CONSOLIDATED

# Annual Report 2011

*Arla is a farmer owned cooperative group with owners in Denmark, Sweden and Germany. Providing natural, milk-based products, we are working to be the best dairy company for 250+ million consumers in northern Europe and the UK.*

# Contents



*To make this report more manageable and user friendly Arla Foods group has chosen to publish a consolidated annual report, that does not contain the annual report for the parent company, Arla Foods amba. According to the Danish Financial Statements Act §149 this consolidated report is an excerpt from the company's complete annual report. The complete report, including the annual report for the parent company, is available in Danish on http://annualreport2011.arla.com. The profit appropriation and supplementary payments from the parent company appear in the profit appropriation.*

*The Consolidated Annual Report is published in Danish, Swedish, German, Finnish and English. Only the Danish text is legally binding as it is the original. The translation has been produced solely for the purpose of convenience.*

## VISION
Our vision is to be the leading dairy company in Europe through considerable value creation and active market leadership to obtain the highest possible milk price for our owners.

## MISSION
Our mission is to provide modern consumers with natural milk-based products that create inspiration, confidence and well-being.

## HOW WE WORK
Our aim is to maximise the price paid for our owners' raw material – milk. To achieve this objective, we are committed to creating added value and demonstrating proactive market leadership. We wish to be the most attractive dairy company for our owners, our employees, our consumers, our customers and our suppliers.

## OUR VALUES
Our values are grounded in our character: Lead – Sense – Create. We strive to have a leading mindset, a sensing approach and a creating culture. These character traits reflect who we are, what we stand for and believe in and how we will reach our goals.

## OUR ORGANISATION
- Global Categories & Operations
- Consumer International
- Consumer UK
- Consumer Sweden
- Consumer Denmark
- Arla Foods Ingredients

# Sound basis for continued growth

***Performance price***

| | |
|---|---|
| DKK per kg cooperative owners milk | 2.80 |
| SEK per kg cooperative owners milk | 3.74 |
| EUR-cent per kg cooperative owners milk | 37.3 |
| Million kg milk, total | 9,241 |
| Owners, total | 8,024 |

| | |
|---|---|
| Net revenue, bDKK | 54.9 |
| Revenue growth, % | 12 |
| Profit for the year, bDKK | 1.3 |
| Equity, bDKK | 9.3 |
| Carbon footprint, kt $CO_2$-e | 1,403 |
| Employees | 17,417 |

Closer to Nature™

**The year in brief**

*2011 has been an eventful year for Arla when it comes to cooperations, mergers and investments.*

- *Mergers with the German dairy company, Hansa-Milch, and Swedish Milko were completed in April and November respectively. Arla is now a Danish-Swedish-German dairy cooperative. In November, Arla acquired German Allgäuland-Käsereien.*
- *Arla issued bonds to a value of 1.5 billion SEK on the Luxembourg Stock Exchange in June. As a supplement to the cooperatives financing sources, Arla's British dairy farmers in March decided to invest a further 600 million DKK in Arla UK over the coming years.*
- *In October, the UK authorities approved the construction of one of the world's largest fresh milk dairies in Aylesbury near London.*

# Five keys to understanding Arla

1 With world population growing, global demand for dairy products is on the rise

2 Meeting consumer needs by unlocking nature's potential

3 Farmers in cooperation secure future local production

4 Globalisation leads the way in Arla's search for growth

5 Securing an efficient and sustainable value chain – from cow to consumer

*By being Closer to Nature™ we believe we will be able to fulfil our commitments…*

*...to all our stakeholders, including nature itself.*

## 1 With world population growing, global demand for dairy products is on the rise

In October 2011, the world population reached 7 billion. This growth will continue, with estimates of 8 billion people by 2025. At the same time, many finite resources are becoming scarce. This poses a grave challenge to our lifestyles, and we now need to find sustainable solutions to meet an increasing demand for efficient nutrition on a global scale.

Dairy is one of the most nutritious food categories in the world, and Arla believes dairy products have a key role to play in the global diet. As one of the world's leading dairy companies, Arla is driven by an aim to make healthy, natural dairy products available to everyone.

## 2 Meeting consumer needs by unlocking nature's potential

Consumer preferences go beyond price. Ethical and environmental considerations are increasingly important to ensure a sustainable lifestyle. While demand for food is increasing, so is awareness of food quality. Consumers do not only want filling food, they want food that looks good, tastes good, and makes them feel good, in body and mind.

Always focused on the natural raw material, always rooted in nature itself, Arla aims to be the most natural dairy company in the global food market. This position does not exclude product development – quite the contrary. Arla believes that nature holds the answer to the global resource challenge, and as a dairy company we want to unlock nature's best in all our traditional, as well as newly invented, products.

## 3 Farmers in cooperation secure future local production

As dairy products are turning into a global commodity, it is increasingly difficult for local dairies to develop. Some of our most familiar local dairy products are under threat as rationalisation and increased international competition challenge local and national production by pushing down margins for farmers.

Arla is a cooperative owned by Danish, Swedish, and German farmers. And as one of the leading dairy companies in Europe, we see it as our basic responsibility to secure high-quality local milk production, ensure the survival and continued well-being of our owners, and assure our owners are paid the highest possible milk price. A viable and productive local community secures continued prosperity of our regional areas – extending far beyond milk production.

## 4 Globalisation leads the way in Arla's search for growth

The global economy is increasingly interwoven. Today the market for dairy products is highly competitive and players have to be large to succeed. Globalisation rapidly changes the conditions for the dairy industry, which is especially apparent in the development of cheese and innovative dairy products such as whey proteins. At the same time, authenticity and origin have become major consumer concerns – reflecting consumers' questioning of the speed of development.

To be able to compete on the global market, and take advantage of growth in other parts of the world, Arla has set ambitious growth targets. To assure profitable growth, it is essential to understand the different local markets. Arla believes the key to success is combining the best of local with the best of global – developing healthy, innovative and tasty dairy products close to the consumers, wherever they are.

## 5 Securing an efficient and sustainable value chain – from cow to consumer

Consumers want dairy products that are fresh, of high quality and affordable – and they want fresh dairy production to remain local. Our challenge is to secure all this while at the same time paying the highest possible milk price to farmers, allowing them to develop their businesses sustainably and get a satisfactory return on their investment and daily work.

Arla is in business to secure good, long-term earnings for its farmers. To deliver the best value for money at all price-points, we must have a highly efficient value chain, all the way from cow to consumer. An efficient value chain also protects the environment, minimising the carbon footprint all the way from farm operation, through product development, production plants, packaging and transportation, to consumer enjoyment. By continuously working an efficient and sustainable value chain, we believe that we best serve our farmers, our employees, our customers, our consumers, and our environment alike.

*Key no. 1* *Stay tuned for the keys throughout the report.*

A letter from the chairman

# The cooperative model proves itself

*Åke Hantoft*

*I'm a milk farmer. For me, as for all 8,000 Arla owners in Denmark, Sweden and Germany, the price of milk is of utmost importance. Every month we see the result of our work in the price for the milk we deliver. On a yearly basis, 10 øre more or less a litre can turn our business from loss to profit or the other way around. This is why we keep a steady eye on the milk price.*

As the chairman of Arla Foods, I believe we have to accept milk as a commodity traded worldwide at a daily market price. But as part of one of the world's most nutritious food groups, milk and dairy products certainly belong on the political agenda.

Today Arla has owners in three countries and contract suppliers in several others. Arla must have a clear overview of the political decisions that could impact on our business in various countries, and also a firm grasp of the issues that affect these political decisions. In 2011, Denmark introduced a fat tax in spite of conflicting research around the effects on health. Arla has an extensive and growing range of low and mixed fat products. We work hard to continuously improve the health benefits of our products, which is why we invest heavily in research and development.

The health of people and the environment are prime concerns for Arla. Advancing on both of these front lines, we can secure a healthy business for our farmers and the Arla Group alike. In 2011, we took important steps to improve the environmental performance of our farms. Arla will develop a standard for sustainable dairy farming to help farmers reduce the $CO_2$ footprint on farm, and our farmers are already investing in new technology to further improve their – and Arla's – environmental performance. For us, 'Closer to Nature' is not a slogan, it's a faith – driven by knowledge.

*"The involvement of our owners ensures a steady hand in pursuing our long term strategies, aiming to become the best and most natural dairy company in northern Europe and the UK."*

In this crucial issue, as well as many others, the cooperative model has proven advantages. The involvement of our owners ensures a steady hand in pursuing our long-term strategies, aiming to become the best and most natural dairy company in northern Europe and the UK.

In 2011, we welcomed around 1,200 new owners: 650 through the merger with German Hansa-Milch and another 550 through Swedish Milko. In addition, we added around 1,350 new contract farmers through acquisitions. The Bavaria-based Allgäuland-Käsereien was particularly important in our efforts to advance our position as one of the major dairy companies in Germany.

In the Board of Directors, we have developed a deep understanding of the differences of the various countries in which we operate. Owners or milk suppliers, we are all dairy farmers, operating in the EU and united through a common agricultural policy, quota systems and rules and regulations that are basically the same. But local conditions are still not identical. Arla has a Code of Conduct to follow, but in Germany we apply it the German way and in the UK, in a UK manner. When it comes to governance, as in most other areas, we believe in combining the best of global and local.

Arla aims to grow further, supported by the owners' increased consolidation into the cooperative: from revenues of around 55 billion DKK by the end of 2011 to 75 billion DKK in 2015. This will only be possible through an intensified mergers and acquisitions agenda. For me, as a chairman, it's a clear advantage to be a dairy farmer when I engage in merger discussions. The companies can meet on many levels, and it becomes apparent that we can always learn from each other. Basically, we are all farmers and want to get the highest possible price for our milk.

Most important is to ensure that any addition is successfully and happily integrated into Arla, and I highly value keeping an ongoing dialogue with our old and new farmers. Currently, I know a lot of our owners are experiencing a harsh financial situation. With the economic climate hardening and the future uncertain, it is even more important to support each other. I want to thank you all for this year.

Aarhus, 22 February 2012

Åke Hantoft
*Chairman*

A letter from the CEO

# Well on track towards our 2015 targets

*As we all know, 2011 was a difficult year in general, at times offering a tumultuous business environment. This was especially true for Europe, where the debt crisis and its repercussions resulted in turmoil on many markets. Considering that Europe accounts for over 80 per cent of our business, Arla came out very satisfactorily, with a strong revenue growth, even better than expected, and an accelerating value growth.*

*Peder Tuborgh*

**Solid revenue growth**

The top-line has grown by 12 per cent, reaching 55 billion DKK, and we have been able to deliver on our Key Performance Indicator, 'performance price', which is what we pay our owners overall per litre milk, plus consolidation. The performance price has improved by 11 per cent to 2.80 DKK, almost on par with the best amount we have delivered ever, and all in line with our vision to deliver the highest possible milk price. At 1.3 billion DKK, our net result is slightly ahead of last year's (1.3 billion DKK), however the performance price increase during the year is equivalent to an additional 1.6 billion DKK value creation for our owners.

6 per cent of our top-line growth was organic, to a large extent driven by price increases but also an effect of our brands performing well in the marketplace. The total growth driven by our three global brands: Arla® brand, Lurpak® and Castello® was 9 per cent.

The dairy industry was not without its problems in 2011. During an economic crisis more consumers choose to buy discount products and less branded products. This has an effect on Arla's earnings. At the same time we see a growth in demand in markets outside Europe and that will to some extent offset the flattening growth in Europe. It must be concluded that the dairy industry fared a lot better than many other industries in the tough business climate. Milk-based products, being a basic nutrition source, show a fair resilience in a downturn economy.

Price increases in Europe – in spite of a distressed economy – are a result of dairy products truly becoming a global commodity, which affects retail prices. Increasing demand from the BRIC countries and other emerging economies has impacted more evidently than before. On a global level, some drivers are pushing prices up, while counter tendencies hold them back or even press them down – resulting in an increased volatility. This is a development we must learn to live with and preferably take advantage of. From 3 April 2012, Arla will begin to offer dairy products on GlobalDairyTrade, a global internet auction, which will broaden our customer base in the business-to-business market.

