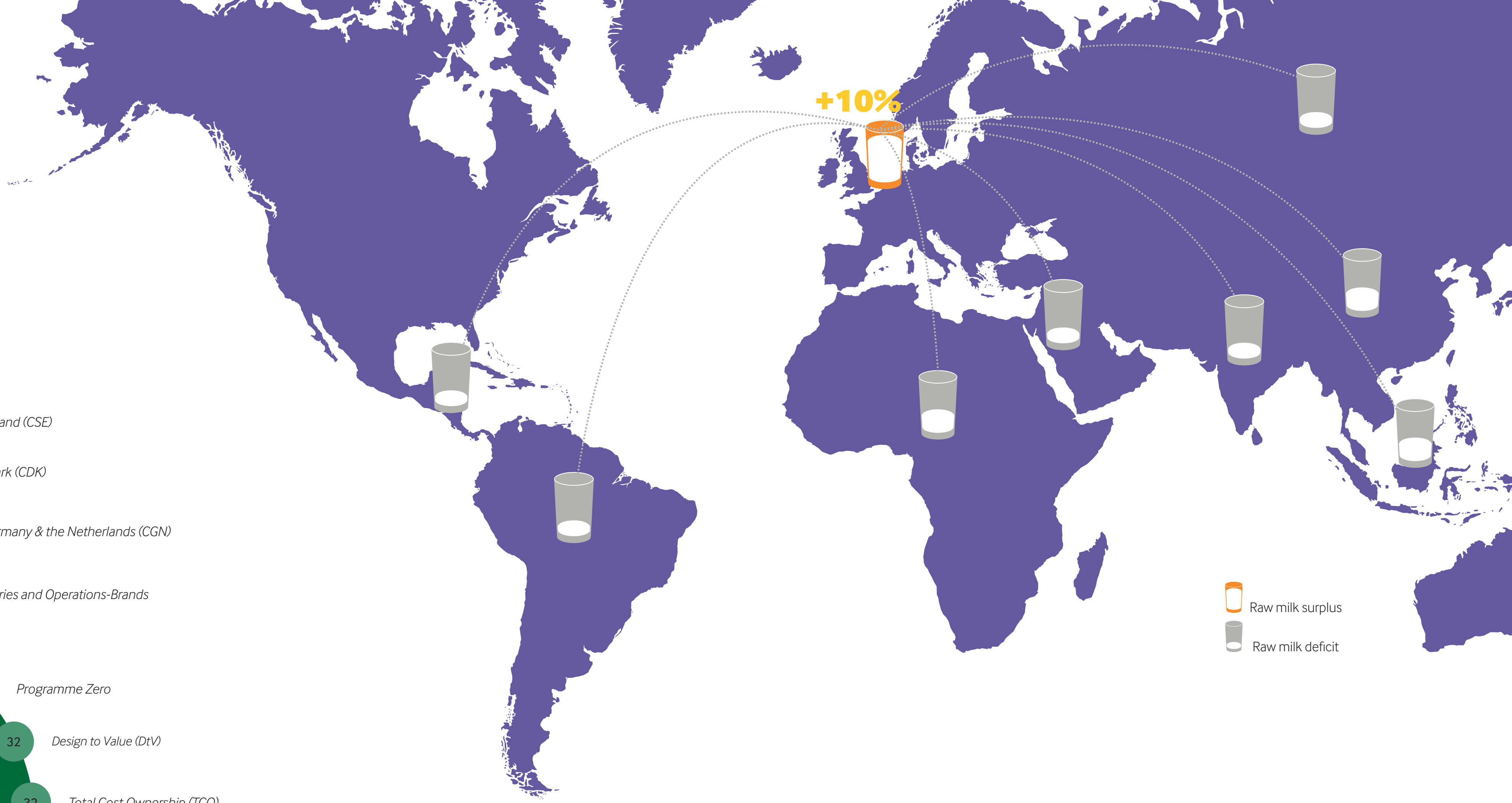
One significant change in our strategy is triggered by important factors in the outside world. The EU milk quota system will disappear in 2015, and we expect our farmers to produce an additional 1bn kg milk to the 12.7bn kg that already flows through Arla annually. The European markets will not be able to accommodate the increased number of products. Consequently, our strategic goal is to sell more milk outside Europe in profitable markets where living standards are improving. More consumers demand healthy and inspirational dairy products in their daily diets. They have less time to cook and a growing ability to buy high-quality products. Other potential lies within manufacturing child nutrition for other companies and within our highly profitable ingredients business. This part of the strategy is highly supported by our business group, Consumer International, Arla Foods Ingredients and our innovation department.

Faster, simpler and leaner

Our rapid growth means that we need to find new ways to achieve synergies, exploit large-scale operations to reduce our unit costs and add value to our business. We want to lead the dairy industry when it comes to efficiency. Strategy 2017 addresses a number of ambitious cost and efficiency programmes with the potential to simplify Arla's business model, streamline production and optimise processes. The programmes are expected to contribute with total savings of DKK 2.5bn a year from the middle of 2012 to year-end 2015. This will contribute to a competitive milk price for our owners and provide the organisation with leverage for further growth.

We are doing well, but we cannot rest

In 2013, the business kick-started Strategy 2017. Besides working on maintaining and improving our position in the core markets, we are working full steam ahead in growth markets in Africa, Russia, China and the Middle East. And we have kept focus on efficiency to execute planned savings.



A balanced business

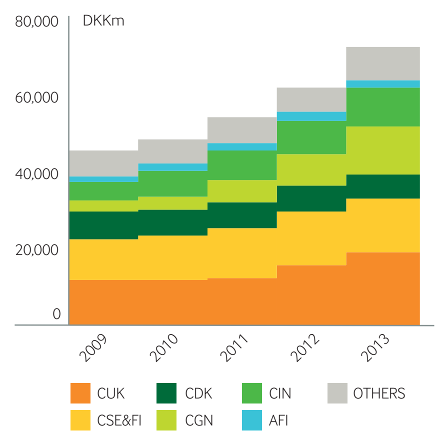
The dairy business is both local and global. Arla wants to be ahead in both the local and global dairy industries via six ambitious business groups that can feel the pulse of the unique markets and service their specific needs.

The composition of Arla's activities is naturally affected by Arla's development in the direction of a more globalised company. The core markets in the United Kingdom and Germany are expanding as a consequence of the mergers conducted in recent years. Thereby, the total share of the core markets in Sweden and Denmark is decreasing. Today, about 9 per cent of Arla's revenue comes from Denmark and 16 per cent from Sweden. Even during the merger process, growth markets in Consumer International and Arla Foods Ingredients have been able to maintain their share due to strong organic growth.

This development has helped to spread Arla's business-related risks, making us today, and in the future, more resilient to fluctuations in the individual markets. Identifying strategic risks and assessing their impact on Arla's global actions is an integral part of our strategic work. Read more about our risk management process, material operating risks and mitigating actions on page 48.

Revenue development split by business groups shows how mergers in the United Kingdom and Germany have increased revenue, but that the international businesses are able to retain their share of total revenue due to organic growth.

REVENUE DISTRIBUTION FOR ARLA BUSINESS GROUPS



GLOBAL CATEGORIES AND OPERATIONS (GCO)

GCO has the global responsibility for Arla's product categories and the three global brands. New marketing campaigns, concepts and innovations contribute to Arla's organic growth.

GCO also drives the planning of milk, logistics and production of cheese, butter and milk powder in Denmark, Sweden and Germany and is represented in all three parts of the strategy.

Viby Denmark
Headquarters

5,475
Number of employees

Operating sites
7 dairies in Sweden with production of cheese, butter and powder products, 19 dairies in Denmark with production of cheese, butter and powder products, three dairies in Germany, one dairy in France and one dairy in Poland and with production of cheese products.

STRATEGY 2017

Develop the core

Arla remains true to its position as a branded business, but at the same time we explore the opportunities in the partnership concerning private label. By 2017, we will capture the benefits of leading positions in core markets and grow our three global brands on core markets but also use synergies on growth markets to support the true global brands.

In the core markets, we will develop our positions and become more sophisticated in how we approach the business. It is critical for Arla to be able to offer the right mix of branded products and private-label products in Europe, where private labels account for an increasingly greater share of consumer purchases. As we continue to see growth in retailers' own brands, Arla's milk is increasingly becoming a component in other businesses' products. In all our core markets, we have the capacity, the raw milk and the required expertise to turn private-label products into a profitable business.

It is Arla's strategy to release the potential of our leading positions across all markets. We will maximise value creation in the United Kingdom, Germany, the Netherlands and Finland and sustain profitability in Denmark and Sweden.

Three global brands

In order to place Arla in the best possible position in the European dairy consolidation, we need to realise cross-national synergies and strengthen our three global brands Arla®, Lurpak® and Castello®. One way of doing so is by strengthening our position as the global dairy company with the natural products and the most sustainable approach from cow to consumer, and by increasing innovation to meet the customers' needs.

Arla sells a full range of dairy products in Northern Europe and exports high-quality cheese, butter and milk powder products all over the world.

Arla®

We are under pressure in the yellow cheese category. This goes, in particular, for the Arla® brand. In Sweden, we have lost fresh milk volumes, also under the Arla brand, which is impacted by the increasing preference for private-label products. Some Arla® brand products are doing well. In 2013, we saw profitable growth for cream cheese, BUKO® and Apetina®.

Lurpak®

The premium brand Lurpak® is one of the world's famous butter brands made from fresh Danish cream. Lurpak® is a strong brand which is realising strong growth both in Europe and in the Middle East. In Denmark, growth is challenged due to the general shift in consumer purchasing behaviour towards private-label products, and in the UK sales grew less than expected, due to a conscious choice of not compromising on prices. The reliable and unique butter brand travels to both China and Australia. And despite its more than 100 year long history, Lurpak® is also a highly innovative brand. The Lurpak® innovation pipeline is launched in Germany and the UK with a planned geographical expansion.

Castello®

The Castello® brand is a premium cheese brand sold globally. House of Castello® includes blue, white and red mould cheeses, decorated cream cheeses and ripened yellow cheese. The Castello® brands is struggling in many markets, but we are planning a Castello® turnaround. The Castello® portfolio now includes a new British cheddar from the former Milk Link range, and we are integrating other UK specialty cheeses. The overall Castello® portfolio is now so diverse that it will match most of our markets.

Our brands in 2013

Generally speaking, the targets defined for Arla's three global brands have not been achieved. In Europe, developments have been more negative than expected, and price inflation has precluded volume growth. Broken down by business group, a more diverse picture of brand product performance appears. The brands generally do well in the emerging markets, while the economic situation has resulted in price pressure in the core markets, where we have had to choose between losing volumes and lowering prices.

OUTLOOK

In 2014, the strengthening of our brands in the core markets will remain a strategic focal point. Several business groups are supporting their price management with an increased budget for marketing and innovation. Efficiency and price increases alone will not create long-term growth.

Arla has a great deal of "hidden" value in our identity. Many people outside Arla aren't aware of our great history and the contributions we make to society through our products and actions.

We haven't yet succeeded in exploiting the full value of our identity in a commercial sense. In 2014, we will roll out the third generation of the Arla® brand in order to successfully commercialise our branded corporate identity.

STRATEGY 2017 – DEVELOP THE CORE

3,786
Number of employees

19,217
Millions (DKK) in revenue

22%
Development in revenue from 2012.

Leeds, United Kingdom
Headquarters

Operating sites

5 fresh milk dairies, 8 other dairies (cheese, butter and UHT), 1 cheese packing and 3 distribution centres

Product categories

- Fresh dairy products 54%
- Cheese 14%
- Butter and spreads 20%
- Non dairy products 9%
- Other 3%

Consumer UK

2013 marked another 12 months of unprecedented activity for the UK business. As the largest dairy company in the country, with leading positions in milk, cheese, butter and spreads, focus has been on maintaining and extending these leads, maximising the benefits of the merger with Milk Link, starting up the world's largest fresh milk dairy and creating the conditions for more UK farmers to become co-owners of the global business.

Number one dairy company in the UK
CUK completed the merger and integration of Milk Link during the year, and the business is already benefiting significantly as a result. The creation of a new cheese strategy, aimed at growing its core cheddar and speciality cheese business, has enabled it to negotiate the biggest cheese contract win in Arlas history. From April 2014, it will annually supply 30,000 tonnes of cheddar to retail customer Asda, which will increase its UK cheese production by 50 per cent. CUK also launched the Anchor® Cheddar brand one year ahead of schedule, and new product variants are already on the market. Tickler® cheese has been migrated to the Castello® brand and Lactofree® came close to the ambition to have a lactose free option across dairy categories by adding mature cheddar to its range.

Strengthening its link to the coffee industry, 2013 was the year where CUK signed an exclusive partnership with Starbucks to supply 30 million litres of Cravendale® to all its 700 stores in the UK and Northern Ireland, annually. Arla's cooperative status was cited as one of the key reasons for gaining the contract. In addition, CUK is also supplying Starbucks with Anchor® butter portions, as well as continuing to develop its Starbucks retail portfolio with a skinny latte in the Discoveries range.

To create a stable and secure supply of raw milk in the UK, a landmark decision was made last year when Arla Foods' Board of Representatives voted for Milk Partnership Limited (Arla Foods Milk Partnership farmers) to become co-owners of Arla Foods amba. This decision has allowed Arla to increase its British farmer owners to approximately 2,800.

As part of Arla's commitment to be a responsible cooperative, CUK launched its most environmentally friendly plastic bottle to date. The eco bottle is 20 per cent lighter and contains 15 per cent recycled plastic. Eco bottles are already in production at the UK's Aylesbury and Stourton dairies, and all other fresh milk sites will begin using the new packaging in the course of 2014. Arla's aim is to increase the recycled plastic content to 30 per cent.

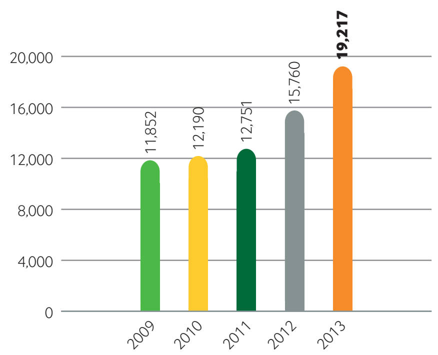
Competition and consumer trends
The UK market is a highly competitive own-label and branded market, and economic pressures continue. Consumers continue to look to buy special deals, and discounters are growing in strength and focus heavily on price and quality. No significant economic growth is expected, and exchange rates are volatile.

With the marked increase in obesity levels over the past 10 years and the associated health problems, we recognise our responsibility, as a leading dairy company, to provide consumers with lower-fat and healthier alternatives. Consequently, we have added several healthier options to our portfolio, including Anchor® Unsalted Spreadable, Starbucks Discoveries Skinny Latte and Lactofree® Skimmed Dairy Drink. CUK will launch a health strategy, which will mark a step change in the health arena, in 2014.

Financial development
CUK revenue rose in 2013, primarily due to the Milk Link merger in 2012. Profitability was challenged in 2013, and profits are down due to competitive trading environments and increased milk price costs. However, the business has delivered price increases.

Furthermore, it has delivered close to its OPEX and Lean targets for the year with total savings of DKK 162m.

FIVE-YEAR REVENUE DEVELOPMENT (DKKm)



2014 OUTLOOK

CUK has ambitious targets and will continue to deliver efficiencies and working capital reductions. To strengthen the UK business, and further release its growth potential, CUK commenced production at its new fresh milk facility in Aylesbury in October. Built to schedule and budget, it is the world's largest and most environmentally advanced dairy of its kind, and a significant operational ramp-up is planned throughout 2014. Aylesbury will work towards being fully operational in 2014. Furthermore, CUK will support the delivery of its cooperative status, integrating its AFMP farmers and recruiting more owner milk where it can.

STRATEGY 2017 – DEVELOP THE CORE

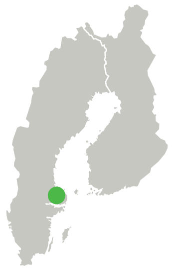
Consumer Sweden & Finland

2,545
Number of employees

14,269
Millions (DKK) in revenue

0%
Development in revenue from 2012.

Stockholm, Sweden
Headquarters



Operating sites
4 fresh milk dairies, 1 YFD (yoghurt & fermented dairy products) dairy, 1 cottage cheese dairy, 1 fresh dairy multi site (FDP, butter) and 3 milk collection dairies

Product categories

Sweden is one of Arla's core markets and processes the majority of the raw milk produced in Sweden. Overall, the Swedish dairy market slightly declined in volume, but grew in value, driven mainly by a series of price increases during 2013. Consumer Sweden & Finland (CSE) secured a number of strategic private-label contracts in 2013 as a part of the increased focus on becoming a preferred private-label supplier. In November, it was decided to create a new dairy structure in Sweden in order to streamline and gear production for the future, and one of the aims is to reopen and invest in Falkenberg Dairy as Europe's largest cottage cheese dairy.

CSE has made excellent progress on scalability in 2013 and is still harvesting synergies from the Milko merger in 2011. The business group continues to contribute to Arla's overall strategy by further developing the profitability and by securing a profitable offset for the Swedish owners' raw milk volumes. CSE does this through programmes and through continued focus on cost improvement by growing scalable concepts fuelled by innovation and finally by continuously refining our category strategies and driving the market together with our customers.

Strong focus on private labels
Arla in Sweden has many strong brands, e.g. Arla Ko® and Arla Bregott®, a very good image and a strong position in food inspiration among Swedish consumers. CSE will continue to strengthen the brands, but we are now also adjusting to the evolving market situation in which there is a strong growth of retailers' own brand. Own-label products are very few in Sweden compared to other European markets, but are growing fast. By becoming the preferred customer partner for both branded and private label products, CSE aims to come closer to a fair share of the own-label business. Also the import of cheese, mainly from the Netherlands and Germany, and butter and spreads products, mainly from Belgium and Denmark, has increased significantly over the last couple of years. Arla still gains share in butter and spreads (BSM), despite the growing import. Also CSE is strongly focused on working together with the Swedish Dairy Association to strengthen the value of the Swedish heritage brands.

Dialogue with stakeholders
CSE has continuously throughout 2013 valued dialogues with consumers, customers, NGOs and politicians in Sweden. Arla's overall climate work continues, reducing energy consumption in production, packaging and transportation including dialogues with WWF, politicans and national organisations.

Consumer dialogue and the presence at social media have increased during the year. More than 50,000 school children visited an Arla farmer (Arla Minior). Almost 1,000,000 school children have been on an Arla farm since the start in 1993! And during 2013 about 150,000 consumers participated in the new folk feast – Arla Kosläpp, letting cows on grass. Together with Arla's owners we arranged more than 30 different consumer events locally to underline that Arla is close to the consumers and owned by farmers, a true farmer cooperative. These are key activities to strengthen consumer relations and loyalty.

Arla has about 50 per cent of the Swedish dairy market, and a growing company needs strong relations with growing numbers of customers and consumers on a highly competitive market. Strategic collaboration on business development is important. Arla Sweden is also spearheading digital solutions to present food inspiration and strengthen consumer loyalty. During 2013, we successfully launched a new responsive arla.se.

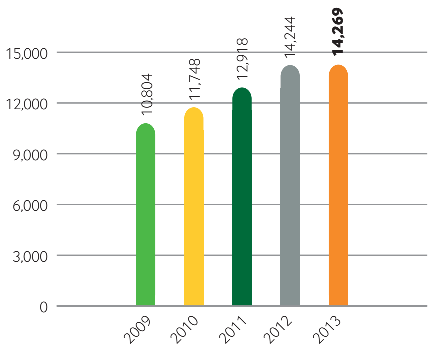
Financial development
Net revenue is at the same level as in 2012, but volumes have been under pressure given the rapid increase in the share of private-label milk triggered by Coop's acquisition of the Grådö Dairy. However, in Q4 net revenue is growing again, helped by price increases introduced throughout 2013.

Arla in Finland
Arla's revenue in Finland increased by 10 per cent and performance is improved thanks to enhanced efficiency and the price recovery in the fresh milk market.

The growth in financial result was significant following a few difficult years due to the market situation. Our Finnish organisation has successfully launched new products and has taken an even more consumer-based approach, which will also be in focus in the operations going forward.

Competition in the fresh milk market in Finland remains tough. The number of private label products and other price-advantage products grew during the year.

FIVE-YEAR REVENUE DEVELOPMENT (DKKm)



2014 OUTLOOK

In 2014, CSE aims to further stabilise and improve delivery quality and customer service. Also, CSE will focus on driving volume and revenue growth across all categories and on implementing the announced changes in the dairy structure. In order to remain cost-competitive in the future, and in line with Arla's strategy for 2017, Arla Foods' Board of Directors made the final strategic decision on a new dairy structure in Sweden in November 2013. The decision means that the dairy in Gothenburg will close in 2014 and production will be moved primarily to the dairy in Jönköping. Furthermore, the dairy in Skövde will close in Q4 2015. Instead, Arla will create Europe's largest cottage cheese dairy in Falkenberg in 2014 as its production will move to what will in future be Europe's largest cottage cheese dairy in Falkenberg, to be opened in 2014.

STRATEGY 2017 – DEVELOP THE CORE

Consumer Denmark

1,852
Number of employees

6,569
Millions (DKK) in revenue

-4%
Development in revenue from 2012.

Viby, Denmark
Headquarters

Operating sites

3 fresh milk dairies, 1 yogurt dairy, 1 UHT dairy and 1 smoked cheese dairy.

Product categories

- Fresh dairy products 59%
- Cheese 24%
- Butter and spreads 13%
- Non dairy products 4%

Consumer Denmark (CDK) has a strong focus on developing the core business, the three global brands and ensuring an effective and lean business. In 2013, CDK executed a clear branded growth strategy across product categories. As a result, CDK has grown the branded business by one per cent in a market that in general is characterised by a trend towards private-label products. Key elements in the brand strategy have been the relaunch of Arla® Lærkevang, growth in several of the yoghurt brands, and new exiting product innovations.

A number of changes are happening in the Danish market, including discounting retailers being the preferred shopping destination for Danish consumers, continued focus on private label by our customers, and Danish retailers expanding store numbers and opening hours in a largely saturated market. In this market, CDK has to quickly adapt to market changes, customer developments and consumer trends. It has been key in 2013 to ensure CDK is well geared to meeting these challenges also in the years to come.

Among the key activities in 2013 were the relaunch of Arla® Lærkevang with a 24-hour guaranteed delivery from farm to shop, relaunch of the organic brand Arla® Harmonie with a clear link to the zero waste agenda as well as upsizing of the Castello® brand. A clear strategy for the Danish yoghurt brands has helped grown the Arla brand share in the yoghurt category in Denmark throughout 2013. And the yellow cheese brands Klovborg® and Riberhus® also gained traction in 2013.

Several new product innovations were launched in 2013, including yoghurt with 30% reduced sugar, Bubble Latte® for at youngsters, Skyr products with high protein and low fat and on-the-go products like cottage cheese.

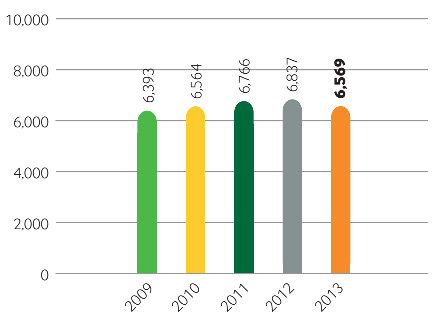
Working closely with the world outside Arla
CDK has stepped up its collaboration with several key organisations and stakeholders working with the food or environmental agenda. One key element was Arla's presence at "Folkemødet" 2013 on the island of Bornholm, where Arla participated side by side with NGOs, customers and political stakeholders discussing how to minimise food waste and the environmental impact of food companies in Denmark.

In 2013, CDK also initiated a strong strategy to ensure Arla reaches its environmental targets towards 2020. Several projects supporting this have been initiated in the supply chain where most of CDK's environmental foot print is seen. One of these projects is a collaboration with the City of Copenhagen involving the collection of used milk cartons for recycling. CDK is also working actively with consumers to engage them in this area – for example in a campaign to collect lids from milk cartons and to reuse these in order to save both waste and CO_2.

Financial developments
Despite a general market development with private-label growth, CDK has been able to grow branded volumes by 1 per cent. Revenue has decreased slightly due to the discontinued fat tax. CDK has a strong efficiency agenda, and in 2013 many of these efficiency projects led to increased competitiveness.

To further enhance efficiency, CDK has created a more lean production and logistics setup at the dairies through several projects, including outsourcing parts of CDK's transportation chain, full implementation of lean across the supply chain and conversion of the supply chain IT systems to new improved solutions.

FIVE-YEAR REVENUE DEVELOPMENT (DKKm)



2014 OUTLOOK

CDK will continue to focus on creating growth in dairy in Denmark to bring health and inspiration to Danish consumers. Growth will build on continued innovation of our brands within the core categories as well as strengthening our collaboration with our customers. In addition, 2014 will show a stronger focus on making our products available in new channels. Finally, CDK is continuing is work to become faster, simpler and leaner through various efficiency programmes.

STRATEGY 2017 – DEVELOP THE CORE

Consumer Germany & the Netherlands

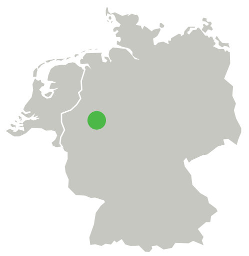
For more than a year now, one of the largest integration projects in company history has been underway at Arla Foods. In 2013, Consumer Germany & the Netherlands (CGN) focused on creating one strong business group based on the mergers and acquisitions between 2009 and 2012. After all, this project involved merging the locations in Allgäu, the Eifel, Mecklenburg-Vorpommern, the Dutch city of Nijkerk as well as the headquarters in Düsseldorf into one single, powerful business unit. With the integration of the existing businesses in France, Luxembourg and Belgium, CGN has now become the second-largest business group within Arla in terms of revenue.

1,984
Number of employees

12,953
Millions (DKK) in revenue

54%
Development in revenue from 2012.

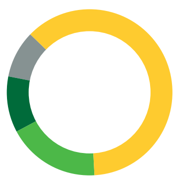
Düsseldorf, Germany
Headquarters



Operating sites

2 fresh dairies, 1 UHT dairy and 2 powdered milk plants, including 1 powder plant under construction

Product categories



2013 was characterised by a strong increase in milk prices based on developments in the price of dairy products in the global markets. CGN succeeded in securing the necessary price increases on its home markets of Germany and the Netherlands. Due to the earlier mergers, high investments into dairies and the launch of new brands and products, Arla is now one of the main players in Germany offering a broad and inspirational product range. The size and the range of its current business gives CGN a strong position in the German dairy market, thereby securing the company's raw material supply through competitive milk prices paid out to our farmers.

New structure
CGN is seeking to further grow in the core markets in Germany and the Netherlands along with its neighbouring countries of Belgium, Luxembourg and France. Competition in the markets is expected to remain high, and CGN has prepared for this by initiating a clear supply chain strategy with projects such as LEAN and a new logistics set-up. Moreover, CGN has started integrating administrative functions and has begun the process of optimising the legal entity structure to secure clarity and cost-efficient processes. All activities are now embedded in a coherent company and product strategy. The different business units in the French market, taken over from MUH eG, Allgäuland-Käsereien GmbH and Consumer International, have been streamlined in order to guarantee clear and direct customer relations.

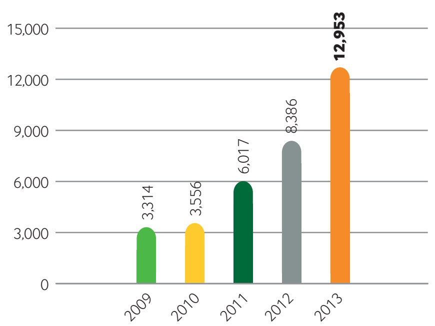
Strong product and brand portfolio
In 2013, CGN created a strong production platform for the export of mainly ultra-high temperature (UHT) products and prepared for milk powder and butter production in Pronsfeld. CGN also contributed to further strengthening the Arla brand. Throughout the year, Arla® Kærgården continued to develop strongly in the German market, and Arla Bio® – a new organic range for German consumers – was launched. Arla Bio® focuses on the milk's origin and traceability from the farm to the supermarket.

In the Netherlands, the transition of the Frische Vlag product assortment to the Melkunie® brand, which is associated with high-quality milk by Dutch consumers, was completed, and further products were added to the brand assortment including UHT milk and milkshakes. Additional private-label contracts were delivered contributing to significant growth and strengthened relationships with major retailers.

Furthermore, the introduction of Arla's Quality Assurance Programme, Arlagården®, started in 2013 for all the owners and suppliers in Germany, Belgium and Luxembourg with the aim of ensuring the high quality and naturalness of Arla products.

Financial developments
Global dairy markets experienced strong growth in 2013, and CGN also improved its performance significantly driven by increasing prices across all categories, strong branded growth and the winning of strategically important customer contracts. The reported revenue in CGN increased from DKK 8bn in 2012 to almost DKK 13bn in 2013 – mainly driven by merger effects. Adjusted for the merger effect, the organic revenue growth was around 14 per cent.

FIVE-YEAR REVENUE DEVELOPMENT (DKKm)



2014 OUTLOOK

Investments in quark production capacity in Upahl, the completion of the new milk powder plant and the start of butter production at the Pronsfeld site are some of the main activities in 2014. In the summer, the production of Arla Kærgården® for the German market will move from Denmark to Germany. The Arla Kærgården® spread is expected to continue its strong growth in the German market.

CGN will continue to further integrate administrative functions and business processes. Therefore, the completion of building one integrated IT landscape will continue to be a key activity in 2014. In the Netherlands, the dairy at Nijkerk will develop products for the German market like Vla, and a continued focus on innovation will add new products to the Melkunie brand portfolio.

A plan to consolidate the activities in France into one business has been formulated and will be further strengthened by moving towards a more centralized organization with one face to the French customers. With market indicators showing a stable or even rising outlook on prices for 2014, CGN expect a positive revenue and performance development in 2014.

STRATEGY 2017

Deliver the growth

By 2017, Arla will increase its revenue share from growth markets to exceed 20 per cent and move 1bn kg of milk outside Europe. Arla has strong brands which are popular with the growing middle classes because they are associated with food safety, healthy living and naturalness.

In 2015, the EU's milk quota system will be abolished, and we anticipate that our owners will produce at least an additional 1bn kg of milk annually. This extra milk can be sold profitably outside the EU where we expect a rise in demand from the growing middle classes in the profitable emerging markets.

The aim of this part of our strategy is to move our milk from Europe to growth markets in Russia, China, the Middle East and Africa, where we will invest in sales and marketing, local partnerships and production facilities. We will intensify Arla's role as Third Party Manufacturer (TPM) with a focus on child nutrition products for other food companies and continue to expand our profitable business, Arla Foods Ingredients, which offers advanced milk-based ingredients for the food industry.

The Chinese Journey

Entering the COFCO partnership in 2012 was a significant step in establishing a growth platform for Arla's future in China. Arla's revenue in China – Arla branded products and TPM – doubled in 2013, and an ambitious business plan is guiding the way. The launch of the Arla brand via Mengniu has taken place. Infant formula is the fastest- growing food industry segment with an annual growth rate of 17 per cent forecast in China up to 2015. Consequently, Arla is producing an increasing volume of child nutrition to China and other Asian markets through its TPM business.

