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FINANCIAL  
HIGHLIGHTS

A stronger  
cooperative  
**in a difficult  
market**

thanks to efficient  
operations, global brands  
and expanding markets





Greater responsibility in a **stronger cooperative**

Åke Hantoft, Chairman of the Board of Directors

Satisfactory results in a **difficult market**

Peder Tuborgh, CEO

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

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

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

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

## EUR reporting

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



## STRATEGY

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



## CORPORATE GOVERNANCE

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



[www.arla.com](http://www.arla.com)

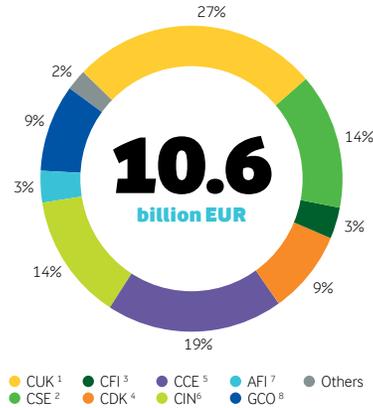
# 2014

in short

## Performance Price



## Revenue



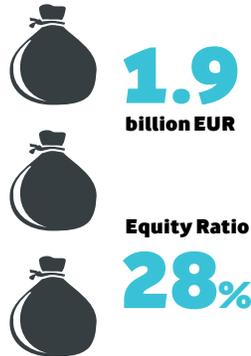
## Revenue Growth



## Milk Volume



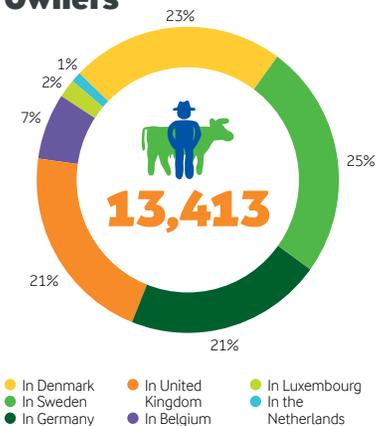
## Equity



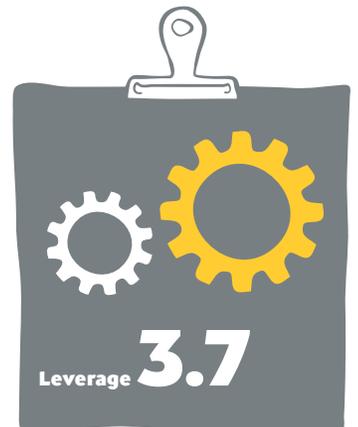
## Net interest-bearing debt



## Owners



## Profit



# Developments

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



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

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



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

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



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

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



# Performance price and global market prices

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

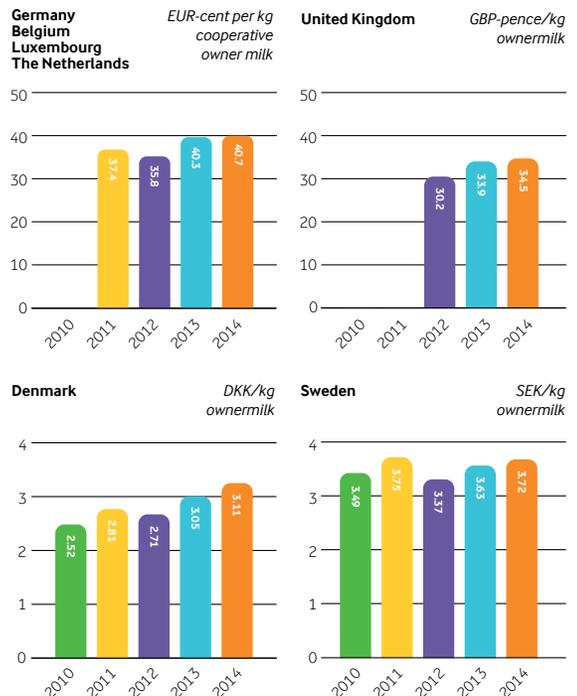
## MARKET PRICES / GDT DEVELOPMENT WMP, USD MT



Source: Global Dairy Trade

## PERFORMANCE PRICES

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



# Summarised income statement

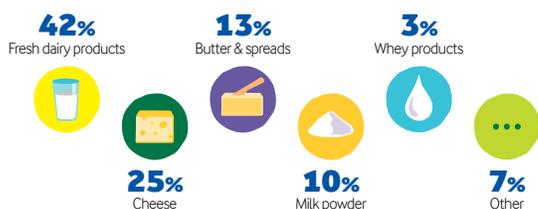
## INCOME STATEMENT 1 JANUARY – 31 DECEMBER (EURm)