Our top-line growth was fuelled further by a busy mergers and acquisitions (M&A) programme, adding a net revenue of 2.7 billion DKK. The acquisition of Allgäuland-Käsereien in Germany and the mergers with Hansa-Milch in Germany and Milko in Sweden were the most important ones, contributing to 2011 with revenues of 2.6 billion DKK. In fact, we over-delivered on our M&A target for the year and are well on track for the long-term target of a 75 billion DKK total revenue by 2015, which will be achieved through a combination of organic growth and M&A activity.

Taking an active part in the consolidation of the European dairy industry is one of the cornerstones of our strategy. It will stay on top of the agenda for 2012 and all the way through to 2015.

**Growing outside Europe, and consolidating our position inside**

While maintaining a status quo on the European markets, we have continued to improve our market penetration outside Europe. We have been highly successful in emerging markets, especially in MENA (Middle East and North Africa) and Russia, where we have expanded with 27 and 33 per cent respectively over the last year.

The Hansa-Milch merger is a breakthrough for us in Germany, and a critical step in our development to become a significant player in the country by 2015. Through the merger we have positioned ourselves strongly in the production of raw milk in Germany, which was a necessity to accomplish a credible German strategy. Now we can develop our position from this very strong departure point in northern Germany, broadening our scope to retailers across fresh products, butter, spreads and cheese. The acquisition of Allgäuland Käsereien was

> *"Adopting Closer to Nature™ as our basic belief was to recognise and reaffirm our historic origin, which we believe holds the key to our future as well."*

another important step in building our German platform, with its geographic base in southern Germany, as well as adding high quality products to our global cheese offering.

Arla Foods UK is another success story from the year. In spite of the very tough market conditions, we managed to gain market share, grow our revenues and restore profitability, exiting the year with earnings above the level of 2010. We also received the go ahead for the construction of a new Arla dairy in Aylesbury, outside London, set to become one of the world's largest fresh milk dairies when it is completed in mid 2013.

*"In order to achieve the highest possible milk price for our owners, and simultaneously offer consumers the best value for money in a highly competitive market, we have to develop the most efficient supply and value chain in our industry."*

In our core markets, Denmark, Sweden, UK and Germany, demand was more or less flat in 2011, offering very limited growth opportunities.

The necessity to increase the efficiency of the dairy industry in Sweden has been obvious for many years, but no one has been able to make significant moves to shape the necessary structures. In November 2011, we did precisely this through the Milko merger. The post-merger integration process will have a top priority for the Swedish organisation in 2012, with the potential to establish a very efficient operation based on a broad geographic platform.

Finland is performing well on top-line and market share development, but not so well on the bottom line due to tough price conditions. We see good potential in the Finnish market, and will continue the implementation of a rationalisation programme to improve efficiency and profitability.

**Accelerating value growth**

Improving value creation was a major priority for 2011, and it continues to be for the years to come. In 2011, our global brands have grown faster than the company overall, which reflects our continuous migration to value-added products, a sign of quality in our organic growth.

Some of our business groups have performed very well by accelerating value growth, and this was particularly the case with Arla Foods Ingredients. The progress was partly due to favourable market conditions, but to an even larger extent it was the result of successfully offering innovative high value products and high performance solutions. In addition, excellent customer relations, very strong technological platforms on the supply side and well invested factories enabled us to deliver a top-line growth of 24 per cent.

In 2011 we launched an ambitious working capital programme to free up cash for additional investments. We expect to see a significant impact of this programme going forward.

To take a lead in innovation is a key strategy to boost value-added growth. In 2011, on a group level, our share of net revenue from innovation was 8 per cent. This is a step in the right direction but not enough. We have to accelerate progress on innovation further.

To advance innovation output in the entire group we're now creating an industry-leading innovation platform, amplifying our research and development (R&D) and innovation capabilities. In Arla Foods Ingredients, we have already achieved breakthrough innovations. In 2011 we strengthened our research and development capacity of other milk-based substances through the gathering of all our resources in the field under a single business group: Global Categories & Operations. This forms a strong platform for our continued work, especially as this organisation is also in charge of developing and marketing our global brands.

**Internal efficiency continually in focus**

To secure that top-line expansion effectively converts to the bottom-line, we work on all fronts to improve our internal efficiency. Our business groups have delivered considerable savings due to efficiency initiatives. However, to a large extent, inflation, exchange rates and increased costs associated with migrating towards a value-added product mix have counteracted these measures.

For the Arla Group as a whole, we are focusing on establishing a scalable business model, aiming to grow revenues significantly faster than capacity costs. We have made progress in this direction, but there is still some way to go.

We have a Lean programme in place to streamline our processes and take out unnecessary complexities throughout the supply chain. Annually we have saved approximately 400 million DKK, getting more capacity out of the existing equipment and other resources instead of adding new capacity. Starting in the last quarter of 2012, we will focus on a more structured approach regarding operational excellence, procurement and simplification, aiming to sustainably reduce our cost base by 500 million DKK per year.

In order to achieve the highest possible milk price to our owners, and simultaneously offer consumers the best value for their money in a highly competitive market, we have to develop the most efficient supply and value chain in our industry.

**The advantage of being Closer to Nature™**

Focusing on streamlining the supply chain has the additional benefit of decreasing our environmental impact in everything from sourcing, logistics and production to packaging and marketing. We have made significant progress in reducing our footprint, and these efforts continue.

Adopting Closer to Nature as our belief was to recognise and reaffirm our historic origin, which we believe holds the key to our future as well. We know that consumers are concerned about their health and well-being, and increasingly also about the health of the planet.

Consumer research in 2011 confirmed that the perception of Arla is continuously improving, reaching its best approval and preference levels so far. The Arla brand is also progressively associated with being 'closer to nature'.

We are very proud of the sustainability work in Arla, and believe this to be a strong competitive advantage that will only grow in importance. We now have a broad range of environmental initiatives within the Closer to Nature programme that we continued to roll out in 2011, and that will gain further energy and momentum in 2012.

One initiative that makes us particularly proud is the 'Sustainability on farm' programme that we started during 2011. It was several years ago that we identified that 80 per cent of the environmental footprint in our supply chain comes directly from our farmers' farms. However, these being individual legal entities and operations, it was difficult to do anything without a strong owner mandate and cooperative backing. We are now pioneering this field through dialogue and education, and the response is very promising.

**Looking and going forward**

Despite the fact that 2011 was a good year, the last quarter showed a slight pressure on performance, reflecting a deteriorating business environment in Europe. Again this was an industry phenomenon, and it has obviously continued into early 2012. Much uncertainty remains about how 2012 will evolve, and again Europe especially offers bleak prospects. In fact, a full recession cannot be ruled out.

Regardless of how the economy turns out, it is my conviction that our main focus going forward must be twofold: continue to take an active role in the consolidation of the industry and taking the lead in innovation. Both will require investment. In 2011 we had the highest CAPEX ever; 2.2 billion DKK, and in 2012 we will accelerate investing in our future further.

We expect significant growth in our top-line and our earnings to be on par with 2011, however with a fluctuating milk price. And we firmly believe in the many business prospects offered in the dairy industry, and we will do our utmost to secure its future and unlock its vast potential.

Aarhus, 22 February 2012

Peder Tuborgh
*CEO*

Key figures

# Financial highlights

## *Financial ratios*

**Net interest bearing debt:**
Short-term debt - cash and securities + long-term debt. Net interest bearing debt cannot be derived directly from the balance sheet.

**Net working capital:**
Inventory + Trade receivables - Trade payables

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

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

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

**Organic growth:**
Growth in net revenue adjusted for acquisitions, disposals, changes in currencies and changes in accounting policies.

**Performance price:**
Average on-account price paid (standardised at 4.2 per cent fat/3.4 per cent protein) plus profit/loss for the year translated into øre per kg milk from members.

EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortisation

| *DKK million* | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Net revenue | 54,893 | 49,030 | 46,230 | 49,469 | 47,742 |
| Operating profit | 1,665 | 1,684 | 1,412 | 1,149 | 1,520 |
| Net financials | –305 | –294 | –232 | –862 | –562 |
| Profit for the year | 1,311 | 1,268 | 971 | 556 | 938 |
| | | | | | |
| **Balance sheet** | | | | | |
| Total assets | 34,903 | 30,097 | 30,094 | 29,280 | 30,725 |
| Total fixed assets | 18,497 | 17,004 | 16,782 | 15,205 | 17,473 |
| Investments in property, plant and equipment | –2,165 | –1,508 | –1,618 | –1,447 | –1,895 |
| Total current assets | 16,406 | 13,093 | 13,312 | 14,075 | 13,252 |
| | | | | | |
| Equity | 9,328 | 8,580 | 8,281 | 7,797 | 8,145 |
| Consolidation: | | | | | |
| Reconsolidation according to Articles of Association | – | – | – | 121 | 121 |
| Capital account | 547 | 466 | 0 | 0 | 0 |
| Delivery-based owner certificates | 0 | 0 | 311 | 176 | 174 |
| Contributed capital | 273 | 233 | – | – | – |
| Strategy fund | 0 | –462 | 0 | 122 | 140 |
| | | | | | |
| Supplementary payments | 491 | 1,031 | 660 | 137 | 503 |
| Total provisions | 2,002 | 1,982 | 2,101 | 2,064 | 3,161 |
| Total long-term liabilities | 9,031 | 7,359 | 7,816 | 7,793 | 7,208 |
| Total short-term liabilities | 14,374 | 12,060 | 11,768 | 11,482 | 12,064 |
| Net interest bearing debt incl. pension liabilities | 11,455 | 10,041 | 10,257 | 11,441 | 11,757 |
| Net working capital | 6,213 | 4,691 | 4,546 | 5,626 | 5,330 |
| | | | | | |
| **Cash flow** | | | | | |
| Cash flow from operating activities | 2,301 | 2,552 | 3,402 | 1,388 | 3,285 |
| Cash flow from investing activities | –2,482 | –1,626 | –2,392 | –1,082 | –4,298 |
| Purchase of enterprises | –149 | 0 | –729 | –181 | –3,293 |
| Cash flow from financing activities | 1,374 | –2,392 | –526 | 733 | 2,835 |
| | | | | | |
| **Financial ratios** | | | | | |
| Leverage | 3.2 | 2.7 | 3.2 | 3.7 | 3.2 |
| Interest cover | 10.1 | 10.0 | 9.0 | 3.4 | 6.3 |
| Solvency ratio | 27% | 29% | 28% | 27% | 27% |

Key figures

# Farmers and milk

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Performance price** | | | | | |
| DKK per kg cooperative owner milk | 2.80 | 2.52 | 2.14 | 2.82 | 2.47 |
| SEK per kg cooperative owner milk | 3.74 | 3.49 | 2.91 | 3.61 | 3.07 |
| EUR-cent per kg cooperative owner milk | 37.3 | – | – | – | – |
| **Inflow of raw milk** | | | | | |
| Total million kg milk weighed in by the group | 9,241 | 8,713 | 8,660 | 8,243 | 8,360 |
| Owners in Denmark | 4,320 | 4,345 | 4,253 | 3,911 | 3,976 |
| Owners in Sweden | 1,819 | 1,829 | 1,894 | 1,943 | 1,957 |
| Owners in Germany | 369 | – | – | – | – |
| Other | 2,733 | 2,539 | 2,513 | 2,389 | 2,427 |
| **Total owners at 31 December** | | | | | |
| In Denmark | 3,514 | 3,649 | 3,838 | 3,906 | 4,170 |
| In Sweden | 3,865 | 3,529 | 3,787 | 4,090 | 4,352 |
| In Germany | 645 | – | – | – | – |
| Total | 8,024 | 7,178 | 7,625 | 7,996 | 8,522 |

**Total owners**
Hansa Arla Milch eG is formally is 1 member of Arla Foods amba. This cooperative has 645 owners at 31 December 2011.