The Middle East and Africa Journey

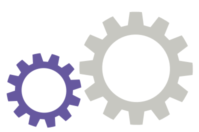
Arla has more than 50 years of experience in the Middle East, and Africa is one of the key growth clusters in the world with very high growth and promising developments. In the different countries across Africa, 45-80 per cent of total household spending is on food. Arla experiences strong profit growth in the Middle East and North Africa driven by cheese, powder, butter and spreads, and a strong organisation. Now the aim is to create growth in several other African countries. Future development looks very promising. Revenue in the Middle East and Africa increased by 10 per cent in 2013 to DKK 3.3bn.

The Russian Journey

Solid revenue and profit development in Russia is driven by branded organic growth and a strong local team. The annual growth in 2013 was 35 per cent, increasing the revenue to DKK 0.9bn. The next milestone in Arla's Russian journey is the start-up of locally produced yellow cheese to supplement imported cheeses from Denmark. A new yellow cheese dairy is being built together with Russia's third largest dairy company, Molvest Group and commercial production of local high quality yellow cheese will start in first quarter 2014.

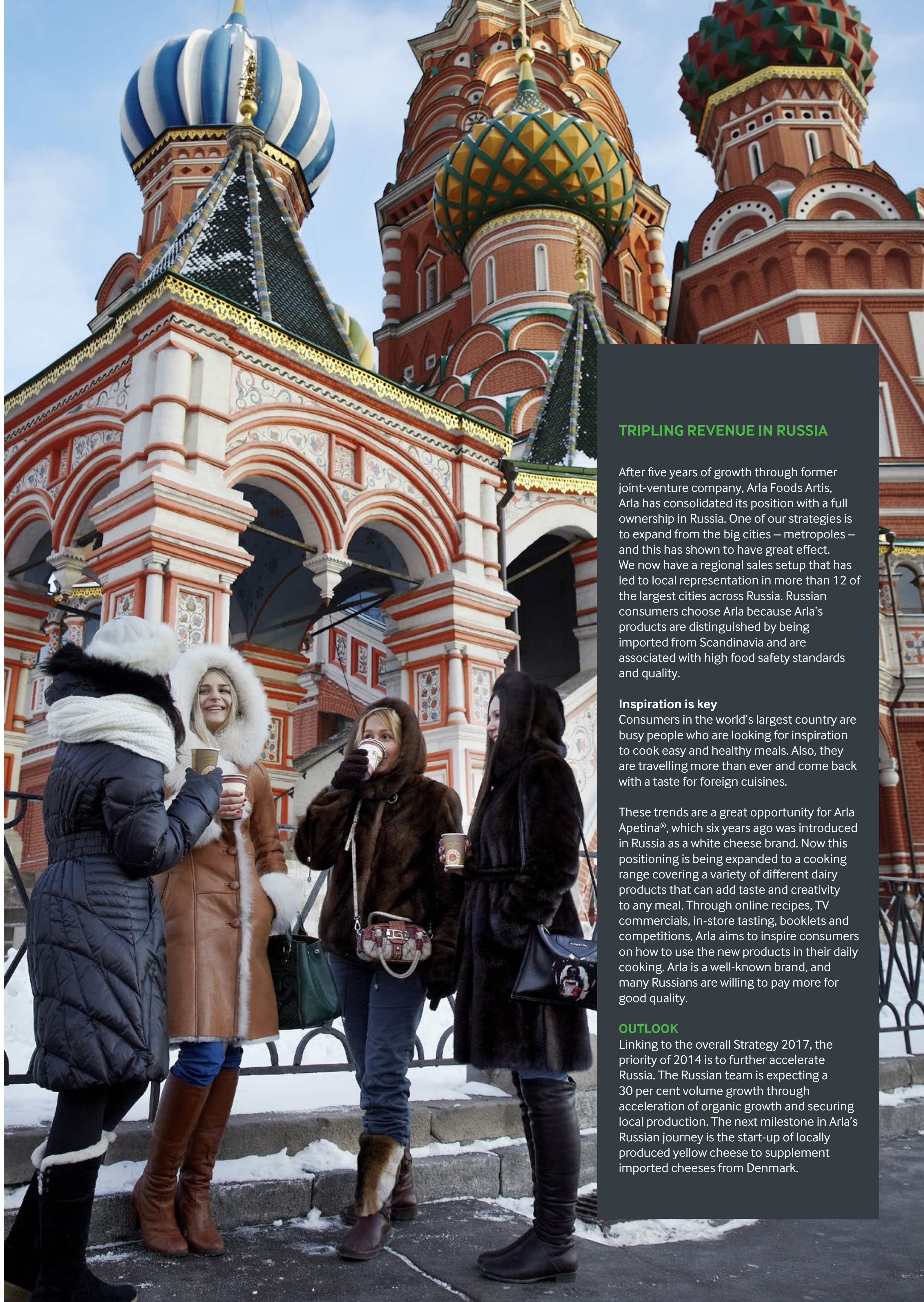
Arla Foods Ingredients

One of Arla's most profitable business areas increased its revenue by 8 per cent to DKK 2.4bn in 2013. An investment has been made in Danmark Protein in Denmark, where lactose will be processed from the whey. A partnership with the German dairy company DMK will increase Arla's access to whey. A long range of initiatives is expected to make it possible to double AFI revenue from 2012 before the end of 2017.



Innovation

Innovation is a key driver for Arla's core. In 2013, Arla's Strategic Innovation Centre (ASIC) contributed to both the core business and the growth agenda. Launching products across the categories represented an innovation rate in 2013 of about DKK 7bn. Also, a new investmest was made: The new Global Innovation Center.



TRIPLING REVENUE IN RUSSIA

After five years of growth through former joint-venture company, Arla Foods Artis, Arla has consolidated its position with a full ownership in Russia. One of our strategies is to expand from the big cities – metropoles – and this has shown to have great effect. We now have a regional sales setup that has led to local representation in more than 12 of the largest cities across Russia. Russian consumers choose Arla because Arla's products are distinguished by being imported from Scandinavia and are associated with high food safety standards and quality.

Inspiration is key

Consumers in the world's largest country are busy people who are looking for inspiration to cook easy and healthy meals. Also, they are travelling more than ever and come back with a taste for foreign cuisines.

These trends are a great opportunity for Arla Apetina®, which six years ago was introduced in Russia as a white cheese brand. Now this positioning is being expanded to a cooking range covering a variety of different dairy products that can add taste and creativity to any meal. Through online recipes, TV commercials, in-store tasting, booklets and competitions, Arla aims to inspire consumers on how to use the new products in their daily cooking. Arla is a well-known brand, and many Russians are willing to pay more for good quality.

OUTLOOK

Linking to the overall Strategy 2017, the priority of 2014 is to further accelerate Russia. The Russian team is expecting a 30 per cent volume growth through acceleration of organic growth and securing local production. The next milestone in Arla's Russian journey is the start-up of locally produced yellow cheese to supplement imported cheeses from Denmark.

STRATEGY 2017 – DELIVER THE GROWTH

Consumer International

1,986
Number of employees

9,639
Millions (DKK) in revenue

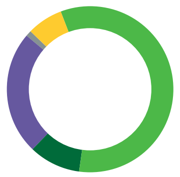
9%
Development in revenue from 2012

Viby, Denmark
Headquarters

Operating sites

Cheese dairies in the USA, Canada, Brazil (associated company) and Saudi Arabia

Product categories



Consumer International (CIN) is a profitable growth engine with a focus on moving milk outside Europe. In 2013, CIN delivered strong results with total revenue growth of 12 per cent. CIN plays a major role in executing Arla's updated strategy towards 2017 with focus on lifting profitability and delivering growth outside Europe. The overall ambition is to more than double CIN's revenue in 2017 from DKK 9bn in 2012 to DKK 19bn by doubling Arlas' market share in the Middle East and Africa within long-life dairy, growing China big and profitable, tripling the Russian business, pursuing global leadership within Third Party Manufactured child nutrition (TPM) and further optimising value markets.

CIN aims to maximise Arla's potential in the emerging and developing economies. The major priorities in 2013 were to grow China and TPM, maintain growth in MEA and Russia, and to further boost Rest of World and Distributor Sales. Virtually all of CIN's markets showed growth in revenue. With total revenue growth of 12 per cent in 2013, Russia grew 35 per cent, the Middle East and Africa 10 per cent and China 61 per cent (including TPM).

The emerging and developing economies are driving world growth, but they are also raw milk deficit regions. CIN is present in many of these markets and in execution mode to capture growth. Entry into new markets takes place mainly by working with existing distributors or other local anchorages on the market.

Continued growth in Russia
In 2013, organic growth in Russia was strong, and CIN prepared for local production of yellow cheese together with a strong Russian partner, Molvest Group. The production site is ready for commercial production in spring 2014. 2013 also marked the year where Arla became category leader within sales of both white cheese and mould cheese. Within food service and catering, Arla has strengthened its leading position as a supplier of cream cheese and mozzarella.

Stepping up in China
In China, CIN markets a range of UHT, processed cheese and milk powder products through Arla's partnership with Mengniu. 2013 saw the expansion of exports of Arla products to China. Focus is on strengthening the setup to enable our products to enter the market. Consumer International aims to deliver significant revenue and volume growth in China, while maintaining profitability.

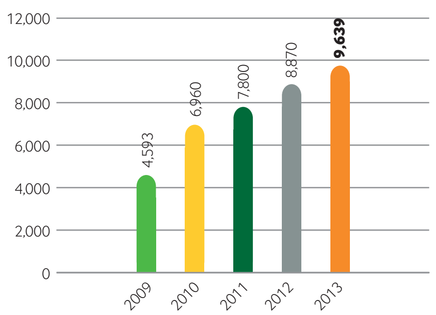
Strong strategic traction in the Middle East
Arla's Middle Eastern business is experiencing strong growth in both volume and value. In 2013, CIN's biggest market share is in the Middle East where the branded business has doubled since 2006 and keeps taking market shares from the closest competitors. The broad product portfolio consists of high-quality and nutritious dairy products, all with a long shelf life and sold under strong brands with a market share of 32 per cent for cream cheese and butter. CIN has long experience and strong capabilities in serving both the traditional and modern trade. CIN masters both local and international retail businesses, and the Middle East learnings will be useful to enter the African markets in the future.

Huge ambitions in Africa
Africa is essential to reaching CIN's ambitious growth targets, and CIN is stepping up its presence here. 2013 was the year where CIN got it's first partner in Africa – Ivory Coast – allowing Arla to customise products to the locals.

TPM delivers growth
Third Party Manufacturing (TPM) is one of the strategic mandates of strategy 2017. TPM experienced revenue of DKK 1.1bn in 2013. TPM customers are companies that lack sufficient capacity at their own sites or which do not have their own production know-how. A major Chinese contract means that Arla will deliver 20,000 tonnes of infant formula milk powder every year for the next 10 years. TPM accounts for about 11 per cent of CIN's total revenue, and the biggest challenge is lack of production capacity. The current expansion of the Arinco milk powder plant in Videbæk will be completed during 2014.

Financial development
CIN delivered strong results for 2013 with total revenue growth of 12 per cent driven by strong growth in the emerging economies of about 25 per cent and a stable business on the value markets. The increase in revenue was due to increased volumes but there were also price increases in the second half of 2013.

FIVE-YEAR REVENUE DEVELOPMENT (DKKm)



2014 OUTLOOK

The strategy for further growth is to build strong market positions based on high quality cheese, milk powder, butter and long-life dairy products and brands and to seek to establish local cooperation within distribution and production through partnerships or acquisitions.

In China, CIN plans to secure a commercial breakthrough by building the Arla® brand. In MEA, CIN will continue Middle East growth and accelerate African growth. In Russia the plan is to accelerate organic growth and secure local production. Furthermore, the plan is to optimise the future customer mix to secure TPM growth. Overall, focus is on strengthening the profitability and expanding market shares.

STRATEGY 2017 – DELIVER THE GROWTH

Arla Foods Ingredients

Arla Foods Ingredients (AFI) is a leading developer and supplier of nutritional and functional milk-based ingredients to the global food industry. Whey is a by-product of the manufacture of cheese. Innovative thinking and high-tech expertise allow this by-product to be processed into groundbreaking products that can be used as, for example, egg substitutes and to help regenerate muscles. In just a few years, whey-based food ingredients have become a major component in Arla's general strategy. Solid demand for high-quality whey proteins and lactose is top of the agenda in the AFI strategy. Arla has announced an ambitious aim to double the revenue by 2017 compared to 2012. The biggest challenge is the limited access to whey.

474
Number of employees

2,392
Millions (DKK) in revenue

8%
Development in revenue from 2012

Viby, Denmark
Headquarters

Production facilities
Denmark, joint ventures in Argentina and Germany

Revenue in joint ventures
A large part of AFI's activities is centred on joint ventures which are not consolidated in the consolidated financial statements. The total activities including joint ventures amounted to DKK 3,480 million in 2013 (2012: DKK 3,149 million.

Innovation is a core comptence at AFI, which is delivering innovative thinking to, among other things, the nutrition, dairy, bakery and ice-cream industries.

In 2013, AFI developed an innovative concept that enables manufacturers of traditional Greek strained yoghurt to profit from their acid whey waste. The unique and simple process uses Nutrilac® protein, which is derived from milk, to turn the whey into a wide range of dairy products. The result is a fresh-tasting and nutritious product that is a good source of calcium, protein and essential amino acids. In addition, using whey in other food products eliminates the storage and transportation requirements associated with other methods of disposing of it. The acid whey concept is also suitable for use in other applications where the whey is a by-product, including quark production.

In 2013, AFI launched Quality 2020, which is part of the goal to position AFI as the global market leader within highly refined whey protein and lactose products.

Financial developments
AFI is a genuine global business, and revenue rose by 8 per cent.

In 2013, AFI moved closer to its 2017 goal of doubling its revenue by 2017. Part of achieving the ambitious target for 2017 will be a strong focus on building additional supplies of whey, reinforcing customers' perception of AFI as a global leader in product and site quality and engaging the entire AFI organisation in delivering quality.

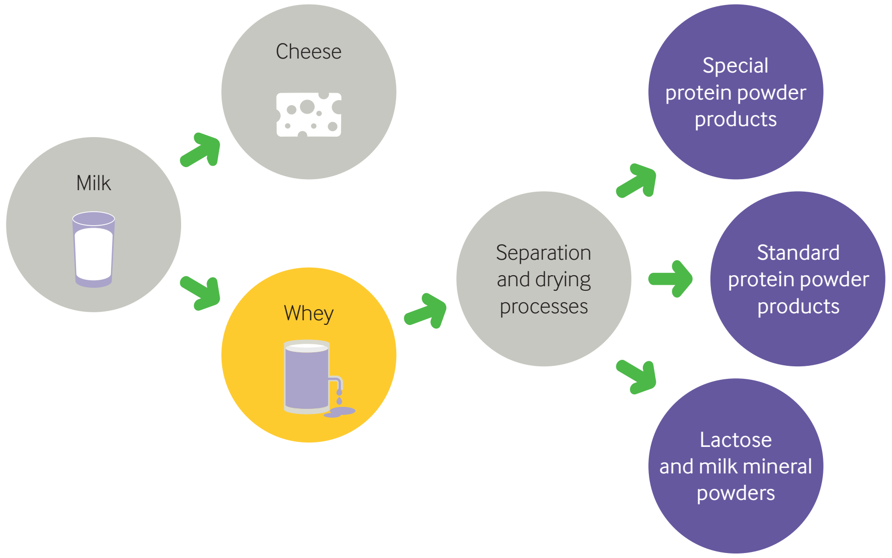
2014 OUTLOOK
The mission of AFI is to become the true global leader in value-added whey while sustaining attractive returns. Major investments have created the foundations for meeting the growth objectives. An expansion of the company's whey processing facility in Denmark was completed at the end of 2012, and a plant for the production of new-generation lactose is scheduled for completion in 2014. Once fully up and running, the plants' combined capacity will increase the global supply of lactose and set new quality standards. Long-term demand for lactose is solid as the middle-class population expands in the booming economies of China, India, Asia and South America. Growing disposable income makes it possible for more and more families to turn to infant formula products, in which lactose is a main component.

In recent years, AFI has established several new partnerships to secure the additional whey volumes necessary to make use of the extended production capacity and grow the business. The search to establish further successful partnerships is a key element of the new strategy.

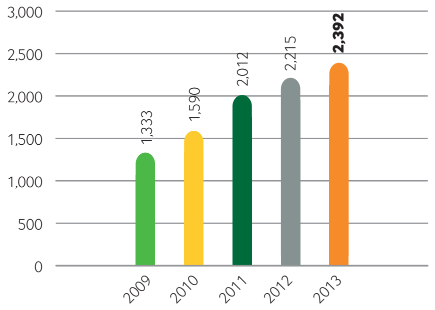
Three factors will determine our success:
1: Securing the necessary whey volumes
2: Finishing lactose production at DP (Danmark Protein) to boost earnings
3: A number of new products for launching next year.

FROM WASTE PRODUCT TO VALUE ADD

Arla Foods Ingredients has developed a method to turn the by-product, whey, into ingredients for new products for e.g. bakery, beverage and children nutrition.
AFI produces milk proteins from what was once a by-product and has made whey a raw material – creating a new product that supports Arla's sustainable mindset.



FIVE-YEAR REVENUE DEVELOPMENT (DKKm)



STRATEGY 2017 – DELIVER THE GROWTH

Innovation creates value

Innovation is a key driver in defending Arla's profitable brand positions and in generating organic growth. In this sense, innovation is an essential ingredient in Arla's strategic ambition towards 2017. Arla's Strategic Innovation Centre (ASIC) is contributing to both the core business and the growth agenda.

Arla will increase its organic growth by providing customers and consumers with the market's most innovative products and solutions across all categories. ASIC is operated in the belief that innovation is about the profitable implementation of new ideas. ASIC will help boost Arla's growth and the milk price paid to its owners by thinking in completely new ways on the farms, in production and in relation to our finished products.

As a consequence of Arla's s size and vision of creating the healthy and safe foods of tomorrow, innovation remains a top strategic priority. Innovation contributes to sales by developing new products, which in turn can strengthen Arla's market positions, improve our results through new concepts, and improve efficiency in our production processes.

As set out in Arla's strategy, at least 10 per cent of the Arla's earnings must be delivered from the development of new products. In 2013, the launch of products across categories represents an innovation rate at about 12 per cent, which equates to about DKK 7bn across categories.

Tracing consumer patterns
Understanding consumers is key to making an impact in the markets of today and tomorrow. To grow, we need to understand the needs, tastes and preferences of local consumers. This truth especially applies when Arla enters new markets. In 2013, ASIC was tracing consumer patterns in Africa. These studies create a pipeline of opportunities that innovative thinking will turn into opportunities for Arla in the coming years.

New food forms
Above all, innovation in Arla is about developing new foods and concepts to inspire consumers and deliver benefits in an optimal manner. From a product innovation perspective, the dairy product of the future is different in two ways: It is out of the fridge, and it's not white. In many markets, e.g. in African countries, dairy as a category is constrained by the need for cold storage. In order to create the future at the bottom of the pyramid, we need to overcome this main constraint.

In the core markets, Arla already covers all the dairy categories in the nutritional recommendations today. Consequently, the future of dairy is outside dairy. The innovation journey is about bringing the nutrition on to non-dairy categories.

Thanks to technological developments, we can reuse the valuable ingredients from the milk in other food categories. And people may not even recognise them as dairy. In that sense Arla's category is expanding. Today, we can make transparent soda out of milk. Or meat, snacks and pasta. Every new product is built on the goodness from the milk. But it all starts with understanding consumer trends.

Milk power
Nutrition is at the core of everything Arla does. We will unleash the power of milk through the development of healthy and nutritious dairy products with improved functionality. Through advanced technology we can reduce salt, sugar and fat without compromising taste and quality by using natural ingredients.

In 2013, the focus on consumer patterns, milk power and new food forms led to the development of a yogurt which has a tentative shelf life of 12 months, without compromising on quality, a milk tofu with the same properties as soya-based tofu, but which is 30 per cent more nutritious, and a milk powder for the African market, that consumers can mix with water to make yogurt.

The Global Innovation Center
The development of new cheese, yogurt, milk and butter products that consumers around the world use every day has become increasingly important on the international market. Therefore, Arla has decided to create a new, modern innovation centre for global product development.

Arla is one of the world's leading dairy companies, and as such we should be one step ahead in terms of innovation, which enhances the value of our products.

Arla has searched across Europe for suitable locations for its Global Innovation Center and chose Aarhus, Denmark. The centere will be part of the Danish Food Cluster, which is an international association of experts in agriculture, food and related technologies. Using the Danish Food Cluster as a stepping stone is a unique opportunity to step change Arla's innovation.

The investment proves that Arla is dedicated to using innovation as the driving force for the company. We are truely committed to developing better products in better ways. Also, the centre will bring a new perspective on open innovation, a key enabler in innovation. The centre will help us establish strategic partnerships with universities, research organisations, suppliers and other private organisations to fuel Arla with external expertise.

Arla's current centres in Brabrand and Stockholm are already being used to full capacity and lack potential for further development. The new centre is expected to have 120 employees. Construction is due to start in spring of 2014 and will be completed in late 2016.

Arla Foods Global Innovation Centre will enable us to achieve our vision of creating the future of dairy through excellence in research and knowledge sharing

- Become #1 on Innovation in Dairy
- Connected with internal stakeholders, external partners and worldwide strategic research
- Best-in-class facility in Science, Technology, and Consumer research
- Excellence center for Knowledge Sharing & Training

THE FIVE ARLA RESEARCH AXES

In Arla, innovation equals the profitable Implementation of ideas. Innovation is delivered by focusing research spending on the Five Arla Research Axes

1 Microbiology
Deliver breakthroughs through innovative use of cultures and enzymes and secure the safety and shelf life of our products

2 The Stregnth of milk
Unleash the power of milk through development of healthy and nutritious dairy products with improved functionality

3 Manufacturing efficiency
Ensure best-in-class manufacturing operations in order to deliver top-quality products at a reasonable price

4 Food forms
Constantly offer the best, new and unique food products and formats that suit our consumers and their needs all around the world

5 Sustainability
Support Closer to Nature by reducing environmental and climate impact in production

STRATEGY 2017

Faster, simpler and leaner

Active cost management is a precondition for Arla's success. Before the end of 2015, Arla expects to be a cost leader, having reduced cost levels by DKK 2.5bn compared with 2012.

The growth in European core markets is slowing, and competition is fierce. Moreover, an increasing share of Arla's revenue comes from private-label or trading products. Scaling and efficiency increases in production being decisive to the company's competitiveness in these areas.

Arla focuses on earnings. This means that we are continuously making our supply chain more efficient through investments and efficiency programmes. Due to our high growth rates, we must find new ways of working and develop our ability to identify and realise synergies and economies of scale and reduce unit costs.

In 2012, we launched a number of ambitious cost-cutting and efficiency programmes with considerable potential. These were successfully completed in 2013. The programmes will simplify Arla's business model, increase production efficiency and optimise processes. The strategic ambition is an efficiency gain of DKK 2.5bn before the end of 2015.

To improve the speed and agility of the organisation, Arla is finding savings within the following main areas:

Lean and Operational Excellence (OPEX)
OPEX is about the sharing of knowledge across Arla. It's about creating a knowledge bank which can pave the way for sharing and applying best practices within a number of supply chain processes. Lean is a precondition for OPEX. While lean focuses on the individual dairy's structure and use of knowledge and efficiency improvement tools, OPEX looks at all the dairies.

Procurement and innovation
Total Cost of Ownership (TCO) is about standardising purchases and working with fewer suppliers, while Design to Value (DtV) is about redesigning products and packaging so that they are more competitive and deliver more quality without losing sight of the importance of the good consumer experience.

Structural rationalisation
Arla endeavours to develop and strengthen a competitive and efficient production structure. A large share of Arla's investment budget is spent on expanding production facilities and increasing production efficiency.

EXAMPLES OF RATIONALISATIONS IN 2013

2013 saw the continued rationalisation of the production of yellow cheese. It costs a lot to produce yellow cheese, and competition is fierce. The aim is to increase profitability.

Scaling of yellow cheese production in Denmark
The European yellow cheese market is important for Arla. In 2011, a process aimed at improving production efficiency and scalability was launched. It will ensure competitive prices, a varied product portfolio and the continued production of high-quality cheeses.

All production of yellow cheese for the trading market is being moved to the dairy in Branderup. The production of other cheeses has been moved to other dairies. In connection with the move, capacity has been increased from 13,000 tonnes to 25,000 tonnes in Branderup.

Moreover, in 2013 yellow cheese capacity was increased in Taulov after production was moved there from the dairies in Klovborg and Hjørring. The restructuring has increased efficiency and flexibility in the production and packaging departments through the introduction of new technology.

Even though Taulov Dairy is 13 years old, it was a brand new dairy that was inaugurated on 29 August 2013. Annual production capacity has been increased from 26,000 to 47,500 tonnes of yellow cheese. 275 employees used to work at the dairy. They still do. As part of the capacity increase, new and smarter ways of working have been developed, which means that the same number of employees can produce almost twice as much as before.

More efficient production geared for the future in Sweden
In 2013, the Board of Directors adopted a structural plan which is designed to secure the future of production in Sweden. Arla will close two of the 14 Swedish dairies and instead invest in other Swedish dairy plants. In line with Strategy 2017, the result will be an efficient and modern dairy structure with reduced environmental and climate change impacts.

The plan is for Gothenburg to close down at the end of 2014. Most of the production of fresh products will be transferred to Jönköping, where investments will be made and more jobs created. The rest of production will be moved to the dairies in Linköping and Stockholm.

Moreover, Arla's dairy in Skövde north of Jönköping must be closed by the end of 2015 as any expansion is precluded by the dairy's town-centre location. The dairy's unique knowledge about cottage cheese production will be transferred to Falkenberg, which was originally closed in spring 2013. The aim is for Falkenberg to reopen at the end of 2014 as Europe's largest cottage cheese dairy. In so doing, Arla will be able to seize new opportunities in and outside Sweden and create more added value for Arla's owners.

Thirdly, production in Visby must be simplified. Acidified products and butter as well as cold storage will be moved to Stockholm and Götene, respectively. Production of milk powder, fresh milk and cream will remain at Visby.

Rationalisation in the UK closes Ashby Dairy
It was proposed in July that the dairy and distribution centre in Ashby be closed to ensure efficient production. Milk production will be moved to Arla's new dairy in Aylesbury. The transfer of milk started in October, and the dairy is expected to close down completely in April 2014. The plan is to outsource milk distribution to a third-party supplier.

Moreover, the former Milk Link offices in Plymouth and Bristol will be closed as part of the post-merger integration process. The sale of Crediton Dairy was required by the competition authorities in connection with the approval of the merger. The sale was completed in August 2013.

"Arlagården® secures the quality of my milk"

The Arlagården® quality assurance programme is important for Arla's reputation. One farmer who highlights Arlagården® is Margit Tanderup Kristensen from Skjern in western Denmark.

"I am proud of our shared and strong concept. I believe it is why we have been able to enter new markets, like China. Because we are able to document that our milk is of a high quality and meets food safety criteria. The purpose of the Arlagården® programme is to obtain the best possible price for our milk. In my view, we are really helping ourselves. After all, Arla is your company and mine," she says.

ARLAGÅRDEN® 2013

The purpose of Arlagården® is to ensure that Arla's owners work according to the same standards and to provide a quality guarantee for customers and consumers. The programme is unique to Arla, and the aim is for Arlagården® to become a natural part of the working lives of all cooperative owners.

- Globally acknowledged and a precondition for market access
- The quality assurance programme rests on four cornerstones – milk quality, food safety, animal welfare and environmental awareness
- Arla's own programme instead of many different customer programmes
- Means that milk producers can be sure that they work according to applicable rules and policies
- Arlagården® exists in Denmark and Sweden, and a version tailored to local conditions was introduced in Germany, Belgium and Luxembourg on 1 October 2013

Read more about Arlagården® at **arla.dk**

Margit Tanderup Kristensen runs an organic farm with her husband Ernst. The farm has 85 hectares and 80 dairy cattle which produce 700,000 kg of milk a year. Milk has been produced according to the Arlagården® principles since 2003.

Corporate Responsibility
Being responsible is key

Arla has truly become part of the global dairy market, and with greater size comes greater responsibility. The more we grow, the more we want to set and drive the agenda for a healthy, natural and responsible dairy industry.

Arla is poised for growth. However, our growth and our actions should not to unfold at the expense of nature and the environment.

We currently have the scale and the resources required to make a difference to society and the environment. Our vision sets out a sustainable way forward. Our goal is to operate our business with respect for, and in harmony with our surroundings.

The environment knows no borders, and consumers shop both globally and locally. Arla balances on this global-local axis every single day. We must respect local developments while, maintaining our global perspective.

Our Responsibility – Arla's Code of Conduct

We are dedicated to being an active team player in the local communities in which we do business. We need to build confidence, show initiative and set new standards for quality and conduct from cow to consumer, so that we can embrace the challenges and seize the opportunities that will inevitably come our way.

Arla's principles for ethics and sustainable development are contained in Our Responsibility – Arla Foods' Code of Conduct, which is now available to download in eight languages at www.arla.com. The code serves both as a tool and as a compass, guiding us on how we should behave and assume responsibility within our business.

Arla's ethical, social and environmental responsibilities are constantly being tested. The Code of Conduct shows the way ahead in a dynamic world. It is based on the principles laid out in the UN's Global Compact, a tool that – along with education and training – is designed to support our colleagues in handling the dilemmas we unavoidably encounter as a global business.

The CSR committee

To ensure commitment to the Code of Conduct internally, we have established a CSR committee which is chaired by CEO Peder Tuborgh and is made up of representatives from the senior management team. The committee prioritises the areas that need additional focus to ensure the company's long-term commitment to responsibility.

Focus on the future

All our colleagues, owners and partners play their part in ensuring that Arla is, and continues to be, a sustainable company, which is imperative for our long-term success. Our approach to running a responsible business now encompasses more countries and more people. This presents us with challenges, and we hope that we can become a source of inspiration to the world around us.

Our efforts to develop the future of dairy, our focus on health, naturalness and inspiration, as well as the steps needed to maintain the environmental sustainability of our company, will be major cornerstones on which to build long-term success.

Stakeholder view and expectations

For a number of years, we have conducted annual consumer surveys in Denmark, Sweden and Finland. Generally, Arla enjoys a good reputation, and the highest scores awarded relate to our products. Consumer perceptions of Arla's CSR record (citizenship) and the way in which our company is run with regard to ethics and transparency (governance) are increasingly influencing consumers' views of Arla. To improve our reputation, consumers say we should pay dairy farmers more, offer a wider range of organic products and improve animal welfare. Clearer marketing communication about our products would also be appreciated.

Closer to Nature™

Consumers expect us to remain accountable to nature throughout the supply chain. As our owners represent the first link in the chain, we are in a unique position to incorporate nature from cow to consumer.

To be closer to nature is a corporate philosophy that obligates Arla to ensure that our products are as natural as possible, that our milk is supplied by farms which operate in harmony with nature, and that Arla's own processes have the least possible impact on nature and the environment. We have defined a number of long-term goals, and we analyse and record our activities from all our business units and functional areas annually.

Healthy and safe products

We strive to offer our consumers safe, milk-based food products. Making healthy and nutritious milk products is part of our company vision, and food safety is a major priority in Arla. In our vision, we reference the fact that milk is one of nature's most nutritious foods, and making sure consuming our products does not cause illness or injury is paramount in the food production industry.

An engaging workplace

19,600 colleagues work in Arla. All of them contribute to the company's results and to the societies in which they live and work. We truly believe that respect for the individual creates engagement. Inclusion and diversity in all teams and at all organisational levels benefit the development of the business and the communities around us.

