



Global growth creates a strong performance for 2013

Today Arla Foods reports its 2013 results announcing its highest Performance Price ever in its history and an improved balance sheet. This is as a result of a strong European business and rapid growth in its growth markets outside the EU – at a time when Arla’s most important ingredient, milk, has increased in value worldwide.

Following the mergers in 2012, Arla’s global business benefited from a strong base in its core markets in Europe in 2013 as well as a continued significant increase in sales within its growth markets outside the EU. Globally, the demand for dairy products exceeded the supply of milk, which increased the value of milk and the overall price level of dairy products.

The most defining key figure in any Arla financial report is the Performance Price, which indicates how much value Arla has been able to generate from each kilo of milk supplied to the company by the cooperative owners in Sweden, Denmark, Germany, UK, Belgium and Luxembourg throughout the year. The 2013 Performance Price amounts to 3.05 DKK pr. kilo with a total volume of owner milk of 9.5 billion kilos (compared to 2.71 DKK pr. kilo with a total volume of owner milk of 7.5 billion DKK in 2012).

Arla’s total revenue rose by over 10 billion DKK to 73.6 billion DKK (up by 16.6 per cent). The company’s net profit was the planned three per cent of the revenue, equal to 2.2 billion DKK (compared to 1.9 billion DKK in 2012).

“Milk has become a more valuable commodity globally, and that naturally has a positive effect on our results. With this tailwind we have driven our business forward in 2013 – with a strong efficient base in Europe, promising growth rates in Russia, China, the Middle East and Africa as well as a very profitable ingredients business in Arla Foods Ingredients. Our main focus is to create the best possible milk price for our owners, and the 2013 results confirm that we have the right strategy to achieve this,” says Arla Foods’ CEO, Peder Tuborgh.

“The Performance Price is up by 12.5 per cent in 2013, and that has been much needed among our farmers. The higher milk price strengthens the economy on the farms. The milk production is rising, and the relationship between a farmer’s profits and costs has been improved. This development was necessary and must be carried on in 2014,” says Arla Foods’ board of directors chairman, Åke Hantoft.

Europe still leaning towards discount

Measured by revenue the UK remains Arla’s biggest market followed by Sweden and Germany. Although Denmark is the country that supplies the most milk to Arla, Denmark is now Arla’s fourth biggest market.

“In Europe our focus has been on integrating the companies that we merged with in 2012, and that has already made us more efficient and given us a more complete

product portfolio. European consumers are still among the most price-focused in the world, and that means tough competition between discount products and quality brands. Our organic growth on our European core markets in 2013 reached 3.5 per cent, which is reasonable given the pressure from discount,” says Arla Foods’ Chief Financial Officer, Frederik Lotz.

“Our three global brands – Arla®, Castello® and Lurpak® - have been pressed by discount trends and private labels in 2013. All three brands are performing well on the growth markets outside the EU, but the volumens in Europe has not grown the way we wanted them to. In 2014 we will continue to focus on creating global growth with all three brands,” continues Frederik Lotz.

Growth machine gearing up

Three strategic growth markets have been prioritised outside the EU, where Arla has an increased focus on investments and higher growth ambitions than on other export markets: Russia, China, the Middle East & Africa. In 2013 Arla’s revenue grew 35 per cent in Russia, 60 per cent in China, and 10 per cent in the Middle East & Africa.

“Our growth machine lies outside the EU, where we expect to increase our sales rapidly between now and 2017. This is driven by Arla’s strong brands, which are in higher and higher demand by consumers in the growing middle class who are willing to pay for higher quality and better product safety. We are building a long-term presence in Russia, China, the Middle East and Africa, which will give an even better return to the milk price for our cooperative owners,” says Frederik Lotz.

The subsidiary Arla Foods Ingredients increased its revenue by eight per cent to 2.4 billion DKK in 2013, and its sales of milk-based ingredients for the global food industry remains one of Arla’s most profitable areas of business. The target is to double the revenue by 2017.

Improved balance sheet

Following two mergers and a series of acquisitions and the financial costs that came with it in 2012, another focus throughout 2013 was to reduce Arla’s leverage and thus improve the creditworthiness of the company.