# Non-financial highlights

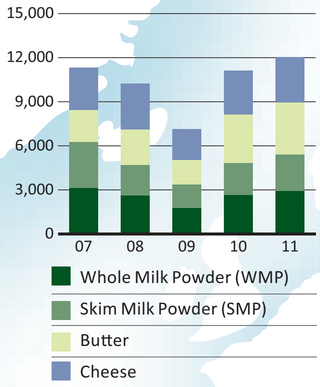
| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Employees** | | | | | |
| Employees, full time | 17,417 | 16,215 | 16,231 | 16,233 | 16,559 |
| Employees by gender. Men/women, per cent | 73/27 | 72/28 | 73/27 | – | – |
| **Consumers' perception of Arla** | | | | | |
| Denmark, index 0 to 100 | 64.9 | 61.0 | 58.6 | 57.6 | – |
| Sweden, index 0 to 100 | 77.7 | 71.3 | 74.3 | 75.5 | – |
| Finland, index 0 to 100 | 73.1 | 69.5 | 71.7 | 73.0 | – |
| **Recalls** | | | | | |
| Product recalls from customers and/or consumers | 4 | 0 | 4 | 2 | 7 |
| **Environment** | | | | | |
| Energy consumption, GWh | 2,625 | 2,653 | 2,559 | 2,636 | 2,658 |
| Carbon footprint, kt $CO_2$-e | 1,403 | 1,443 | 1,441 | 1,435 | 1,432 |

**Consumers' perception**
In Denmark, Sweden and Finland Arla measures consumer perception of the company and its products annualy. The table shows the total score on a scale where 100 is the best.

Market outlook

# A volatile market, but favourable prospects long-term

**WORLD MARKET COMMODITY PRICES**
*€/tonnes*




Source: Danish Dairy Board

*The long-term outlook for demand for dairy products is positive, gaining from basic global needs and more sophisticated consumer demand patterns. This is particularly the case in the quickly maturing emerging markets. Short-term, market conditions can be expected to stay volatile, reflecting a weakened global economy following the Eurozone debt crisis.*

The global dairy commodity market comprises five main product categories: whole milk powder (WMP), skimmed milk powder (SMP), cheese, butter, and whey proteins. The market for consumer products is mainly local, but increasingly global when it comes to processed products such as cheese.

### A bumpy five year period

In 2007, global dairy commodity prices started to boom, doubling in value in a very short time. The price spike prevailed over a couple of years, and then quickly returned to pre-boom levels in the beginning of 2009. Since then, the price has steadily increased, although with a higher volatility than previously.

Despite the overall positive trend, 2011 was a year of declining dairy commodity prices. This can be explained as a combination of market correction, economic stagnation in the US and Europe slowing down western demand, and Russia and China relying on inventories rather than purchasing.

### A positive outlook

Looking ahead, global demand for dairy products is expected to grow over the coming five years, with an estimated growth rate of 2.4 per cent per year. While high consumption in mature markets is expected to prevail, the growth will be driven mainly by developing countries - especially China, Russia, and the MENA region (Middle East and North Africa). Between 2011 and 2020, developing regions are expected to show a general consumption growth of around 30 per cent, and dairy will have its share of this.

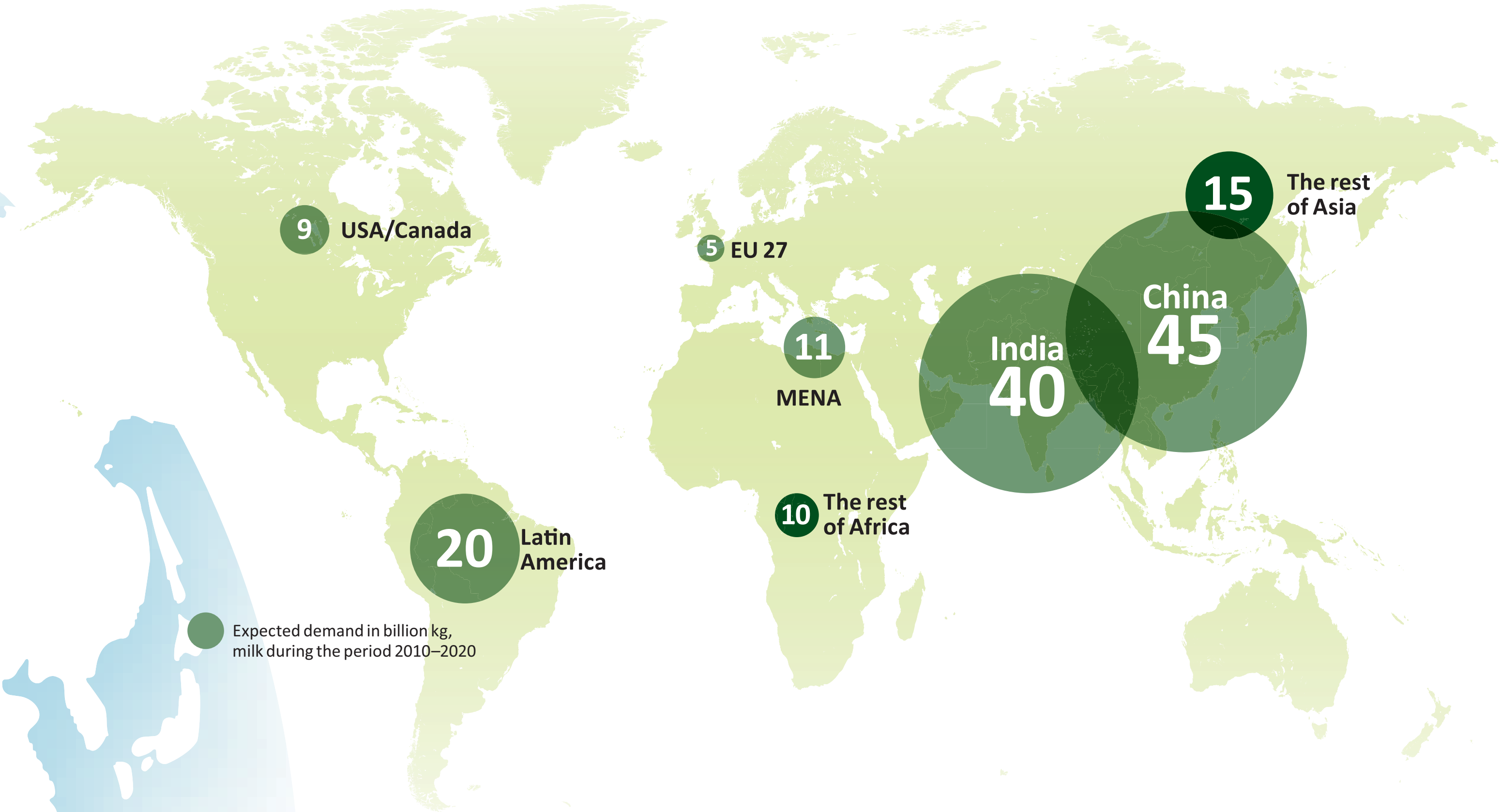
The economic prospect for the EU, and its impact on food consumption and expenditure, was uncertain at the end of 2011. It will largely depend on the policies chosen to address the debt crisis. The export dependent nations of Northern Europe rely heavily on developments in the eurozone, where the economic crisis in recent years has helped discount products gain market share at the expense of branded products.

With increasing worldwide demand and the globalisation of the dairy market, the competitive landscape for dairy companies is getting tougher. During 2011, retailers further advanced their positions within the dairy category, aggressively pushing own labelled discount products. With dairy products being a price sensitive commodity, success for dairy companies in this environment depends greatly on the ability to reduce the cost of production. The ongoing consolidation of the European dairy industry is a response to these drivers, creating a new market landscape with fewer and larger players.

### Drivers and obstacles of the global dairy market

**Drivers**
- Rising global demand for highly efficient nutritional products
- Dairy industry consolidation
- Search for new value markets/search for growth

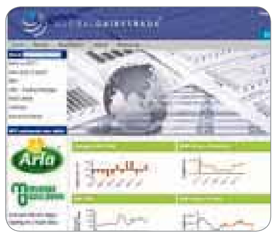
**Obstacles**
- EU recession lowering short-term demand on mature markets
- Increasing milk production/ increased competition
- Increasing retail competition/ price wars




**Production in a volatile environment**
In recent years, the operating environment for dairy farmers in Europe has become increasingly complex. The cost of raw milk and commodity ingredients has doubled since 2008, and price volatility has increased significantly. This has led to political interventions, on EU and national levels. At the same time, competition has increased from suppliers in countries such as New Zealand, Australia, Argentina, and Brazil.

Increased volatility contributes to a lower total return on asset (ROA) for milk producers. Future growth might well be negatively affected by the new risk/return profile. Increased risk tends to impact negatively on investment appetite, leaving farmers in a vulnerable and insecure position – forced to cut operational costs in order to protect operating margins. In this environment, the benefits of belonging to a large dairy cooperative grow increasingly clear.

**New products create new markets**
Since the 1990s, health trends and rising incomes in the west have driven an increasing demand for nutritional and customised wellness products. This has sparked a focus on innovation within the food and beverage industries, as seen for example in the development of high-protein sports drinks and protein supplements. In the dairy industry, development has centred around the evolution of whey proteins – a product category answering up to demand patterns in developed markets, as well as the need for cheaper dairy products in lower income regions.



## *Arla Foods joins the GDT*

Arla Foods will begin to offer dairy products on the GlobalDairyTrade.com auction (GDT) from April 2012. With Arla Foods participating as a seller on the global site, the Group's exposure to bidders around the world has been significantly increased. Arla will start by offering skimmed milk powder (SMP), with plans to expand the product range in the future.

Strategy

# ‘Strategy 2015’ update

### *Arla’s positioning goals*

We aim to be the best dairy company for 250+ million consumers in Northern Europe and the UK.

Arla’s positioning goals 2015. (Current position within brackets.)

- No. 1 in UK (2)
- No. 1 in Sweden (1)
- No. 1 in Denmark (1)
- No. 2 in Finland (2)
- No. 2 in the Netherlands (2)
- Top 3 in Germany (7)

Arla also aims for a strong presence in the company’s growth markets:

- Russia, USA, China, The Middle East/North Africa, and Poland

*To stay ahead of an ever-changing business environment, and to maintain clear focus of its vision, Arla develops distinct targets and strategies to guide its daily operations.*

**Continued progress on ‘Strategy 2015’**

The first five years of this century was an eventful period for the European dairy industry. New market conditions saw retailers grow stronger, increased disposable income empowered consumers, and new consumer trends and heightened competition emerged. Together, these factors called for a drastic re-evaluation of strategies in the industry.

To proactively meet these developments, Arla launched ‘Strategy 2015’ in 2008. Organised under five key headings, Arla’s strategy – supported by financial as well as non-financial targets – helps all levels of the company navigate this new business landscape.

**‘Strategy 2015’ – activities 2011 and mid-term results**

*The best dairy in Northern Europe and the UK*

Status 2011: In 2011, Arla increased its presence in Germany by merging with Hansa-Milch and acquiring Allgäuland-Käsereien. Following the deals, the product range on the German market expanded, with revenue doubling during the year to reach close to 4 billion DKK. In the UK, Arla is building a new fresh milk dairy which, when built, will be one of the world’s largest. In Sweden, the Competition Authority approved a merger with Milko – the third largest dairy in the country – in October.

*Three strong global brands*

Status 2011: Arla has now launched the trademark Arla® and the positioning statement Closer to Nature™ in all core markets, as well as on a number of value and growth markets. Consumer surveys indicate a growing awareness of the positioning statement, as well as its growing identification with Arla.

During the year, sales under the Arla® brand have increased on some markets, but have fallen slightly on others; the latter mainly due to increased demand for discount products. Arla actively positions itself as a quality brand, with House of Castello® offering premium cheeses, Lurpak® offering high-quality butter and spreads and Arla® offering, among other things, a large number of organic products. Despite temporary setbacks, Arla believes that the quality positioning promotes the company’s market position in the long run.