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

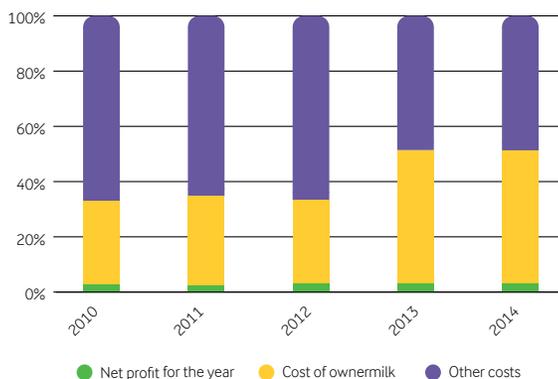
## Income statement

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

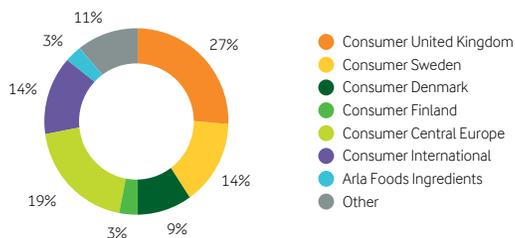
### REVENUE SPLIT BY PRODUCT CATEGORY



### REVENUE AND COSTS (%)



### REVENUE SPLIT BY BUSINESS GROUPS/COUNTRY



Total revenue  
**10,614** EURm

### Revenue growth

**2010-  
2014**

**61%**

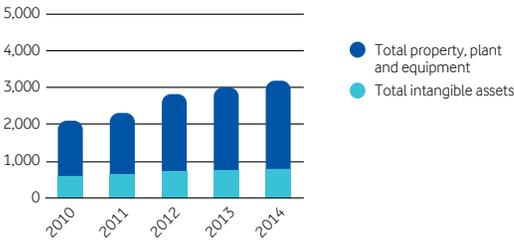
# Summarised balance sheet

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

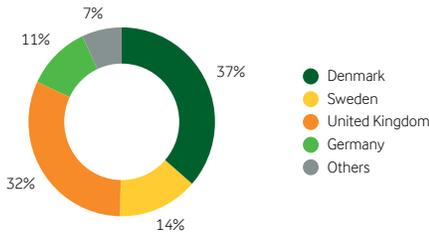
## Non-current assets

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

### NON-CURRENT ASSETS (EURm)



### INVESTMENTS SPLIT BY COUNTRY 2014



## Equity

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

### Total equity by the end of 2014

**1,874**  
EURm

## Cash flows

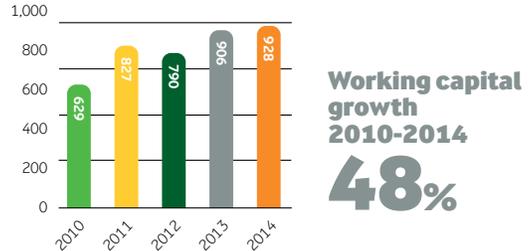
### CASH FLOWS (EURm)

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

## Current assets

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

### NET WORKING CAPITAL (EURm)



## Net interest-bearing debt

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

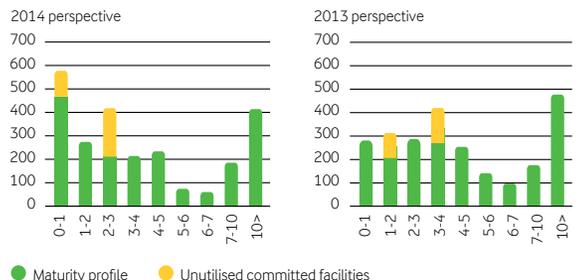
### NET INTEREST-BEARING DEBT (EURm)



### Net interest-bearing debt

**2,547**  
EURm

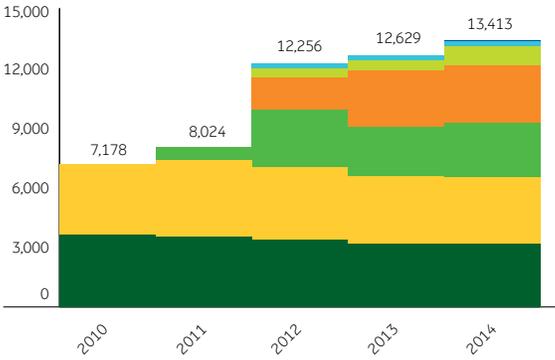
### MATURITY NET INTEREST BEARING DEBT (EURm)



# Owners

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

## NUMBER OF OWNERS



Owners by the end of 2014

# 13,413

Growth in owners 2010 to 2014

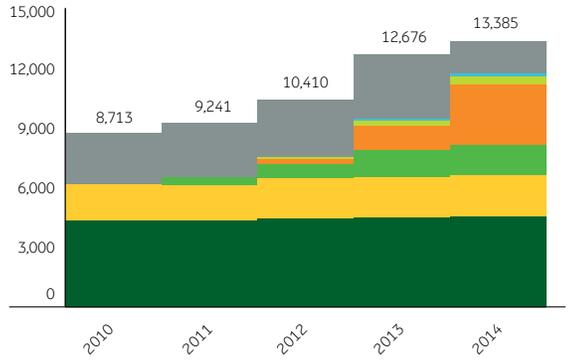
# 87%

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

# Milk volume

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

## INFLOW OF RAW MILK (mkg)



Total milk inflow

# 13,385 mkg

Total owner milk

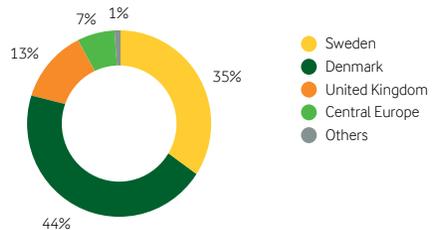
# 11,738 mkg

Growth in milk volume 2010-2014

# 54%

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

## ORGANIC MILK PER COUNTRY



Total organic milk

# 816 mkg



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