“We have succeeded in bringing down our leverage significantly, and that in a year in which we also managed to deliver high earnings for our owners and integrate new companies into Arla after mergers of the previous year in Germany and the UK. The reduced leverage improves our balance sheet and financial flexibility and gives us more leeway to make new potential investments to support our growth strategy and contribute to a higher milk price for our farmers,” says Frederik Lotz.

Expectations for 2014

In 2014, Arla expects to reach a revenue of 79 billion DKK and a net profit of the targeted three per cent of the revenue, equal to 2.4 billion DKK. Given the current market expectations it is Arla’s ambition to deliver a Performance Price in the area of 3.25 – 3.35 DKK pr. kilo.

“Arla operates in a complex industry where production and thereby the supply of milk dictates the milk prices in a global and interconnected world. For example a drought in New Zealand can impact prices in Europe. We are off to a good start in 2014, but we are well aware that a lot of milk is being produced in the world at the moment which may put pressure on prices late in the year. We expect a higher performance price for the year

2014 than the year 2013 as our business continues to grow both in and outside Europe,” says Peder Tuborgh.

The annual results were presented to Arla’s Board of Directors on Tuesday. It will now be submitted for approval to Arla’s Board of Representatives at a meeting in Halmstad, Sweden on February 26-27 2014, after which the Annual Report is published.

Key figures:

Million DKK

	2013	2012
Income statement		
Revenue	73,600	63,114
EBIT	3,170	2,502
EBITDA	5,496	4,445
Net financials	-660	-518
Net profit	2,236	1,895
Net profit for the members of Arla	2,201	1,864
Proposed profit distribution		
Supplementary payment	900	1,112
Consolidation	1,301	752
Balance sheet		
Total assets	46,165	43,478
Equity	12,736	10,918
Net interest bearing debt incl. pensions	17,859	17,145
Net interest bearing debt excl. pensions	15,266	14,016
Net working capital	6,760	5,891
Financial ratios		
Leverage	3.2	3.9
Equity/Total assets	28%	25%
Performance price, DKK	3.05	2.71
Total million kilogram milk weighed in	12,676	10,410
Total numbers of owners	12,629	12,256



2013 in Arla's core and growth markets

A brief overview of how 2013 developed for Arla in the company's six core markets and three strategic growth markets.

UK: Another landmark year

2013 marked another year of unprecedented activity for the UK business. Now the largest dairy company in the country with leading positions in milk, cheese, butter and spreads, the focus has been on maximising and extending these leads.

Revenue rose 22 pct to 19.2 billion DKK primarily due to the Milk Link merger in 2012. The business completed this and its integration during the year is already seeing significant benefits. A key objective is now to grow its core cheddar and speciality cheese business and in 2013 Arla UK negotiated the biggest cheese contract in its history. From April 2014, the business will supply 30,000 tonnes of cheddar to its retail customer Asda, increasing cheese production by 50 pct.

It also signed an exclusive partnership with Starbucks to supply 30 million litres of Cravendale to all its 700 stores in the UK and Northern Ireland on an annual basis. Arla's cooperative status was cited as one of the key reasons for gaining the contract.

"The UK business is performing well. Arla UK has a compelling dairy offer and we are very much focused on growing our business and building on our No 1 position in fresh milk, butter and spreads as well as cheese. We focused on integrating the Milk Link business into Arla during 2013 and we are already seeing good commercial progress as a result of this," says the head of Arla UK, Executive Vice President Peter Lauritzen.

A landmark decision was made last year when Arla Foods' Board of Representatives voted for Arla Foods Milk Partnership (AFMP) farmers to become co-owners of Arla Foods amba. This decision has meant that Arla has increased its British farmer owners to circa 2,800.

The UK commenced production at its new fresh milk dairy in Aylesbury, near London. Built to schedule and budget, it will be the world's largest and most environmentally advanced dairy of its kind and a significant operational ramp-up is expected this year.

The business will support the delivery of its cooperative status, integrating AFMP farmers and recruiting more owner milk where it can throughout 2014.

Sweden: Battle of the brands

In spite of pressure on volumes and revenue from private label business in 2013, Arla's Swedish business continues to show a healthy profitability. Arla is committed to playing an active part in the development of the Swedish dairy market both when it comes to quality brands and the rapidly growing private label business.