*Doubled sales of refined protein products and a global leader in whey proteins*

Status 2011: Arla’s expertise in milk-based components and products is concentrated in Arla Foods Ingredients (AFI), a fully-owned subsidiary. Aiming to address nutritional and functional challenges in the food industry, the company is an innovation leader within protein and lactose products for such diverse areas as infant

*Key no. 2*

**Strategic ambition 2015**

- Best dairy for the 250+ million consumers in Northern Europe and the UK
- Three global brands
- Doubled sales of refined protein products and a global leader in whey proteins
- A revenue of 75 billion DKK
- Highest possible milk price

**Three strategic focus areas**

VALUE ADDED GROWTH

- Generate sustainable top-line growth
- Build a strong Arla brand based on naturalness and build global brand positions for Castello and Lurpak
- Develop market-leading category positions across core and growth markets, and maximise returns in value markets
- Build best-in-industry innovation capabilities

STRUCTURAL DEVELOPMENT

- Pursue mergers and acquisition and consolidation opportunities
- Seek industry consolidation to build core markets
- Invest to build revenue growth and value creation in growth markets
- Build leading global whey business

INTERNAL EFFICIENCY

- Generate sustainable margin improvement
- Accelerate Lean throughout Arla Foods
- Implement group efficiency programme across entire supply chain
- Develop commercial excellence in marketing, sales, brand building, and innovation

nutrition, ready meals, sport nutrition and bakery. Arla Foods Ingredients grew rapidly in 2011: its revenue increased by 25 per cent. AFI has major investments projects underway, including upgrades and expansions to its whey processing plant in Denmark (due to become operational in 2012), which will significantly increase its capacity to produce speciality proteins.

*A revenue of 75 billion DKK*
Status 2011: Arla's ambitious growth is fuelled by organic development, mergers, and acquisitions. Since the volume target of 75 billion DKK was set in 2008, Arla has grown, especially during 2011 when Arla completed several important mergers. In 2011 Arla's revenue was 55 billion DKK. Nevertheless, Arla's geographic strategy aims to mix stable, mature positions in core markets with expansion and rapid growth in selected value and growth markets. In 2011, Arla successfully completed several strategic mergers within core markets.

*Key no. 4*

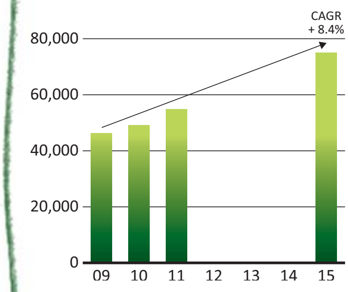
*Highest possible milk price*
Status 2011: Arla's vision captures the overriding goal and essence of cooperation: to pay Arla owners the highest possible milk price. All Arla's targets and strategies support this goal. The price of milk is affected by a range of factors far beyond the reach and influence of Arla. Nevertheless, Arla aims to keep the financials sound and strong so that Arla can – as much as possible – protect farmers against short-term market fluctuations. In 2009, Arla implemented a substantial savings package that successfully smoothed the ride through the difficult years. In 2010, Arla owners agreed to an increased consolidation – a critical step for Arla to be able to support the acquisition strategy.

*Next step - Three strategic priorities for 2012*
Now at the midpoint of the journey towards 'Strategy 2015', Arla can be pleased that overall it has delivered well on the targets set. Nevertheless, in some areas there is ample room for improvement and a need for special efforts to ensure that Arla fully reaches its targets. To this end, each year, Arla identifies strategic focus areas for management to prioritise. In each area, Arla systematically monitors and evaluates performance against targets.

**For 2012, Arla has identified four areas requiring special attention:**

- ***Establishing a competitive cost position*** – sustainably reducing the cost base further by at least 500 million DKK within 18 months. A growth agenda demands cost control. This can only be done through a structural approach, so in 2012 Arla will identify areas for sustainable cost savings and begin to implement the necessary changes.
- ***Accelerating innovation*** – fuelling volume growth of brand business on the existing cost base.
- ***Building momentum around the Closer to Nature campaign*** – leveraging consumer acceptance of the commitment to being the most natural dairy company in the market.
- ***Establishing Germany as a core market*** – advancing from seventh to fifth position through organic growth and mergers and acquisition activity.

**REVENUE ARLA FOODS**
*Million DKK*




Arla's strategic target: A revenue of 75 billion DKK. During the period 2009–2011 CAGR was +9 per cent. The period 2011–2015 would be CAGR +8,4 per cent.

## Financing the growth strategy

To finance Arla's growth strategy and spread risks, Arla decided in 2011 to widen its financing platform. The bond issue proved an immediate success: in less than 24 hours, the bonds issued on the Luxembourg Stock Exchange were fully subscribed. With a maturity of five years, 60 per cent of the bonds were bought by Swedish pension fund providers and professional wealth managers, with banks also featuring as large buyers.

Arla's ability to attract capital on the public market and borrow on such favourable terms is made possible through the consolidation given by its owners (see more on pp. 28–29).

### Mergers and acquisitions

| Company, market | Type, date |
|---|---|
| Boxholm, Sweden | Acquisition, 1 March |
| Faurholt & Thrane, Denmark | Acquisition, 1 April |
| Hansa-Milch, Germany | Merger, 1 April |
| Milko, Sweden | Merger, 1 November |
| Allgäuland-Käserien, Germany | Acquisition, 1 November |

Organisation

# Securing an upper hand by changes in organisation


*Business group Global Categories and Operations, GCO, with the overall responsibility for the brands Castello®, Lurpak®, and Arla®, has in several core markets undertaken a widescale relaunch of Castello®.*

*Arla is a growing company operating in a dynamic environment. To realise goals and strategies, Arla continually evaluates the organisational structure, securing the ability to deal with challenges and take advantage of opportunities.*

Arla's structure comprises both corporate functions and business groups for regional markets. The business group, Global Categories & Operations (GCO), focuses on global brands, products, and innovation. The business groups, Consumer UK, Consumer Sweden, and Consumer Denmark, focus on identified core markets where the aim is to build and retain a strong position. Such a national setup brings decisions closer to the source and the organisation closer to the consumers. Arla is also present in a large number of growth and value markets, managed by the business group, Consumer International. Read more about Arla's business groups on pages 16–27.

### New organisation 2011

These past few years have provided ample proof of the need to improve efficiency in decision-making and execution. On 1 October 2011, Arla implemented a number of organisational changes, with the main purpose of shortening the distance between decision and execution.

The new set-up primarily affects the core markets of Denmark and Sweden. From having formed one common business group – Consumer Nordic (CNO) – these two national markets now represent separate business groups: Consumer Denmark (CDK) and Consumer Sweden (CSE) (including Finland).

Denmark, Sweden, and Finland together represent circa one third of Arla's revenue and Consumer Nordic was originally formed to exploit synergies between the neighbouring countries. The Danish and the Swedish markets are mainly driven by demand for fresh products, a product category Arla previously offered only in the Nordics and the UK. But as the fresh product market has expanded – and continues to expand – so too does the offering, with the segment now including Germany and the Netherlands.

### Focus on brands and products gathered in GCO

With global competitors and global products, product development must also be driven globally. Research and development is expensive and requires critical mass for successful execution. With this in mind, GCO is the focus for all competence in innovation. Also on an operational level, research and development of fresh products was, in 2011, concentrated in the new Arla Strategic Innovation Centre (ASIC). GCO has the overall responsibility for the three global brands – Castello®, Lurpak®, and Arla® – and is realising the efficiency and quality gains that flow from gathering all market communication in one unit.

Arla is characterised by a balance between local and global organisations, enhanced by cooperation and a productive division of labour. Arla's strategy is to be close to the customer – with sales, production and logistics handled on a national level, like other agile and efficient companies.

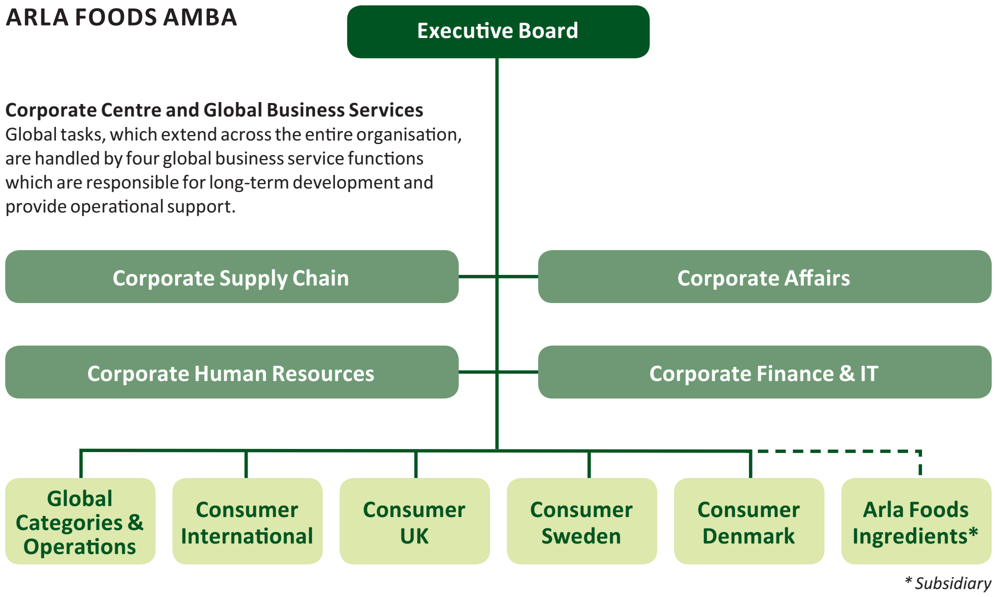
Key no. 3

### Restructuring in Consumer International

Consumer International (CIN) is responsible for the sale and marketing of cheese, butter, and milk powder outside Sweden, Denmark, Finland, the UK, and (until January 2012) Germany and the Netherlands.

Having acquired two dairy companies in Germany during 2011, Arla is now the seventh largest dairy company in the country. Germany now has core market status in Arla and, as of 1 January

## ARLA FOODS AMBA




2012, is served by the new business group, Consumer Germany & Netherlands (CNG). Arla sees great potential in Germany as it continues to grow and takes market share on the continent.

### Arla Foods Ingredients – an own company

From 1 April 2011, Arla's whey-related business was hived off to a subsidiary – Arla Foods Ingredients group P/S. The purpose was to ensure the necessary growth and business focus. The new company is established with its own development department, production, application centres, marketing and sales, and joint venture collaboration.

### Changes in the management group

The Nordic restructuring also affects the formation of the Arla Executive Management Group (EMG). The Executive Vice Presidents of the two new business groups – Christer Åberg (CSE) and Peter Giørtz-Carlsen (CDK) – have joined the EMG, which now totals 10 executives including Finn S. Hansen, who is in charge of CIN from January 2012. Arla considers direct dialogue between the EMG and the operational leadership essential for the successful implementation of its strategies.

**Global Categories & Operations, GCO**, has overall responsibility for the global brands Arla®, Lurpak® and Castello®. GCO is the main driver of innovation and also handles milk planning, logistics, B2B and production of butter, cheese and milk powder.

**Consumer International, CIN**, covers market and sales outside the other business groups for cheese, butter and milk powder. From 2012, Germany and the Netherlands form a new business group, CGN, which covers production, logistics, market and retail sales in the two countries.

**Consumer UK, CUK**, covers production and logistics of milk, butter, cream and a range of fresh dairy products in the UK, as well as marketing and retail sales in the UK. Consumer UK comprises the subsidiary Arla Foods UK plc and handles exports from Denmark and Sweden to the UK.

**Consumer Sweden (and Finland), CSE**, covers production and logistics of fresh milk and fermented products in Sweden, as well as market and retail sales responsibility in Sweden. CSE also comprises Finland and the Finnish subsidiary Arla Ingman.

**Consumer Denmark, CDK**, covers production and logistics of fresh milk, ultra-high-temperature and fermented products in Denmark, as well as market and retail sales responsibility in Denmark.

**Arla Foods Ingredients, AFI**, specialises in the development and application of functional and nutritional ingredients derived from natural milk whey. AFI is a subsidiary of Arla Foods.

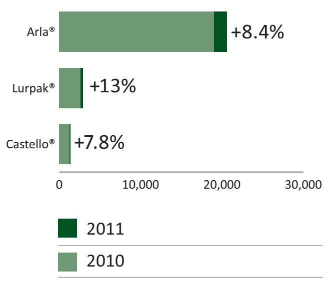
**2011 HAS BEEN AN INTENSE YEAR FOR ARLA**
*Read more about the developments within our five business groups, and our strategic subsidiary Arla Foods Ingredients, on the following pages.*

Global Categories & Operations

# Growing the global brands through continuous innovation

*Key figures 2011*

**REVENUE BRANDS,**
*million DKK*




Revenue from products under Arla's three global brands expanded during the year.