We gather and follow up on our colleagues' views of our company and our leadership by means of our Barometer survey – 85 per cent of all colleagues shared their views this year, and the result shows a great level of commitment.

Corporate Responsibility (CSR)
How we meet our responsibilities

Taking responsibility for our impact on society is part of Arla's DNA. That is why, for many years, we have maintained high standards for natural and healthy products as well as high standards, in terms of food safety, our impact on the environment and climate, for animal welfare and for Arla as a safe and appreciated workplace. It is our conviction that this creates value for society, for individuals and for our business. Arla has participated in Global Compact since 2008, and our Code of Conduct complements its basic principles. This is an extract from the CSR report, where, every year, we report on how our company is adhering to the Code of Conduct. The report describes the progress Arla has made during the year and where we see opportunities for improvement. Read more about how we meet our responsibilities in Arla Foods' Corporate Responsibility report on https://csr2013.arlafoods.com

Responsible company

Our aim is to run a profitable business that is ethically responsible and respects integrity. However, it requires know-how, will power and hard work.

Business principles
We comply with our Code of Conduct and local legislation in all the countries in which we operate.

Operational principles
Our democratically elected representatives formulate strategies and ensure that the business is operated in the manner that best serves our cooperative owners.

Procurement
We expect suppliers to assume social and environmental responsibility, so we can achieve our objective of purchasing goods and services in a sustainable manner.

Market conduct
We communicate openly, act responsibly and have an open dialogue with customers and consumers to ensure their trust.

Additional principles
- Arla does not accept the use of bribery.
- Arla exclusively enters into contracts with suppliers that comply with local legislation and respect the requirements set out in our code of conduct for suppliers.

Activities and results in 2013
- Training for elected representatives
- Global risk & compliance function has visited companies within Arla to verify compliance with framework, guidelines and policies
- Arla Forum receives 250,000 enquires and has an increasing presence and dialogue in social media

Objectives
- We focus on raising awareness of our Code of Conduct and policies throughout the entire organisation – especially when integrating new business units.
- All our preferred suppliers must sign our code of conduct for suppliers.

Confidence in products

Product safety is Arla's top priority. We want to enable consumers in all markets to make informed choices about healthy products based on clear information and knowledge.

Food safety
As a responsible food manufacturer, we are dedicated to ensuring that eating and drinking our products does not cause illness or injury.

Food and health
We are committed to meeting consumer demand for healthy products and reliable nutritional information.

Additional principles
- We use Hazard Analysis and Critical Control Point (HACCP) to evaluate and control food risks throughout the entire supply chain.
- Arla's ambition is to produce dairy products for everyone – also those with special requirements.

Activities and results in 2013
- Danish-Chinese knowledge centre in action
- Better breakfast eating campaigns in many countries
- Development of lactose-free products
- Reducing sugar, fat and salt in several products
- Dairy products developed for mal-nourished people
- In 2013, 53 of Arlas 73 production sites were certified under the ISO 22000 food safety standard.

Objectives
- None of our products should cause illness or injury.
- We aim for zero recalls, but if we have to make a recall, we have solid routines and procedures to trace our products.
- All sites should be certified according to the ISO 2200 food safety standard.
- Arla will contribute to the health and well-being of consumers in all markets and in all phases of life.

Care for the environment and animal welfare

Arla's growth must not take place at the expense of the environment and nature. We are therefore constantly working on ways to reduce our impact on the climate and the environment and on maintaining a high standard of animal welfare.

Environment and climate
We constantly strive to reduce our environmental impact within the value chain, from cow to consumer, by applying sound and sustainable principles.

Agriculture
We will ensure that the farms that deliver milk to Arla are operated in a manner that respects the quality of milk, animal welfare and the environment.

Additional principles
- Total life cycle approach – from milk production at the farm to consumer's handling of packaging and food waste.
- Arlagården® – the Arla milk production quality programme – focuses on the composition of milk, food safety, animal welfare and the environment.

Activities and results in 2013
- Investment of DKK 142m in eco-friendly and energy-saving initiatives, among other things, using excess heat and biogas plants.
- The fresh milk dairy Aylesbury outside London, which will be Arla's largest and most environmental friendly and has started production.
- Continued savings of energy and water.
- Key stakeholder dialogue regarding responsibly produced soya.

Objectives
- The 2020 Global Environment Strategy includes reducing CO_2 emissions from dairy operations, transport and packaging by 25 per cent before 2020 compared to 2005 levels.
- To reduce energy and water consumption by three per cent a year until 2020.
- To ensure that half of the energy consumption is derived from sustainable energy sources by 2020.
- To role out the Arlagården® quality programme to Arla owners in all six owner countries.

Respectful relations

Arla interacts with people, organisations, communities and countries. No matter what the relationship is, we are committed to maintaining mutual respect.

Workplace
We have competent and committed colleagues and provide safe and healthy working conditions.

Community relations
We maintain good, respectful and constructive community relations.

Human rights
Irrespective of where we operate, we are determined that the rights of the individual should be respected and observed.

Additional principles
- Our Responsibility – Arla Foods' Code of Conduct.
- Our Character: Lead, Sense & Create, specifies Arla's culture and values.
- Diversity & Inclusion Strategy.
- We are committed to engaging in a wider social perspective and to contributing to the community through our business activities.

Activities and results in 2013
- The diversity agenda was driven by management training.
- The employee survey (Barometer) covered 16,700 colleagues in 27 countries with responses submitted in 14 different languages. The response rate was 85 per cent.
- Closer to Arla – new colleague magazine in eight languages
- 445,000 people visited our farms as part of Arla-arranged events
- The Danish Arlafoundation was set up – focus on young people learning about food and nature.
- Team Rynkeby collected DKK 23m for the Children's Cancer Foundation.

Objectives
- All colleagues comply with Arla's Code of Conduct.
- No work-related injuries and no harassment.
- Continuous development of diversity.
- Increased consumer confidence.

DIVERSITY IS AN ASSET IN ARLA

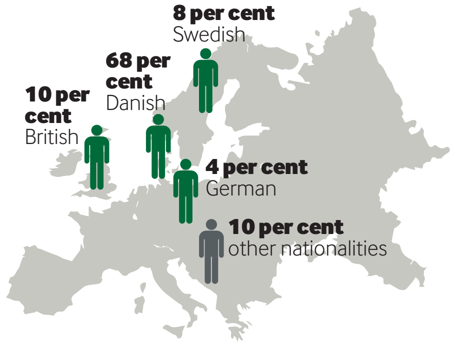
Arla believes in inclusion and diversity as a business imperative. We define diversity broadly as differences between people with individual personalities and from different backgrounds formed by the generation to which they belong, their gender, culture, education, family status, ethnic identity, traditions, beliefs and much more.

In 2010, we launched a ten-year Global Diversity & Inclusion strategy. We believe the strategy is right for our people, our business and our suppliers, for consumers and for our customers. Our focus is on making the most of the diversity of thought created by these differences, and we regard inclusion as a means to succeeding as a global business. We have strengthened our recruitment process and our talent management, and we have competence-building diversity & inclusion training for our management teams. We are working to create a more inclusive culture and processes that will enable us to succeed in attaining our goals for diversity in our workforce and teams – and most importantly that will help us meet the goals set out in the business strategy.

Targets defined and status 2013
In terms of the composition of teams, the long-term target for 2020 is that max. 70 per cent of members of any one team should represent the same:

- national/ethnic background
- gender
- generation
- educational/professional background

Our top/upper management level (top management, senior vice presidents and vice presidents) is very diverse in relation to national background. The group consists of:



In the Board of Directors the nationality split is:
40 per cent Danish
27 per cent Swedish
13 per cent British
20 per cent German

To comply with legislation introduced in 2012, we have set 2017 targets for gender at top/upper management level:

Gender composition at top/upper management level:

20 per cent women **80 per cent** men

2013 status on the gender composition at top/upper management level is:
13 per cent women – **87 per cent** men.

The gender composition of the company as a whole is: **27 per cent** women – **73 per cent** men.

Arla Foods has not been able to realistically set a target for the underrepresented gender on the Board of Directors in compliance with the legislation introduced in 2012. This is due to a shortage of women among the owners in the recruitment base. Agriculture is a traditionally male industry. No statistics are available on the proportion of women in dairy production, but the Danish Agriculture & Food Council has estimated that the proportion of women in Danish agriculture is **9 per cent**.

We will set a target for the Board of Directors in 2014. This will be an integrated part of developing a strategy on how to benefit from increased cultural diversity as a result of the mergers with German and UK dairy farmers. The strategy will also focus on how to increase gender and generational diversity in the recruitment bases of the Board of Representatives and Board of Directors.

2013 status on the gender composition of the Board of Directors:
7 per cent women – **93 per cent** men.
2013 status on the gender composition of the Board of Representatives:
13 per cent women – **87 per cent** men.

Future ambitions to increase diversity

Diversity is an asset, and we work to increase diversity in several ways. Actions intended to increase diversity in Arla:

- Ongoing training for leaders and leadership teams in inclusive leadership & team culture (incl. unconscious bias- and cultural competencies)
- Strengthening global recruitment-, performance review- and talent management-processes to increase diversity and mitigate unconscious bias
- Global recruitment policy: Mix of gender and nationality in final shortlist for top 50 and 300 positions, diverse recruiting teams, D&I requirements for search companies

Tax governance

Arla's tax platform has changed from local to global in step with the development of the business. Arla Global Tax handles the complex legislation and increased regulatory demands of the globalised business proactively. We aim to ensure full compliance and support transparency. Our goal is to manage our tax affairs in a proactive manner that seeks to maximise our milk price, while operating in accordance with the law at all times.

Tax is a topic increasingly debated by businesses, governments and other stakeholders worldwide. Generally, we see a growing focus on corporate tax disclosure levels in terms of both tax strategies and payments. Stakeholders want to know more about these business-critical affairs, and also about the extent to which businesses contribute to society in a wider context. Our view on tax is aligned with our business strategy and conformed to our global code of conduct, Our Responsibility. To sustainably and fairly ensure a competitive level of taxation for Arla, we balance and optimise tax while managing risks by application of compliance and prudence.

In 2013, we have strengthened our focus on tax as follows:

- Formalisation of tax directives
- Establishment of a framework for a risk heat map
- Extension of our reporting on tax
- Creation of a new standard for transfer pricing documentation
- Establishment of synergies of the global organisation

Open interaction with authorities

We maintain and develop a good working relationship with the tax authorities in order to minimise the risk of disputes and create certainty for our stakeholders.

In the UK, we have for several years worked with the authorities to maintain a low risk status. In 2013, we started a tax transparency project in Denmark.

How is Arla contributing to society?

For the cooperative, the farmer is the primary source of taxation. We secure the highest value for the milk produced by our farmers while creating opportunities for growth. We may not be paying much corporation tax but the cooperative's owners are taxed on the value created by the company. However, this is not reflected in the financial reporting.

Therefore, we need to look at the bigger picture to show how Arla contributes to society. We also make other valuable contributions in the various countries:

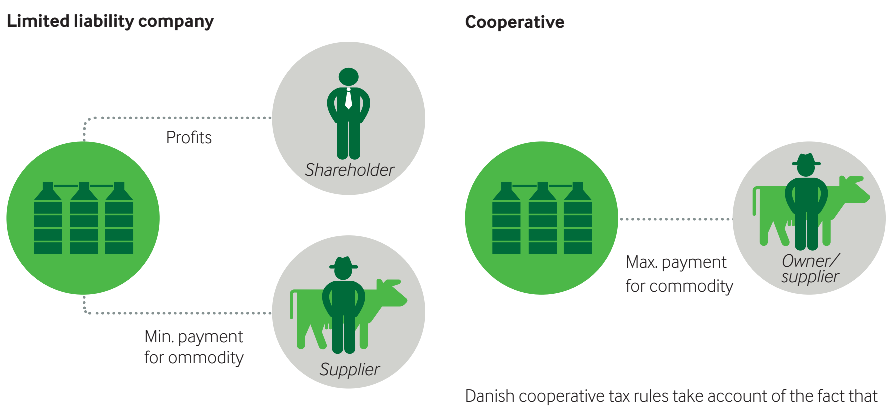
- We pay VAT and other duties (energy taxes, VAT, property taxes etc.)
- We employ people and through their wages we contribute income taxes etc.
- Some of our other operating costs contribute to the earnings in society.
- We export products from core markets to growth markets, creating jobs in both places.

We are proud to be making a significant contribution to the public finances in the countries in which we operate.

Klas Vallhagen, 46, has a farm in Sweden where he lives with his wife Katarina and their five-year-old son Hugo. The farm has 80 cows, which produce approx. 690,000 kg of milk a year.

GUIDE TO COOPERATIVE TAXES

Arla is a cooperative company headquartered in Denmark. Our activities are therefore covered by Danish tax rules for cooperatives, which take account of the basic principles of the company. When the owner of a company is also a supplier to the company, earnings end up with the owner in the form of the price paid for the commodity. That is why the farmer is in this case the primary source of taxation.



Danish cooperative tax rules take account of the fact that Arla's suppliers are also Arla's owners and that earnings do not accrue to the company but its owners in the form of the highest possible milk price.

The cooperative is the farmer's extended arm, and that is how Arla operates. Danish cooperative tax rules take account of the fact that Arla's suppliers are also Arla's owners and that earnings do not accrue to the company but to its owners in the form of the highest possible milk price inclusive of supplementary payments. The company's earnings can therefore be viewed as its owners' personal income.

This means that owners of a cooperative, as opposed to shareholders, pay income tax on distributed earnings under the applicable rules in the six countries in which Arla has owners.

It also means that Arla Foods amba pays income tax based on its assets (equity) – retained profit kept at a minimum because, in principle, the funds belong to the owners. This income tax can be viewed as interest on the tax of the portion of earnings retained in the company.

Arla Foods amba has a number of subsidiaries in Denmark and elsewhere. Subsidiaries which are limited liability and private limited companies are subject to regular corporate taxation – just like all other such companies.

Corporate governance

The dairy industry is changing ever more rapidly, and Arla needs a flexible organisation which can adapt to the changing circumstances. In 2013, Arla's Board of Representatives adopted a modernised democratic structure for the future. For example, national councils have been established in Sweden, Denmark, Germany and the UK as subcommittees to the Board of Directors. Local democracy has thus been strengthened in step with the growth of Arla's global organisation.

Cooperatives operate according to specific principles. Arla was founded by dairy farmers, and the purpose of the cooperative is to buy, process and sell their milk in the best possible way. The cooperative owners are both owners of and suppliers to Arla. This is the key strength of the cooperative: the long-term, mutually obliging cooperation. The owners are obliged to supply their milk to Arla, thereby securing supplies. On the other hand, Arla is obliged to buy the milk. This means that the owners can be sure of being able to sell their milk at the highest possible price. Unlike a limited company, the purpose of the cooperative is to pay its suppliers the highest possible price for their raw materials. Arla creates value for its owners as a reliable sales channel which pays as much as possible for the milk.

Modernised cooperative structure
As a cooperative, Arla upholds the fundamental principles of democracy and solidarity. Each owner has one vote – regardless of his or her trading with the cooperative, and all owners are basically paid the same price for their milk, regardless of the country in which their production takes place.

In 2013, Arla had 12,600 owners in six countries, and 19,000 employees in a total of 30 markets. In February 2013, Arla adopted a new democratic structure. With the many new cooperative owners which Arla welcomed following the mergers with MUH and Milk Link in 2012 and AFMP in 2013, a need arose for ensuring a stronger balancing of the national and global perspectives. This means that the Board of Directors is being reduced in size, while four national councils have been set up in Sweden, Denmark, Germany and the UK. These national councils function as subcommittees of the Board of Directors.

Moving forwards, the Board of Directors will be reduced from the current 15 members to ten members plus the employee representatives. In the 2013-15 period, the Board of Directors will consist of 15 members (plus four employee representatives): six from Denmark, four from Sweden, one from Hansa Arla Milch, two from Arla MUH and two from Arla Milk Link.

The Board of Representatives consists of 165 members plus 12 employee representatives. In the 2013-15 period, Sweden and Denmark have a total of 141 members, Hansa Arla Milch five, Arla MUH nine and Arla Milk Link ten.

The distribution of seats on the Board of Directors and the Board of Representatives will be determined every other year according to capital shares.

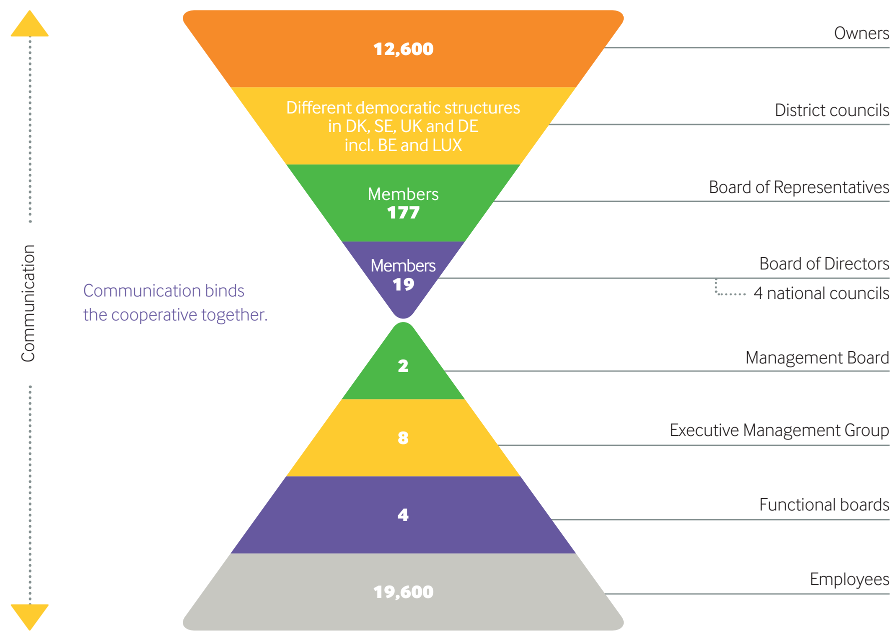
District councils
Each owner countries has their own democratic structures. This means that there are different local organisations in Denmark, Sweden, the UK and Germany (including Belgium and Luxembourg) that ensure the democratic influence of the cooperative owners in all countries. Each year, the cooperative owners in the local democratic structures are invited to attend meetings. The members of the local organisations elect members of the Board of Representatives.

Board of Representatives
The Board of Representatives is the company's supreme body which also makes decisions concerning the appropriation of the profit for the year. The Board of Representatives appoints the Board of Directors. The Board of Representatives holds a minimum of two meetings a year. Every other year, cooperative owners are elected to Arla's Board of Representatives.

National councils
There are four national councils, which are subcommittees of the Board of Directors. The four national councils have been established in the four countries Sweden, Denmark, Germany and the UK. The subcommittees to the Board are established to take care of the matters that concern dairy farmers in each country. Arla has made this change to ensure our close bond to the owners in order to handle the important work with owner-oriented matters.

Board of Directors
The Board of Directors is responsible for monitoring the company's activities and asset management, maintaining the accounts satisfactorily and appointing the Management Board. The Board of Directors is responsible for the organisation's overall strategies and for ensuring that Arla is managed in the best interests of its owners. Together with the Board of Representatives, the Board of Directors decides Arla's strategic direction, and is responsible for decisions which relate to long-term strategies, major investments, mergers and acquisitions as well as the planning and recruitment of the executive management.

ARLA'S DEMOCRATIC STRUCTURE 2013



Management Board and Executive Management Group
The top management must ensure the proper, long-term growth of the company in a global perspective, drive the corporate strategy and follow up on the targets for the year. This is where the contents of ONE Arla are defined, where decisions are made regarding activities and resource allocations across geographical areas and functions, and where the group's ambitions are defined for cross-disciplinary efforts.

The Executive Management Group (EMG) is responsible for Arla's day-to-day business operations and for preparing strategies and planning the future dairy structure. The EMG holds a minimum of 11 meetings a year.

The seven business groups are Arla's executive bodies and focus on ensuring that Arla is a results-oriented, market-facing business. The seven business boards act as boards for the individual business groups. No strategic efforts are initiated in Arla's business groups, unless they have the support of a business board.

Functional boards
The functional boards are interdisciplinary forums which create one course for Arla. This is where a number of Arla's global polices are defined, where best practices are shared and implemented and where efficiency measures are managed. The four functional boards hold four to six meetings a year:

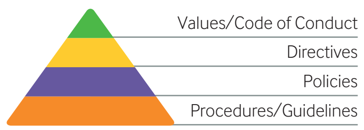
- Finance Board
- Supply Chain Board
- Innovation & Marketing Board
- Human Resource Board

Compliance is in our DNA

Arla is growing rapidly, and the increased complexity of our global business has highlighted the need for a shared, financial compliance culture. As we grow, we are constantly advancing our compliance and control mechanisms. Starting at the top of the organisation and spanning the various business groups, our compliance and control culture serves to increase transparency and minimise risk exposure. In 2013, we accelerated our efforts to evolve the financial compliance DNA in Arla. The actions will add value to our business and ensure that Arla is always compliant with our business principles.

Corporate Finance Directives and Policies
The increased complexity and diversity of our global business has strengthened the need for our finance community and business to be supported by a clear set of guiding principles. Today, it is no longer enough to design policies with diligence. Rather, we must reach further to make business initiatives and policies come alive through each employee in the global organisation.

To dinstinguish clearly between corporate Top Policies and supporting policies we have introduced a set of Corporate Finance Directives. This acts as our overall finance constitution and serves as an overall framework for all supporting policies and procedures / guidelines.



A new Compliance and Control Committee
Financial compliance is key to being a responsible company, and Arla is committed to meeting all applicable laws, rules and regulations in the operating markets. In 2013, Arla established a Compliance & Control Committee (C&CC). The purpose of the committee is to ensure that Arla stays compliant as a fast-growing global company. The committee's tasks include:

- monitoring compliance and the internal control environment
- ensuring right training and communication
- ensuring the continued progress of implementing required internal controls
- ensuring standardisation of processes
- implementing anti-fraud plans

Improving communication
In 2013, we prepared several initiatives to improve communication across the global organisation. These include a new internal corporate finance site, hard-copy booklets and material suitable for tablets and mobile devices. Furthermore, we have enhanced our awareness campaign and support for the implementation of our policies. To support the ambition we have opened a new Directive & Policy office under Corporate Accounting.

Minimum controls catalogue
In 2013, the Risk and Compliance function implemented a minimum controls catalogue into our growth, value and selected core markets. The integrated programme was launched usinga tailored approach that focused on efficiency and controls that were appropriate to the business. The catalogue consisted of a number of critical controls covering six different financial processes.

Global Anti-fraud Directive
Arla has a zero tolerance of fraud and breach of anti-corruption laws and takes all forms of non-compliance transactions very seriously. Growing operations in a world where fraud is on the increase has emphasised the need to formalise this in a Global Anti-fraud Directive. The directive was introduced in 2013 and Risk and Compliance conducts fraud inspection visits to subsidiaries to verify compliance.

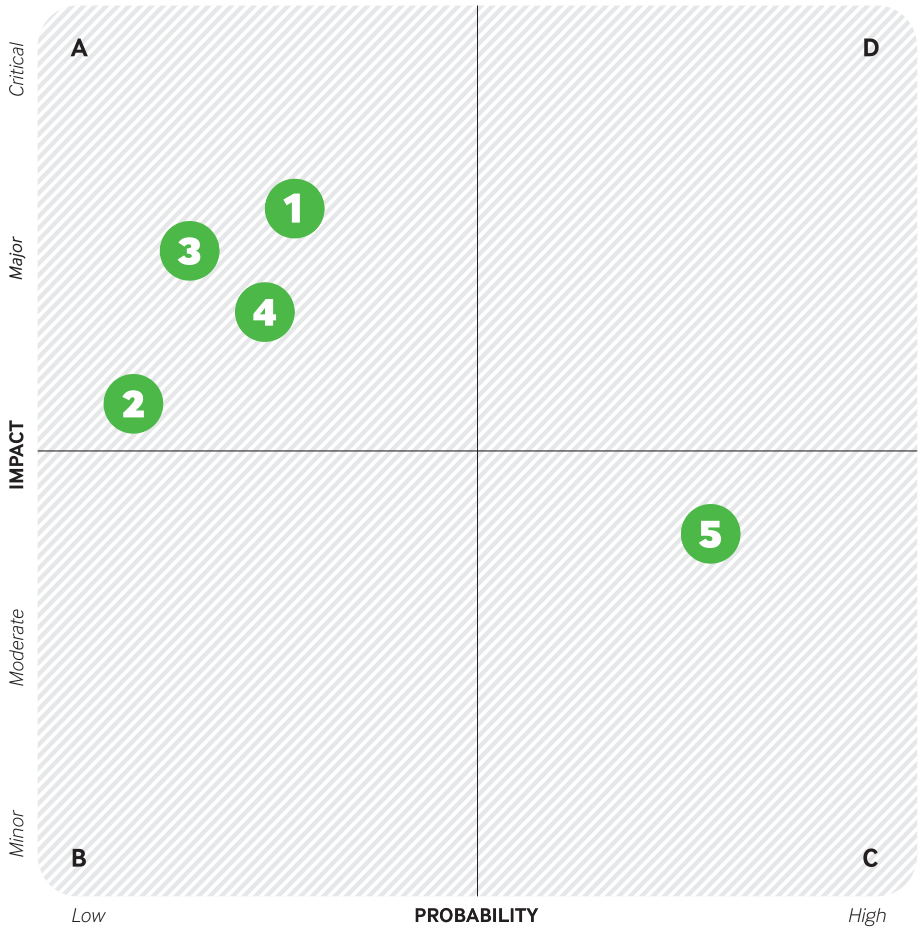
Global Fraud Response Policy
Arla has a clear commitment to thoroughly investigate the validity of any credible allegations of fraud and to ensure that the appropriate actions are subsequently taken. During 2013, Arla defined a Global Fraud Response Policy, which also clarifies the responsibilities of the Arla management.

Fraud Awareness Programme
In Arla, we believe that fraud awareness training of employees is an essential element in cascading the company's anti-fraud attitude and communicating fraud-related policies effectively. In 2013, a Fraud Awareness Programme was launched in our shared service centre in Gdansk.

The work on strengthening the anti-fraud culture in Arla continues and will be supported by further activities in 2014.

Strategic risk management

All larger companies basically share many of the same risks. What ultimately differentiates them is their ability to handle these risks. Strategic risk management was a first priority of Arla's Board of Directors in 2013. We set out to evaluate a number of major strategic risks – "Black swans" – with the capability of significantly impairing our business performance and disabling Arla from delivering a competitive milk price.



Probability is based on the risk that an event will occur and its assumed frequency. Impact is assessed before precautions are taken. The impact is considered major if it unsettles the entire business platform of the company.

A black swan is a company killer – an unpredictable risk with the potential to significantly impair the Arla Group as a whole by fundamentally and permanently undermining our competitiveness or as a result of a sudden and major event. The consequence would preclude Arla from delivering a competitive milk price.

An impairment may be caused by external factors (macroeconomic, sociopolitical, regulatory, reputation or industry-related) or internal factors (employees, supply chain, commercially or financially related). Black swans tend to come as a surprise and to have major impact on performance overall. The Board of Directors is responsible for Arla's comprehensive risk management framework that involves the identification of the strategic risks. Our risk management approach is top-down and covers all major entities across regions, markets and functions. The framework is based at the strategic level to ensure that the risks related to carrying out Strategy 2017 are identified and that relevant mitigating actions are taken.

Black swans for Arla
Out of a full list of strategic risks, a number were classified as potential black swans for Arla. After identifying and assessing risks that might prevent us from achieving our strategic ambition, the Board of Directors defined a corresponding set of mitigating actions.

Operating risks
In addition to the black swans, there are a number of operating risks in the industry and markets in which we operate. Our strategy and growth opportunities are to a large extent in emerging markets. A paradigm shift in the current competitive landscape where Arla is 'left behind' or 'stuck in the middle' due to our current positioning in Europe and internationally could potentially harm our future possibilities of attracting milk. Our strategy captures this exposure, and we are already accelerating our presence in these markets.

Financial risks
Furthermore, there are a number of financial risks related to doing business in a globalised world – currency risks, interest rate risks, liquidity risks etc. These financial risks are handled centrally by our treasury function and described in note 4.3.

Strategic risks

RISK	CHARACTERISTICS	CURRENT MITIGATING ACTIONS	POTENTIAL MITIGATING ACTIONS
1 **Severe dip in reputation and consumer confidence**	An external or internal event resulting in a significant impact on the reputation of Arla Foods – either immediately or over time The causes could be e.g. animal welfare, ethics or food safety resulting in major call-back of products and medium/long-term damage to our brands and positions	Clear focus on CSR and 'code of conduct' Quality programmes across all sites and physical locations Systematic focus on 'issues management' in order to constantly be aware of potential damaging issues that could arise	Increase focus on crisis management at EMG and BoD level Further increase awareness about reputation for all employees (e.g. through mandatory education) Strengthen quality and food safety procedures
2 **Large-scale dairy accident**	Fire, chemical spill, explosion, sabotage related to one or more of Arla Foods' production sites The specialisation of dairies has increased the level of exposure	An emergency programme exists across all dairies Learnings from historical accidents are continuously built into the emergency programme in order to prevent accidents Continuous back-up plans for re-allocation of raw milk to other dairies in the case of a serious breakdown	The current emergency programme is to a large extent based on trust... ... for which reason internal/external auditing of the emergency programme could improve the security further
3 **Anti-competitive ruling**	Anti-competitive agreement and/or abuse of dominant position Adverse publicity and damage to reputation The potential fine is up to 10% of group revenue (maximum) Time-consuming and costly investigations; additional third-party claims; sanctions include imprisonment	Compliance manager function supported by governance model and mandate – 2013 "Tone from the top" Implementation of compliance programme for all relevant employees	Further business group involvement and appointment of compliance responsible in each business group (already in process) Developing an E-learning system (already in process) Refining reporting mechanisms, controls and reviews
4 **Political and/or socio-economic instability in emerging markets**	Regulative measures or financial downturn in individual countries/regions preventing Arla Foods from exporting/selling products to these A potential new revolt hitting Arla growth/profit in one of our growth markets	Diversification strategy across many international markets reducing dependency on single growth markets Joint ventures and partnerships with lower risk	Increase the level of diversification across growth markets Local production in e.g. Russia in order to prevent the consequences of a potential milk import ban
5 **Lack of milk supply**	Significant drop in the supply of raw milk from owners 'Reverse' milk wheel due to the inability to pay a competitive milk price compared to competitors Significant worsening of the (financial) framework conditions for the farmers	Arla's active part in the consolidation game in Europe is a clear measure to constantly secure a forward-going milk wheel Strategy 2017 emphasising profit and performance in order to pay a competitive milk prices to owners Active participation in lobbying activities	Further focus on consolidating the European dairy market More active communication with financial institutions in order to avoid farmers' bankruptcy

RISK MANAGEMENT IS AN ONGOING EXERCISE

Strategic risk management is an ongoing exercise in the years to come. The identified risks and their respective mitigating actions will be evaluated at the annual Board of Directors' strategy review.

Healthy financial base

2013 was a record year for Arla in terms of both revenue and earnings. We realised growth, while at the same time significantly increasing earnings, with marked organic growth in Russia, the Middle East, China and Africa. Our growth is scalable, leverage has been reduced as promised, and we are successfully releasing passive capital.