Arla Sweden continues to have a good reputation among Swedish consumers and a strong position as an inspiring food company. It has many well-known and popular brands in Sweden and will continue to develop these in the future. At the same time Arla will continue to adapt to the rapid changes currently taking place in the Swedish market through an increased focus on private labels.

Compared to other European markets the share of private labels remains low in Sweden, however the clear trend is the rise of private label at the expense of traditional brands. Arla Sweden's strategy is to play a bigger role in this market in the future.

"We wish to be the primary choice of the retailers when it comes to both branded products and private labels. Our goal is to further develop our private label business in Sweden, so we can be an active player in that part of the market. To succeed, we will increase focus on customer and consumer relations," says head of Arla Sweden, Executive Vice President Henri de Sauvage.

In November, Arla announced new efficiency measures and investments in Swedish dairy sites. A part of the plan is to re-open the dairy in Falkenberg as Europe's largest cottage cheese dairy and to close production in Gothenburg and Skovde.

Financially, Arla Sweden still shows a healthy profitability, although revenue declined two per cent to 11.6 billion DKK due to pressure on volumes from private label. In the fourth quarter revenue rose again, however, following price increases.

Germany: Full speed ahead

In Germany, Arla increased its revenue significantly in 2013 from 6.3 to nearly 11 billion DKK, primarily driven by the full effect of the merger with MUH in 2012.

In 2013, the German dairy market was characterised by price increases on milk due to the rising demand for dairy products globally. One of Arla's focus areas in the country is to develop the organic dairy category, and it therefore launched a new organic product range in 2013 called Arla BIO®.

Arla Kærgården® remains one of the most important products for Arla in Germany as the product continued its impressive growth in 2013, increasing revenue by 17 per cent.

During the year Arla integrated the newly-merged companies and achieved many of the expected advantages; a broader product portfolio and a more efficient production chain and administration with lower costs and more clout.

"Our German business has taken a big and important step forward in 2013. Arla is now one of the leading players in the German dairy sector, offering customers nationwide inspiring products in all categories. We will continue to build on this in 2014," says head of Arla Germany and the Netherlands, Executive Vice President Tim Ørting Jørgensen.

Denmark: Gaining lost ground

Arla Denmark has strengthened its cooperation with retail customers and created more new products while making the business even more efficient.

One has to go behind the figures to understand 2013 in Arla's Danish business, because judging from the revenue there does not appear to be a lot of development. It remains more or less unchanged at 6.6 billion DKK.

But a lot of work has gone into that, explains the head of Arla's operations in Denmark, Executive Vice President Peter Giørtz-Carlsen.

"In 2013 we lost a part of our business with the retailer COOP, and the infamous fat tax, which artificially inflated our revenue in 2012 with around 350 million DKK by adding a tax on some products, disappeared. So the fact that we have succeeded in maintaining our overall revenue by creating growth in other parts of the business is really positive. We have launched many new products and have managed to make our innovation process more efficient, enabling us to launch new products at a faster rate, and this will continue in 2014," he says.

A number of key Arla brands have increased sales within their categories such as skyr, cottage cheese, yoghurt and yellow cheese. At the same time, the Danish business has implemented efficiency measures that have reduced costs and contributed to an improved milk price for Arla's cooperative farmers.

Finland: Significant turnaround

Arla's Finnish business, Arla Ingman, increased its revenue by more than 10 per cent in 2013 to 2.7 billion DKK. The good performance improved thanks to the price recovery in the fresh milk market, enhanced efficiency, successful new product launches, and increased sales among retailers.

"We are pleased with the growth in our financial result following a few difficult years. Our successful new products and cooperation with our customers have created our good financial performance. We have taken an even more consumer-based approach, and that will also be a central theme in our operations going forward," says the head of Arla's business in Finland, Vice President Reijo Kiskola.

"In the raw milk market, we have been able to procure more Finnish milk, and we have further reinforced our collaboration with producers and dairies that we cooperate with. Our goal is to offer producers the best partnership for long-term collaboration," he adds.