*Arla Foods' business group Global Categories & Operations (GCO) strives to create growth by ensuring customers and consumers receive the market's most innovative, high quality products within BSM, cheese and milk powder, produced competitively and efficiently, and promoted through the best concepts and brands in the market. GCO is responsible for Arla's innovation, research, supply chain and global marketing development – and for the three global brands Arla®, Lurpak® and Castello®.*

**Strategic activities 2011**

*Innovation*

Radical as well as incremental innovation will be one of the main drivers of Arla's future growth. Therefore, Arla Strategic Innovation Centre (ASIC), with facilities in Denmark and Sweden, was inaugurated in 2011 as part of GCO.

Arla's innovation strategy evolves around the consumer and is brought to life through ASIC's five focal areas: sustainability, new food forms, manufacturing efficiency, milk power, and microbiology. ASIC will play a leading role in converting ideas into products to be offered on the market – and will work as a bridge between the marketing department and innovation.

ASIC includes Arla's pilot plant in Brabrand which, among numerous other projects, has played a crucial role in developing Arla's first Danish raw milk cheese, that will be launched in 2012 as part of the Arla Unika cheese line.

*Product categories and brands*

In 2011 the Arla brand was included in GCO aside Castello® and Lurpak® in order to optimise global brand synergies and let the Arla brand take the lead in driving category growth. The development of the Arla brand will be accelerated by consolidating the right competences and by bringing the Arla brand closer to innovation and the markets. The Arla brand demonstrated a significant growth of 8 per cent in 2011 with a revenue of 20,600 million DKK (19,008 million DKK).

The launch of Castello® as a global brand for premium cheeses was completed in 2011 and was a promising kick-off for Castello® as a powerful platform for growth. By the end of

Key no. 4

2011, Castello® had a revenue of 1,374 million DKK (1,274 million DKK) and grew by a substantial 8 per cent.

Other significant cheese releases in 2011 were Arla Klovborg® Nettles & Rosemary, the Arla Apetina® salad solutions, grilled cheese, Arla Buko® Rucola pesto as Arla Buko® 'des jahres' and the Paneer cheese as part of the Savera line, a range of Indian inspired dairy products.

In BSM (butter, spreads and margarine) Lurpak® grew with an impressive 13 per cent in 2011, reaching a revenue of 2,926 million DKK (2,589 million DKK). The most significant launch was the Arla Kærgården 43%.

*Supply chain*

GCO's supply chain consists of 28 butter, cheese and powder production sites in Denmark (21) and Sweden (7), all focused on producing top quality, competitive products for the global market.

During 2011 GCO continued to rationalise its yellow cheese production in order to maintain competitive prices and a varied product range. A new structure for yellow cheese production has been decided, with implementation started in 2011.

An investment of approximately 670 million DKK includes development of the two dairies Nr. Vium and Taulov in Denmark, and the closing down of the facility in Falkenberg (SE), to be fully implemented by 2014. An analysis of a presumed benefit of the closure of the units in Klovborg and Hjørring (both Denmark) was conducted in 2011, and a closure decided in the beginning of 2012.

During the year GCO continued its focus on production efficiency by implementing Lean production techniques on a number of sites and by the end of 2011 totalled 10 sites.

*Trade & Planning*

GCO T&P is responsible for Arla's overall trading and business-to-business sales, which mainly consist of milk powder and mozzarella for the food industry. T&P operates in a volatile environment, however in 2011 the unit succeeded in trading the milk volume and product mix at a very satisfying level. During the year, it was decided that as of 1 April 2012, Arla will begin to offer its products on GlobalDairyTrade.com, an auction platform for internationally-traded commodity dairy products.

*Key no. 1*

*Sustainable business*

Since 2011 Arla has been involved in the running of a biogas plant on Gotland, Sweden. The plant produces methane from agricultural animal manure and waste products from Arla's production. With environmental, economical and social gains made - the plant has been a success. Arla is now looking to set up a similar plant in Videbæk, Denmark. The extensive project is calculated to result in a yearly production of 16 million cubic metres of methane – making it the largest biogas plant in Denmark. The plant will supply biogas energy to Arlas facilities, Denmark Protein and Arinco, reducing $CO_2$ emission from the production.

**Looking forward**

Continued development of the three global brands will be a top priority for Arla in the years to come. In 2012, efforts will be made to further boost the brands' profiles and sales. The strong focus on innovation will prevail, and there will be more ventures to increase the dialogue with consumers and customers. Increased structural efficiency and Lean techniques will also continue to be focus areas for supply chain, with nine sites expected to implement Lean in 2012.

*Some products under the three global brands Arla®, Lurpak® and Castello®.*


*Jais Valeur*

**Q&A with Jais Valeur, Executive Vice President, Global Categories & Operations**

## *How was 2011 for GCO overall?*

"I'm pleased with our performance and activities during the year. We have carried through a range of efficiency projects, and we are making good progress in driving Arla's general strategy through focusing on the bottom-line."

## *What will be the main focus in 2012?*

"To continue the ongoing good work to establish our three global brands as global leaders in their respective fields. We will continue to have a strong focus on growth, with GCO being a key player when it comes to Arla's organic growth. Another focal area will be operational excellence as we continue the drive towards developing and strengthening a cost competitive and efficient production set-up."

## *Which are GCO´s main strengths?*

"I'd say our main strength is the broad combination of capabilities we bring together. GCO covers most of the value chain and we combine strong abilities within logistics, supply chain, innovation and marketing. This quite unusual mix makes us efficient and well suited to meet and answer to the needs and demands that will be placed on companies such as ours in the future."

**GLOBAL CATEGORIES & OPERATIONS**

*Executive Vice President:* Jais Valeur

*Head office:* Aarhus, Denmark

*Number of colleagues:* 5,106

*Product categories:* Yellow cheese, speciality cheese, butter and spreads and powder

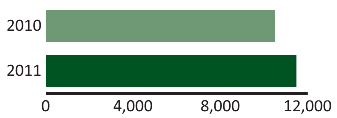
28 production sites in Denmark and Sweden

Consumer International

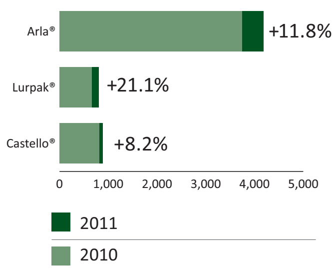
# Expanding our business worldwide

*Key figures 2011*

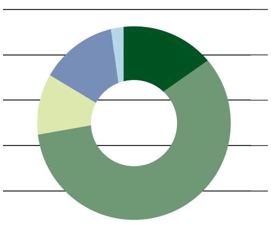
**REVENUE,**
*million DKK*




**REVENUE BRANDS,**
*million DKK*




**REVENUE CATEGORIES,**
*million DKK*



| | |
|---|---|
| Fresh dairy products | 1,772 |
| Cheese | 6,554 |
| Butter and spreads | 1,277 |
| Milk powder | 1,632 |
| Other | 250 |


*Arla operates in five continents, and business group Consumer International (CIN) handles business outside Denmark, Sweden, Finland and the UK. To increase focus on Germany, and take advantage of the opportunities offered in the German market, Germany together with the Netherlands has become a separate business group as of 1 January 2012. With dairy consumption increasing on a worldwide level, CIN aims to increase its market volume share – especially in growth regions.*

**Market outlook**

The international dairy market expanded during 2011. Even if dairy consumption on mature markets has been stable or, in some areas, even declined for years, this was countered by an increased consumption in regions such as the Middle East, Asia and many African states. The general outlook for global dairy consumption is positive, with growth expected to continue as the general welfare increases.

**Strategic activities 2011**

CIN delivered strong results for 2011, with revenue of 11.485 million DKK (10.506 million DKK). Sales rose especially within milk powder, butter and the cream cheese categories, and Arla's three global brands all showed improved performance. The Arla® brand grew by 12 per cent, Lurpak® by 21 per cent and Castello® by 8 per cent. CIN's market volume share has expanded during the year, with an overall organic growth of 10 per cent.

*Products and production*

In Africa, Asia and South America, Arla's performance in 2011 was satisfactory. In these areas, Arla focuses on offering high nutritional products at affordable prices. Benefitting from a growing market, sales of consumer milk powder have been well over target in the Middle East and in Africa, where Arla has identified continued good business opportunities in the years to come. The fresh product range was extended in North Africa and the Middle East, where there has been growth within all product categories. The revenue of the brands Dano® (milk powder) and Puck® (cream, cream cheese and white cheese) are expanding – Puck® with 41 per cent over the year, and 51 per cent for Dano®.

*Key no. 1*

Development in Arla's joint venture Mengniu Arla in China showed a growth in revenue in 2011 and earnings are on track. Dairy is not a part of the traditional Chinese diet – but with Western habits now spreading, great growth opportunities are offered.

Russia continued to grow in 2011 and Arla strengthened its branded growth through better distribution and investments in marketing spent on products under the Arla® brand and Lurpak®.

In Europe and the US, consumers showed increased price sensitivity during 2011. In this context, retailers are key competitors, many having launched their own private label dairy products, offered mostly in the low-price segment. Arla opened its newly extended dairy in Wisconsin, in north-central USA in August. The American market has shown good growth rates for Arla, however earnings have been challenged by a higher milk price paid back to American farmers.

*Mergers and acquisitions*

During 2011, Germany was a strong focus for CIN. With around 80 million consumers, high average milk consumption and a strong economy, the German market is strategically important to Arla. With effect from 1 January 2012, Germany will form an independent business group, Consumer Germany and the Netherlands, as Arla is looking to exploit synergies within and between the neighbouring countries.

In April 2011, Arla merged with the German dairy company, Hansa-Milch, located in the north of the country. Hansa-Milch produces fresh milk products both under its own brands and for private labels. From 2012, Hansa-Milch will contribute to revenue of approximately 2 billion DKK on a yearly basis. The trademark Hansano®, strong within fresh dairy products, is an important complement to Arla products sold in Germany, such as fresh cheese Arla Buko® and white cheese Arla Apetina®. In 2011, the Hansano® trademark had revenue of 429 million DKK (420 million DKK in 2010).

In November 2011 an acquisition was completed in Germany, with Allgäuland-Käsereien, based in the south of the country. Allgäuland-Käsereien produces specialty cheeses and their products will be a good complement to Arla's existing cheese range.

With these two additions, Arla is the seventh largest dairy company in Germany (as of 31 December 2011). Arla has set a strategic goal of becoming the third largest dairy in Germany, and continues to be the second largest in the Netherlands.

With the formation of an independent business group, the responsibility for the sales and marketing of Arla in Germany will be centred at Arla's local headquarters in Düsseldorf. Integration of the newly added businesses, production sites and products will be a major focus for 2012.

Key no. 5

*Investments and restructuring*

CIN runs production sites on four continents – in Europe, Africa, South America and North America.

During the year, Arla has built a new organisation for sales and marketing in Russia. In Poland, Arla is in the process of divesting the production plant in Gościno, moving the production of mozzarella cheese to the Rødkærsbro plant in Denmark.

**Looking forward**

The lead focus for 2012 is to secure Arla's strong development in growth markets outside Europe such as in North Africa, the Middle East and Russia. As growth rates in Europe are flattening, future growth is expected mainly from markets outside the region.

*Some of CIN's brands and products*


*Tim Ørting Jørgensen*

**Q&A with Tim Ørting Jørgensen, Executive Vice President, Consumer International**

## *How was 2011 for CIN overall?*

"It was a good year with strong growth on several markets. Sales have grown in markets outside Europe and despite tough market conditions in the Eurozone, we managed to deliver both organic growth and growth through mergers and acquisitions. Our three core brands also developed well."

## *What will be the main focus in 2012?*

"Three important focus areas immediately come to mind: Expanding the milk powder business in retail and child nutrition; taking the next steps towards fulfilling our strategic ambition in Germany and Russia; and keeping a strong focus on growth especially of our branded business."