Frederik Lotz, CFO

	EXPECTATIONS FOR 2013	ACHIEVED 2013	EXPECTATIONS FOR 2014
PERFORMANCE PRICE	2.71 DKK/Kg	3.05 DKK/Kg	3.25-3.35 DKK/Kg
MILK VOLUME	12.5 bn kg	12.7 bn kg	13 bn kg
REVENUE	72 DKKbn	73.6 DKKbn	79 DKKbn
REVENUE GROWTH	16%	16.6%	9%
PROFIT	2.2 DKKbn	2.2 DKKbn	2.4 DKKbn
LEVERAGE	3.5	3.2	3.0-3.4

Arla's earnings capacity testifies to the robustness of our business model. Earnings increase in step with the scaling of the business based on the considerable growth achieved, and we are seizing the opportunities which present themselves – for example in the emerging markets. We consistently focus on maintaining a solid credit rating. At the start of 2013, leverage exceeded our target range, and this has now been reduced even faster than planned. However, the level of leverage still restricts Arla's strategic latitude. At the same time, Arla is favoured by a situation with greater than ever opportunities for selling dairy products on attractive terms. All in all, this means that Arla must increasingly prioritise its resources. The company is therefore working hard to finance growth by increasing cash flows from operating activities.

Growing activities
2013 was a record year for Arla. Revenue growth of 16.6 per cent was driven partly by the group's acquisitions in 2012, the full-year effect of which is seen in 2013, and partly by increasing global growth. Following the mergers in the UK and Germany, focus has been on business integration. In Denmark and Sweden, we are maintaining a strong focus on developing the business.

In 2013, Arla's organic growth was driven, in particular, by growth in non-core markets and global market price increases. The international activities are seeing significant market-wide growth, with Russia and the Middle East as the most prominent players. Growth rates are being maintained at a solidly high level. A combined growth rate of 24.7 per cent was achieved in Arla's growth markets.

Solid growth continues in the Middle East, where Arla is winning market shares. Against this background, Arla is markedly upping its presence in Africa. In 2013, we started establishing joint ventures which will drive future growth on the continent based on powder products. We expect these developments to accelerate in 2014. At the same time, exports to China are increasing, especially of third-party manufactured child nutrition products, which are seeing growth rates of up to 62 per cent.

All in all, the international business is maintaining double-digit growth rates and is increasingly seen as the engine which will secure a market beyond Europe for the milk supplied by the company's owners. Also, earnings levels are now on a par with our established core markets.

This development is driven by the underlying global demand for milk products and the fact that world market prices have reached a reasonable level.

In the past 12 months, Arla Foods Ingredients has realised satisfactory growth of 8 per cent. We expect the year's strategic investment in increasing lactose capacity to spur markedly increased growth in 2014.

Scalable growth
Arla focuses on the bottom line. Growth in revenue is not an aim in itself if it leads to similar or higher increases in cost levels. Scalability is therefore an objective: Arla's revenue must grow twice as fast as costs. Thanks to our large-scale efficiency programmes, we are now fulfilling this objective. Our cost-cutting initiatives have been more than successful, and in future our focus will remain on ensuring that growth creates value for the company and its owners.

A scalability level of 1.6 is reported for 2013, and this is a very central key ratio for the organisation. In 2013, the scalability equates to a value of DKK 0.5bn.

Leverage under pressure from investments
Arla focuses on its credit rating. We are obliged to maintain a good credit rating, and our efforts to reduce leverage are progressing according to plan. In 2013, leverage was reduced to 3.2 from 3.9 last year. We are still close to the top of the target range of between 2.8 and 3.4.

It is a challenge for Arla today that we are seeing far more favourable investment opportunities than we can finance. Leverage is developing satisfactorily, but restricts the scope for making major new investments. Arla's future consolidation policy will be a topic for discussion with the owners in 2014. The aim is to be able to finance some of the many exciting opportunities that we are seeing.

New Programme Zero wave
The working capital is one of the measures which in recent years have contributed to financing growth and reducing leverage, and it remains high on Arla's financial agenda. The purpose of Programme Zero is to release passive capital.

Programme Zero has been running successfully for three years. In 2012, our primary focus was to optimise our customers' terms of payment so as to reduce trade receivables. In 2013, we intensified our focus on reducing inventories by optimising internal planning and forecasting accuracy. These initiatives had an estimated effect of approx. DKK 1.1bn in 2013, and have had a total effect of approx. DKK 3.3bn since 2011. All in all, the resulting improved cash flows from operating activities can be invested or used to repay debt. Despite the marked improvements already realised, there is still considerable potential for further reducing the working capital, and Programme Zero is therefore continuing in the coming years.

Investments of the year
In 2013, Arla invested in the expansion of a number of dairies as well as new facilities with a view to increasing the production of profitable products globally. At the same time, we want to make production more efficient and environment-friendly. As planned, we have invested just over DKK 2bn in capacity increases, efficiency and environmental improvements, quality and innovation. In addition to this is leasing agreements, additions to other assets etc. making the total investments DKK 3,9 bn The aim is to contribute to increasing the profitability of Arla's business, thereby improving long-term earnings for Arla's cooperative owners.

Focus on risks
Strong financial management is key to sustainable growth. At the moment, we are markedly strengthening the way in which we manage and develop our business. The aim is to ensure that we make the most of the assets with which we have been entrusted by the company's owners. For example, in the past couple of years, Arla has significantly upgraded its internal control set-up, and we are committed to developing an even safer and more effective control culture. At the same time, in 2013 Arla strengthened and formalised its risk management and identification processes at group level.

The milk price is the most important factor for Arla's results. We need the milk to seize scaling, innovation and branding opportunities. Arla must pay a competitive milk price both in the short and long terms in order to secure milk supplies. The creation of value over and above the market price is indicative of the company's success.

OUTLOOK FOR 2014
Revenue in the region of DKK 79bn is expected to be realised in 2014. The profit for the year is expected to meet the agreed target of 3 per cent of revenue, corresponding to DKK 2.4bn. Our ambition is to deliver a performance price in the range of 3.25 - 3.35 DKK. This is of course an estimate that is subject to uncertainty, as market conditions in the industry can change rapidly. Arla maintains a consistent focus on the three elements of its strategy – core markets, growth markets and efficiency. We expect to significantly expand our markets to sell the increasing production at our European dairies and on the farms.

Investing in development together

Arla's Strategy 2017 is ambitious, and we are currently seeing many interesting investment opportunities, among other things in the emerging markets. A strong financing model is required to seize these opportunities. We are willing to increase leverage in excess of the agreed target at times if the opportunities are interesting enough and provided that we can find a way of adjusting back to the leverage target.

There are three ways of financing Arla's growth and development.

- Owners
- Company
- Financial institutions

Financing growth

Arla is working hard to convert idle working capital so it can be used for investments. This is, for example, being done under Programme Zero. Since 2011, the programme has successfully improved cash flows from operating activities for use to finance investments. In 2014, Programme Zero will enter phase two to emphasise that Arla is consistently focused on improving cash flows and reducing tied-up funds. The next wave of initiatives hold considerable potential and are expected to release several bn kroner in the coming years.

Moreover, financing must be arranged through financial institutions and the capital market. Arla is characterised by its solid creditworthiness, a flexible distribution of debt on several sources of financing and a sensible repayment profile. The company has a broadly based financing platform, which in 2013 was supplemented with the issue of a EURO TERM Note programme as a supplement to other sources of financing.

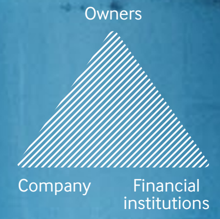
It is important that Arla's owners are behind us and willing to invest in the business. They do so by consolidating. According to Arla's current consolidation policy, 4.5 per cent of the performance price is consolidated. The consolidation is generally divided between individual capital (one third) and collective capital (two thirds).

Prioritisation of resources

After the financing, sharp priorities are set for the available investment funds. Investments are prioritised in consultation with the company's business groups.

In line with Strategy 2017, we invest in growth, efficiency (including structural rationalisations) and environmental initiatives (e.g. lighter lorries, saving diesel and emitting less CO_2).

FINANCING OF STRATEGY 2017



Arla's ambitious growth strategy calls for a careful balancing of the various sources of financing.

Arla Foods dairy in Nørre Vium, Denmark.

Consolidated Income Statement 1 January - 31 December

(DKKm)	NOTE	2013	2012
Revenue	1.1	73,600	63,114
Production costs	1.2	-56,576	-48,413
Gross profit		**17,024**	**14,701**
Research and development costs	1.2	-279	-202
Sales and distribution costs	1.2	-10,647	-9,496
Administration costs	1.2	-3,406	-2,791
Other operating income and costs	1.3	338	217
Share of net profit in joint ventures and associates	3.5	140	73
Earnings before interest and tax (EBIT)		**3,170**	**2,502**
Specification:			
Earnings before interest, tax, depreciation and amortisation (EBITDA)		5,496	4,445
Depreciation, amortisation and impairment	1.2	-2,326	-1,943
Earnings before interest and tax (EBIT)		**3,170**	**2,502**
Financial income and costs	4.1	-660	-518
Profit before tax		**2,510**	**1,984**
Tax	5.1	-274	-89
Profit for the year		**2,236**	**1,895**
Minority interests		-35	-31
Owners of Arla Foods amba		**2,201**	**1,864**

For information about profit appropriation, see page 59.

3.0%

Profit accounts for 3.0% of revenue, which is in line with the Group's performance target of 3%.

Consolidated Statement of Comprehensive Income 1 January - 31 December

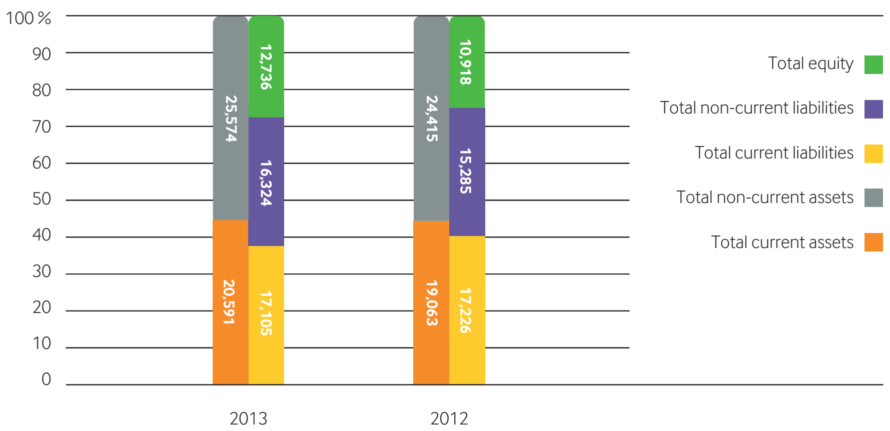
(DKKm)	NOTE	2013	2012
Profit for the year		**2,236**	**1,895**
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Actuarial gains/(losses) on defined benefit plans.	4.7	168	-654
Income tax on actuarial gains/(losses) on defined benefit plans		-41	126
Items that may subsequently be reclassified to the income statement:			
Deferred gains/(losses) on cash flow hedges arising during the year		70	68
Net change in fair value of hedging instruments reclassified to other operating income		92	-46
Net change in fair value of hedging instruments reclassified to financial items		188	-39
Net change in fair value of hedging instruments reclassified to production costs		-12	11
Net change in fair value of financial assets for the year classified as available for sale		33	-4
Foreign currency translation adjustments of foreign entities		-58	-59
Other adjustments		0	-70
Income tax on items that may be reclassified to profit or loss		-54	-
Other comprehensive income, net of tax		**386**	**-667**
Total comprehensive income		**2,622**	**1,228**
Allocated as follows:			
Owners of Arla Foods amba		2,600	1,227
Minority interests		22	1
Total		**2,622**	**1,228**

Comprehensive income shows the value creation/impairment during the year. It covers income and changes in equity for the year 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 year and not by the changes in other comprehensive income.

Consolidated Balance Sheet 31 December

(DKKm)	NOTE	2013	2012
ASSETS			
Non-current assets			
Intangible assets	3.1.a	5,569	5,442
Property, plant and equipment	3.3.a	16,851	15,644
Investments in associates and joint ventures	3.5	2,353	2,350
Deferred tax	5.1.c	427	435
Other non-current assets		374	544
Total non-current assets		**25,574**	**24,415**
Current assets			
Inventories	2.1.b	7,562	6,034
Trade receivables	2.1.c	6,762	6,723
Amounts owed by joint ventures	3.5.b	41	83
Amounts owed by associates	3.5.d	34	25
Derivatives		208	251
Current tax		30	82
Receivable for non-paid equity instruments		111	-
Other receivables		1,083	753
Securities		3,994	4,021
Cash and cash equivalents		566	735
Total current assets excl. assets held for sale		**20,391**	**18,707**
Assets held for sale	3.6.a	200	356
Total current assets incl. assets held for sale		**20,591**	**19,063**
TOTAL ASSETS		**46,165**	**43,478**

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.

Consolidated Balance Sheet 31 December

(DKKm)	NOTE	2013	2012
EQUITY AND LIABILITIES			
EQUITY			
Equity before proposed supplementary payment to owners		11,676	9,643
Proposed supplementary payment to owners		900	1,112
Equity attributable to the parent company's owners		**12,576**	**10,755**
Minority interests		160	163
Total equity		**12,736**	**10,918**
LIABILITIES			
Non-current liabilities			
Pension obligations	4.7	2,593	3,129
Provisions	3.7	66	77
Deferred tax	5.1.c	266	93
Loans	4.2	13,346	11,908
Other payables	4.2	54	78
Total non-current liabilities		**16,324**	**15,285**
Current liabilities			
Loans	4.2	6,600	7,269
Trade payables	2.1.a	7,564	6,866
Amounts owed to joint ventures	3.5.b	2	-
Amounts owed to associates	3.5.d	9	15
Provisions	3.7	314	188
Derivatives		623	864
Current tax		80	27
Other payables		1,913	1,997
Total current liabilities excl. liabilities classified as held for sale		**17,105**	**17,226**
Liabilities classified as held for sale	3.6.b	-	49
Total current liabilities incl. liabilities classified as held for sale		**17,105**	**17,275**
Total liabilities		**33,429**	**32,560**
TOTAL EQUITY AND LIABILITIES		**46,165**	**43,478**

Group Statement of Changes in Equity 1 January - 31 December

The Group statement of changes in equity shows the development of the year in net assets, that is, the Group's assets less liabilities.

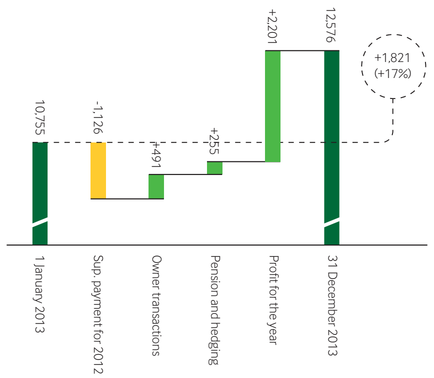
As at 31 December 2013, equity amounted to DKK 12,736m, up DKK 1,818m compared with 31 December 2012. 25% of the total equity is individual capital. Solvency measured as equity in relation to the balance sheet total was 28% as at 31 December 2013 compared with 25% last year.

Profit for consolidation was DKK 1,301m, with DKK 978m consolidated to the reserve for special purposes and DKK 323m to contributed capital (2012: DKK 469m to the reserve for special purposes and DKK 283m to contributed capital).

As at 31 December 2013, Arla Foods amba merged with AFMP, whereby Arla Milk Cooperative limited (AMCo) became a member of Arla Foods amba. As part of the transaction, Arla Foods amba issued DKK 41m as collective capital (capital account) and DKK 501m as individual capital (contributed capital).

Supplementary payment for 2012 were paid out from equity in March 2013. The payment amounted to DKK 1,126m after exchange rate adjustments primarily related to SEK.

DEVELOPMENT IN EQUITY ATTRIBUTABLE TO ARLA (DKKm)



(DKKm)	CAPITAL ACCOUNT	DELIVERY-BASED OWNER CERTIFICATES	CONTRIBUTED CAPITAL	RESERVE FOR SPECIAL PURPOSES	RESERVE FUND B	RESERVE FOR VALUE ADJUSTMENT OF HEDGING INSTRUMENTS	RESERVE FOR FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	PROPOSED SUPPLEMENTARY PAYMENT TO MEMBERS	EQUITY ATTRIBUTABLE TO ARLA FOODS AMBA	MINORITY INTERESTS	TOTAL EQUITY
Equity as at 1 January 2013	**6,894**	**835**	**1,628**	**969**	**-**	**-673**	**-10**	**1,112**	**10,755**	**163**	**10,918**
Net profit for the year			323	978				900	2,201	35	2,236
Other comprehensive income	83					337	-21		399	-13	386
Total comprehensive income	**83**	**-**	**323**	**978**	**-**	**337**	**-21**	**900**	**2,600**	**22**	**2,622**
Capital issued to new owners	41		501						542		542
Payment to owners		-28	-23						-51		-51
Dividend to minority shareholders										-38	-38
Acquisition of non-controlling interests	-139								-139	5	-134
Disposal of non-controlling interests	-5								-5	8	3
Supplementary payment to owners								-1,126	-1,126		-1,126
Foreign currency translation adjustments	19	-11	-22					14	-		-
Total transactions with owners	**-84**	**-39**	**456**	**-**	**-**	**-**	**-**	**-1,112**	**-779**	**-25**	**-804**
Equity at 31 December 2013	**6,893**	**796**	**2,407**	**1,947**	**-**	**-336**	**-31**	**900**	**12,576**	**160**	**12,736**
Equity as at 1 January 2012	**7,465**	**840**	**682**	**-**	**500**	**-667**	**53**	**491**	**9,364**	**162**	**9,526**
Net profit for the year			283	469				1,112	1,864	31	1,895
Other comprehensive income	-568					-6	-63		-637	-30	-667
Total comprehensive income	**-568**	**-**	**283**	**469**	**-**	**-6**	**-63**	**1,112**	**1,227**	**1**	**1,228**
Capital issued to new owners	14		678						692		692
Payment to owners		-18	-19						-37		-37
Transfer				500	-500						
Supplementary payment to owners								-491	-491		-491
Foreign currency translation adjustments	-17	13	4						-		-
Total transactions with owners	**-3**	**-5**	**663**	**500**	**-500**	**-**	**-**	**-491**	**164**	**-**	**164**
Equity at 31 December 2012	**6,894**	**835**	**1,628**	**969**	**-**	**-673**	**-10**	**1,112**	**10,755**	**163**	**10,918**

Financial review

Arla Foods' equity is divided into individual capital (delivery-based owner certificates and contributed capital) that can be allocated to the individual owners and common capital (capital account and the statutory Reserve for special purposes). Also included are a number of technical accounts maintained by law. Supplementary payment for the year then ended is shown as a separate item under equity.

Collective capital

- Capital account, which comprises the Group's unallocated equity. In connection with the AMCo transaction DKK 41m was issued.
- A reserve for special items was established in 2011 when the former reserve fund B was transferred to a new reserve which, upon the Board of Director's proposal, may be applied by the Board of Representatives for the full or partial offsetting of material extraordinary losses or impairment, cf. art. 19(iii) of the Articles of Association. Amounts added from the profit appropriation represent DKK 978m.

Individual capital

- Delivery-based owner certificates established in accordance with art. 19(1)(ii) of the Articles of Association and related regulations. Consolidation in this respect is suspended from 2010.
- Contributed capital established in accordance with art. 19(1)(iii) of the Articles of Association and regulation.
- Supplementary payment to owners are recognised separately in equity until they are paid out.

Amounts added from the profit appropriation represent DKK 323m. In addition to this, DKK 501m has been issued in connection with the AMCo transaction.

Amounts consolidated as contributed capital via the annual distribution of net profit carry interest at CIBOR + 1.5%. Amounts paid into the contributed capital in connection with mergers carry no interest. Interest is paid out along with the supplementary payment. Interest for 2013 is DKK 18m compared with DKK 16m in 2012.

Individual owners' balances on delivery-based owner's certificate and on contributed capital can be paid out over three years upon termination of membership of Arla Foods amba in accordance with the provisions set out in the regulation subject to the Board of Representatives' approval. In 2013, a net amount of DKK 51m has been paid out to members who had decided to leave the company. It is expected that DKK 90 m will be paid out in 2014.

Balances on individual accounts are denominated in the currency relevant to the country in which the members are registered. Foreign currency translation adjustments are calculated annually, the amount of which is then transferred to the capital account.

Proposed supplementary payment amount to DKK 900m, of which interest on the contributed capital amounts to DKK 18m. In March 2013, a resolution was passed to pay out DKK 1.112m in supplementary payment and interest on contributed capital in connection with the 2012 profit appropriation.

Other equity accounts

- Reserve for hedge accounting comprise the fair value of derivative financial instruments classified as and meeting the conditions for hedging of future cash flows and where the hedged transaction has not yet been realised.
- Reserve for foreign currency translation adjustments comprises currency translation differences arising during the translation of the financial statements of foreign companies including value adjustments relating to assets and liabilities that constitute part of the Group's net investment, and value adjustments relating to hedging transactions that hedge the Group's net investment.

Non-impairment clause

Under the Article of Associations, no payment may be made by Arla Foods amba to members that impair the sum of the company's capital account and equity accounts prescribed by law and prescribed by IFRS. The non-impairment clause is assessed on the basis of the Arla Group's most recent annual report presented under IFRS. Individual accounts, reserve for special purposes and proposed supplementary payment to members are not covered by the non-impairment clause.

Minority interests

Subsidiaries are fully recognised in the consolidated financial statements. Minority interests' shares of the results for the year and of the equity in the subsidiaries that are not wholly owned are recognised as part of the consolidated results and equity, respectively, but are listed separately. On initial recognition, minority interests are measured at either the fair value of the equity interest or the proportional share of the fair value of the acquired companies identified assets, liabilities and contingent liabilities. The measurement of minority interests is selected on a transactional basis, and disclosure is made in the note pertaining to business combinations.

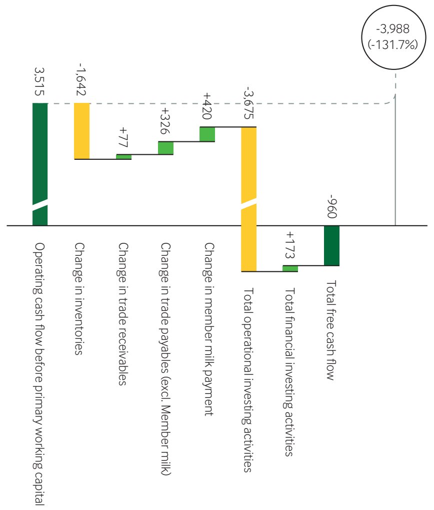
Profit appropriation (DKKm)	**2013**	**2012**
Profit for the year	2,236	1,895
Minority interests	-35	-31
Arla Foods amba's share of the net profit for the year	**2,201**	**1,864**
Proposed profit appropriation:		
Supplementary payment for milk	882	1,096
Interest on contributed capital	18	16
Supplementary payment, total	**900**	**1,112**
Transferred to equity:		
Reserve for special purposes	978	469
Contributed capital	323	283
Transferred to equity, total	**1,301**	**752**
Appropriated profit, total	**2,201**	**1,864**

Group Cash Flow Statement 1 January - 31 December

The success, growth and survival of every company depend on its ability to generate or otherwise obtain cash. What enables Arla to survive is the tangible resources of cash, not profit, which is merely one indicator of financial performance. Thus, our owners look for supplementary payment, suppliers and lenders expect payment and repayment, employees receive wages for their services and the tax authorities are legally entitled to tax revenue. Hence, a cash flow statement is an important part of corporate reporting.

(DKKm)	NOTE	2013	2012
Profit for the year		2,236	1,895
Depreciation and impairment	1.2.d	2,326	1,943
Share of results in joint ventures and associates	3.5	-140	-73
Profit/loss from disposal of enterprises and properties, etc.		-	-59
Change in primary working capital	2.1.a	-973	1,436
Change in other working capital		-886	-1,429
Other operating items without cash impact		-207	-3
Dividends received, joint ventures and associates		15	-
Financial income	4.1	-37	-101
Financial costs	4.1	697	619
Interest paid		-481	-431
Interest received		37	69
Change in deferred tax		73	21
Tax paid		-118	-88
Total cash flow from operating activities		**2,542**	**3,799**
Investment in intangible fixed assets	3.1	-253	-136
Sale of intangible fixed assets	3.1	-	19
Investment in property, plant and equipment	3.3	-3,767	-3,303
Sale of property, plant and equipment	3.3	345	37
Total operational investing activities		**-3,675**	**-3,383**
Free operating cash flow		**-1,133**	**416**
Investment in financial assets		-	-1,701
Sale of financial assets		173	-
Acquisition of enterprises	3.4	-	-289
Sale of enterprises		-	53
Total financial investing activities		**173**	**-1,937**
Total cash flow from investing activities		**-3,502**	**-5,320**
Total free cash flow		**-960**	**-1,521**
Supplementary payment regarding the previous financial year		-1,126	-491
Paid in funds from new owners		396	-
Paid out from equity regarding terminated member contracts		-51	-37
Loans obtained, net	4.2	1,202	1,674
Change in current liabilities		321	680
Net change in marketable securities		78	-78
Total cash flow from financing activities		**820**	**1,748**
Net cash flow		**-140**	**227**
Cash funds at 1 January		735	504
Exchange rate adjustments of cash funds		-29	4
Cash funds at 31 December		**566**	**735**

SPECIFICATION OF TOTAL FREE CASH FLOW (DKKm)



Arla accounting policies

The consolidated cash flow statement is presented according to the indirect method, whereby the net profit for the year is reconciled to the total net cash flow from operating activities. This is done by adjusting the net profit for the year for non-cash items such as depreciation, items that do not relate to the Group's operating activities such as tax and disposals of assets and movements in working capital balances during the period.

Financial review

Cash flows from operating activities were DKK 2,542 million in 2013 compared with DKK 3,799 million in 2012. The reduction in cash flows from operating activities represented a decline of DKK 1,257 million.

Primary working capital – the sum of inventories and trade receivables less trade payables (incl. payables for milk – stood at DKK 6,760 million at 31 December 2013 compared with DKK 5,891 million in 2012. Arla sharpened its focus on increasing cash flows from operating activities (Programme Zero). The positive effect of this was offset by the effects of a higher milk price, growth in revenue and inventory build up for delivering contracts in 2014.

Cash flows from financial investment activities were DKK -3,502million compared with DKK -5.320 million in 2012. The year's investments in property, plant and equipment stood at DKK -3,767 million.

Free cash flows totalled DKK -960 million in 2013 compared with DKK -1,521 million in 2012. These are calculated as cash flows from operating activities less cash flows from investment activities.

Cash flows from financing activities were DKK 820, which are affected by paid-in funds from new owners at DKK 396 million. Cash and cash equivalents combined represented DKK 566 million, compared with DKK 735 million in the previous year.

Overview of Notes and Accounting Policies

The notes and accounting policies sections are divided into sections that describe the various parts of the financial statements. The sections comprise accounting policies, estimates and uncertainties (where relevant), specifications of the figures and comments on the figures.

The consolidated financial statements are presented in Danish kroner (DKK), the parent company's functional currency.

Summary of significant accounting policies
The Consolidated financial statement included in this Annual Report have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union. These consolidated financial statements were authorised for issue by the Company's Board of Directors on 18 February 2014 and presented for approval by the Board of Representatives on 26 February 2014.

Change in accounting policies - Adoption of new or amended IFRSs
Under the revisions of IAS 19, interest is now calculated by applying the discount rate to the net defined benefit obligation (or asset) of the pension plan as opposed to previously, where this rate was applied only to the defined benefit obligation and the expected return on plan assets was instead recognised. This change has increased the Group's financial expenses by DKK 57m in 2013. As retrospective application of these changes would have only an immaterial impact on each financial year, Arla has fully adopted the amendment in 2013 without restating previous years' comparable amounts and disclosures.

In addition to the above, Arla has assessed that the application of the other new IFRSs has not had a material impact on the Consolidated financial statement.

IASB has issued a number of new or amended and revised accounting standards and interpretations that have not yet come into effect.

IASB has issued IFRS 9 Financial Instruments and amendments to IFRS 9, which is applicable for reporting periods starting on or after 1 January 2015. The new standard and the amendment have not yet been endorsed by the EU. Arla has assessed the impact of the standard and determined that it, in its current wording, will not have any significant impact on the Consolidated financial statement.

The approved non-effective standards and interpretations will be implemented as they become mandatory for Arla.

Consolidated financial statements
The consolidated financial statements are prepared as a compilation of the parent company's and the individual subsidiaries' financial statements prepared under the Group's accounting policies. Revenue, costs, assets, liabilities together with items included in the equity of subsidiaries are aggregated and presented on a line-by-line basis in the consolidated financial statements. Intra-group shareholdings, balances and transactions as well as any unrealised income and expenses arising from intra-group transactions are eliminated.

The consolidated financial statements comprise Arla Foods amba (parent company) and the subsidiaries in which the parent company directly or indirectly holds more than 50% of the voting rights or otherwise maintains control in order to obtain benefits from its activities. Companies in which the Group exercises joint control through a contractual arrangement are considered to be joint ventures. Companies in which the Group exercises a significant but not controlling influence are considered to be associates. A significant influence is typically obtained by holding or having at the Group's disposal, directly or indirectly, more than 20% but less than 50% of the voting rights in a company. Unrealised gains (i.e. profits arising from sales to joint ventures or associates, whereby the customer pays with funds partly owned by the Group) from transactions with joint ventures and associates are eliminated against the carrying amount of the investment in proportion to the Group's interest in the company. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. The consolidated financial statements are prepared on a historical cost basis except for certain items with alternative measurement bases, which are identified in these accounting policies.

Translation of transactions and monetary items in foreign currencies
For each reporting entity in the Group, a functional currency is determined, being the currency used in the primary economic environment where the entity operates. Where a reporting entity transacts in a foreign currency, it will record the transaction in its functional currency using the transaction date rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate applicable at the reporting date. Exchange differences are recognised in the income statement under financial items. Non-monetary items, e.g. property, plant and equipment which are measured based on historical cost in a foreign currency, are translated into the functional currency on initial recognition.

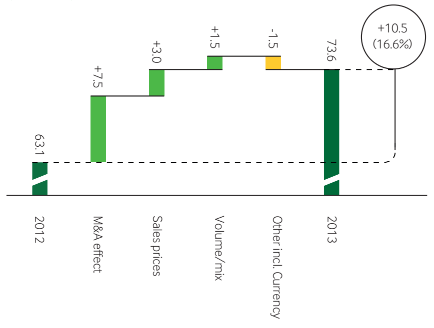
Translation of foreign operations
The assets and liabilities of consolidated companies, including the share of net assets and goodwill of joint ventures and associates with a functional currency other than DKK, are translated into DKK using the year-end exchange rate. The revenue, costs and share of the results for the year are translated into DKK using the average monthly exchange rate if this does not differ materially from the transaction date rate. Foreign currency differences are recognised in other comprehensive income (OCI) and accumulated in the translation reserve. On divestment of subsidiaries, associates and joint ventures, the relevant proportional amount of the cumulative foreign currency translation adjustment reserve is transferred to the results for the year along with any gains or losses related to the divestment. Repayment of outstanding balances considered part of the net investment is not in itself considered to be a partial divestment of the subsidiary.