Competition in the fresh milk market remains tough. The number of private label products and other price-advantage products grew during the year. In December 2012, the Finnish Competition and Consumer Authority announced its prohibition decision on anti-competition activities in the fresh-milk market. The matter is now in the Market Court, which is expected to announce its decision in spring of 2014.

The Netherlands: The Arla brand is gaining ground

Arla's revenue in the Dutch market increased 17 per cent to 1.7 billion DKK in 2013.

In 2013, Arla's Dutch business managed to introduce more products into more categories on the Dutch market based on milk from Arla's cooperative owners abroad. The conversion of the Frische Vlag product range into the Melkunie® brand, which Dutch consumers associate with high-quality milk, was completed in 2013, and more products were added to the portfolio, including UHT-milk and milkshakes.

Also, Arla managed to gain a series of private label contracts which contributed to significant growth in the business and strengthened relations with several large retail customers.

"The Arla brand continues to deliver growth in all product categories as we continue to build a long-term business in the Netherlands. We have also improved capacity utilization at the dairy in Nijkerk through higher sales both within and outside the Dutch market, and we expect to deliver even more products to consumers in both the Netherlands and Germany in 2014," says Managing Director of Arla's operations in the Netherlands, Andrew Simpson.

Growth markets: Demand continues to grow

Arla produces and markets dairy products in more than 100 countries around the world, but it has singled out five strategic growth areas in which investments and the aim for growth is especially high. These areas are contributing an increasing share of the group's growth. They are:

- the markets in the Middle East and Africa, Russia and China
- the group's global sales of highly processed milk powder products to third-party manufacturers in the global dairy industry (TPM)
- the Arla Foods Ingredients business selling dairy-based food ingredients globally