## *Which are CIN's main strengths?*

"We have developed a strong and dedicated organisation which has managed to double revenue in CIN over the past five years. This organisation is committed to growth and is well prepared to meet demands from different parts of the world. To this can be added a strong management portfolio and a business culture that allows delegation, making us agile and efficient."

**CONSUMER INTERNATIONAL**

*Executive Vice President:* Tim Ørting Jørgensen. From January 2012: Finn S. Hansen

*Head office:* Aarhus, Denmark

*Number of colleagues:* 3,290

*Product categories:* Sales and marketing of consumer-related products on international markets.

Eleven production sites in Europe, North America and the Middle East.

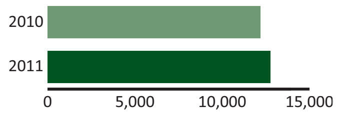
A joint venture milk powder plant in China and two powder packaging sites in Africa.

Consumer UK

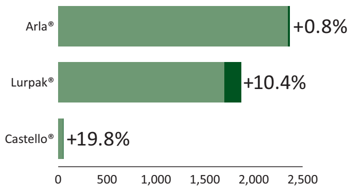
# Continued growth despite a difficult market

*Key figures 2011*

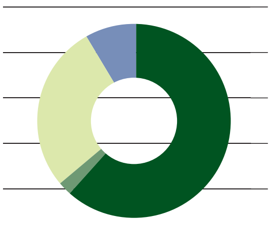
**REVENUE,**
*million DKK*




**REVENUE BRANDS,**
*million DKK*




**REVENUE CATEGORIES,**
*million DKK*



| | |
|---|---|
| Fresh dairy products | 7,882 |
| Cheese | 284 |
| Butter and spreads | 3,488 |
| Other | 1,097 |

*Arla is the second largest dairy company in the UK. Arla's fresh dairy products, as well as butter, are produced in the country, but Arla also complements the British offering with products from dairies in Sweden and Denmark.*

**Market outlook**
The UK market remained weak in 2011. The country was affected by the pressure on the global economy, struggling with a lack of job security, high costs of living, and various austerity measures. In this environment, price has become a major consumer concern and discount retailers have continued to gain market share. This development has resulted in significant price competition on staple products, such as fresh milk.

While price has been a focus, the environmental agenda is also growing increasingly important in the UK. Even though most British consumers think environmental issues are the responsibility of the retailers and manufacturers - rather than that of the individual consumer – people are becoming increasingly interested in knowing what goes into their food. As ingredients are becoming an important factor in product choices, natural products are increasingly valued, creating incentives for retailers and manufacturers to offer high quality articles.

**Strategic activities 2011**
Despite the tough trading conditions, Consumer UK (CUK) performed well in 2011. Total revenue rose by 5 per cent. Most of the growth is related to general price increases, but higher sales volumes also made a significant contribution to the bottom line. Arla also achieved growth in many of its own key brands, notably Lurpak®, Castello®, Arla Lactofree®, and Arla Apetina®. Cottage cheese has been another important source of growth. Production in the UK started in August 2010. By the end of 2011, Arla has more than half of the market share in this sector.

CUK has four main strategic priorities: to build new platforms for growth and profitability, to secure raw milk supply, to maximise growth of core value-added products, and to improve the performance of Arla's standard milk business and operations. During 2011, these priorities were supported by a range of activities.

*Products and production*
Arla launched several new products during the year, including Lurpak® Sea Salt and Olive Oil, Castello® in a new black pepper flavour, two speciality yellow cheeses, Präst® and Herrgård®, and a new flavour of Arla Apetina® cubes.

Furthermore, the expansion of Stourton dairy was completed, and the Ultra High Temperature (UHT) capacity in Settle dairy increased. In October, Arla received planning permission for a new dairy in Aylesbury, outside London. When completed in 2013, this will be one of the largest fresh milk dairies in the world, able to process and package up to one billion litres of fresh milk per year. Aylesbury dairy will also create approximately 700 new jobs and, in line with Arla's Closer to Nature™ message, the new dairy will also set new standards environmentally.

In August, Westbury began production of own label retail packet butter. This extension will allow Arla to supply more of the UK market with retail packet butter, made from British cream.

*Farmer investment*
At the start of 2011, the board of Arla Foods Milk Partnership (AFMP, see page 28) agreed on the next stage of investment in Arla Foods UK. This means that all members will increase their investment from one pence per litre to five pence per litre, to be paid out during a period of 8–10 years.

*Key no. 3*

*Sustainable business*
During the year, much has been done in the environmental field. All of Arla's UK sites achieved zero waste to landfill before the end of 2011. CUK also focuses on improving sustainability along the whole supply chain with a target of gaining a carbon reduction of 34 per cent by 2020. Other environmental activities include continued work on a microbial fuel cell - which will convert cow manure and dairy by-products into electricity and biogas - and activities for more efficient packaging. Arla is the first UK dairy company to address on-farm operations, with activities such as environment workshops and free carbon assessments for AFMP members.

**Looking forward**
Many ongoing activities will continue in 2012. In operations, a new pipe cleaning technology will be implemented on fresh and cultured cream lines in Stourton dairy.

"Lurpak Spreadable Lightest": launched in January, has a 40 per cent fat content and will be the lowest fat version of Lurpak®. A key UK growth strategy is to increase Lurpak sales. In line with the global aim of increased production of Castello by 67 per cent, CUK will strive to increase sales volumes of this brand, with a targeted growth rate of 20 per cent a year.

Further work with the Closer to Nature™ message will continue both internally and externally, to secure Arla as a household name.

*Some of CUK's brands and products*


*Peter Lauritzen*

**Q&A with Peter Lauritzen, Executive Vice President, Consumer UK**

*How was 2011 for CUK overall?*
"CUK has made good progress in a challenging year, and we are pleased that we have received planning consent to build a one billion litre fresh milk dairy in Aylesbury, outside London."

*What will be the main focus in 2012?*
"Projects ranging from building the new dairy, to strengthening customer relations, to increasing volume for our brand of filtered milk, Arla Cravendale®. We will continue efforts to increase awareness of the Arla brand and Closer to Nature in the UK. And, of course, we always strive to improve internal efficiency and reduce costs across the business."

*Which are CUK's main strengths?*
"At CUK, we have a clear strategy in place for meeting our targets and we can build on the strength of our established key brands, while continuing to grow emerging brands. Arla has a strong workforce throughout its UK sites, committed to delivering the company's commitments and targets. In addition, Arla's facilities throughout the country are very well run. Using Lean techniques, colleagues ensure efficient operations across the supply chain."

**CONSUMER UK**
*Executive Vice President:* Peter Lauritzen

*Head office:* Leeds

*Number of colleagues:* 2,656

*Product categories:* Fresh dairy products, speciality cheese and butter.

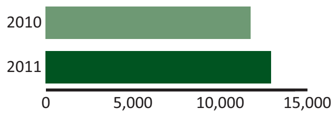
Eight production sites.

Consumer Sweden (incl. Finland)

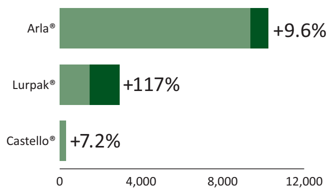
# Geographical expansion in Sweden

*Key figures 2011*

**REVENUE,**
*million DKK*

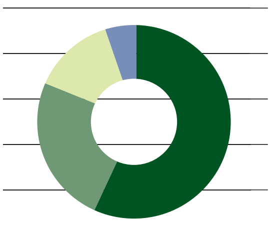



**REVENUE BRANDS,**
*million DKK*




2011
2010

**REVENUE CATEGORIES,**
*million DKK*



| | |
|---|---|
| Fresh dairy products | 7,390 |
| Cheese | 3,100 |
| Butter and spreads | 1,771 |
| Other | 657 |

*Consumer Sweden (CSE) became a separate business group in October 2011, having previously formed part of the business group Consumer Nordic. It comprises two of Arla's core national markets, Sweden and Finland (Arla Ingman). Sweden is one of the group's major markets and the country where the company's image is at its best.*

**Market outlook**

Many significant changes took place in 2011 in the Swedish dairy industry. As a result of the increasingly internationalised market and the increased competition across regions, two major structural changes arose. In November, Arla merged with a financially pressured Milko and, in December, French Lactalis announced plans to acquire Skånemejerier. As a result, by the end of 2011, the three largest players - Arla, Skånemejerier (Lactalis), and Norrmejerier - together accounted for 70 per cent of the retail market.

In Finland, the dairy market is following a different route from Sweden. Currently, Valio is in a dominant position, controlling 86 per cent of the Finnish milk supply. The retail market is showing stronger consumer demand than in Sweden, and the market is still experiencing volume growth. However, the pricing situation in Finland, especially for consumer milk, is at an unhealthy level – which creates significant pressures on profitability.

**Strategic activities 2011**

Consumer Sweden came in below its growth ambition, due to overall softer than expected market and volume pressures, reaching an organic revenue growth of 4 per cent. The improvement in profitability was mainly driven by price increases and the implemented cost saving programme.

As the market leader in Sweden, Arla's aim is to drive development in the dairy sector as a whole. Strategic focus remains on increasing value-added growth and gaining market share by growing across the entire Swedish market. In January 2011, a new growth strategy for Sweden was launched; delivering on this strategy has been a major priority for Consumer Sweden throughout the year. Our ambition to become 'The food inspirer of Sweden' continues to develop well.

*Key no. 2*

In Finland, Arla faces tough price competition. Rising to this challenge, we have worked hard to implement a number of measures aimed at increasing efficiency and sales. Finland is today the market where Arla has the fastest growth through new product introductions. Continued focus on value-added dairy products is an important part of the future growth strategy. The Arla Ingman business will continue its emphasis on further efficiency initiatives to ensure that it remains cost competitive. However, for long-term strategic success, the milk market as a whole needs a healthier price development.

*Mergers and acquisitions*

Arla has taken an active part in the consolidation of the Swedish dairy industry, and by the end of 2011 enjoyed market leadership in Sweden.

During the spring, two smaller acquisitions were completed: Boxholm Mejeri AB, a Swedish producer of yellow speciality cheeses with a revenue of 84 million DKK; and Milko's Sundsvall dairy, Arla's first dairy in the strategically important northern region of Sweden.

In June, Arla announced that it was discussing a merger with Sweden's third largest dairy cooperative, Milko. With a revenue of approximately 2 billion DKK, Milko covers a critical part of the lower northern region. In October, the Swedish Competition Authority approved the merger, with some remedies, which resulted in yet another 554 farmers becoming associated with Arla: an important addition to the company's raw milk base, and an important step in delivering on the geographic growth strategy.

*Products and innovation*

The challenging sales environment of 2011 was clearly seen within fresh dairy products, with milk market volumes decreasing by three per cent from 2010 levels. Despite the unfavourable market conditions, Arla continued to show stable volume growth within other product categories such as cooking, butter, and spreads. Also the lactose-free assortment continued to grow in line with the strategic ambition.

In 2011, Arla achieved a number of successful launches in the Swedish market, including low-fat butter 'Arla Bregott® 43%' and the snack solution 'Arla KESO® Cottage Cheese Mellanmål'.

In Finland, focus during the year was on organic products with Arla Ingman launching its first domestic skimmed and semi-skimmed organic milk and cream. Other exciting launches during the year include Ihana Yoghurt products, Ingamarini spreads, and God Morgon Juices.

*Production, restructuring and organisation*

In 2011, Arla made a range of organisational changes. It dismantled the Nordic structure and thereafter restructured the Swedish organisation, introducing a number of changes effective from 1 December.

On the production side, a Lean program is currently being implemented across the business group. During the year, production of cottage cheese (Arla KESO®) in Finland has been moved to the Swedish production site in Skövde – and the capacity at Skövde dairy has been extended by 30 per cent.

## Looking forward

The outlook for 2012 is similar to the development in 2011 with international financial uncertainty continuing to affect consumer confidence. While decline in raw milk volumes in Sweden is flattening out, the competition for consumers as well as for farmers and Swedish raw milk will continue. Several smaller players have financial challenges and will need to rely on a turning trend back to profitability.

CSE aims to focus more on improving profitability but expects modest volume growth in both Sweden and Finland.