Note 1. Primary Activities

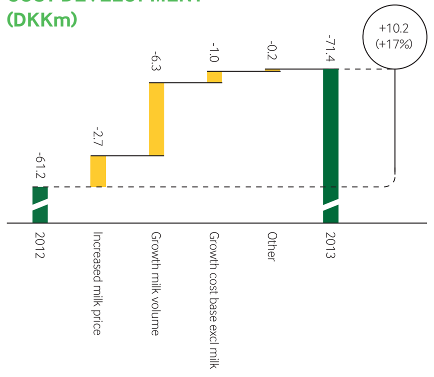
2013 was a record year for Arla. Revenue growth of 16,6 per cent was driven partly by the group's acquisitions in 2012. Arla's organic growth was driven in particular by growth in non-core markets and global market price increases. However, growth in revenue is not an aim in itself if it leads to similar or higher increases in cost levels. Scalability is therefore an objective: Arla's revenue must grow twice as fast as costs. A scalability level of 1:1,6 is reported for 2013.

This note section focuses on the Group's performance. The specifications include disclosures about the distribution of revenue across business areas and product categories. Organic growth is adjusted for the impact of mergers, acquisitions and foreign currencies. The note states the weighed-in volumes of milk from owners as well as contract suppliers and the cost of the milk, which is the single main cost item in our income statement. The total cost is the prepaid price for milk. Supplementary payment is generated as part of the Group's profit appropriation and are therefore not included under costs.

REVENUE DEVELOPMENT (DKKm)



COST DEVELOPMENT (DKKm)



NOTE 1.1. REVENUE

Arla accounting policies

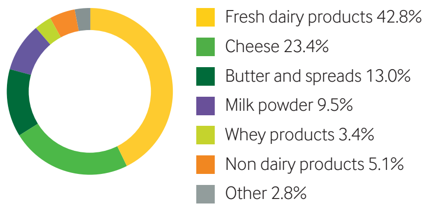
Revenue from the sale of dairy and other food products is recognised in the income statement when delivery and risk of the products have passed to the buyer, the amount of revenue can be measured reliably and collection is probable. Revenue comprises invoiced sales for the year less sales rebates, cash discounts, VAT and duties. Revenue by business area/geographical market and product category is based on the Group's internal financial reporting.

Note 1.1.a. Revenue by business area/market		**2013**	**2012**
(DKKm)	ORGANIC GROWTH	REVENUE	REVENUE
Consumer United Kingdom	3.4%	19,217	15,760
Consumer Sweden	-2.7%	11,592	11,823
Consumer Finland	10.3%	2,677	2,421
Consumer Denmark	1.3%	6,569	6,837
Consumer Germany	8.7%	10,782	6,891
Consumer Netherlands	16.5%	1,746	1,495
Core markets total	**3.5%**	**52,583**	**45,227**
Consumer International – Russia	44.3%	857	634
Consumer International – Middle East & Africa	11.6%	3,337	3,045
Consumer International – China*	54.0%	119	78
Consumer International – TPM	61.7%	1,084	671
Arla Foods Ingredients	9.6%	2,392	2,215
Growth markets total	**24.7%**	**7,789**	**6,643**
Value markets	5.2%	4,667	4,442
Global Categories and Operations – Trading	28.0%	6,712	5,263
Others		1,849	1,539
Total revenue	**6.6%**	**73,600**	**63,114**

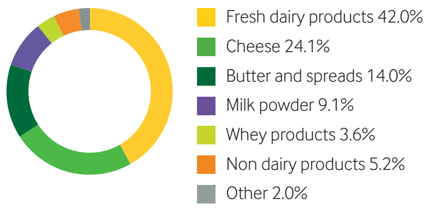
* Our sales to China including TPM and other areas total approximately 1,200m compared to approximately DKK 750m in 2012.

Note 1.1.b. Revenue by product category

REVENUE SPLIT BY PRODUCT CATEGORY, 2013



REVENUE SPLIT BY PRODUCT CATEGORY, 2012



Financial review

Revenue for 2013 totalled DKK 73,600m compared with DKK 63,114m in 2012 – an increase of 16,6 per cent. Revenue growth is primarily driven by the full year effect of the mergers in 2012, but also by a solid organic growth of 6,6 per cent in 2013.

Core markets in total show an organic growth of 3,5 per cent primarily related to price increases, while growth markets in total display an organic growth of 24,7 per cent and now represent 10 per cent of the total revenue. Especially Russia and the Middle East show high growth rates. In the table China only consist of export of consumer goods in Consumer International. Our total sales to China including TPM and other areas total approximately DKK 1,200m compared to approximately DKK 750 m in 2012.

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. Organic growth is about 9 per cent mainly due to price increases.

The sale of cheese represent 23 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 – on core markets growth is negative, however sound revenue increases on growth markets more than compensate for this. The categories white cheese, mould and cream cheese shows sound growth while yellow cheese is struggling. Substantial growth can be found in the milk powder category, which, however, only represents a relatively small part of the business – about 10 per cent of total revenue.

NOTE 1.2. COSTS

Accounting policies

Production costs
Production costs comprise the purchase of goods (including the purchase of milk from cooperative owners) and the direct and indirect costs (including depreciation and impairment losses on production plant etc. (mainly dairy sites) as well as payroll costs) related to the revenue for the year. The purchase of milk from cooperative owners is recognised at prepaid prices for the accounting period and therefore does not include supplementary payment, which is classified as distributions to owners and recognised directly in equity.

Research and development costs
Research and development costs comprise attributable direct and indirect costs, including payroll costs, amortisation and impairment losses. Research costs are expensed as incurred.

Development costs are capitalised at cost under intangible assets only from the time that the product is considered technically and commercially viable, but are expensed in all other circumstances. Normally, these criteria are met late in the development phase. Development costs capitalised are measured at cost.

Sales and distribution costs
Costs incurred for the sale and distribution of goods sold in the course of the year and for promotional campaigns etc. during the year are recognised as sales and distribution costs. Costs relating to sales staff, write-down of receivables, costs relating to sponsorships, advertising and exhibits and depreciation and impairment losses are also recognised as selling and distribution costs.

Administration costs
Administration costs incurred in the course of the year relate to management and administration, including administrative staff, office premises and office costs as well as depreciation and impairment losses.

Note 1.2.a. Costs (DKKm)	2013	2012
Production costs	-56,576	-48,413
Research and development costs	-279	-202
Sales and distribution costs	-10,647	-9,496
Administration costs	-3,406	-2,791
Total	**-70,908**	**-60,902**
of this:		
Cost of raw milk	-35,635	-26,625
Staff costs	-8,342	-7,753
Depreciation, amortisation and impairment losses	-2,326	-1,943
Other costs	-24,605	-24,581
Total	**-70,908**	**-60,902**

Note 1.2.b. Cost of raw milk
(DKKm)

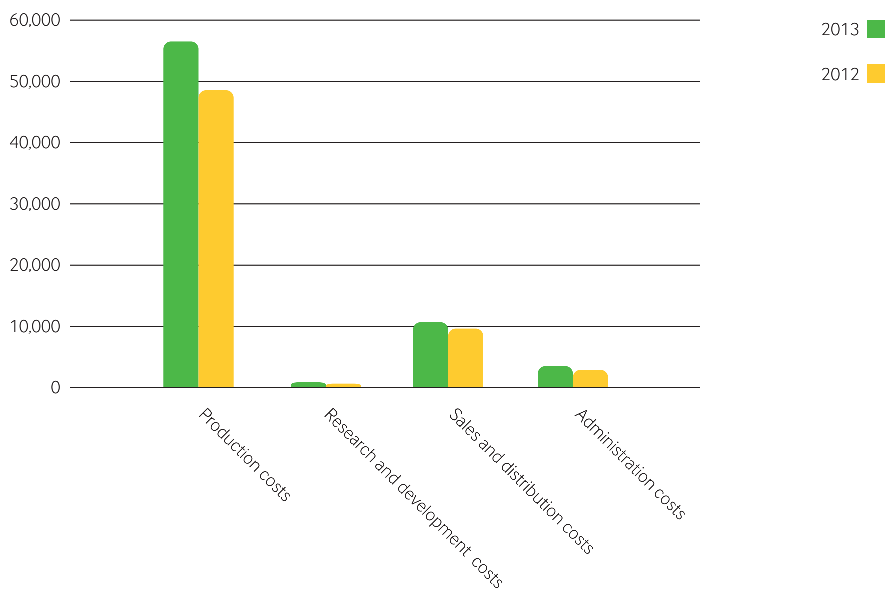
Cost of owner milk	-26,901	-19,127
Cost of other milk	-8,734	-7,498
Total cost of raw milk	**-35,635**	**-26,625**
(mKG)		
Inflow of owner milk	9,474	7,529
Inflow of other milk	3,202	2,881
Total inflow of raw milk	**12,676**	**10,410**

Note 1.2.c. Staff costs
(DKKm)

Wages, salaries and remuneration	-7,192	-6,543
Pensions – defined benefit plans	-23	-26
Pensions – defined contribution plans	-490	-416
Other social security costs	-637	-768
Total staff costs	**-8,342**	**-7,753**
Staff costs relate to:		
Production costs	-4,503	-4,295
Research and development costs	-107	-77
Sales and distribution costs	-2,374	-2,372
Administration costs	-1,358	-1,009
Total staff costs	**-8,342**	**-7,753**
Average number of full-time employees	**19,577**	**18,112**

Note 1.2.d. Depreciation, amortisation and impairment losses (DKKm)	2013	2012
Intangible assets, amortisation	-219	-177
Property, plant and equipment, depreciation	-1,970	-1,698
Property, plant and equipment, impairment losses	-137	-68
Total depreciation, amortisation and impairment losses	**-2,326**	**-1,943**
Depreciation/amortisation and impairment relate to:		
Production costs	-1,833	-1,499
Research and development costs	-13	-8
Sales and distribution costs	-181	-144
Administration costs	-299	-292
Total depreciation, amortisation and impairment losses	**-2,326**	**-1,943**

TOTAL COST BREAKDOWN



Financial review

Total production, research and development costs, sales and distribution costs and administration costs have risen 16,2 per cent which is just below the revenue growth of 16,6 per cent.

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 costs have risen due to increased activities after the mergers with MUH and Milk Link in 2012. However, the cost per kg milk processed has decreased due to economies of scale.

The total inflow of raw milk has increased by 2,266m kg. milk, which is mainly delivered by our owners. The greater volume and prepaid price has increased costs by 34 per cent.

Substantial efficiency programmes have been launched to help us keep costs down and thereby support earnings.

NOTE 1.3. OTHER OPERATING INCOME AND COSTS

Accounting policies

Other operating income and costs comprise items secondary to the Group's principal activities. These items comprise gains and losses relating to the divestment of intangible assets and property, plant and equipment etc.

Note 1.3.a. Other operating income (DKKm)	2013	2012
Gain on disposal of intangible assets and property, plant and equipment	219	64
Gain on divestment of companies	-	78
Sale of electricity	60	59
Rent and other secondary income	28	34
Financial instruments	92	-
Other items	186	167
Total other operating income	**585**	**402**

Note 1.3.b. Other operating costs (DKKm)	2013	2012
Loss on disposal of intangible assets and property, plant and equipment	-31	-30
Costs relating to the sale of electricity	-44	-42
Financial instruments	-	-46
Other items	-172	-67
Total other operating costs	**-247**	**-185**

Financial review

Other items include income and costs related to the sale of surplus power from condensation plants. The net result of this in 2013 is DKK 16m compared to DKK 17m in 2012.

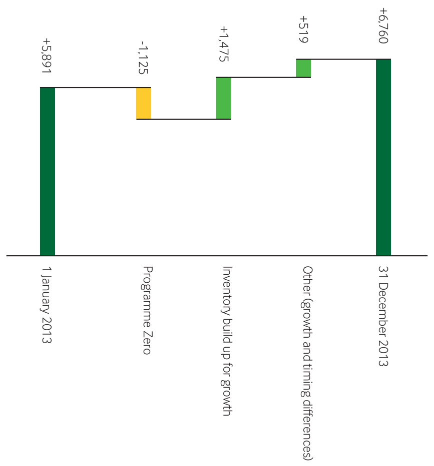
Gains and losses related to sale and disposal of assets amount to a gain of DKK219 m and a loss of DKK -31m. The gain on divestment of enterprises in 2012 relate to the sale of the subsidiary Arla Foods S.p.z.o.o. in Poland and the ownership interest in Mengniu Arla Dairy sold in connection with the investment in COFCO Dairy Holding Limited, China.

Note 2. Working Capital

Working capital is one of the measures, which in the last couple of years have contributed to financing growth and reducing leverage, and it remains high on our financial agenda. In 2013, as a part of Programme Zero, we intensified our focus on reducing inventories by optimising internal planning and forecasting accuracy. At Arla we focus on reducing funds tied up in the primary working capital, i.e. inventories and trade receivables less trade payables. This is a continuous focus as the business grows.

This note shows the development of the primary working capital components used to ensure the company's business performance.

UNDERLYING IMPROVEMENTS IN PROGRAMME ZERO (DKKm)



NOTE 2.1. NET WORKING CAPITAL

Accounting policies

Inventories
Inventories are measured at the lower of cost or net realisable value, calculated on a first-in, first-out basis. The net realisable value is established taking into account the inventories' negotiability, marketability and estimate of the selling price, less completion costs and costs incurred to execute the sale.

The cost of raw materials, consumables as well as commercial goods includes the purchase price plus delivery costs. The prepaid price to Arla Foods amba's cooperative owners is used as the purchase price for cooperative owner milk.

The cost of goods in progress and manufactured goods also includes an appropriate share of production overheads, including depreciation, based on the normal operating capacity of the production facilities.

Trade receivables
Trade receivables are recognised at the invoiced amount less write-downs for amounts considered irrecoverable (at amortised cost). Write-downs are measured as the difference between the carrying amount and the present value of anticipated cash flows. Write-downs are assessed on major individual receivables or in groups at portfolio level based on the receivables' age and maturity profile as well as historical record of losses.

Trade payables
Trade payables are measured at amortised cost, which usually corresponds to the invoiced amounts.

Uncertainties and estimates

Inventories
The entities in the Group that use standard costs for calculating inventory revise their indirect production costs at least once a year. Standard costs are also revised if they deviate materially from the actual cost of the individual product. Indirect production costs are calculated based on relevant assumptions with respect to capacity utilisation, production time and other factors characterising the individual product.

The assessment of the net realisable value requires judgement, particularly in relation to the estimate of the selling price of discounted products and bulk products to be sold in the world market.

Receivables
Receivables are written down based on an individual assessment of signs of impairment in connection with customers' insolvency, anticipated insolvency and a mathematical computation based on grouping receivables by the number of days to maturity. Additional write-downs may be necessary in future reporting periods if customers' financial conditions worsen and customers are no longer able to meet their payment obligations. Movements for the year relating to write-down of receivables pertaining to sales and services are shown below.

Note 2.1.a. Primary net working capital (DKKm)	**2013**	**2012**
Inventories	7,562	6,034
Trade receivables	6,762	6,723
Trade payables	-7,564	-6,866
Total primary net working capital	**6,760**	**5,891**
Payables relating to cooperative owner milk	2,018	1,677
Total primary net working capital excl. cooperative owner milk	**8,778**	**7,568**

Note 2.1.b. Inventory
(DKKm)

Inventory, gross	7,728	6,115
Write-downs	-166	-81
Total inventory	**7,562**	**6,034**
Raw materials and consumables	1,665	1,464
Work in progress	684	534
Finished goods and goods for resale	5,213	4,036
Total inventory	**7,562**	**6,034**

Note 2.1.c. Trade receivables
(DKKm)

Trade receivables		
Trade receivables before provision for bad debts	6,853	6,805
Provision for bad debts	-91	-82
Total trade receivables, net	**6,762**	**6,723**
Write-down for bad debts, 1 January	82	82
Foreign currency translation adjustments	1	-
Addition	11	-
Additions regarding Mergers and Acquisitions	-	1
Write-downs used	-3	-1
Write-down for bad debts, 31 December	**91**	**82**

Financial review

Reduced funds tied up in working capital has in recent years contributed to financing growth and reducing leverage and it remains high on Arla's financial agenda under the project Programme Zero.

Processes across the group have been optimised- with focus on terms of payment to both customers and suppliers. In 2013, we intensified our focus on reducing inventory by optimising internal planning and forecasting accuracy. Despite these initiatives, inventory has increased DKK 1,528m. The main reason relates to increased activity including large amounts of stock volumes being held in order to secure supply for new contracts starting in 2014. Inventory is further influenced by the increase in the prepaid milk price. All Programme Zero initiatives had an estimated effect of approx. DKK 1,100m in 2013.

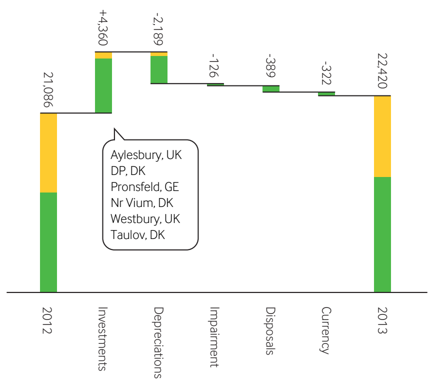
Note 3. Other operating assets and other operating liabilities

In 2013, Arla invested just over DKK 3,9bn in capacity increases, efficiency and environmental improvements, quality and innovation. The aim is to contribute to increasing the profitability of Arla's business globally, thereby improving long-term earnings for Arla's cooperative members. At the same time, we want to make production more efficient and environment-friendly.

In this note, both the Group's intangible assets and property, plant and equipment are specified as well as their development and any depreciation/amortisation. Intangible assets and property, plant and equipment represent the majority of the Group's non-current assets.

Additionally, the note specifies impairment tests about which there is a high degree of uncertainty, and therefore a sensitivity analysis has also been carried out.

DEVELOPMENT TANGIBLE AND INTANGGIBLE ASSETS (DKKm)



NOTE 3.1. INTANGIBLE ASSETS

Accounting policies

Goodwill
Goodwill represents the premium paid by the Group above the fair value of the net assets of an acquired company.

On initial recognition, goodwill is recognised at cost as described under 'Business combinations'. Goodwill is subsequently measured at cost less any accumulated impairment. The carrying amount of goodwill is allocated to the Group's cash-generating entities that follow the management structure and internal financial management. Cash-generating entities are the smallest group of assets which is able to generate independent cash inflows.

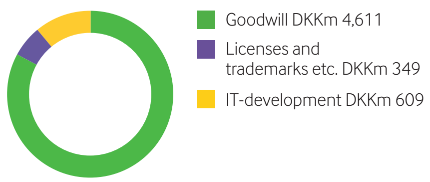
Licences and trademarks
Licences and trademarks are initially recognised at cost. The cost is subsequently amortised on a straight-line basis over their expected useful lives, however, with a maximum period of 20 years.

IT development
Costs incurred during the research phase in carrying out general assessments of the Group's IT needs and available technologies are expensed as incurred. Directly attributable costs incurred during the IT development stage relating to the design, programming, installation and testing of projects before they are ready for commercial use are capitalised as intangible assets. Such costs are only capitalised provided the expenditure can be measured reliably, the project is technically and commercially viable, future economic benefits are probable and the Group intends to and has sufficient resources to complete and use the asset. IT development is amortised on a straight-line basis over five to eight years.

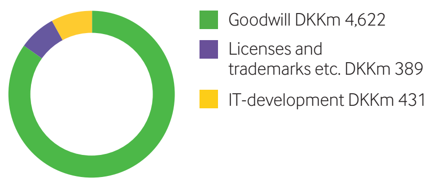
Note 3.1.a. Intangible assets (DKKm)	GOODWILL	LICENCES AND TRADEMARKS ETC.	IT DEVELOPMENT	TOTAL
2013				
Cost at 1 January	4,622	781	1,397	6,800
Exchange rate adjustments	-74	-29	-7	-110
Additions	63	27	226	316
Reclassification	-	-3	116	113
Disposals	-	-	-261	-261
Cost at 31 December	**4,611**	**776**	**1,471**	**6,858**
Amortisation and impairments at 1 January	-	-392	-966	-1,358
Exchange rate adjustments	-	25	2	27
Amortisation for the year	-	-63	-156	-219
Reclassification	-	3	-3	-
Amortisation of disposals	-	-	261	261
Amortisation and impairment at 31 December	**-**	**-427**	**-862**	**-1,289**
Carrying amount at 31 December	**4,611**	**349**	**609**	**5,569**

Note 3.1.a. Intangible assets *(continued)* (DKKm)	GOODWILL	LICENCES AND TRADEMARKS ETC.	IT DEVELOPMENT	TOTAL
2012				
Cost at 1 January	3,904	770	1,260	5,934
Exchange rate adjustments	62	7	1	70
Additions	-	18	118	136
Mergers and acquisitions	656	4	22	682
Reclassification	-	5	11	16
Disposals	-	-23	-15	-38
Cost at 31 December	**4,622**	**781**	**1,397**	**6,800**
Amortisation and impairment at 1 January	-	-322	-859	-1,181
Exchane rate adjustments	-	-4	-1	-5
Amortisation for the year	-	-63	-113	-176
Reclassification	-	-5	-5	-10
Amortisation of disposals	-	2	12	14
Amortisation and impairment at 31 December	**-**	**-392**	**-966**	**-1,358**
Carrying amount at 31 December	**4,622**	**389**	**431**	**5,442**

INTANGIBLE ASSETS 2013



INTANGIBLE ASSETS 2012



Financial review

Intangible assets were DKK 5,569m compared with DKK 5,442m last year. Amortisation was DKK -219m. There was no impairment in 2013.

Goodwill
Opening balances for goodwill primarily related to Arla Foods UK, Arla Ingman in Finland and Milko in Sweden. Impairment testing did not indicate a need for impairment of goodwill in 2013. Goodwill related to Finland has been monitored closely due to the challenging competitive situation in previous years. However impairment testing showed no need for impairment in 2013 as the expected profit was delivered. The investment continues to be subject to a certain risk. Total goodwill related to Finland amounts to DKK 298m.

Licences and trademarks.
The opening balances for licences and trademarks primarily includes Cocio®, Anchor®, God Morgon®, Hansano® and import licenses in Canada.

IT development
Arla continues to invest in the development of IT. Investments are part of normal business operations. In 2013 focus has been on our transition of the IT infrastructure and support to NNIT, and on the integration of MUH and Milk Link into Arla's IT platform.

NOTE 3.2. IMPAIRMENT TESTS

Accounting policies

Impairment
Impairment is indicated where the carrying amount of an asset is greater than its recoverable amount through either use or sale. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use (cash-generating unit) that are largely independent of the cash inflows of other assets or cash-generating units.

Goodwill is subjected to an impairment test at least once a year. The carrying amount is tested for impairment together with the other non-current assets in the cash-generating unit to which the goodwill is allocated. The recoverable amount of goodwill is recognised as the present value of the expected future net cash flows from the cash-generating unit to which the goodwill is linked, discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and risks specific to the asset or cash-generating unit.

Impairment of goodwill is recognised on a separate line in the income statement and is not reversed.

The carrying amount of other non-current assets is assessed annually to determine whether there is any indication of impairment. The assets are measured on the balance sheet at the lower value of the recoverable amount and the carrying amount.
The recoverable amount of other non-current assets is the higher value of the asset's value in use and the market value (fair value), less expected disposal costs. The value in use is calculated as the present value of the estimated future net cash flows from the use of the asset or the cash-generating unit of which the asset is part of.

An impairment loss on other non-current assets is recognised in the income statement under production, sales and distribution costs or administration costs, respectively. Impairment made is reversed to the extent that the assumptions and estimates that led to the impairment have changed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Uncertainties and estimates

The estimated useful lives of amortised and depreciated intangible assets and property, plant and equipment are reviewed regularly. Impairment tests for goodwill are performed every year and for other intangible assets when there are indications of impairment. An estimate is made as to whether the parts of the cash-generating unit to which the asset belongs will have the capacity to generate sufficiently positive net cash flows in the future (value in use) to support the carrying value of the asset and other net assets for the relevant part of the business.

Because of the nature of the company, significant estimates are made of anticipated cash flows together with an assessment of the long-term growth rate as well as an assessment of a reasonable discount rate reflecting the risks inherent in the asset or cash-generating unit, which naturally results in a certain degree of uncertainty. Changes in the future cash flow or discount rate estimates used may result in materially different values.

Note 3.2.a. Impairment tests
(DKKm)

		APPLIED KEY ASSUMPTIONS	
2013	CARRYING AMOUNT, GOODWILL	DISCOUNT RATE, NET OF TAX	DISCOUNT RATE, BEFORE TAX
Finland	298	7.3%	9.0%
UK	3,702	7.5%	8.3%
Sweden	132	7.7%	9,9%
Other	479	7.4%	7.8%
Total carrying amount as at 31 December	**4,611**		
2012			
Finland	298	7.6%	10.1%
UK	3,744	7.8%	10.2%
Sweden	132	7.7%	9.9%
Other	448	7.6%	8.4%
Total carrying amount as at 31 December	**4,622**		

Financial review

Procedure for impairment tests
Arla performs goodwill impairment testing annually and testing on general intangible assets when there is indication of impairment. Impairment testing is performed for each business area, since these represent the lowest level for cash-generating units (CGU's) to which the carrying amount of intangible assets can be allocated and monitored with reasonable certainty. This level of allocation and monitoring of intangible assets should be seen in the context of the Group's efforts to integrate acquired enterprises as rapidly as possible to be able to realise synergies.

The Group's goodwill for the business area Consumer UK was generated in connection with the purchase of the British Express Dairies in 2003 and 2007, the acquisition of full ownership of AFF in 2009 and the 2012 Milk Link merger. In Consumer Finland, the goodwill arose in connection with the 2007 purchase of Ingman. The remaining goodwill arose from the 2006 purchase of Tholstrup and the 2011 merger with Milko. The combined business areas Consumer DK and Consumer SE support the export business of Consumer International. This means that these earnings contribute to support the value of the assets here. That is the reason these goodwill amounts are tested together. There is no goodwill related to the business areas Consumer Germany & Netherlands and Arla Foods Ingredients.

Applied estimates
The recoverable amount for each cash-generating unit is determined based on its value in use. Calculations are based on forecasts that cover the following four fiscal years. The performed impairment tests do not include actual growth in the terminal value. In the applied forecasts, the milk is the most significant cost. The milk is recognised at a milk price that corresponds to the expected price at the time the test is performed.

A discount rate (WACC) is applied for the specific business areas based on assumptions about interest rates, tax and risk premiums.

Test results
No impairments were performed of intangible assets in 2013. For goodwill in Finland, there was indication of an impairment loss because of the challenging competitive situation. Impairment testing showed that there was no need for impairments in 2013. In that regard, sensitivities to changes in milk prices and discount rates have been calculated. The discount rate may rise by 3.5 percentage points before the need for impairment arises. In 2013, underlying earnings improved over 2012.

In our opinion, there are no significant risks to the Group's general goodwill and there is no indication of impairment need for other intangible assets.

NOTE 3.3. PROPERTY, PLANT AND EQUIPMENT

Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and impairment. Depreciation aims to allocate the cost of the asset, less any amounts estimated to be recovered at the end of its expected use, to the periods in which the Group obtains benefits from its use. Plant under construction, land and decommissioned plants are not depreciated.

Cost
Cost comprises the acquisition price as well as costs directly associated with the asset until such time as the asset is ready for its intended use. For self-constructed assets, cost comprises direct and indirect costs relating to materials, components, payroll etc. and the borrowing costs from specific and general borrowing that directly concerns the construction of assets.

If significant parts of an item of property, plant and equipment have different useful lives, they are recognised as separate items (major components). When component parts are replaced, any remaining carrying value of replaced parts is removed from the balance sheet and recognised as an accelerated depreciation charge in the income statement. Subsequent expenditure items of property, plant and equipment are only recognised as an addition to the carrying amount of the item, when it is likely that incurring the cost will result in financial benefits for the Group. Other costs for e.g. general repair and maintenance are recognised in the income statement when incurred.

Depreciation
Property, plant and equipment are depreciated on a straight-line basis from the time of acquisition, or when the asset is available for use based on an assessment of the anticipated useful life.
The estimated useful lives are as follows:
- Office buildings – 50 years
- Production buildings – 20 years
- Technical facilities and machinery – 5-20 years
- Other fixtures and fittings, tools and equipment – 3-7 years

The depreciation base is measured taking into account the residual value of the asset, being the estimated value the asset can generate through sale or scrappage at the end of its useful life, and reduced by the impairment made, if any.
The residual value is determined at the date of acquisition and is reviewed annually. Depreciation ceases when the carrying value of an item is lower than the residual value. Changes during the depreciation period or in the residual value are treated as changes to the accounting estimates, the effective of which is adjusted only in the current and future periods. Depreciation, to the extent it does not form part of the cost of self-constructed assets, is recognised in the income statement as production, sales and distribution costs or administration costs.

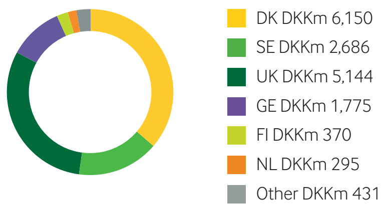
Uncertainties and estimates

Estimates are made in assessing the useful lives of items of property, plant and equipment that determine the period over which the depreciable amount of the asset is expensed to the income statement. The depreciable amount of an item of property, plant and equipment is a function of the asset's cost or carrying amount and its residual value. Estimates are made in assessing the amount that the Group can recover at the end of the useful life of an asset. An annual review of the appropriateness of the depreciation method, useful life and residual values of items of property, plant and equipment is undertaken.

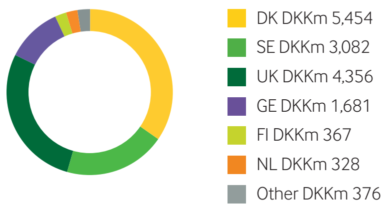
Note 3.3.a. Property, plant and equipment
(DKKm)

	LAND AND BUILDINGS	PLANT AND MACHINERY	FIXTURES AND FITTING, TOOLS AND EQUIPMENT	ASSETS IN COURSE OF CONSTRUCTION	TOTAL
2013					
Cost at 1 January	8,234	14,165	3,052	2,988	28,439
Exchange rate adjustments	-120	-213	-74	-59	-466
Additions	327	732	228	2,644	3,931
Transferred from assets in course of construction	1,277	1,530	233	-3,040	-
Disposals	-390	-296	-144	-109	-939
Cost at 31 December	**9,328**	**15,918**	**3,295**	**2,424**	**30,965**
Depreciation and impairments at 1 January	-2,895	-7,628	-2,272	-	-12,795
Exchange rate adjustments	49	119	59	-	227
Depreciation for the year	-438	-1,304	-228	-	-1,970
Impairment for the year	-34	-91	-1	-	-126
Depreciation on disposals	200	243	107	-	550
Depreciation and impairment at 31 December	**-3,118**	**-8,661**	**-2,335**	**-**	**-14,114**
Carrying amount at 31 December	**6,210**	**7,257**	**960**	**2,424**	**16,851**
Of which assets held under finance lease	321	276	22	-	619
2012					
Cost at 1 January	7,448	12,537	2,799	1,270	24,054
Exchange rate adjustments	123	191	74	36	424
Additions	30	170	100	3,019	3,319
Mergers and acquisitions	632	602	70	233	1,537
Transferred from assets in course of construction	244	1,168	142	-1,570	-16
Disposals	-243	-503	-133	-	-879
Cost at 31 December	**8,234**	**14,165**	**3,052**	**2,988**	**28,439**
Depreciation and impairments at 1 January	-2,597	-6,849	-2,132	-	-11,578
Exchange rate adjustments	-34	-104	-59	-	-197
Depreciation for the year	-331	-1,126	-197	-	-1,654
Impairment for the year	-64	-4	-	-	-68
Depreciation on disposals	131	455	116	-	702
Depreciation and impairment at 31 December	**-2,895**	**-7,628**	**-2,272**	**-**	**-12,795**
Carrying amount at 31 December	**5,339**	**6,537**	**780**	**2,988**	**15,644**
Of which assets held under finance lease	41	319	33	-	393

PROPERTY, PLANT AND EQUIPMENT 2013



PROPERTY, PLANT AND EQUIPMENT 2012



Financial review

The item property, plant and equipment totalled DKK 16,851m compared with DKK 15,644m last year. The largest part of Arla's tangible assets is located in its core markets in Denmark, Sweden, Germany and the UK.