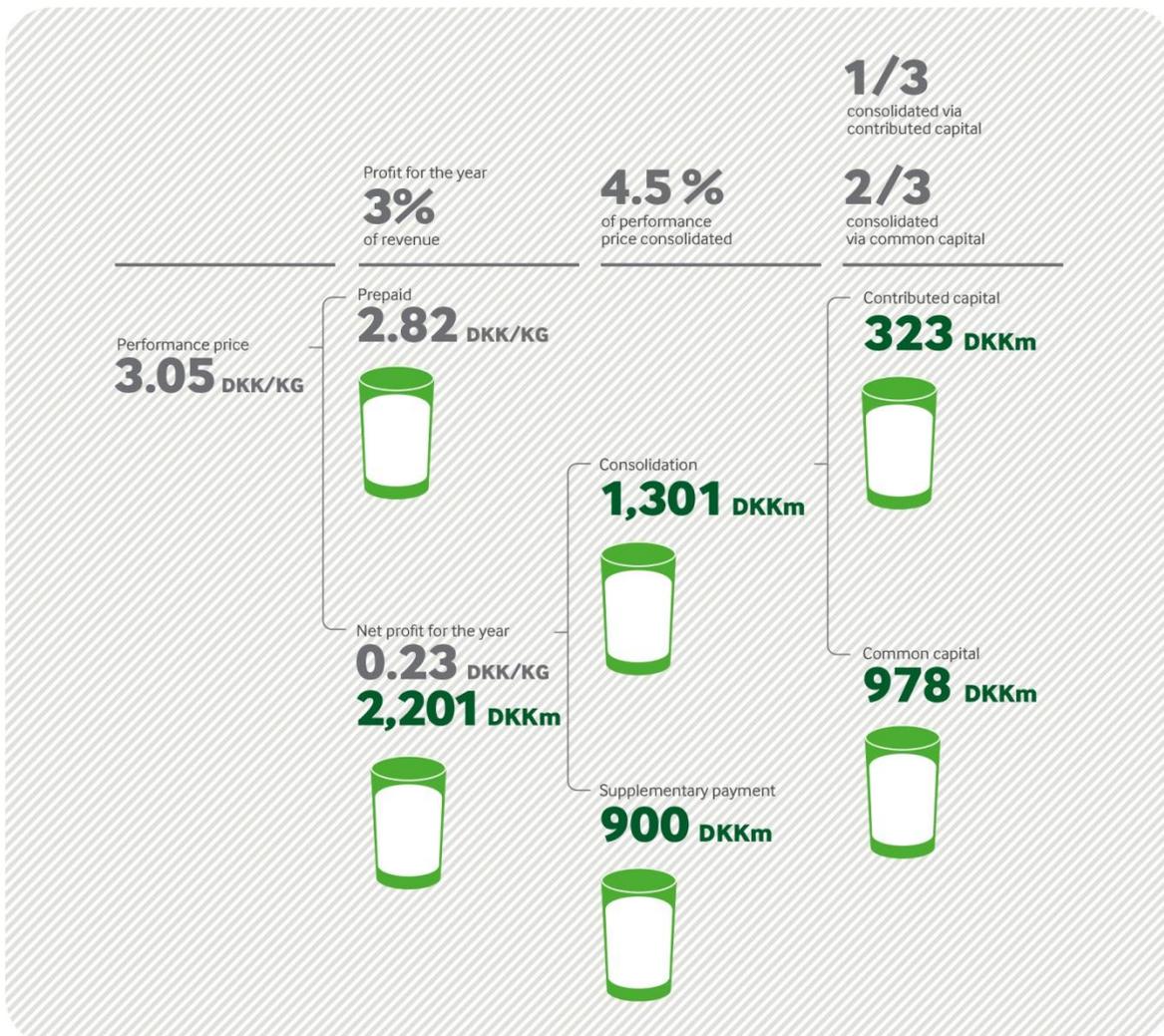
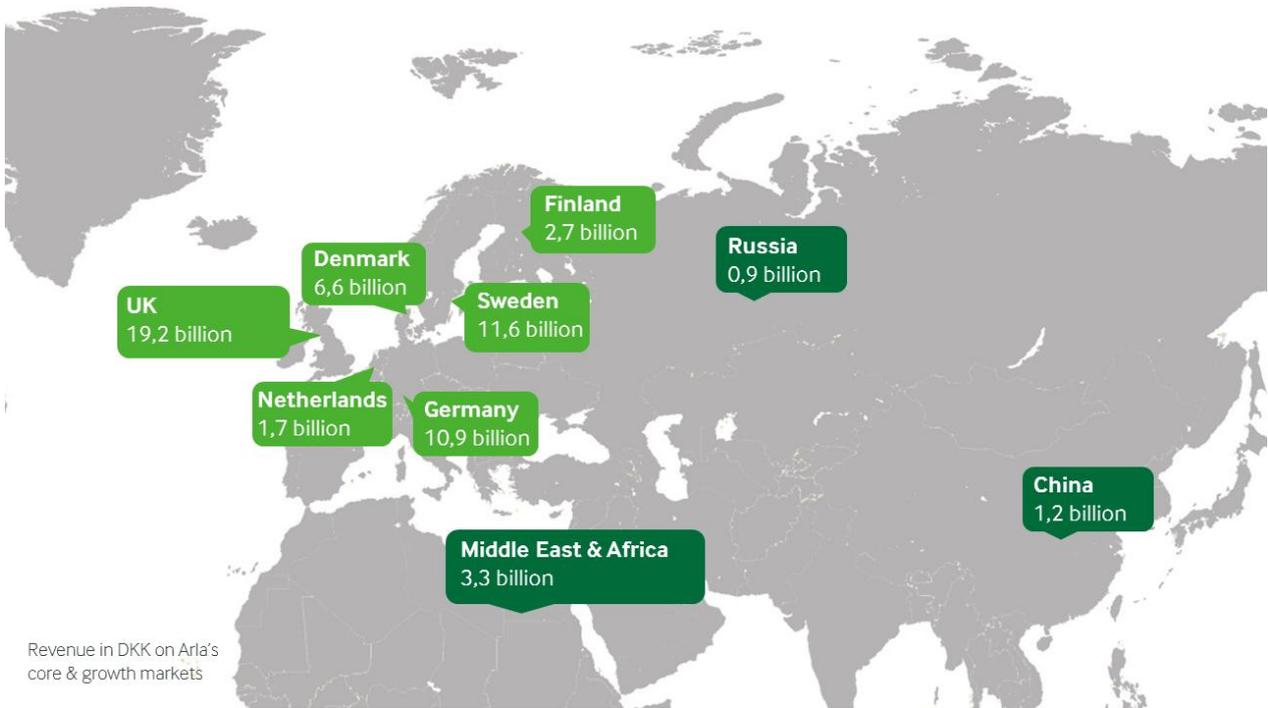
In the **Middle East & Africa**, Arla has increased both revenue and sales volume. Revenue rose from approximately 3 billion DKK in 2012 to 3.3 billion DKK – a 10 per cent increase. Today, Arla has a third of the market for cream cheese and butter in the Middle East, and sales of other branded products are on the rise. New product launches and investments are planned for markets in Africa, where Arla expects to enter a series of new markets in 2014.