*Some of CSE's brands and products (incl. Finland)*


*Christer Åberg*

**Q&A with Christer Åberg, Executive Vice President, Consumer Sweden**

### *How was 2011 for Consumer Sweden?*

"Our revenue of five per cent growth is acceptable, but we did aim for more. However, in light of the challenging market conditions, we are fairly pleased with our performance. Even if we have not achieved the growth we aimed for, our earnings have improved, which is absolutely vital."

### *What will be the main focus in 2012?*

"Integration of Milko will be a major focus. Having carried through one of the largest mergers in Swedish dairy history, we now need to ensure that the integration is carried out smoothly. For both Finland and Sweden, the work to drive down costs will also remain top of the agenda. The specific situation in Finland means that improved profitability is central and continuing the current growth through consumer relevant innovations is also vital."

### *Which are CSE's main strengths?*

"Something we really value is the dialogue we have with our key stakeholders – farmers, employees, customers, and consumers. On the consumer side, digital media has grown into a vital channel for us, and the knowledge, insights, and closer relations we gain from our digital presence create strong platforms for our food inspiration programme."

**CONSUMER SWEDEN (INCL. FINLAND)**

*Executive Vice President:* Christer Åberg

*Head office:* Stockholm, Sweden

*Number of colleagues:* 2,681

*Product categories:* Fresh dairy products , cheese, juice and butter.

Eight dairies in Sweden, three in Finland.

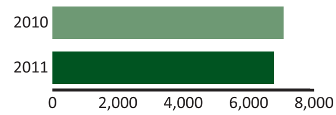
(The production sites for butter, yellow cheese and milk powder in Sweden are part of business group Global Categories & Operations.)

Consumer Denmark

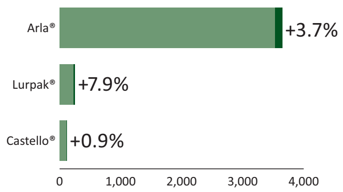
# Inspire to increase dairy consumption

*Key figures 2011*

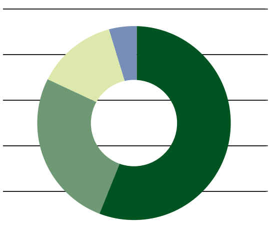
**REVENUE,**
*million DKK*




**REVENUE BRANDS,**
*million DKK*




**REVENUE CATEGORIES,**
*million DKK*



| | |
|---|---|
| Fresh dairy products | 3,805 |
| Cheese | 1,756 |
| Butter and spreads | 891 |
| Other | 314 |

*Arla has its headquarters in Denmark, which is one of the Group's most important markets. As the national market leader, Arla products are being consumed by most Danes every day, and we are proud that during 2011, Arla's image among consumers was improved significantly.*

**Market Outlook**
Market conditions in Denmark have been challenging throughout 2011. With low consumer confidence at the start of the year, household consumption continued to fall between July and December. For the dairy sector, a positive development has been a slight increase in volume growth in certain dairy categories, such as fresh cooking products, yoghurt and speciality cheese. However, the new Danish tax on fat products, implemented in October, threatens this development. The 'fat tax' covers basic products such as butter and cheese, significantly raising their price.

The dairy sector is expected to grow modestly in 2012 and it is expected that consumer polarisation towards value-added and budget positions will continue. Due to the weak economic outlook, pressures to develop strong brands and improve efficiency will increase in 2012. In addition, further Danish taxation of basic dairy products could further challenge the outlook of the industry in 2012 and onwards.

**Strategic activities 2011**
With satisfactory performance in product categories such as milk, yoghurt, and cooking - despite the tough market conditions - business group Consumer Denmark (CDK) suffered from a weak development in cheese during 2011, affecting the overall result. All together, revenue remained flat with no value growth from 2010 levels.

However, having been named "Best supplier of the year 2011" by Danish retailers in May, CDK can rejoice in strong category positions. Consumer research confirms improved image and increased recognition of the Arla brand in the country, allowing for a continued development of the already broad range of products.

Key no. 5

*Products and innovation*
As market leader it is Arla's main objective to increase the Danish dairy consumption. Arla believes this is possible through bringing Passion for Diary to customers and consumers. Currently the Danish food scene is developing fast thanks to the focus on the Nordic Kitchen and this is a strong opportunity for dairy products and for Arla.

Key no. 2

In 2011, the business group had an active year, with many market activities and product launches, such as the healthy fruit yoghurt alternative 'Arla® A38 hindbær' and the low-fat butter 'Arla Kærgaarden® 43%'. Also, the organic segment has been expanded, with Økologgerne – a number of organic and 'key hole marked- products for kids lunch packs, under the trademark Arla Harmonie®. At the premium end, the UNIKA concept further proves the demand, for premium cheese, although this remains limited to restaurants in Denmark.

The Arla brands enjoy strong positions in Denmark, and even if demand grows for budget products, due to the economic climate, there is still demand for brands that offer new and innovative products and solutions. As an example, in 2011, Arla successfully launched a liquid mixture of butter and canola oil branded as 'Arla Kærgaarden® Steg&Bag', ideal for frying and baking.

*Production and efficiency*
During the past year, Consumer Denmark worked to improve efficiency and excellence throughout the organisation, with a special focus on streamlining the supply chain. The implementation of Lean has started in the Slagelse, Brabrand, and Christianfeld facilities, with a focus on optimising the use of assets and resources.

New technology is another focus area. For example, Esbjerg Dairy is investing in PET technology, with bottles moulded on site, for products such as milk, cream and fruit juice. The first bottles will be filled in April 2012.

Unfortunately, during 2011, declining sales made it necessary to cease production at the local fresh milk dairy in Hirtshals.

*Sustainable business*
Together with a range of other large Danish companies, Arla has signed a Charter with the Danish Ministry of Environment to reduce food waste. Recognising that a large amount of food is thrown away every year, Arla aims to treat waste as a resource. Initially, the agreement will run until the end of 2012.

*Mergers and acquisitions*
In the first half of 2011, Arla acquired the small Danish dairy Thrane and Orbaek, which has a particular speciality in smoked cheese.

**Looking forward**
As the national market leader, Arla is determined to offer new dairy products to Danish consumers. Arla is experiencing increased demand for healthy, natural, and tasty dairy products. To succeed, innovation and continued strong category management are prerequisites. Arla will continue to bring passion for dairy to consumers and customers. In the context of the current economic climate, Consumer Denmark's key focus area for 2012 will be to increase international competition, growing the discount sector to continue focus on building brands, improving efficiency and introducing new products.

*Some of CDK's brands and products*

*Peter Giørtz-Carlsen*

**Q&A with Peter Giørtz-Carlsen Executive Vice President, Consumer Denmark**

## *How was 2011 for Consumer Denmark?*

"The Danish market has been characterised by weak consumer confidence, slow overall growth with focus on discount, and products within the budget category. In this context, Arla's performance has been satisfactory with strong results in most key categories. Arla Denmark is very satisfied with the improved image, especially given the tough market conditions in 2011."

## *What will be the main focus in 2012?*

"Dairy has many of the qualities currently in demand by consumers – it's healthy and natural. The dairy sector has great opportunities to grow in new channels and product sectors. With our positioning and the Closer to Nature™ concept, I believe we are well placed to build on the increasing consumer focus on health, nature, and taste."

## *What are CDK's main strengths?*

"We have a strong market position with many leading brands – such as Arla Kærgaarden®, Arla Harmonie®, Arla Karolines Køkken®, Arla Yoggi® and Arla A38®. Our product quality is high, and during 2011, Arla Klovborg® was awarded 'The best cheese' in the Nordic region by the Danish dairy exhibition Landsmejeriudstillingen. This goes hand in hand with our position within the organic sector."

**CONSUMER DENMARK**
*Executive Vice President:*
Peter Giørtz-Carlsen

*Head office:* Aarhus, Denmark

*Number of colleagues:* 2,358

*Product categories:* Fresh dairy products, cheese, butter and spreads.

Five dairies.

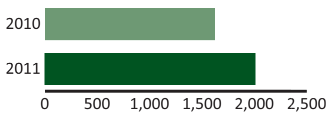
(The production sites for butter, yellow cheese and milk powder in Denmark are part of business group Global Categories & Operations.)

Arla Foods Ingredients

# The Global Leader in whey protein technology

*Key figures 2011*

**REVENUE,**
*million DKK*




*Arla Foods Ingredients (AFI) is responsible for Arla's global whey business. Whey is a by-product from cheese production and AFI is one of the world's leading producers of highly refined whey proteins and lactose products – with strong ambitions to grow further in Europe, South America, and the US.*

### Market outlook

AFI's products are used in the nutrition, dairy, meat, and ice cream industries, and also for speciality foods, such as infant formula. With highly refined products fulfilling a range of needs, the overall outlook for the whey protein industry is favourable, with increasing demand on mature markets as well as in growth regions.

### Strategic activities 2011

Having reaffirmed great growth prospects for the whey protein market, Arla implemented a reorganisation in April 2010, gathering all its whey-related business in a newly established affiliate: Arla Foods Ingredients Group P/S (AFI). This ensures the necessary business focus, recognising whey-based food ingredients as a significant element of the Arla Group's overall strategy and long-term development.

AFI operates in four business areas - Bakery, Functional Milk Proteins, Nutrition, and Lactose & Permeate. The company developed strongly in 2011, gaining from favourable market conditions, and ending 2011 as one of Arla's most profitable business units. With a range of products successfully launched, AFI - despite an increase in raw material prices - managed to exceed the yearly targets, and growing revenues by 25 per cent.

Key no. 4

*Products and innovation*

Operating in the food industry, Arla is well aware of the extent to which consumption patterns are trend driven. Quality nutrition is crucial for health and well-being, and the colleagues at AFI are committed to increasing the knowledge about and around food. The ambition is to help close the nutritional gap - apparent for different reasons on both mature and developing markets - with fortifying ingredients derived from milk and whey.

Milk proteins provide effective solutions to replace eggs – the most expensive raw material used within the bakery industry. AFI develops functional bakery solutions for products ranging from pasta to muffins and, in 2011, the customer portfolio continued to grow.

Functional Milk Proteins work to optimise the quality and processing effectiveness of countless applications focusing on the dairy industry. In 2011, Arla launched several new applications of the products, e.g. ingredients for high quality, low fat cheeses.

For the bakery and functional milk protein business, AFI runs two main application centres, located in Argentina and Denmark. The centres are used for both research and product trials, reinforcing close collaboration with our customers.

AFI also produces a range of lactose products and free flowing and non hygroscopic permeate powder for food. Lactose is used in infant formulas and a range of foods. Lactose and permeate powders are manufactured in the facilities in Denmark, Germany, and Argentina.

*Research and development*

The backbone of AFI's processes and competences lies in innovation and in research and development (R&D). By investing heavily in R&D, AFI is also able to establish and develop strong relations between supply chain and customers, delivering superior value.

*Organisation*

During 2011, AFI has strengthened its organisational resources, including the finance function and the business development department. In customer care, AFI has implemented a new concept – 'How we work' – aimed at improving the quality of customer relations. In the supply chain department, with a firm focus on building global supply chain capabilities, AFI kicked off several significant projects during 2011, such as the joint venture with Germany's largest dairy, DMK (Deutsches Milchkontor).

*Joint venture*

At the beginning of the year, Arla Foods and DMK formed the joint venture company ArNoCo GmbH & Co. KG, which will produce whey proteins for customers in the global food industry. The joint venture is in line with Arla Group's overall strategic ambition to double revenue from whey and ingredients activities before 2015.

## Looking forward

With an overall target for 2015 of double the 2010 volume, and a margin of 10–12 per cent, AFI is well on track. Our focus on targeted partnerships in strategic supply regions on a global level will go a long way to help us reach this target.

Well aware of the uncertain market situation – in large part due to the Euro crisis - AFI still views 2012 with a sense of cautious optimism. Despite the uncertainty, the outlook for the sector remains positive and AFI plans for growth through a number of projects in various regions across the world. Investments of approximately 450 million DKK are in process, ready to go into operation in early 2012.