In 2013, Arla executed the biggest investment plan in the history of the company. Investments were primarily made in dairy structure and increased capacity. The year's investments add a total of DKK 3,931m to property, plant and equipment, mainly from investments in Arla's core markets.

The construction of the new dairy in Aylesbury, UK, was completed in October 2013. Construction costs were realised within budget estimates at DKK 1,400m.

The restructuring of yellow cheese, which involves moving production from Klovborg and Hjørring, has resulted in a capacity expansion investment at the Danish Taulov dairy of DKK 358m.

Arla has entered into an agreement with a Chinese food business operator to produce milk powder for the baby foods segment. That order will involve expanding Arla's milk powder facility at Arinco in Videbæk, an investment of DKK 111m.

At Arla Foods Ingredients' plant Danmark Protein in Nr. Vium, an investment of DKK 98m was made in a new drying tower, which will be used in the joint venture partnership with German DMK. The plants have not yet been completed and have been recognised in assets under construction.

Arla continues to strive for efficiency improvements by investing in new facilities, which also means centralising production. In 2013, Arla announced the closure of the dairies in Ashby, UK and Göteborg/Skövde, Sweden. As a result of this Arla has recognised an impairment on assets of DKK 126m.

NOTE 3.4. BUSINESS COMBINATIONS

Accounting policies

Recognition date and considerations
Newly acquired companies are recognised in the consolidated financial statements at the date when Arla obtains control. The purchase consideration is generally measured at fair value. If an agreement relating to a business combination requires that the purchase consideration be adjusted in connection with future events or the performance of certain obligations (contingent consideration), this portion of the purchase consideration is recognised at fair value at the date of acquisition. Changes in estimates relating to a contingent consideration are recognised in the income statement. Costs directly attributable to the acquisition are recognised in the income statement as incurred.

The acquired assets, liabilities and contingent liabilities are generally measured at their fair value at the date of acquisition.

Goodwill arises when the aggregate of the fair value of consideration transferred, previously held interest and the value assigned to non-controlling interest (NCI) holders exceeds the fair value of the identifiable net assets of the acquired company. Any goodwill that arises, which is not amortised, is tested annually for impairment.

The methodology outlined above also applies to mergers with other cooperatives, where the owners of the acquired company become owners of Arla Foods amba: The purchase consideration is calculated as the acquisition date fair values of the assets transferred and equity instruments issued. Positive differences between the consideration and fair value are recognised as goodwill.

Divestment
Changes in the Group's interest in a subsidiary that do not result in a loss of control are recognised as equity transactions.

When the Group loses control of a subsidiary, the carrying amount of the assets (including allocated goodwill) and liabilities of the subsidiary, together with any related NCI and other components of equity, such as foreign currency reserves, are derecognised. Gains and losses arising from divestments are recognised in the income statement under other operating income and costs.

Uncertainties and estimates

For mergers and acquisitions where Arla acquires control of the company in question, the purchase method is applied. There can be uncertainty associated with the identification of assets, liabilities and contingent liabilities, and with measuring the fair value at the time of acquisition. Significant estimates are made in the measurement of the fair value of the consideration transferred by Arla in the acquisition of companies where the owners of the company acquired become owners of Arla. The measurement of the fair value of the company acquired is often used to determine the value of the consideration transferred by Arla, as this is a more reliable valuation basis considering that Arla's equity is not based on a quoted price.

Note 3.4.a. Business combinations

Mergers and acquisitions in 2013
Arla made no acquisitions during 2013.

Note 3.4.a. Business combinations *(continued)*
(DKKm)

Mergers and acquisitions in 2012	INCOME STATEMENT CONSOLIDATED FROM	HOLDING ACQUIRED	REVENUE PER YEAR	NO. OF EMPLOYEES
Company				
Milk Link Limited, UK	1 October	100%	4,743	1,267
Milch-Union Hocheifel eG, Germany	1 October	100%	5,330	951
Others	-	100%	34	6

2012	MILK LINK	MUH	OTHERS	TOTAL
Intangible assets (excl. goodwill)	-	22	4	26
Property, plant and equipment	579	958	-	1,537
Other assets	1,552	1,022	5	2,579
Liabilities	-1,902	-1,679	-9	-3,590
Total net assets acquired	**229**	**323**	**-**	**552**
Goodwill	629	-	27	656
Purchase price	**858**	**323**	**27**	**1,208**
Cash in acquired company	-101	-39	-	-140
Issued capital	-396	-291	-	-687
Other payment	-53	-32	-7	-92
Cash payment during the year	**308**	**-39**	**20**	**289**

Financial review

Mergers and acquisitions in 2012:

Milk Link
On 1 October 2012, Arla merged with the British company Milk Link with an annual milk weighing-in of approx. 1.3bn kg. Milk Link primarily produces cheese both under its own brands and under retailer brands. Arla merged by paying DKK 409m. Furthermore, Arla issued DKK 396m in new contributed capital to Milk Link and – based on fair values of identified net assets – goodwill stood at DKK 629m. Goodwill could primarily be attributed to the premium paid for the capacity to establish a full dairy company as well as obtaining a market leading position in the British market.

The competition authorities stipulated that Arla was required to divest its UHT business in connection with the Crediton dairy as a condition for the executed merger.

MUH
On 1 October 2012, Arla merged with the German company Milch-Union Hocheifel (MUH) with an annual milk weighing-in of approx. 1.3bn kg. MUH primarily produces UHT milk for the German market as well as for export. Arla merged by issuing DKK 277m in new contributed capital as well as DKK 14m in non-distributed collective capital to MUH. Moreover, Arla assumed a liability of DKK 32m.

NOTE 3.5. JOINT VENTURES AND ASSOCIATES

Accounting policies

Interests in joint ventures and associates
Interests in joint ventures and associates are recognised in the balance sheet using the equity method. The equity accounted investment is presented as a single line item and measured at the original cost, including any goodwill arising on acquisition, together with the Group's share of any post-acquisition profit or loss and OCI, prepared in accordance with the Group's accounting policies.

'The Group's share of the net profit or loss for the year for joint ventures and associates is recognised in the Group's income statement.

Note 3.5.a. Joint ventures
(DKKm)

	ARNOCO GMBH, GERMANY	ARLA FOODS INGREDIENTS SA, ARGENTINA	BIOLAC GMBH, GERMANY	DAN VIGOR LTDA., BRAZIL	TOTAL INVESTMENTS IN JOINT VENTURES
2013					
Revenue	-	512	581	242	1,335
Results after tax	-3	41	49	23	110
Total assets	273	609	309	131	1,322
Total liabilities	79	327	56	30	492
Ownership share					
Group share	50%	50%	50%	50%	
Results after tax	-1	12	30	10	51
Recognised value, total	**78**	**128**	**127**	**64**	**397**

	ARNOCO GMBH, GERMANY	ARLA FOODS INGREDIENTS SA, ARGENTINA	ARLA FOODS UK FARMERS, UK	BIOLAC GMBH, GERMANY	DAN VIGOR LTDA., BRAZIL	OTHERS	TOTAL INVESTMENTS IN JOINT VENTURES
2012							
Revenue	-	449	-	555	242	-	1,246
Results after tax	-1	40	-	75	23	-	137
Total assets	97	559	270	315	131	-	1,372
Total liabilities	-	310	-	66	30	-	406
Ownership share							
Group share	50%	50%	50%	50%	50%	40-50%	
Results after tax	1	20	-	37	16	-45	29
Recognised value, total	**45**	**121**	**88**	**125**	**65**	**-**	**444**

Note 3.5.b. Transactions with joint ventures
(DKKm)

	2013	2012
Sale of goods to Joint Ventures	129	112
Purchase of goods from Joint Ventures	2	-
Trade receivables	41	83
Trade payables	2	-

Note 3.5.c. Associates
(DKKm)

	CHINA COFCO DAIRY HOLDING LIMITED	SVENSK MJÖLK	OTHERS	TOTAL INVESTMENTS IN ASSOCIATES
2013				
Revenue	-	81	75	142
Results after tax	50	38	3	697
Total assets	4,296	298	996	5,597
Total liabilities	-	120	743	808
Arla group share:				
Ownership interest	5.7%	73%	30-50%	
Net profit for the year	71	11	7	89
Recognised value, total	**1,770**	**104**	**82**	**1,956**

	CHINA COFCO DAIRY HOLDING LIMITED	SVENSK MJÖLK	OTHERS	TOTAL INVESTMENTS IN ASSOCIATES
2012				
Revenue	-	147	75	222
Results after tax	661	3	3	667
Total assets	4,468	236	996	5,700
Total liabilities	-	50	743	793
Arla group share:				
Ownership interest	5.9%	51%	30-50%	
Net profit for the year	39	5	-	44
Recognised value, total	**1,732**	**90**	**84**	**1,906**

Note 3.5.d. Transactions with associates
(DKKm)

	2013	2012
Sale of goods to associates	205	247
Purchase of goods from associates	204	165
Trade receivables	34	25
Trade payables	9	15

Financial review

During 2013, Arla's owners and AFMP farmers in the UK decided on a merger. As a consequence, Arla acquired the remaining 50 per cent ownership share of Arla Foods UK Farmers J.V. Company Limited, UK, and hereby bought the minority share of the Arla UK business.

In 2012, Arla invested DKK 1,8bn in an equity interest in COFCO Dairy Holdings Limited, which makes Arla an indirect co-owner of the largest Chinese dairy business, China Mengniu Dairy Company Limited that is registered at the Hong Kong Stock Exchange. Mengniu publishes its annual report in March 2014.

The computation of Arla's share of profit of the year and share of equity is based on the latest published financial information from the company, other publicly available information on the company's financial development and the effect of re-assessed net assets. Fair value of shares 31 December 2013 equals DKK 2,706m

NOTE 3.6. ASSETS HELD FOR SALE

Accounting policies

Assets held for sale are non-current assets and divestment groups whose value will highly probable to be recovered through a sale within 12 months rather than ongoing use within the Group's operations. Assets held for sale and divestment groups are measured at the lower of their carrying amount at the classification date as 'held for sale' and their fair value, less cost to sell. Property, plant and equipment and intangible assets are not depreciated or amortised from the time they are classified as 'held for sale.' Any impairment loss on a divestment group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to items that continue to be measured in accordance with the Group's other accounting policies, such as inventories, financial assets and deferred tax assets. Impairment that arises at the initial classification as 'held for sale', and any profit or loss in connection with subsequent remeasurement is recognised in the income statement under the items to which it relates.

Note 3.6.a. Assets
(DKKm)

	2013	2012
Assets held for sale comprise the following individual assets:		
Fixed assets	200	262
Current assets	-	94
Carrying amount assets	**200**	**356**

Note 3.6.b. Liabilities
(DKKm)

	2013	2012
Liabilities associated with assets held for sale:		
Current liabilities	-	49
Carrying amount, liabilities	**-**	**49**

Financial review

Assets classified as held for sale in 2012 primarily concerned the UHT business relating to the dairy in Crediton, UK. In connection with the merger with Milk Link, the competition authorities required this part of the business to be sold. This took place in 2013.

Assets and liabilities classified as held for sale moreover relate to land and buildings, which are expected to be sold off within the next 12 months. In 2013 the assets held for sale amounts to DKK 200m, which consist of land in the UK.

NOTE 3.7. PROVISIONS

Accounting policies

Provisions
The provisions in the balance sheet represent the best estimate of the amount that will be required to settle either a present legal or constructive obligation arising from a past event, and it is probable that the Group will be required to pay an amount that can be reliably estimated. The obligation arises as a result of present legal or constructive obligations.

Restructuring provisions
Costs relating to restructurings are recognised as liabilities when a detailed, formal plan for the restructuring is published no later than at the reporting date for the persons affected by the plan. No provision is made for future operating losses.

Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Insurance provisions
Insurance provisions are recognised on the basis of the risk relating to future payment of losses, injuries or damages that have already occurred. Insurance provisions primarily cover provisions relating to occupational injuries.

Uncertainties and estimates

Provisions are particularly associated with estimates on restructurings and insurance provisions. The scope and size of onerous contracts as well as employee and other liabilities related to the restructuring are also estimated. Insurance provisions are assessed based on historical records of, among other things, the number of insurance events and related costs.

Note 3.7.a. Provisions
(DKKm)

	INSURANCE PROVISIONS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS
2013			
Provisions at 1 January	130	81	54
Exchange rate adjustments	-	-1	-2
New provisions during the year	48	167	81
Reversals	-37	-	-1
Used during the year	-26	-81	-33
Provisions at 31 December	**115**	**166**	**99**
Current provisions	49	166	99
Other non-current provisions	66	-	-
Total provisions	**115**	**166**	**99**
2012			
Provisions at 1 January	128	117	78
Exchange rate adjustments	-	3	1
New provisions during the year	33	59	33
Reversals	-13		-8
Used during the year	-18	-98	-50
Provisions at 31 December	**130**	**81**	**54**
Current provisions	53	81	54
Non-current provisions	77		
Total provisions	**130**	**81**	**54**

Financial review

Provisions totalled DKK 380m as at 31st December 2013, which represents an increase of DKK 115m compared to last year. Provisions primarily pertain to insurance provisions (occurred but not reported) and restructuring provisions.

Insurance provisions primarily concern occupational injuries. Payment relating to these totalled DKK 26m in 2013 (2012: DKK 18m). New provisions of DKK 48m were recognised.

Restructuring provisions pertained to the decommissioning of facilities related to restructuring; Ashby in UK and Göteborg in Sweden will be closed. Minor new provisions were made for redundancies in connection with the efficiency programmes.

Restructuring provisions were reduced over the course of the year in line with disbursements of termination benefits, etc. Other provisions include such charges as onerous contracts.

With the exception of occupational injuries, all provisions are expected to be exercised within one year.

Note 4. Financial Matters

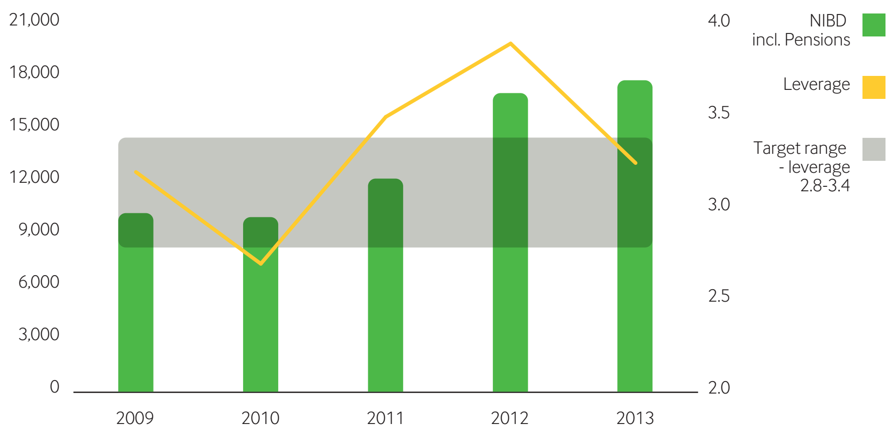
This note describes the Group's capital structure, financing, liquidity and related items. Arla's investments are financed with both equity and with external funding. The balance between the two is expressed in the equity ratio.

The Group's net interest-bearing debt (NIBD) consists of current and non-current liabilities to banks and credit institutions, less interest-bearing assets. Arla's definition of leverage is the ratio between Net interest bearing debt including pensions and EBITDA and expresses the Group capacity to service its debt. Arla's long-term target range for leverage is between 2.8–3.4. The Group's policy is to retain a credible balance between debt, equity and earnings resulting in a robust credit rating at investment grade level.

Financial risks are managed by the Corporate Treasury and Finance Department in accordance with the Treasury and Funding Policy approved by the Board of Directors. Arla's ambition is to reduce its refinancing risk by ensuring a reasonable spread in its repayment profile for its interest bearing debt. Risks related to interest and foreign ex-changes rates are managed by use of derivatives.

Hedging the volatility in milk prices is not within the scope of financial risk management, but an inherent component of the Arla business model.

NET INTEREST BEARING DEBT (DKKm)



NOTE 4.1. FINANCIAL ITEMS

Accounting policies

Financial income and financial costs
Interest income and costs as well as capital gains and losses etc. are recognised in the income statement at the amounts that can be attributed to the period. Additionally, financial items comprise realised and unrealised value adjustments of securities and currency adjustments on financial assets and financial liabilities, depreciation of financial assets and liabilities as well as the interest portion of finance lease payment. Additionally, realised and unrealised gains and losses on financial derivative instruments not classified as hedging contracts are included. Borrowing costs from general borrowing or loans that directly relate to the acquisition, construction or development of qualified assets are attributed to the cost of such assets, and are therefore not included in financial costs.

Financial income and costs relating to financial assets and financial liabilities are recognised using the effective interest method.

Note 4.1.a. Financial income
(DKKm)

	2013	**2012**
Interest, cash and cash equivalents	8	10
Interest, securities	18	48
Fair value adjustments etc.	7	38
Other financial income	4	5
Total financial income	**37**	**101**

Note 4.1.b. Financial costs

(DKKm)

	2013	2012
Financial costs on financial instruments measured at amortised cost	-434	-440
Foreign exchange losses (net)	-165	-131
Fair value adjustments	-3	-
Interest, pension obligations	-112	-46
Interest transferred to property, plant and equipment	30	11
Other financial cost	-13	-13
Total financial costs	**-697**	**-619**

Financial review

Finance income and costs totalled a net DKK 660 million in 2013 against DKK 518 million in 2012. The increase primarily relates to foreign exchange adjustments , fair value adjustments and increasing interest expense due to higher net interest bearing debt.

As a result of increasing borrowing activities, the Group's finance costs increased compared with last year. Average net interest cost, excluding pensions, totalled 3.1% compared with 2.9% in 2012.

NOTE 4.2 NET INTEREST-BEARING DEBT

Accounting policies

Financial instruments
Financial instruments are recognised at the date of trade.

Arla ceases recognising financial assets when the contractual rights to the underlying cash flows either cease to exist or are transferred to the purchaser of the financial asset and substantially all risks and rewards related to ownership are also transferred to the purchaser.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when and only when the Group obtains a legal right of offsetting and either intends to offset or settle the financial asset and the liability simultaneously.

Available-for-sale financial assets
Financial assets classified as available for sale consist of mortgage credit bonds, which correspond in part to raised mortgage debt.

Available-for-sale financial assets are measured on first-time recognition at fair value plus transaction costs. The financial assets are subsequently measured at fair value with adjustments made in other comprehensive income and accumulated in the reserve. Interest income, impairment as well as foreign currency translation adjustments of debt instruments are recognised in the income statement on a continuous basis under financial income and financial expenses.

For sales of financial assets classified as available for sale, realised gains or losses are recognised under financial income and financial expenses.

Financial assets measured at fair value
Securities classified at fair value consist primarily of listed securities, which are monitored, measured and reported continuously in accordance with the Group's Treasury and Finance policy. Changes in the fair value are recognised in the income statement under financial income and financial expenses.

Liabilities
Debts to mortgage and credit institutions etc. as well as issued bonds are measured at the trade date upon first recognition at fair value plus transaction costs. Subsequently, liabilities are measured at amortised cost with the difference between the loan proceeds and the nominal value recognised in the income statement over the expected life of the loan.

Capitalised residual lease obligations relating to finance lease agreements are recognised under liabilities, measured at amortised cost.

Other financial liabilities are measured at amortised cost.

Cash and cash equivalents
Cash and cash equivalents consist of readily available cash at bank and deposits together with exchange listed debt securities with an original maturity of three months or less, which have only an insignificant risk of changes in value and can be readily converted to cash or cash equivalents.

Note 4.2.a. Borrowings

(DKKm)

	2013	2012
Long-term borrowings:		
Issued bonds	2,508	1,309
Mortgage credit institutions	6,143	5,943
Bank borrowings	4,265	4,245
Finance lease liabilities	430	411
Other payables	54	78
Total	**13,400**	**11,986**
Short-term borrowings:		
Mortgage credit institutions	77	56
Bank borrowings	5,221	6,529
Commercial papers	1,155	549
Finance lease liabilities	147	135
Other payables	16	-
Total	**6,616**	**7,269**
Total long-term and short-term borrowings	**20,016**	**19,255**

Note 4.2.b. Net interest-bearing debt

(DKKm)

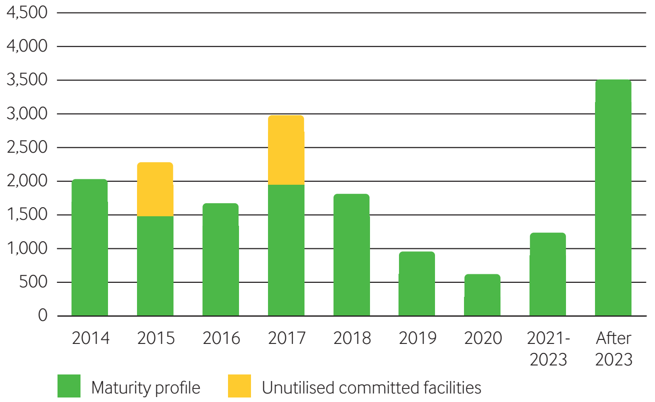
	2013	2012
Securities, cash and cash equivalents	-4,560	-5,093
Other interest-bearing assets	-190	-146
Current liabilities	6,616	7,318
Non-current liabilities	13,400	11,937
Net interest-bearing debt excl. pension liabilities	**15,266**	**14,016**
Pension liabilities	2,593	3,129
Net interest-bearing debt incl. pension liabilities	**17,859**	**17,145**

Note 4.2.c. Net interest-bearing debt excl. pension obligations, maturity
(DKKm)

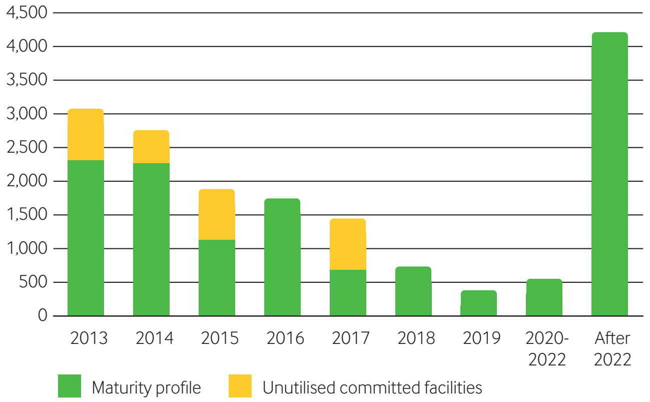
31 December 2013	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021-2023**	**After 2023**
DKK	5,632	-304	102	157	172	188	392	407	1,149	3,369
EUR	3,373	842	536	162	577	309	553	203	51	140
GBP	2,212	261	545	96	1,195	67	12	12	24	-
SEK	3,745	1,217	8	1,259	-	1,249	-	-	12	-
Other	304	16	285	-	-	-	-	-	1	2
Total	**15,266**	**2,032**	**1,476**	**1,674**	**1,944**	**1,813**	**957**	**622**	**1,237**	**3,511**

31 December 2012	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020-2022**	**After 2022**
DKK	6,643	437	5	249	148	298	376	375	551	4,204
EUR	1,943	375	587	303	290	22	358	7	1	-
GBP	2,797	500	1.349	575	-	366	-	-	-	7
SEK	2,100	784	9	-	1,307	-	-	-	-	-
Other	533	217	314	-	-	-	-	-	-	2
Total	**14,016**	**2,313**	**2,264**	**1,127**	**1,745**	**686**	**734**	**382**	**552**	**4,213**

MATURITY OF NET INTEREST BEARING DEBT, 2013 PERSPECTIVE, (DKKm)



MATURITY OF NET INTEREST BEARING DEBT, 2012 PERSPECTIVE, (DKKm)

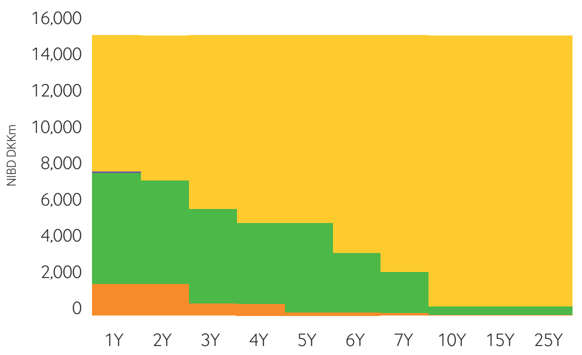


Note 4.2.d. Interest rate risk as at 31 December
(DKKm)

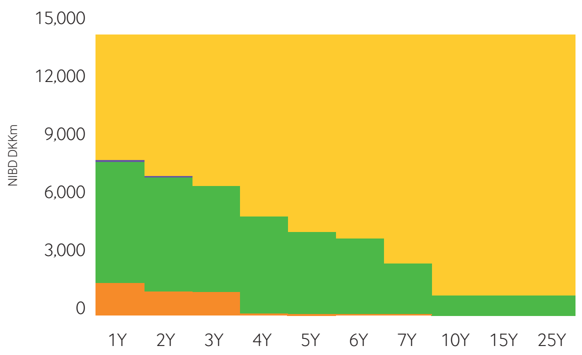
	INTEREST RATE	AVERAGE INTEREST RATE	FIXED FOR	CARRYING AMOUNT	INTEREST RATE RISK
2013					
Issued bonds:					
SEK 350m maturing 22.06.2016	Fixed	5.00%	2-3 years	292	Fair value
SEK 1.000m maturing 04.06.2018	Fixed	3.25%	4-5 years	837	Fair value
SEK 1,150m maturing 22.06.2016	Floating	2.73%	0-1 year	961	Cash flow
SEK 500m maturing 04.06.2018	Floating	2.78%	0-1 year	418	Cash flow
Total issued bonds		3.18%		2,508	
Mortgages credit institutions:					
Floating-rate	Floating	1.24%	0-1 year	6,208	Cash flow
Fixed-rate	Fixed	2.96%	3-4 years	12	Fair value
Total mortgages credit institutions		1.24%		6,220	
Bank borrowings:					
Fixed rate	Fixed	0.44%	0-1 year	3,521	Fair value
Floating-rate	Floating	1.59%	0-1 year	6,042	Cash flow
Total bank borrowings		1.16%		9,563	
Commercial papers:					
Fixed-rate	Fixed	1.72%	0-1 year	1,155	Fair value
Total commercial papers		1.72%		1,155	
Finance lease liabilities:					
Fixed-rate	Fixed	5.03%	0-4 years	168	Fair value
Floating-rate	Floating	2.85%	0-1 year	409	Cash flow
Total finance lease liabilities		3.48%		577	
2012					
Issued bonds:					
SEK 350m maturing 22.06.2016	Fixed	5.00%	3-4 years	306	Fair value
SEK 1,150m maturing 22.06.2016	Floating	3.10%	0-1 year	1,003	Cash flow
Total bonds issued		3.54%		1,309	
Mortgages credit institutions:					
Floating-rate	Floating	1.20%	0-1 year	5,982	Cash flow
Fixed-rate	Fixed	2.96%	3-4 year	17	Fair value
Total mortgages credit institutions		1.20%		5,999	
Bank borrowings:					
Fixed rate	Fixed	0.56%	0-1 year	3,882	Fair value
Floating-rate	Floating	1.65%	0-1 year	6,963	Cash flow
Total bank borrowings		1.26%		10,845	
Commercial papers:					
Fixed-rate	Fixed	2.35%	0-1 year	549	Fair value
Total commercial papers		2.35%		549	
Finance lease liabilities:					
Fixed-rate	Fixed	5.05%	0-5 year	229	Fair value
Floating-rate	Floating	2.85%	0-1 year	317	Cash flow
Total finance lease liabilities		4.59%		546	

The table below discloses the interest profile of Net Interest Bearing Debt at 31 December.

INTEREST PROFIL - NET INTEREST BEARING DEBT 2013



INTEREST PROFIL - NET INTEREST BEARING DEBT 2012



Fixed debt Fixed via Swap Fixed via options (delta) Floating debt

Note 4.2.e. Currency profile of borrowings
(DKKm)

Currency profile of borrowings before and after derivative financial instruments

2013 (DKKm)	ORIGINAL PRINCIPAL	EFFECT OF SWAP	AFTER SWAP
DKK	5,632	-830	4,802
EUR	3,373	1,253	4,626
GBP	2,212	1,666	3,878
SEK	3,745	-2,089	1,656
Other	304		304
Total	**15,266**	**-**	**15,266**
2012			
DKK	6,643	-830	5,813
EUR	1,943	871	2,814
GBP	2,797	1,266	4,063
SEK	2,100	-1,307	793
Other	533		533
Total	**14,016**	**-**	**14,016**

Financial review

The Group's net interest-bearing debt, including pensions, increased from DKK 17,145 million at 31 December 2012 to DKK 17,859 million at 31 December 2013.

Net interest-bearing debt, excluding pension obligations, increased by DKK 1,250 million to DKK 15,266 million at 31 December 2013, primarily relating to investments in Property, plant and equipment, higher accounts receivable and stocks due to higher milk price.

The Group's leverage ratio decreased and totalled 3.2 at 31 December 2013 (31 December 2012: 3.9). This is within the Group's long-term objective of 2.8-3.4, and the Group constantly focuses on reaching its objective.

The solvency ratio represented 28% at 31 December 2013 compared with 25% at 31 December 2012.

NOTE 4.3. FINANCIAL RISKS

Financial risk management

Financial risks are an inherent part of Arla's operating activities and Arla's profit is therefore impacted by the developments in currencies, interest rates and certain types of commodities. The global financial markets are volatile and, thus, it is critical for Arla to have a well implemented financial risk management approach in order to mitigate short-term market volatilities while at the same time achieving the highest possible milk price.

Arla's comprehensive financial risk management strategy and system builds on a thorough understanding of the interaction between Arla's operating activities and the financial risks. The overall framework for managing financial risks (the Treasury and Funding Policy) is approved by the Board of Directors and managed centrally by the Corporate Treasury & Finance department. The Treasury and Funding Policy states risk limits for each type of financial risk, permitted financial instruments and counterparties.

Hedging the volatility of milk prices is not within the scope of financial risk management, but an inherent component of the Arla business model.

Each month, the Board of Directors receives a report on Arla's financial risk exposures from the Corporate Treasury & Finance department which manages the financial risks on a continuous basis.

Note 4.3.a. Liquidity risk

Related business activity
Liquidity is vital for Arla to be able to pay its financial liabilities as they become due.

Risk impact
Insufficient liquidity will hinder Arla in meeting its financial liabilities on a timely basis. This could cause breaches of loan covenants, reduce the ability to pay for cooperative owner milk and in the extreme impact Arla's ability to continue as a going concern.

Mitigation process
Arla seeks to have diversified funding with a balanced mix in maturity and counterparties. Arla has centralised its cash management in order to optimise the cash position within the Group.