In **Russia**, Arla has increased its sales of dairy products to consumers from 634 million DKK in 2012 to 857 million DKK in 2013 – a 35 per cent increase. In 2013, Arla became the leading dairy company in Russia within the categories white cheese and mold cheese, and has also increased its sales of cream cheese and mozzarella. The goal is to reach a revenue in Russia of approximately 2.4 billion DKK by 2017.

In **China**, Arla's overall revenue rose from 750 million DKK in 2012 to 1.2 billion DKK (both figures include sales of consumer products through retail customers under the Arla brand as well as sales of milkpowder and other products to third-party customers in the dairy industry). The goal is to reach an overall revenue of 3.5 billion DKK in China by 2017.

Arla Foods Ingredients increased its revenue by eight per cent to 2.4 billion DKK in 2013 and remains one of Arla's most profitable business areas. The goal is double its 2012 revenue by 2017.

Third Party Manufacturing (TPM) made up an overall revenue of 1.1 billion DKK in 2013. It is a business area that Arla has only recently begun to work with in a more strategic manner on the global market, and the potential is significant with a growing demand from markets in Asia, the Middle East and South America. The production and sales of products to third party customers include infant formula, milk powder, UHT milk, etc.



DKK 900 million returned to owners

Following a proposal by the Board of Directors, Arla's cooperative owners will receive DKK 900 million in supplementary payment and interests on invested capital for 2013.

This means an average supplementary payment of 10,7 øre, says Chairman Åke Hantoft, adding that the Board of Directors proposes that the annual profits be appropriated in line with the Board of Representatives' consolidation model.

"This represents a strong final spurt in a year when we received a significantly higher payment for our milk than in 2012," says Åke Hantoft, who emphasises the importance of Arla's supplementary payment:

"We Arla farmers know that we shouldn't only evaluate the strength of the cooperative by its ongoing milk price. In Arla we have specific policies for corporate finance and for setting the milk price. In upturns and downturns, we know that when the year is over, we will receive a supplementary payment."

It should be emphasised that because of the merger agreements, UK owners will only receive a supplementary payment from and including the 2014 financial year – i.e. for payment in March 2015.

In 2013, Arla paid a total of DKK 26.9 billion to cooperative owners as ongoing payment for their milk. Including supplementary payment, interest and individual consolidation, Arla paid DKK 28,124 million to its owners in 2013.

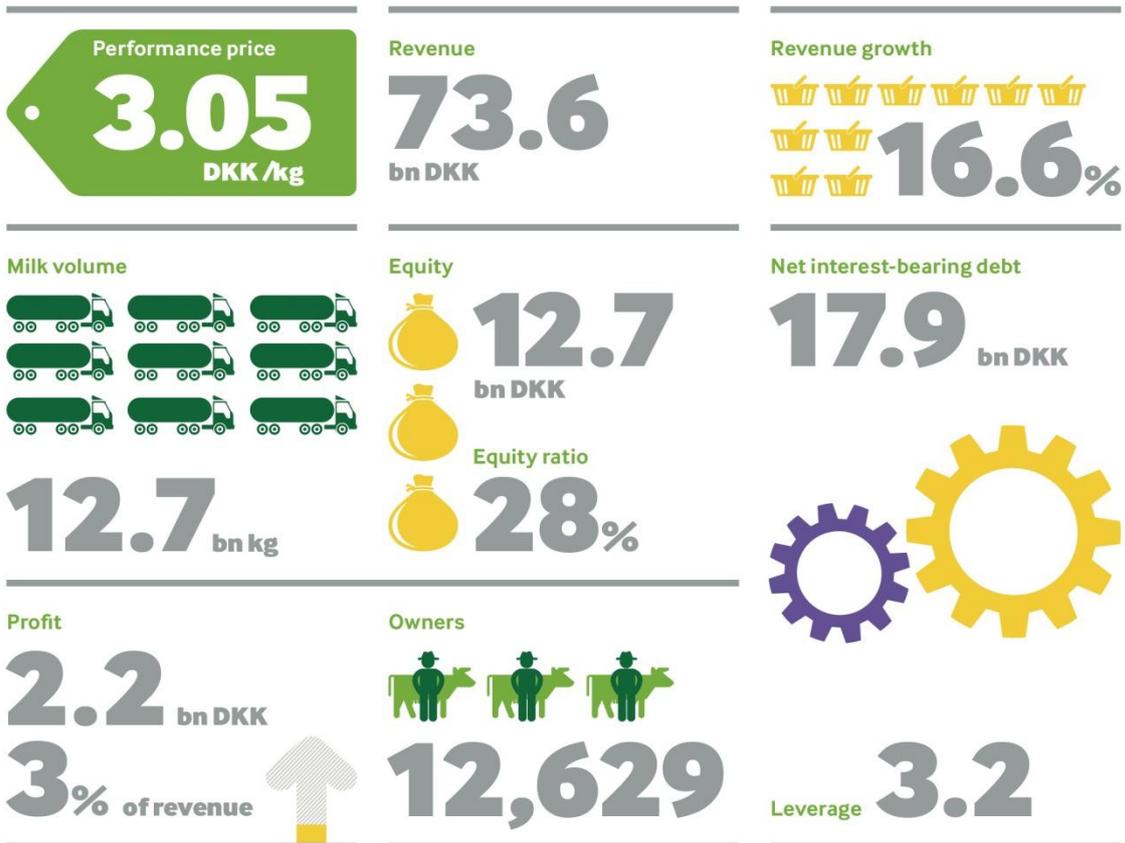
Facts

The Board of Directors' proposals for the appropriation of Arla's annual profits. This is in line with Arla's consolidation model and will be vote on by the Board of Representatives.

Average per kg cooperative member milk

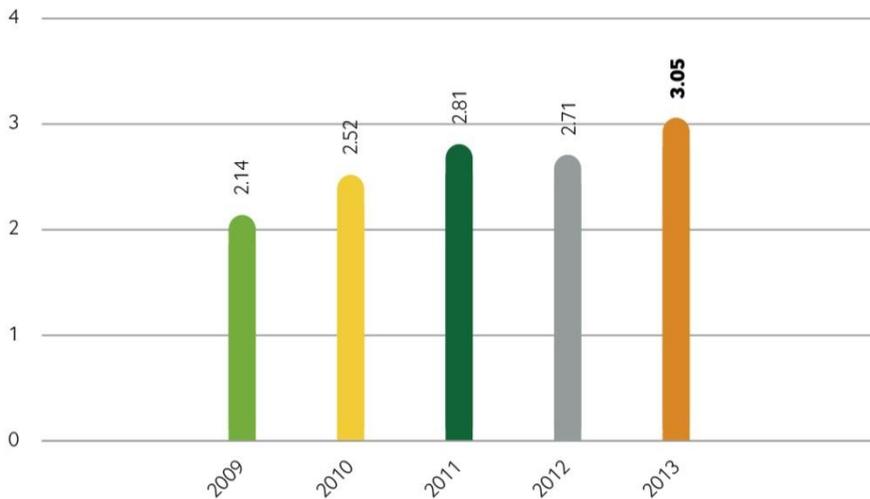
- Performance Price: DKK 3.05
- Collective consolidation: 9,2 øre (a total of DKK 978 million)
- Invested capital: 4,6 øre (a total of DKK 323 million)
- Interest on invested capital: DKK 0.2 (a total of DKK 18 million) (2.31 %)
- Supplementary payment: 10 øre (a total of DKK 882 million)
- See also InfoGraphic on bottom half of page 9.

2013 in short



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