Performance indicator
Level of unutilised credit facilities and available cash and securities.

Policies and systems
The Treasury and Funding Policy states the threshold for minimum average maturity for net interest bearing debt and limitations on debt maturing within the next 12 and 24 months.

Activities in 2013
In the 2013 acquired businesses has been included in the central cash management setup where after more than 90% are handled centrally. Credit facilities and free cash have during 2013 been on a comfortable level.

Liquidity reserves (DKKm)	**2013**	**2012**
Cash refunds	566	734
Securities (free cash flow)	92	123
Unutilised committed loan facilities	1,858	2,777
Other unutilised loan facilities	3,513	3,939
Total	**6,029**	**7,573**

Financial review

Arla manages liquidity risk by ensuring the availability of sufficient operating liquidity and credit facilities for operations. Any major acquisitions or investments are funded separately.

The management of the day-to-day liquidity flow is, representing more than 90% of the net revenue of the Group, conducted by Arla Foods Finance A/S, via cash pool arrangements with the Group's banks. This secures a scalable and efficient operating model.

Within Arla, the companies with excess liquidity finance the companies with liquidity deficits. As a result, the Group achieves a cost-efficient utilising of credit facilities.

The credit facilities contains relaxed financial covenants on Equity/Total Assets and minimum Equity as well as standard non-financial covenants. Arla did not in 2013 nor in 2012 default on or fail to fulfil any loan agreements. Further information on net interest bearing debt is provided in note 4.2.

The Group's cash resources decreased from DKK 7,573 million at 31 December 2012 to DKK 6,029 million at 31 December 2013. The decrease was according to plan and cash resources are continually managed at a comfortable level.

Note 4.3.b Funding activities

Access to funding is vital for Arla to be able to fulfil its strategy and ambitions.

Risk impact
Insufficient funding will hinder Arla in achieving its strategic ambitions.

Mitigation process
Arla seeks to have a diversified funding platform comprising bilateral bank financing, mortgage loans, supranationals, capital market bond issues, commercial papers and financial leases. The funding of mergers, acquisitions and major investments is assessed separately. The funding strategy is supported by the members' long-term commitment to invest in the company.

Performance indicator
Average maturity for interest-bearing debt. Diversified funding platform for both counterparties and markets. Counterparties'and investors' perception of Arla as an investment grade credit.

Policies and systems
The Treasury and Funding Policy states the threshold for minimum average maturity for net interest bearing debt as well as a financing strategy approved by the Board of Directors. It is Arla's objective to maintain its credit quality at a robust investment grade level.

Activities in 2013
During 2013 Arla has strengthened its funding platform by establishing an EMTN bond program enabling a fast and cost efficient access to the European bond program markets.

Gross financial liabilities

(DKKm)

		Non-discounted contractual cash flows									
2013	**CARRYING AMOUNT**	**TOTAL**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021-2023**	**AFTER 2023**
Issued bonds	2,508	2,508	-	-	1,259	-	1,249	-	-	-	-
Mortgage credit institutions	6,220	6,390	79	79	157	156	180	406	407	1,440	3,486
Credit institutions	10,640	10,640	6,512	1,067	321	1,999	223	221	220	77	-
Finance lease liabilities	577	576	147	135	126	160	8	-	-	-	-
Other non-current borrowings	70	70	16	16	16	16	6	-	-	-	-
Interest expense - interest-bearing debt	-	1,082	208	160	152	96	82	54	49	118	163
Trade payables	7,575	7,575	7,575	-	-	-	-	-	-	-	-
Derivative instruments	623	907	423	171	104	68	56	30	5	8	42
Total	**28,213**	**29,748**	**14,960**	**1,628**	**2,135**	**2,495**	**1,804**	**711**	**681**	**1,643**	**3,691**

2012	**CARRYING AMOUNT**	**TOTAL**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020-2022**	**AFTER 2022**
Issued bonds	1,309	1,307	-	-	-	1,307	-	-	-	-	-
Mortgage credit institutions	5,999	6,011	55	70	70	150	149	148	383	1,555	3,431
Credit institutions	11,323	11,855	7,206	2,493	1,158	189	795	8	6	-	-
Finance lease liabilities	546	546	134	266	74	60	12	-	-	-	-
Interest expense - interest-bearing debt	-	1,073	157	142	139	131	65	74	58	142	165
Trade payables	6,881	6,881	6,881	-	-	-	-	-	-	-	-
Derivative instruments	864	1,282	215	165	153	138	114	110	92	64	231
Total	**26,922**	**28,955**	**14,648**	**3,136**	**1,594**	**1,975**	**1,135**	**340**	**539**	**1,761**	**3,827**

Assumptions
The contractual cash flows are based on the following assumptions:
- The cash flows are based on the earliest possible date at which Arla can be required to settle the financial liability.
- The interest rate cash flows are based on the contractual interest rate. Floating interest rate payment have been determined using the current floating rate for each item at the reporting date.

Financial review

Arla applies a diversified funding strategy in order to mitigate the liquidity and refinancing risk and given the balanced funding to achieve an attractive low financing cost.

During 2013 Arla has raised following kind of funding:
- Credit institutions: Arla uses bank loans as part of the daily liquidity management.
- Mortgage credit intitutions: Arla raises long-term funding by obtaining mortgage loans under the Danish Mortgage Act with mandatory security in land and buildings.
- Issued bonds: Arla made one issue in 2013. The issue was split between a five year SEK 1.000 million bond with a fixed coupon of 3.25% and a SEK 500 million bond with a floating interest coupon of Stibor 3 months + 1.7%.
- Commercial papers: Arla raises short-term funding by having a commercial paper program in Sweden denominated in SEK and EUR. Currently the commercial papers are issued in SEK. The average utilization in 2013 has been in the level of 1,000 million SEK.
- Repo: Arla raises short-term funding by entering into sale and repurchase arrangement of its investment in listed Danish Mortgage Bonds. This sale and repurchase agreement has been described in further details in note 4.6.

Note 4.3.c. Currency risks

Related business activity
Currency risks arise from Arla's export activities, investments and financing activities.

Risk impact on profit
Volatility in currency rates impacts Arla's revenue, cost of sales and financial items with a potential adverse effect on milk prices and cash flow.

Mitigation process
The currency exposure is continuously managed by the Corporate Treasury & Finance department. The individual currency exposures are hedged in accordance with the Treasury and Funding Policy.

Risk impact on balance sheet
Changes in currency rates could cause volatility in the balance sheet, equity and cash flow.

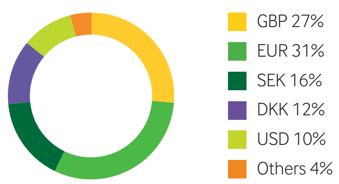
Mitigation process
The majority of local funding are obtained in local currencies. Investments in subsidiaries are normally not hedged.

Performance indicator
Realised foreign exchange gains and losses and predictability in short-term performance.

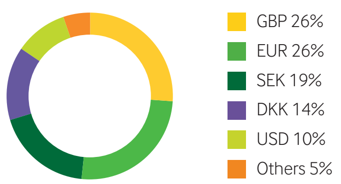
Policies and systems
The Treasury and Funding Policy and a profound understanding of Arla's business combined with a deep knowledge of the financial markets.

Activities in 2013
During 2013, Arla continued to hedge its forecasted sales and purchases in foreign currencies, always taking the current market situation into consideration.

REVENUE BY CURRENCY 2013



REVENUE BY CURRENCY 2012



Note 4.3.c. Currency risks *(continued)*

Currency exposures (DKKm)	EUR/DKK	USD/DKK*)	GBP/DKK	SEK/DKK
2013				
Financial liabilities	-3,212	-119	-1,743	-3,842
Financial assets	3,386	1,195	903	304
Derivatives	-1,248	-2,181	-3,496	1,545
Net external exposures	**-1,074**	**-1,105**	**-4,336**	**-1,993**
Net internal exposure from financial activities	-4	-65	3,716	1,713
Net exposures	**-1,078**	**-1,170**	**-620**	**-280**
The net exposure relates to:				
Hedging of expected commercial cash flow that qualify for hedge accounting	-	-957	-936	-167
Hedging of expected commercial cash flow where hedge accounting is not used	-1,078	-213	0	-113
Exposure not hedged	-	-	316	-
Applied sensitivity	1%	5%	5%	5%
Impact on profit or loss	-11	-11	16	-6
Impact on OCI	0	-48	-47	-8
2012				
Financial liabilities	-2,099	-158	-233	-1,984
Financial assets	2,014	992	1,212	473
Derivatives	-1,350	-1,750	-1,315	340
Net external exposures	**-1,435**	**-916**	**-336**	**-1,171**
Net internal exposure from financial activities	440	-96	-82	1,015
Net exposures	**-995**	**-1,012**	**-418**	**-156**
The net exposure relates to:				
Hedging of expected commercial cash flow that qualify for hedge accounting	-	-727	-676	-
Hedging of expected commercial cash flow where hedge accounting is not used	-995	-285	-	-156
Exposure not hedged	-	-	176	-
Applied sensitivity	1%	5%	5%	5%
Impact on profit or loss	-14	-14	9	8
Impact on OCI	-	-36	-34	-

*) *Incl SAR and AED*

Assumptions for the sensitivity analysis
The sensitivity analysis only includes currency exposures arising from financial instruments and thus, the analysis does not include the hedged future commercial transactions. The applied change in the exchange rate is based on the historical currency fluctuations and the sensitivity analysis assumes unchanged interest rate levels.

Financial review

Arla operates in many different countries and has significant investment in operations outside Denmark, of which UK, Germany and Sweden represent the largest part of the business by net revenue, profit, and assets. A major part of the currency risk from net revenue denominated in foreign currencies are offset by sourcing in the same currency.

The currency risks primarily arise from transaction risks in the form of future commercial and financial payment and translation risks relating to investments in foreign operations in the form of subsidiaries, joint ventures and associated companies.

The transaction risks arise out of sales or sourcing in currencies different from the functional currency in each subsidiary. Measured in nominal DKK the Group's consolidated risk is largest in EUR, followed by USD, GBP and SEK.

According to the Treasury Policy the Corporate Treasury & Finance department can hedge:

- Up to 15 months of the net forecasted cash receipts and payables. The level of hedging activity is affected by factors such as the underlying business, currency rates and the time until forecasted cash flow will occur.
- Up to 100% of net recognized trade receivables and trade payables.

The financial instruments used to hedge the currency exposures need not to qualify for hedge accounting and hence, some of the applied financial instruments (i.e., option strategies) are accounted for as at fair value through profit or loss.

The EMG has the discretion to decide if and when investment in foreign operation should be hedged (translation risks).

This aggregate group level currency exposure is composed of all assets and liabilities denominated in foreign currencies, and economic hedged projected cash flows for unrecognized firm commitments, and anticipated transactions. This analysis excludes net investment in foreign operations in subsidiaries together with instruments hedging these investments. The hedging relationships are fully effective and hence, the net impact on profit or loss and other comprehensive income from the movements in currency rates are negligible.

Note 4.3.d Interest rate risk

Related business activity
Interest rate risks arise from Arla's funding activities and pension liabilities.

Risk impact
An increase in interest rates impacts Arla's financial items with an adverse effect on milk prices but with a positive impact in OCI from revaluation of pension liabilities and interest hedges.

Mitigation process
The interest rate exposures are continuously managed by the Corporate Treasury & Finance department. The exposures are hedged in accordance with the Treasury and Funding Policy.

Performance indicator
Predictability of realised funding costs.

Policies and systems
The Treasury and Funding Policy and a profound understanding of Arla's business combined with a deep knowledge of the financial markets.

Activities in 2013
The interest rate risk from refinancing was partly hedged by entering into interest rate swaps.

Sensitivity based on a 1 percentage point increase in interest rates
(DKKm)

			Potential accounting impact	
	CARRYING VALUE	SENSITIVITY	P/L	OCI
2013				
Financial assets	-4,750	1%	41	13
Derivatives	-	1%	62	364
Financial liabilities	20,016	1%	-164	-
NIBD excl. pensions	**15,266**			
Pensions	2,593	1%	-21	-
NIBD incl. pensions	**17,859**			
Following year's cash flow impact			**-82**	
2012				
Financial assets	-5,239	1%	46	13
Derivatives	-	1%	53	383
Financial liabilities	19,255	1%	-157	-
NIBD excl. pensions	**14,016**			
Pensions	3,129	1%	-	-
NIBD incl. pensions	**17,145**			
Following year's cash flow impact			**-58**	

Financial review

Arla is exposed to interest-rate risks on interest bearing borrowings, pension obligations, interest bearing assets and the impairment test of non-current assets. The risk is divided between profit and loss exposure and exposure to other comprehensive income. The profit and loss exposure relates to net interest paid , valuation of marketable securities and potential impairments of fixed assets. The exposure to other comprehensive income relates to revaluation of net pension liabilities and interest hedging instruments.

The interest rate risk from net borrowing is managed by having an appropriate split between fixed and floating interest rates.

The Corporate Treasury & Finance department actively uses derivative financial instruments to reduce the risks related to fluctuations in the interest-rate and to manage the re-pricing profile of Arla's debt. According to the Treasury Policy the average duration of the net interest bearing debt should be between 1 and 7.

Fair value sensitivity
A change in interest rates will impact the fair value of Arla's interest bearing assets, interest rate derivative instruments and debt instruments measured at either fair value through profit or loss, or through other comprehensive income. The table above shows the fair value sensitivity. The sensitivity is based on a 1%-point increase in interest rates. A decrease in the interest rate would have the reverse effect.

The sensitivity on pensions can be calculated for the pension obligation, however a large part of the assets is invested in non interest bearing assets like stocks and property where the sensitivity can't be calculated and therefore we haven't stated a sensitivity on the net pension obligation.

Cash flow sensitivity
A change in interest rates will impact the interest rate payment on Arla's un-hedged floating rate debt. The table above shows the one year cash flow sensitivity from 1%-point increase in interest rates on the un-hedged floating rate instruments recognised as at 31 December. A decrease in the interest rate would have the reverse effect.

The average duration of the Group's net interest-bearing debt, excluding pensions, was reduced from 3.5 at 31 December 2012 to 2.9 at 31 December 2013 as a result of the raising of new variable loans and the time lapsed. Part of the new variable-rate loans has been converted into fixed interest rate loans by means of interest swaps.

Note 4.3.e. Commodities

Related business activity
Commodity risks arise from Arla's operating activities of buying energy, but also to a minor extent the commodities used in production.

Risk impact
Increased commodity prices impacts the cost of production and cost of distribution negatively. This could have an adverse effect on the milk price to members.

Mitigation process
Commodity price risks are mainly hedged by entering into fixed price contracts with suppliers. However, certain commodities, such as energy, are hedged using derivative financial instruments.

Performance indicator
Realised commodity prices.

Policies and systems
The commodity price risks are managed by Arla's Corporate Supply Chain department. When financial contracts are used, this takes place in close collaboration with the Corporate Treasury and Finance department.

Activities in 2013
The level of hedging activities was the same as in previous years.

Hedged commodities
(DKKm)

	SENSITIVITY	CONTRACT VALUE	POTENTIAL ACCOUNTING IMPACT OCI
2013			
Oil/natural gas	5%	9	21
Electricity	5%	-32	23
2012			
Oil/natural gas	5%	1	4
Electricity	5%	-15	8

Financial review

Arla is exposed to commodity risk on future commodity purchases. The risk mainly concerns energy commodities. The risk is divided between profit and loss exposure and exposure to other comprehensive income. The exposure to other comprehensive income (OCI) relates to the revaluation of commodities hedges. The Corporate Supply Chain department uses derivatives financial instruments to reduce the risk of fluctuations in the prices of energy commodities. The financial impact from derivative hedging contracts has been insignificant in 2013.

Fair value sensitivity
A change in commodity prices will impact the fair value of Arla's hedged commodity derivative instruments measured though other comprehensive income. The table shows the sensitivity from 5% increase in commodity prices for hedged commodity purchases . A decrease in commodity prices would have the reverse effect.

Note 4.3.f. Credit risk

Related business activity
Credit risks arise from Arla's operating activities and engagement with financial counterparties.

Risk impact
Losses arising from either customers, suppliers or financial counterparties defaulting on their obligations towards Arla. Furthermore, the weak credit quality of a counterparty can reduce the ability to support Arla going forward, thereby jeopardising the Group's fulfilment of its strategy.

Mitigation process
Arla has an extensive credit risk policy and uses credit insurance and other trade finance products extensively in connection with export. If a customer payment is late, internal procedures are followed to mitigate losses. Arla uses a limited number of financial counterparties.

Performance indicator
Expected and realised credit losses on customers.

Policies and systems
Financial counterparties must be approved by Managing directors and CFO and have a credit rating of at least A-/A-/A3 by S&P, Fitch or Moody's. A credit assessment is performed of all new customers. In addition, existing customers are subject to an ongoing monitoring of their credit quality.

Activities in 2013
As in previous years, Arla has experienced a very low level of losses on customers.

Netting of credit risk
In order to manage counterparty risk Arla uses master netting agreements when entering into derivative contracts with counterparties. The below tables show the counterparty exposure for those agreements covered by entering into netting agreement.

External rating of financial counterparties

	ASSETS	QUALIFING FOR NETTING	NET ASSETS	LIABILITIES	QUALIFING FOR NETTING	NET LIABILITIES
2013						
(DKKm)						
AA-	81	81	-	176	81	95
A+	16	12	4	147	12	135
A-	59	59	-	229	59	170
Total	**156**	**152**	**4**	**552**	**152**	**400**
2012						
(DKKm)						
AA-	142	137	5	573	137	436
A+	12	9	3	204	9	195
A-	21	21	-	36	21	15
Total	**175**	**167**	**8**	**813**	**167**	**646**

In addition, Arla has entered into sales and repurchase agreements on mortgage bonds.
This sales and repurchase agreement has been decribed in futher details in note 4.6

Financial review

Credit risk stems from the possibility that counterparties to transactions may default on their obligations, thereby causing losses for the Group.

For financial counterparties, Arla minimises the credit risk by only entering into transactions with those with a credit rating of least A-/A-/A3 from either S&P, Fitch or Moody's. All financial counterparties had a satisfactory credit rating at 31 December 2013 or in one case a dispensation by the Board of Directors.

Other counterparties, customers and suppliers, are subject to an on-going monitoring of their fulfilment of their contractual obligations and their credit quality. Outside the Group's core markets credit insurance and trade finance instruments are widely used to reduce the risks.

Further information on trade receivables is provided in note 2.1.c.

The maximum exposure to credit risk is approximately equal to the carrying amount.

NOTE 4.4. DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policies

Derivative financial instruments are recognised from the trade date and measured in the balance sheet at fair value. Positive and negative fair values of derivative financial instruments are recognised on separate lines in the balance sheet, and offsetting of positive and negative amounts only takes place once Arla has obtained the legal right and intends to settle several financial instruments net.

Fair value hedging
Changes in the fair value of derivative financial instruments, which meet the criteria for hedging of the fair value of recognised assets and liabilities, are recognised alongside changes in the value of the hedged asset or the hedged liability with respect to the portion that is hedged.

Cash flow hedging
Changes in the portion of the fair value of derivative financial instruments that are classified as and meet the conditions for hedging of future cash flows, and that effectively hedge changes in future cash flows, are recognised under other comprehensive income in a special reserve for hedging transactions under equity until the hedged cash flows affect the income statement. The cumulative gains or losses from such hedging transactions that are retained in equity are reclassified from and recognised under the same item as the hedged item (basic adjustment).

If the hedging instrument no longer meets the criteria for hedge accounting, the hedge will cease from that point onward.

The accumulated change in value recognised in other comprehensive income is reclassified to the income statement once the hedged cash flows affect the income statement or are no longer likely.

If the hedged cash flows are no longer expected to be realised, the cumulative value change is immediately reclassified from equity to the income statement.

Hedging of net investments
Changes to the fair value of derivative financial instruments used to hedge net investments in foreign subsidiaries (the currency risk associated with the translation of foreign company's net assets into DKK), and that effectively hedge against exchange rate changes in these companies, are recognised in the consolidated financial statements in other comprehensive income under a special reserve for foreign currency translation adjustments.

For derivative financial instruments that do not meet the conditions for treatment as hedging instruments, changes in fair value are recognised on a continuous basis in the income statement under financial income and financial expenses.

Note 4.4.a. Hedging of future cash flows from highly probable forecast transactions
(DKKm)

2013	CARRYING VALUE	FAIR VALUE RECOGNISED IN OCI	2014	2015	2016	2017	LATER THAN 2017
Currency contracts	15	15	15	-	-	-	-
Interest rate contracts	-331	-331	-151	-113	-65	-42	40
Commodity Contracts	-23	-14	-10	-2	-2	-	-

2012	CARRYING VALUE	FAIR VALUE RECOGNISED IN OCI	2013	2014	2015	2016	LATER THAN 2016
Currency contracts	25	25	25	-	-	-	-
Interest rate contracts	-709	-709	-123	-119	-109	-75	-282
Commodity Contracts	-14	-14	-13	-1	-	-	-

Note 4.4.b. Net investment hedges
(DKKm)

	2013	2012
Net investment hedges (OCI) at 1 January	14	-
Change in net investment hedges	-10	14
Net investment hedges (OCI) at 31 December	4	14
Profit or loss	-	-

Financial review

Fair value hedge
At 31 December 2013, Arla had no derivative financial instruments that qualified for the criteria for fair value hedge.

Hedging of future cash flows
The Group uses forward currency contracts to hedge currency risks regarding expected future net revenue and costs. Interest rate swaps are used to hedge risks regarding movement in expected future interest payment.

Hedging of net investments
As at 31 December 2013 (2012) Arla has hedged an insignificant part of currency exposures relating to its investments in subsidiaries, joint ventures and associated companies using loans and derivatives. The above table shows the change in fair value recognised in other comprehensive income and the ineffectiveness recognised in profit or loss.

Fair value of hedge instruments not qualifying for hedge accounting (financial hedge)
Arla uses currency options which are hedging forecasted sales and purchases. These options do not qualify for hedge accounting and hence, the fair value adjustment is recognised directly in profit or loss.

Currency swaps are used as part of the daily liquidity management. The objective of the currency swaps is to match the timing of in- and outflow of foreign currency cash flows.

NOTE 4.5. FINANCIAL INSTRUMENT DISCLOSURES

Note 4.5.a. Categories of financial instruments
(DKKm)

	2013	2012
Available for sale financial assets	3,994	4,021
Loans and receivables	6,940	6,946
Financial assets measured at fair value through profit or loss	478	685
Financial liabilities measured at fair value through profit or loss	623	864
Financial liabilities measured at amortised cost	27,471	26,058

The fair value of financial assets and financial liabilities measured at amortised cost is approximately equal to the carrying amount.

Note 4.5.b. Fair Value Hierarchy – Accounting Value

Methods and assumptions applied when measuring the fair values of financial instruments:

Bonds and shares
The fair value is determined using the quoted prices in an active market.

Non-option derivatives
The fair value is calculated using discounted cash flow models and observable market data. The fair value is determined as a termination price, and consequently the value is not adjusted for credit risks.

Option instruments
The fair value is calculated using option models and observable market data, such as option volatilities. The fair value is determined as a termination price, and consequently the value is not adjusted for credit risks.

Fair value hierarchy
Level 1: Fair values measured using unadjusted quoted prices in an active market
Level 2: Fair values measured using valuation methods and observable market data.
Level 3: Fair values measured using valuation methods and observable as well as significant non-observable market data.

Fair Value Hierarchy – Accounting Value
(DKKm)

2013	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Bonds	4,144			4,144
Shares	73			73
Derivatives		208		208
Total assets	**4,217**	**208**	**-**	**4,425**
Financial liabilities				
Issued bonds		2,508		2,508
Mortgage credit institutions	6,220			6,220
Derivatives		623		623
Total liabilities	**6,220**	**3,131**		**9,351**

2012	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Bonds	4,322	-	-	4,322
Shares	90	-	-	90
Derivatives	-	251	-	251
Total assets	**4,412**	**251**	**-**	**4,663**
Financial liabilities				
Issued bonds		1,309		1,309
Mortgage credit institutions	5,999			5,999
Derivatives	-	864	-	864
Total liabilities	**5,999**	**2,173**	**-**	**8,172**

NOTE 4.6. TRANSFER OF FINANCIAL ASSETS

(DKKm)	CARRYING VALUE	NOTIONAL AMOUNT	FAIR VALUE
2013			
Mortgage bonds	3,581	3,715	3,581
Repurchase liability	-3,521	-3,715	-3,521
Net position	**60**	**-**	**60**
2012			
Mortgage bonds	3,904	4,102	3,904
Repurchase liability	-3,882	-4,102	-3,882
Net position	**22**	**-**	**22**

Financial review

As at 31 December 2013 Arla has invested in the mortgage bonds underlying its mortgage debt. The reason for investing in the mortgage bonds is that Arla is able to achieve a lower interest rate than the current market interest rate on mortgage debt by entering into a sale and repurchase agreement on the listed Danish mortgage bonds. The net interest rate payable by Arla, by raising financing through this kind of sale and repurchase, is the interest rate inherent in the sale and repurchase agreement and the contribution to the mortgage institute.

Due to the repurchase agreement the risks and rewards arising from the ownership of the transferred mortgage bonds have been retained by Arla. These mortgage bonds have been classified as available for sale with value adjustments over other comprehensive income.

The received proceeds creates a repurchase obligation which has been recognised as short term bank loans and overdrafts.

NOTE 4.7. PENSION OBLIGATIONS

Accounting policies

Pension obligations and similar non-current liabilities
The Group has entered into post-employment pension plan agreements with a significant number of its employees. The post-employment pension plan agreements take the form of defined benefit plans and defined contribution plan agreements.

Defined contribution plans
For defined contribution plans, the Group pays fixed contributions to independent pension companies. The Group has no obligation to make supplementary payment beyond those fixed payment, and the risks and rewards of the value of the pension plan therefore rest with the plan member and not the Group. Amounts payable for contributions to defined contribution plans are expensed in the income statement as incurred.

Defined benefit plans
Defined benefit plans are characterised by the Group's obligation to make a specific payment from the date and during the period the plan member is pensioned, depending on, for example, the member's seniority and final salary. The Group is subject to the risks and rewards associated with the uncertainty that the returns generated by the assets are able to meet the pension obligations, which are affected by assumptions concerning mortality and inflation.

The Group provides both funded and unfunded defined benefit plans to certain employees. Funded plan are where the Group pays cash contributions into a separately administered fund, which invests the contributions into various assets with the aim of generating returns to meet present and future pension obligations. Unfunded plans are where no cash or other assets are set aside from the Group's assets used for operations to cover future pension obligations.

The Group's net obligation is the amount presented on the balance sheet as pension obligations.

The net obligation is calculated separately for each defined benefit plan and comprises:
- The amount of future pension benefits that employees have earned in current and prior periods (i.e. the obligation for pension payment for the portion of the employees' estimated final salary earned at the balance sheet date) discounted to a present value (the defined benefit obligation), less
- The fair value of assets held separately from the Group in a plan fund.

The Group uses qualified actuaries to annually calculate the defined benefit obligation using a projected unit credit method.

The balance sheet amount of the net obligation is impacted by remeasurements, which comprise the effect of changes in assumptions used to calculate the future obligation (actuarial gains and losses) and the return generated on plan assets (excluding interest). Remeasurements are recognised in OCI.

Interest costs for the period are calculated using the discount rate used to measure the defined benefit obligation at the start of the reporting period to the then carrying amount of the net obligation, taking into account changes arising from contributions and benefit payment. The net interest costs and other costs relating to defined benefit plans are recognised in the income statement.

The provision covers defined benefit plans primarily in the UK, Germany and Sweden.

Uncertainties and estimates

The costs relating to defined benefit plans and their carrying amount are assessed based on a number of assumptions, including discount rates, inflation rates, salary growth and mortality.
A small difference in actual experience compared with assumptions and any changes in assumptions can have a significant impact on the carrying amount of the net obligation.

Note 4.7.a. Pension obligations recognised in the balance sheet

(DKKm)	2013	2012
Present value of funded obligations	9,874	8,173
Fair value of plan assets	-7,281	-6,915
Deficit of funded plans	**2,593**	**1,258**
Present value of unfunded obligations	-	1,871
Net pension obligations recognised in the balance sheet	**2,593**	**3,129**
Specification of total obligations:		
Present value of funded obligations	9,874	8,173
Present value of unfunded obligations	-	1,871
Total obligations	**9,874**	**10,044**

Note 4.7.b. Development in defined benefit pension obligations

(DKKm)	2013	2012
Present value of pension obligation at 1 January	10,044	7,859
Additions from mergers and acquisitions	-	1,131
Current service cost	25	27
Interest cost	408	385
Actuarial (gains)/losses from changes in financial assumptions	59	781
Actuarial (gains)/losses from change in demographic assumptions	-17	-
Benefits paid	-392	-364
Curtailments and settlements	-	-1
Exchange rate adjustments	-253	226
Present value of pension obligation at 31 December	**9,874**	**10,044**

Note 4.7.c. Development in fair value of plan assets

(DKKm)	2013	2012
Fair value of plan assets at 1 January	6,915	5,635
Additions from mergers and acquisitions	-	719
Interest income	296	338
Return on plan assets excl. interest income	211	127
Contributions to plans	358	264
Benefits paid	-336	-309
Administration costs	-15	-
Exchange rate adjustments	-148	141
Fair value of plan assets at 31 December	**7,281**	**6,915**

The Arla Group expects to contribute DKK 260m (2013: DKK 358m) to the plan assets in 2014.

	2013	2012
Actual return on plan assets:		
Calculated interest income	296	338
Return excl. calculated interests	211	127
Actual return	**507**	**465**

Note 4.7.d. Sensitivity of defined benefit obligation to key assumptioms
(DKKm)

Impact on defined benefit obligation at 31 December 2013		
Discount rate +/- 10bps	-159	159
Salary increases +/- 10bps	11	-24
Life expectancy +/- 1 year	294	-295

Note 4.7.e. Assets invested in pension funds
(DKKm)

	%	2013	%	2012
Shares	21%	1,547	21%	1,472
Bonds	19%	1,375	53%	3,682
Properties	9%	655	11%	739
Other assets	51%	3,704	15%	1,022
Total assets	**100%**	**7,281**	**100%**	**6,915**

Note 4.7.f. Recognised in the income statement for the year
(DKKm)

	2013	2012
Current service cost	25	27
Administration cost	15	-
Curtailments and settlements	-	-1
Recognised as staff costs	**40**	**26**
Interest cost on obligations	408	384
Interest income on plan assets	-296	-338
Recognised as financial (gains)/losses	**112**	**46**
Total amount recognised in the income statement	**152**	**72**

Note 4.7.g. Recognised in other comprehensive income
(DKKm)

Accumulated actuarial gains/(losses) 1 January	-1,091	-437
Actuarial gains/(losses) for the year	169	-654
Accumulated actuarial gains/(losses) 31 December	**-922**	**-1,091**

Note 4.7.h. Assumptions for the actuarial calculations at the balance sheet date are:
(DKKm)

	2013	2012
Discount rate, Sweden	4.5%	3.5%
Discount rate, UK	4.6%	4.5%
Expected payroll increase, Sweden	3.0%	3.0%
Expected payroll increase, UK	4.8%	4.2%

Financial review

Net pension liabilities have been recognised at DKK 2,593 million compared with DKK 3,129 million. The present value of defined benefit plans declined because of the Group's payment to these plans and an increased discounting rate in Sweden. The provision consists primarily of defined benefit plans in the United Kingdom and Sweden. The defined benefit plans secure pension disbursements to participating employees based on seniority and final salary.

United Kingdom:
The defined benefit plans in the United Kingdom are administered of independent pension funds that invest deposited amounts to cover pension obligations. All schemes are closed to future accruals. The actuarial present value of the obligations totalled DKK 8,226 million at 31 December 2013 compared with DKK 8,173 million at 31 December 2012. Recognised net liabilities – less the fair value of the assets of DKK 7,188 million at 31 December 2013 compared with DKK 6,915 million at 31 December 2012 – stood at DKK 1,037 million (2012: DKK 1,257 million). The decline is primarily due to payment to scheme assets at plan of DKK 271 million.

Sweden:
The defined benefit plan in Sweden is not covered by ongoing deposits paid into the fund. Arla paid an extraordinary payment to scheme assets at DKK 86 million during 2013. The recognised liability stood at DKK 1,357 million compared with DKK 1,687 million in 2012. The decrease is primarily due to actuarial gain of DKK 207 million resulting from an increase in the discounting rate, a foreign exchange rate adjustment of DKK 64 million as well as the extraordinary payment of DKK 86 million.

Implementation of IAS 19:
IAS 19 on personal benefits was amended effective 1 January 2013. The most significant change pertains to calculating the return component based on net liability. Thus, expected returns are calculated neither on pension assets nor on pension liabilities. The impact on the result was DKK -57 million in 2013.

Note 5. Other areas

Arla's tax platform has changed from local to global in step with the development of our business. However, Arla is a cooperative company headquartered in Denmark. Our activities are therefore covered by Danish tax rules for cooperatives, which take account of the basic principles of such a company. When the owner of a company is also a supplier to the company, earnings end up with the owner in the form of the price paid for the commodity. That is why the farmer is in this case the primary source of taxation. Our goal is to manage our tax affairs in a proactive manner that seeks to maximise our milk price, while operating in accordance with the law at all times.

This note specifies taxes, which are divided into tax in the income statement and deferred tax in the balance sheet. The effective tax rate is calculated, and deferred tax assets not included in the balance sheet are listed.

The note also contains other statutory disclosures, such as the remuneration paid to members of the Board of Directors and the Executive Board as well as auditors elected by the Board of Representatives. Furthermore, the note contains disclosures about contractual obligations and related parties.

NOTE 5.1. TAX

Accounting policies

Tax in the income statement
Taxable income is assessed according to the national rules and regulations that apply to the companies. Tax is assessed on the basis of cooperation or income tax.

Tax in the income statement comprises current tax and adjustments to deferred tax. Tax is recognised in the income statement, except to the extent that it relates to a business combination or items (earnings and costs) recognised directly in equity or in OCI.

Current tax
Current tax is assessed on the basis of cooperation or income tax. Cooperative taxation is based on capital, while income tax is based on the company's income for the year.

Current tax payable and receivable are recognised in the balance sheet as tax calculated on the taxable income for the year, adjusted for any tax from previous years' taxable income as well as prepaid on-account taxes. The amount is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax
Deferred tax and related adjustments for the year are calculated applying the balance sheet liability method as the tax base of temporary differences between carrying amounts and the tax base of assets and liabilities.

Deferred tax is not recognised on temporary differences relating to goodwill, which is not deductible for tax purposes or arising at the acquisition date of items without affecting either the profit or loss for the year or taxable income, with the exception of those arising from business combinations.

Deferred tax assets, including the value of tax loss carry-forwards, are recognised under other non-current assets at the value at which they are expected to be used, either by elimination in the tax of future earnings or by offsetting against deferred tax payable in companies within the same legal tax entity or jurisdiction.

Deferred tax is measured on the basis of the tax rules and tax rates in the respective countries effective under the legislation at the reporting date when the deferred tax is expected to be realised. Changes in deferred tax assets and liabilities as a result of changes in the tax rate are recognised in the comprehensive income for the year.

Uncertainties and estimates

Deferred tax:
Deferred tax reflects assessments of the actual future tax due for items in the financial statements, taking into account timing and probability. These estimates also reflect expectations about future taxable profits and the Group's tax planning. Actual future taxes may deviate from these estimates as a result of changes to expectations relating to future taxable income, future statutory changes in income taxation or the outcome of the tax authorities' final review of the Group's tax returns. Recognition of deferred tax asset also depends on an assessment of the future use of the asset.

Note 5.1.a. Tax in the income statement (DKKm)	**2013**	**2012**
Cooperative tax	-67	-46
Current tax	-131	-39
Deferred tax	-18	-34
Change in deferred tax resulting from a change in the tax rate	-38	15
Adjustment regarding previous years, actual tax	2	-11
Adjustment regarding previous years, deferred tax	-22	26
Total tax in the income statement	**-274**	**-89**

Note 5.1.b. Calculation of effective tax rate (DKKm)	**2013**	**2012**
Statutory corporate income tax rate in Denmark	25%	25%
Deviation in foreign subsidiaries' tax rates compared with the Danish tax rate (net)	0%	0%
Adjustment for cooperative tax	-15%	-22%
Non-taxable income less non-tax-deductible costs (net)	0%	5%
Change in tax percentage	2%	-1%
Regulation regarding previous years	0%	-2%
Other adjustments	0%	-1%
Effective tax rate	**12%**	**4%**

Note 5.1.c. Deferred tax

(DKKm)	INTANGIBLE ASSETS	PROPERTY, PLANT AND EQUIPMENT	FINANCIAL ASSETS	CURRENT ASSETS	PROVISIONS	OTHER LIABILITIES	TAX LOSS CARRY-FORWARDS	OTHER CATEGORY	TOTAL
2013									
Net deferred tax asset/liability at 1 January	-15	-136	80	5	357	3	94	-46	342
Income/charge to the income statement	-8	167	-13	0	15	-2	-47	-152	-40
Income/charge to other comprehensive income	0	0	-17	0	43	-25	0	-96	-95
Change in tax rate	0	1	0	0	0	-2	-26	-11	-38
Exchange rate adjustment	1	3	-2	1	-3	-3	-1	-5	-9
Other adjustments	3	-15	4	-9	-72	-44	13	121	1
Net deferred tax asset/liability at 31 December	**-19**	**20**	**52**	**-3**	**340**	**-73**	**33**	**-189**	**161**
Specified as follows:									
Deferred tax asset at 31 December	-23	53	87	-3	348	-73	24	14	427
Deferred tax liability at 31 December	4	-33	-35	0	-8	0	9	-203	-266
2012									
Net deferred tax asset/liability at 1 January	-7	-173	53	-18	269	-5	111	-83	147
Income/charge to the income statement	-11	-30	14	1	-5	10	0	13	-8
Income/charge to other comprehensive income	0	-1	0	0	101	27	0	0	127
Change in tax rate	3	22	-1	4	-1	-1	-11	0	15
Mergers and acquisitions	0	49	12	20	-16	-28	-8	26	55
Exchange rate adjustment	0	-3	1	-2	10	1	2	-2	7
Other adjustments	0	0	1	0	-1	-1	0	0	-1
Net deferred tax asset/liability at 31 December	**-15**	**-136**	**80**	**5**	**357**	**3**	**94**	**-46**	**342**
Specified as follows:									
Deferred tax asset at 31 December	-15	-105	115	5	368	-1	94	-26	435
Deferred tax liability at 31 December	0	-31	-35	0	-11	4	0	-20	-93

Financial review

Tax in the income statement
Generally tax cost has increased – specifically in Sweden and Finland as the tax profits in the legal entities in these countries have risen.

Deferred tax
The tax rate changed in the UK from 23 per cent to 21 per cent, which is in effect for 2014. On 1st January 2014 the tax rate changed in Finland from 24,5 per cent to 20 per cent, which reduces the value of the recognised deferred tax asset and thereby creates a cost in the income statement.

Deferred tax assets are primarily based on pension obligations while deferred tax liabilities mainly relate to property, plant and equipment. A deferred tax asset of DKK 269m (2012: DKK 232m) has not been recognised, as we do not expect to be able to use it within a limited time range.

NOTE 5.2. FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES
(DKKm)

	2013	2012
Statutory audit	12	11
Other assurance engagements	2	2
Tax assistance	8	8
Other services	9	17
Total fees to auditors	**31**	**38**

KPMG has been appointed as auditors by the Board of Representatives.

NOTE 5.3. MANAGEMENT REMUNERATION AND TRANSACTIONS

The remuneration of the Executive Board is proposed by the Chairmanship and approved by the Board of Directors. Remuneration for the Board of Directors is approved by the Board of Representatives. Remuneration is negotiated on an annual basis.

The Board of Directors and Executive Board is exercising significant influence.
Members of the Board of Directors are paid for milk supplies to Arla Foods amba on equal terms with other owners of the company.

Note 5.3.a. Management remuneration
(DKKm)

	2013	2012
Board of Directors		
Wages, salaries and remuneration etc.	-8	-6
Pensions	-	-
Total	**-8**	**-6**
Executive Board		
Wages, salaries and remuneration etc.	-18	-16
Pensions	-1	-1
Total	**-19**	**-17**

Note 5.3.b. Transactions with the Board of Directors
(DKKm)

Purchase of goods	89	85
Supplementary payment received regarding previous years	4	2
Trade payables	9	7
Owner accounts	8	8

NOTE 5.4. CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIES

Uncertainties and estimates

The Group has entered into a number of lease agreements. In executing such agreements, Management assesses the substance of the agreements for the purpose of classifying the leasing agreements as either financial or operational leasing. The Group has mainly entered into lease agreements for standardised assets that are short-term in relation to the assets' useful lives, which is why the lease agreements are classified as operational leasing.

Note 5.4.a. Contractual commitments and contingent liabilities
(DKKm)

	2013	2012
Surety and guarantee commitments	99	72
Operating rent commitments	666	508
0-1 year	145	115
1-5 years	301	214
Over 5 years	220	178
Operating lease commitments	733	1,045
0-1 year	272	225
1-5 years	418	746
Over 5 years	43	73
Commitments in relation to agreements on the purchase of intangible assets	53	115
Commitments in relation to agreements on the purchase of property, plant and equipment	1,430	954

Financial review

The Group is party to a small number of lawsuits, disputes etc. with no significant impact on the financial position beyond what is recognised in the balance sheet and/or disclosed in the annual report.

NOTE 5.5. EVENTS AFTER THE BALANCE SHEET DATE
No events with a significant effect on the business has happened after the balance sheet date.

NOTE 5.6. FUTURE STANDARDS - EARLY ADOPTION OF NEW OR AMENDED IFRS

Arla has incorporated the new accounting standards, IFRS 10, IFRS 11 and IFRS 12 and amendments to accounting standards IAS 19, IAS 27 and IAS 28 with an effective date on or after 1 January 2014. Furthermore Arla has incorporated amendments to IAS 36 endorsed by EU in May 2013 with an effective date of 1 January 2014. None of the other new or revised accounting standards have a material impact on the recognition or measurement of profit and financial position in 2013.

Group chart

COMPANY NAME	COUNTRY	CURRENCY	GROUP EQUITY INTEREST (%)
Arla Foods amba	**Denmark**	**DKK**	**100**
Arla Foods Ingredients Group P/S	Denmark	DKK	100
Arla Foods Ingredients Energy A/S	Denmark	DKK	100
Arla Foods Ingredients KK	Japan	JPY	100
Arla Foods Ingredients Inc.	USA	USD	100
Arla Foods Ingredients Korea, Co. Ltd	Korea	KRW	100
Arla Foods Ingredients Trading (Beijing) Co. Ltd.	China	CNY	100
Arla Foods Ingredients S.A.*	Argentina	USD	50
Arla Foods Ingredients Singapore Pte. Ltd	Singapore	SGD	100
Arla Foods Ingredients S.A. de C.V.	Mexico	MZN	100
AFI Partner Aps	Denmark	DKK	100
Cocio Chokolademælk A/S	Denmark	DKK	50
Cocio Beverage International P/S	Denmark	DKK	100
CBI GP ApS	Denmark	DKK	100
Andelssmør A.m.b.a.	Denmark	DKK	98
Aktieselskabet J. Hansen	Denmark	DKK	100
J.P. Hansen Inc	USA	USD	100
Mejeriforeningen	Denmark	DKK	91
Arla Foods Holding A/S	Denmark	DKK	100
Medlemsartikler ApS	Denmark	DKK	100
Arla Foods Distribution A/S	Denmark	DKK	100
Økomælk A/S	Denmark	DKK	100
Danmark Protein A/S	Denmark	DKK	100
Cocio Chokolademælk A/S	Denmark	DKK	50
Arla Foods International A/S	Denmark	DKK	100
Arla Foods UK Holding Ltd	UK	GBP	86
Arla Foods UK Farmers JV Company Limited ***	UK	GBP	50
Arla Foods UK plc	UK	GBP	100
Arla Foods Finance Ltd	UK	GBP	100
Arla Foods Holding Co. Ltd	UK	GBP	100
Arla Foods UK Investments Limited	UK	GBP	100
Arla Foods UK Services Ltd	UK	GBP	100
Arla Foods Naim Limited	UK	GBP	100
Healds Foods Limited	UK	GBP	100
Arla Foods Limited	UK	GBP	100
Milk Link Holdings Ltd.	UK	GBP	100
Milk Link Processing Ltd.	UK	GBP	100
Milk Link (Crediton No 2) Limited	UK	GBP	100
Milk Link Investments Ltd.	UK	GBP	100
The Cheese Company Holdings Ltd.	UK	GBP	100
The Cheese Company Ltd.	UK	GBP	100
MV Ingredients Ltd.	UK	GBP	50
Cornish Country Larder Ltd.	UK	GBP	100
The Cheese Company Investments Ltd.	UK	GBP	100
Westbury Dairies Ltd	UK	GBP	11
Arla Foods (Westbury) Ltd	UK	GBP	100
Arla Creamery Ltd.	UK	GBP	100
Arla Foods UK Property Co. Ltd	UK	GBP	100
Arla Foods B.V.	Netherlands	EURO	100
Arla Foods Ltda	Brazil	BRL	100
Dan-Vigor Ltda*	Brazil	BRL	50
Danya Foods Ltd	Saudi Arabia	SAR	75
AF A/S	Denmark	DKK	100
Thisted Dairy Foods ApS	Denmark	DKK	100
Arla Foods Finance A/S	Denmark	DKK	100
Danske Immobilien ApS**	Denmark	DKK	35
K/S Danske Immobilien**	Denmark	DKK	35
A/S af 05.06.92	Denmark	DKK	100
Kingdom Food Products ApS	Denmark	DKK	100
Ejendomsanpartsselskabet St. Ravnsbjerg	Denmark	DKK	100
Arla Insurance Company (Guernsey) Ltd	Guernsey	DKK	100
Rynkeby Foods A/S	Denmark	DKK	100
Krogab Sverige AB	Sweden	SEK	100
Arla Foods Energy A/S	Denmark	DKK	100
Arla Foods Trading A/S	Denmark	DKK	100
Mejerianpartsselskabet	Denmark	DKK<	100
Danapak Holding A/S	Denmark	DKK	100
Danapak A/S	Denmark	DKK	100
Danapak Flexibles A/S	Denmark	DKK	100
Danapak Plast A/S	Denmark	DKK	100
Danapak WP A/S	Denmark	DKK	100

COMPANY NAME	COUNTRY	CURRENCY	GROUP EQUITY INTEREST (%)
Fidan A/S	Denmark	DKK	100
Dairy Fruit A/S	Denmark	DKK	100
Tholstrup International B.V.	Netherlands	EURO	100
Tholstrup Cheese Holding A/S	Denmark	DKK	100
Tholstrup Cheese A/S,	Denmark	DKK	100
Tholstrup Cheese TC Sverige AB,	Sweden	SEK	100
Arla Foods GmbH,	Germany	EURO	100
Tholstrup Cheese USA Inc.,	USA	USD	100
Tholstrup Taulov A/S,	Denmark	DKK	100
Arla Foods Ingredients GmbH,	Germany	EURO	100
Arla Tagatose Holding GmbH,	Germany	EURO	100
Arla CoAr Holding GmbH	Germany	EURO	100
ArNoCo GmbH & Co. KG*	Germany	EURO	50
Arla Biolac Holding GmbH	Germany	EURO	100
Biolac GmbH & Co. KG*	Germany	EURO	50
Arla Foods Kuwait Company LLC	Kuwait	KWD	49
Arla Kallassi Foods Lebanon S.A.L.	Lebanon	USD	50
Arla Foods Qatar WLL	Qatar	QAR	40
AFIQ, WLL	Bahrain	BHD	25
Arla Foods AB	Sweden	SEK	100
Boxholm Mejeri AB	Sweden	SEK	100
HB Grädö Produktion	Sweden	SEK	100
Rynkeby Foods Förvaltning AB	Sweden	SEK	100
Rynkeby Foods HB	Sweden	SEK	100
Arla Ingman Oy Ab	Finland	EURO	100
Ranuan Meijeri Oy	Finland	EURO	99
Kiteen Meijeri Oy	Finland	EURO	99
Halkivahan Meijeri Oy	Finland	EURO	97
Massby Facility & Services Oy	Finland	EURO	60
Arla Foods UK Holding Ltd	UK	GBP	14
Restaurang akademien Aktiebolag**	Sweden	SEK	50
Arla Foods Russia Holding AB	Sweden	SEK	100
Arla Foods Artis Ltd	Russia	RUB	100
L&L International Bolag AB	Sweden	SEK	100
Arla Foods Specialost AB	Sweden	SEK	100
Silvadden AB	Sweden	SEK	100
Milko Sverige AB	Sweden	SEK	100
Videbæk Biogas A/S	Denmark	DKK	50
Arla Foods Holding AB	Sweden	SEK	100
Arla Foods Inc	USA	USD	100
Arla Foods Production LLC	USA	USD	100
Arla Foods Transport LLC	USA	USD	100
Arla Foods SA	Poland	PLN	100
COFCO Dairy Holdings Limited	Hong Kong	HKD	30
Arla Foods Inc.	Canada	CAD	100
Arla Global Financial Services Centre Sp. Z.o.o.	Poland	PLN	100
Arla National Foods Products LLC	UAE	AED	40
Arla Foods Deutschland GmbH	Germany	EURO	100
Arla Foods Käsereinen GmbH	Germany	EURO	100
Allgäuland Frische GmbH	Germany	EURO	100
Bergland Naturkäse GmbH**	Germany	EURO	50
Molkerei-Zentrale Südwest eG	Germany	EURO	99
Sengale SAS	France	EURO	100
Team-Pack GmbH	Germany	EURO	100
MUH France, S.a.r.l	France	EURO	100
Milch-Union Hocheifel, Luxemburg GmbH	Luxemburg	EURO	100
Milch-Union Hocheifel, Belgium AG	Belgium	EURO	100
Hansa Verwaltungs und Vertriebs GmbH	Germany	EURO	100
Hansa Logistik eG	Germany	EURO	100
Arla Foods Srl	Italy	EURO	100
Arla Foods S.a.r.l.	France	EURO	100
Arla Foods AS	Norway	NOK	100
Arla Foods S.A.	Spain	EURO	100
Arla Foods Hellas S.A.	Greece	EURO	100
Svensk Mjölk Ekonomisk förening**	Sweden	SEK	73

* Joint ventures ** Associates *** Arla Foods amba owns at 31 December 2013 the remaining 50 per cent
The Group also owns a number of companies without material commercial activities.

Consolidated Annual Report: Under section 149 of the Danish Financial Statements Act, the present consolidated annual report represents an extract of the Company's complete annual report. In order to make this report more manageable and user-friendly, the Arla Foods Group has decided to publish a consolidated annual report without the financial statements for the parent company, Arla Foods amba.

The annual report for the parent company is an integrated part of the full annual report and is available in Danish at www.arlafoods.dk. Profit sharing and supplementary payment from the parent company are set out in the equity section of the consolidated annual report.

The full annual report contains the following statements from the Board of Directors and the Executive Board as well as the independent auditor.

Independent auditor's report

TO THE OWNERS OF ARLA FOODS AMBA

Independent auditors' report on the consolidated financial statements and the parent company financial statements
We have audited the consolidated financial statements and the parent company financial statements of Arla Foods amba for the financial year 1 January – 31 December 2013. The consolidated financial statements and the parent company financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies for the Group as well as for the parent company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

Management's responsibility for the consolidated financial statements and the parent company financial statements
Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the parent company financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of consolidated financial statements and parent company financial statements that give a true and fair view 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 Company'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 consolidated financial statements and the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

Opinion
In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2013 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 January – 31 December 2013 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

Statement on the Management's review
Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the consolidated financial statements and the parent company financial statements.

Aarhus, 18 February 2014

KPMG
Statsautoriseret Revisionspartnerselskab

Jesper Ridder Olsen
State Authorised Public Accountant

Morten Friis
State Authorised Public Accountant

Peder Tuborgh, CEO
Povl Krogsgaard, Vice CEO
Åke Hantoft, Chairman
Jan Toft Nørgaard, Vice Chairman
Viggo Ø. Bloch
Palle Borgström
Oliver Brandes
Jonas Carlgren
Leif Eriksson
Manfred Graff
Hélene Gunnarson

Bjørn Jepsen
Thomas Johansen
Klaus Land
Deceased December 2013
Steen Nørgaard Madsen
Torben Myrup
Ib Bjerglund Nielsen
Jonathan Ovens
Johnnie Russell
Harry Shaw
Manfred Sievers
Peter Winstone

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board discussed and approved the annual report of Arla Foods amba for the financial year 2013. The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

It is our opinion, that the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2013 and of the results of the Group's and the parent company's activities and cash flows for the financial year 1 January-31 December 2013.

In our opinion, the Management's review on the annual report includes a true and fair view of the developments of the Group's and the parent company's financial position, activities and financial matters, results for the year and cash flows as well as a description of the most significant risks and uncertainties that may affect the Group and the parent company.

We hereby recommend the annual report for adoption by the Board of Representatives.

Aarhus, 18 February 2014

Executive
Management Group

EXECUTIVE BOARD

Peder Tuborgh
CEO

2005: CEO, Arla Foods
2002: Executive Group Director, Arla Foods, with responsibility for the Nordics
2000: Divisional Director, Denmark Division, Arla Foods
1994: Marketing Director, Denmark Division, Arla Foods
1990: Marketing Manager, Danya Foods (MD Foods in Saudi Arabia)
1987: Product Manager, MD Foods Germany

Povl Krogsgaard
Vice CEO

2004: Vice CEO, Arla Foods
2000: Executive Group Director, Arla Foods
1998: Executive Group Director, MD Foods
1994: CEO, Mejeriernes Produktionsselskab, and Director, Home Market Division
1991: Director, Home Market Division, MD Foods
1989: Production Manager, of Yellow Cheese, MD Foods
1988: Head of Department, Home Market Division, MD Foods
1987: Head of Department, Mejeriselskabet Denmark, Company Secretariat
1979: Joined Danske Mejeriers Fællesorganisation, appointed Head of Department in 1983

OTHER EXECUTIVE MANAGEMENT GROUP

Frederik Lotz
CFO

2010: CFO, Arla Foods
2007: CFO, Danfoss A/S
2002: CFO, Ferrosan A/S
2001: Finance Director, ISS Asia
1998: Finance Manager, A.P. Møller Maersk China
1995: Economist, A.P. Møller Maersk

Ola Arvidsson
CHRO

2007: CHRO, Arla Foods
2006: HR Director, Arla Foods
2005: Vice President HR, Unilever Nordic, Helsingborg
2003: European HR Director, Unilever Home & Personal Care Europe, Brussels
2001: HR Director, Unilever, Sweden
2000: HR Director, Lever Faberge Nordic, Unilever Sweden
1998: HR Director DiversyeLever Nordic, Unilever Sweden and Denmark
1995: HR Manager, Unilever Sweden
1988: Officer, Royal Combat Engineering Corps, Swedish Army

Jais Valeur
Executive Vice President, Global Categories & Operations

2007: Executive Vice President, Global Categories & Operations, Arla Foods
2006: CEO, Mengniu Arla (China)
2000: Sales Director, Arla Foods Ingredients
1998: Export Director, Royal Unibrew
1994: General Manager, Fonterra/NZDB (New Zealand)
1993: Director, Cremo Cheese, Arla Foods
1990: Sales and Marketing Manager, Denmark Protein/Arla Foods
1986: Regional Sales Manager, Denmark Protein/Arla Foods

Peter Lauritzen
Executive Vice President, Consumer UK

2007: Executive Vice President, Consumer UK, Arla Foods
2005: Group Executive Director, Arla Foods Global Ingredients
1994: Managing Director, Ingredients Division, Arla Foods
1992: Director MD Foods, Copenhagen, Denmark
1985: Managing Director, Danya Foods Ltd Saudi Arabia
1977: General Export Manager, DOFO, Haderslev, Denmark
1975: Deputy General Manager, DOFO Italy S.r.l. Milano
1971: Deputy General Manager, DOFO Cheese Ltd. Nantwich, UK

Henri de Sauvage Nolting
Executive Vice President, Consumer Sweden & Finland

2009-2013: Chairman of Unilever Nordic, member of the European Board, Unilever
2006-2009: Country Manager, Unilever Sweden
2004-2007: Chairman of Ice Cream, Unilever Nordic
1998-2004: Customer & Category Director, Lever Faberge Netherlands (Unilever)
1997-1998: Left the company to travel for one year with my wife through South America and Asia.
1996-1997: General Manager, Hefei Lever, Unilever China
1993-1995: Factory Manager, Lever Vlaardingen (Unilever Netherlands)
1991-1993: Operations Manager, Lever Brothers Port Sunlight, UK (Unilever UK)
1989-1991: Technical Manager, Unilever de Fenix, Netherlands

Peter Giørtz-Carlsen
Executive Vice President, Consumer Denmark

2011: Executive Vice President, Arla Foods, responsible for Consumer Denmark
2010: Vice CEO, Bestseller Fashion Group China
2008: Managing Director, Cocio Chokolademælk A/S
2003: Vice President, Corporate Strategy, Arla Foods
2002: Business Development Director, Semco/Bravida Danmark
1999: Management Consultant, Accenture Strategy Practice

Tim Ørting Jørgensen
Executive Vice President Consumer Germany & the Netherlands

2012: Executive Vice President, Consumer Germany and Netherlands, Arla Foods
2007: Executive Vice President, Consumer International, Arla Foods
2005: Divisional Director, Denmark Division, Arla Foods
2003: Sales Director, Denmark Division, Arla Foods
2001: Business Unit Director with responsibility for Dansk Supermarked, Arla Foods
1999: Group Project Manager, MD Foods
1996: Commercial Manager, MD Foods do Brasil/Dan Vigor, Brazil
1993: Product Manager, Danya Foods, Saudi Arabia
1992: Trade Marketing Manager for France, MD Foods
1991: Trade Marketing Assistant, Cheese Division, MD Foods

Finn S. Hansen
Executive Vice President, Consumer International

2011: Executive Vice President, Consumer International, Arla Foods
2008: Senior Vice President, Middle East & North Africa, Arla Foods, Dubai
1998: Managing Director, Division Overseas, Arla Foods, Copenhagen
1994: Regional Director, Overseas Division, MD Foods, Copenhagen
1990: General Manager, Danya Foods, Riyadh, Saudi Arabia
1988: Branch Manager, Danya Foods, Jeddah, Saudi Arabia
1986: Export Manager, Dofo Cheese, Haderslev, Denmark
1984: Area Manager, Dofo Cheese, Haderslev, Denmark
1981: Traffic Manager, Dofo Cheese Inc., Canada

Arla worldwide

Production and Sales
Denmark
UK
Sweden
Germany
Netherlands
Finland
France
Saudi Arabia
USA
Canada
Brazil

Sales offices
Australia
Bangladesh (sub)
China
Dominican Rep.
Greece (sub)
Iraq
Italy (sub)
Kuwait (sub)
Mexico
Lebanon (sub)
Oman (sub)
Poland (sub)
Philippines
Qatar (sub)
Russian Fed. (sub)
Spain (sub)
Singapore
Utd. Arab Emir. (sub)
Norway (sub)

AFI
Denmark
USA
Japan
Korea
China
Argentina
Singapore
Mexico
Germany

BUSINESS GROUPS IN ARLA

Global Categories & Operations, GCO, is responsible for global innovation, research, logistics, industrial sales, production and marketing in Arla. Moreover, GCO is in charge of sales of trading products in the global market. See page 14 and 30.

Consumer UK, CUK, is responsible for the UK market, a core market contributing 26% of Arla's total revenue. See page 16.

Consumer Sweden & Finland, CSE, covers the Swedish market and has a strong position in this core market. CSE contributes 19% of Arla's revenue. See page 18.

Consumer Denmark, CDK, focuses on developing a strong position in the Danish core market and contributes 9% of Arla's revenue. See page 20.

Consumer Germany & the Netherlands, CGN, aims to realise the potential of the fast-growing German core market and generate synergies between Germany and the Netherlands. In 2013, 18% of Arla's revenue was generated by CGN. See page 22.

Consumer International, CIN, is a growth driver which handles Arla's consumer sales within the six European core markets. CIN generates 13% of Arla's revenue. See page 26.

Arla Foods Ingredients, AFI, is a subsidiary and global market leader within whey protein technology and one of Arla's most profitable business units. AFI contributed 3% of Arla's revenue in 2013. See page 28.

GLOSSARY

The performance price represents total profit per kg milk for a specified period (normally one year). It is calculated based on two key factors: The paid price for milk (average prepaid price standardised at 4.2 per cent fat and 3.4 per cent protein and supplementary payment) and total consolidation – calculated per kg of owner milk. That enables Arla and our owners to compare earnings with other dairy companies.

The Arla quotation. Arla attempts to be as transparent as possible with regard to the milk price. The Arla quotation is published every month and specifies Arla's present, highest milk price (based on the delivery of 5,000 tonnes of milk per year). In addition to the prepaid price, it includes supplementary payment and consolidation. The quotation is denominated in Danish kroner (DKK) per kg of milk (which is then translated into SEK, EUR and GBP). Arla's milk price is specified for milk standardised at 4.2 per cent fat and 3.4 per cent protein. A seperate quotation is given for organic milk, which is priced with a premium. The Arla quotation covers a number of supplements that owners may receive in addition to the milk's basic value.

The prepaid price is the cash payment farmers receive for the milk they have delivered during the settlement period. The amount is calculated based on the quality of the milk and its fat and protein content. This payment is made every other week to owners.

The supplementary payment is the share of profit paid out to owners at the end of the year. The supplementary payment is calculated as a percentage of every single owner's supplementary payment-entitled value. This corresponds to the value of the raw milk as well as the quality settlement.

Consolidation is the share of the profit retained by Arla to finance the company's growth and further development. May be both individual and common (see below).

Individual consolidation on owner certificates. Before 2010, individual consolidation was deposited into a delivery-based owner certificate representing the individual owner's share of Arla's equity – a share that would then be repaid annually over a period of three years with one payment a year, if the owner in question decided to leave the cooperative. (Subject to approval by the Board of Representatives.)

Individual consolidation of contributed capital. The owner certificate has now been replaced by a new scheme, contributed capital, on which interest accrues according to the Copenhagen Interbank Offered Rate (CIBOR) + 1.5 per cent. If an owner decides to leave the cooperative, the contributed capital will be disbursed over a period of three years with one payment a year. (Subject to approval by the Board of Representatives.)

The common consolidation remains in the company to maintain sufficiently strong capital resources to finance future growth.

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