*AFI's ingredients are used by the food industry in a broad variety of products.*

*Henrik Andersen*

**Q&A with Henrik Andersen, CEO Arla Foods Ingredients**

### *How was 2011 for Arla Foods Ingredients?*

"It was our first full financial year as an independent company and we have delivered a very satisfactory result. Today, our organisation is significantly stronger in all dimensions than it was when AFI started its operations."

### *What will be the main focus in 2012?*

"We will continue our successful work to become a world-leading provider of high quality protein and lactose products. We have a range of important projects in the pipeline, such as our expansion of Denmark Protein and the joint venture with DMK. All in all, the stage is set for another challenging and exciting year."

### *Which are AFI's main strengths?*

"Our strong focus on innovation remains key. We have a global strategy – meaning we are well suited to meet demand from big global customers. We also have an organisation in place that is well set for the future. We operate in an exciting market – a market I believe will grow larger and offer even more exciting opportunities in the years to come. We believe that we are well positioned to capitalise on these opportunities."

**ARLA FOOD INGREDIENTS**

*CEO:* Henrik Andersen

*Head office:* Aarhus, Denmark

*Number of colleagues:* 423

*Product categories:* Products within the whey segment, including highly refined whey proteins.

Two Arla sites in Denmark plus five partnerships and joint ventures in Europe and South America.

Governance

# A company of cooperative democracy

*Arla is a democratically-run farmers' cooperation, owned and governed by 8,000 milk producers in Denmark, Sweden, and Germany. Arla's main purpose is to create value for owners by offering natural milk-based products that meet consumer demands, now and in the future. Arla believes that the cooperative business model delivers the greatest benefits to the owners' economic interests and to our corporate governance.*

### *The Swedish branch*

The parent company, Arla Foods amba, has a branch in Sweden, which is solely responsible for weighing deliveries from Arla Foods amba's Swedish cooperative owners when the milk is sold to Arla Foods AB. This arrangement ensures that Danish and Swedish cooperative owners are paid in accordance with common guidelines and that they exercise influence in the cooperative system, including elections to the parent company's governing bodies – the Board of Representatives and the Board of Directors – in accordance with the provisions of the Articles of Association for Arla Foods amba.

### *Different grades of ownership*

In the UK, Arla's dairy farmers are not owners, but have formed Arla Foods Milk Partnership (AFMP) through the British affiliate Arla Foods UK (Business Group Consumer UK). In 2011, the UK farmers decided to increase their ownership in the UK affiliate through an investment programme scheduled for a period of 8–10 years, starting from January 2012. Through a joint venture, AFMP currently owns 3.2 per cent of Arla Foods UK Plc. When the investment is complete, this share will total circa 15 per cent, bringing the British farmers closer with Arla. This distinguishes the UK farmers from other non-owner farmers in, for example Finland and South Germany, who deliver milk to Arla without holding an ownership share.

### Farmers in cooperation

All Arla's cooperative owners have a say in the governance of the organisation. Every other year, the cooperative owners nominate individuals to serve as trustees for Arla's governing bodies: the District Councils and the Board of Representatives. In April 2011, Arla – through a merger with the German cooperative Hansa-Milch – welcomed its first German owners.

*Key no. 3*

### Corporate governance

At Arla, corporate governance is evaluated by the level and quality of the relationship between owners, management, and co-workers. Within well-established management processes and structures, Arla maintains clear protocols for the governance of the company.

The Board of Directors sets the strategic direction of the company, and is responsible for decisions relating to (among others):

– Long-term strategies
– Large investments
– Mergers and acquisitions
– Succession planning and recruitment of top management

Control refers to all acts necessary to follow up on management's performance, and the strategic decisions taken. Relationship between the governing bodies refers to the interactions between owners, the Board of Representatives and the Board of Directors, and management.

At all levels of Arla's corporate governance structure, roles, requirements, responsibilities, mandates, and expectations of each body are clearly defined.

### Governing bodies

The Board of Representatives is the highest decision-making body in Arla, including 85 farmer elected commissioners from Denmark, 60 from Sweden, 5 from Germany and 10 chosen by and among Danish and Swedish co-workers. The Board of Representatives appoints the Board of Directors.

The Arla Board of Directors (the Board) is Arla's highest executive body, responsible for the overriding strategies of the organisation, ensuring that Arla is managed in the best interest of our owners. The Board has 20 members – of which 4 are employee representatives – who met eight times in 2011.

### The work of the Board in 2011

The development of the dairy industry and Arla's growth strategy has, in recent years, led to increased international cooperation and increased complexity, which, in turn, has raised demands on the Arla Board. To further secure strategic business control and advance the owners' interests, the Board in 2011 reviewed its responsibilities, duties, tasks, and organisation.

In August, the Board presented its new operation mode, under which it focuses on business-related issues and strategies. Owners' issues are handled by seven internal working groups, which meet regularly. Several groups include a trustee from each region, the smaller units are able to function as a link between the Board and Arla's individual owners.

*Key no. 5*

In September, the Board introduced a new model for handling the milk price paid to the owners. Under this model, the Board delegates settlement of the milk price to the Arla Executive Management Group (EMG). A new routine for the monthly milk price quotations – now published on the Arla website on the first workday each month – is in place.

In April, Arla's chairman since 2007, Ove Møberg (from Denmark), announced his decision to retire. His last formal duty was to Chair the Board of Representatives meeting in May. Åke Hantoft, a Swede and former vice-chairman, was elected to succeed him as Chairman.

### Expanded ownership

From an ownership perspective, 2011 was an historic year for Arla. In particular, the mergers with Hansa-Milch (Germany) and Milko (Sweden) added 1,200 new owners, and milk volume increased by 5 per cent from 2010.

The 554 farmers in the north of Sweden, who previously delivered their milk to Milko, now represent a new region in the Swedish organisation.

Arla's basic principle is to treat all owners equally, and this applies for the farmers who became owners through the merger with Milko. However, the rules are applied with regional considerations for the German farmers as they are owners via the company Hansa Arla Milch eG.

Welcoming German owners into the organisation requires special attention in communication, training, and coordination, especially in areas such as the Arla quality programme. All material related to ownership is scheduled to be translated and fully integrated by 2012, with some regional differences due to, for example, country specific laws.

As a direct response to the expanded ownership, Arla has decided to review its cooperative democratic system in 2013.

During March 2011, elections for the Arla Board of Representatives and District Councils were held. Arla's standard procedure is to invite all newly elected representatives to an introduction programme. Of Arla's 370 commissioners, on average around 60 per cent take part in the programme.

### Internal and external reporting

In the last year, Arla has strengthened both its internal and its external reporting.

The internal management reporting provides a basis for decisions, allowing transparency to support informed decision making. All reporting is gathered in one report, covering all performance units: business groups, markets, product categories, etc. The report contains analysis trailing a number of important issues and trends.

In 2011 the first full half-year report was published. External reporting now contains information regarding the business groups, as well as other additional disclosures, which are considered to be of interest to external audiences.

Arla currently reports according to the accounting principles stated in the Danish Financial Statements Act. As of 1 January 2012, the company will use the International Financial Reporting Standard (IFRS). The transition will make it easier to compare Arla's accounts with those of other international companies.

In line with IFRS, the Board of Representatives has made a technical change in Arla's consolidation policy. Until 2015, the new policy will be used in connection with the annual profit appropriation.

**Following changes to the consolidation policy has been decided effective from 2012:**

- Arla's target profit has increased from 2,5 per cent to 3 per cent of net revenue
- Arla's consolidation has increased from 4.5 per cent to 6 per cent of Performance price.
- Overall consolidation will unchanged comprise one-third individual consolidation and two-thirds collective consolidation.
- Future consolidation on collective capital will not subject to the deterioration clause.

The changes above have been decided upon with the objective that the transition to IFRS should not effect the milk price to owners.

Arla currently has a limit of deterioration of equity in the articles of association, according to which no payments from equity that could deteriorate the total equity should be made.

In addition to the changed consolidation policy, the deterioration clause has been revised, so that it only covers the existing capital account. All future consolidation will not be subject to the deterioration clause.

*Read more about Arla's risk management on the following pages.*

### Member and owner democracy

**8,024 cooperative owners in three countries**

**54 district councils (25 in Denmark and 29 in Sweden)**

**8 regions (4 in Denmark and 4 in Sweden)**

**The Board of Representatives: 150 owners and 10 employee representatives**

**The Board of Directors: 16 owners and 4 employee representatives**

The Board of Representatives is Arla's top decision-making body. Arla's Board of Directors is elected by the regions and the Board of Representatives. All elections and polls are held according to the 'one member, one vote' principle.

Risk management

# Managing risks and opportunities proactively

*As Arla continues to grow, the number of risks and opportunities to which the Group is exposed also rises.*

*The tone of Arla's control environment is set by top management and in the Code of Conduct, the Group has defined ethical and correct behaviour at Arla. This creates a clear framework for the operations and the Group's character.*

## *Strategic risks*

### 1 With world population growing, global demand for dairy products is on the rise

**Risks** With growing population comes growing demand for food. From a basic demand and supply perspective, this is essentially a future opportunity for the food industry seen as a whole. At Arla we strongly believe that the demand for healthy, natural dairy products will increase significantly along with this development in world population. The risk for Arla is if we are not able to position ourselves as one of the leading dairy companies, in finding innovative solutions on how to use the nutritional resources available as efficiently as possible.

**Risk mitigation** At Arla, we invest heavily in innovation in order to find answers to the global nutrition challenge. We conduct research to ensure continued product innovation and development of raw milk as a resource. In this sense, innovation assures our continued progress up the value ladder, securing our ability to offer high-quality products at competitive prices.

### 2 Meeting consumer needs by unlocking nature's potential

**Risks** As society develops, so do consumer preferences. Increased knowledge and new conditions leads to new demands, such as the current interest for organic products. This puts pressure on companies to be attentive and responsive to shifting consumer needs and preferences.

**Risk mitigation** At Arla, product quality and food safety are major priorities. We see high quality as a part of our value-added product strategy and, with the concept of Closer to Nature™, we have a strong identity, which enriches our work and ensures progress.

## 3 Farmers in cooperation secure future local production

**Risks** Dairy companies depend on the sourcing of raw milk. In recent years, dairy farmers in many regions have been under pressure. This has led to a reduction in the numbers of milk producers in many countries, which poses a challenge not only for dairy farmers, but also for consumers demanding locally-produced milk.

**Risk mitigation** Arla is a farmer cooperative, highly dependent on the ability to source raw milk. We need to attract new farmers and retain current farmers – and at the same time offer high quality products to consumers at attractive prices.

Our vision drives us to work for the highest possible milk price to the farmers. This, we believe, is a key message to our farmers. They need to be reassured of their continued ability to run their farms. Consumers want the opportunity to drink fresh, locally produced milk. Together, they have a shared interest in retaining local milk production.

## 4 Globalisation leads the way in Arla's search for growth

**Risks** The financial crisis in the western world might well be the beginning of a longer period of much slower growth than we witnessed during the 1990s and early 2000s. Furthermore, in the coming years, growth is likely to come mainly from Africa, Asia, and South America. This drives western companies, and investors, to search for growth in new markets, presenting opportunities as well as posing risks.

**Risk mitigation** Arla has named Northern Europe and the UK as its core markets. With our owners in Denmark, Sweden, and Germany – and given the importance of the fresh dairy segment – we aim to further increase our market share in Europe, benefitting from the stable demand in the region. Pursuing an active mergers and acquisition strategy, Post-Merger Integration (PMI) is an important aspect of our business. If we fail to integrate our newly merged and acquired companies, our entire organisation risks disruptions. We are developing a PMI-model following a structured process for integration on different levels, ranging from financial to cultural unification.

Arla recognises the importance of also being present in growth markets. To assure our members continued financial safety, we need to accelerate sales of our processed and branded products in growth regions

## 5 Securing an efficient and sustainable value chain – from cow to consumer

**Risks** With increased pressure on operating margins and efficiency – companies are pushed to reduce costs and rationalise their production. At the same time, quality must be secured, and the pressure to comply with different frameworks and standards for sustainable production increases.

**Risk mitigation** Low cost and high quality are often seen as two ends on a scale. Working to establish sustainable efficiency, implementing Lean techniques across the entire organisation, we both increase the quality of our processes and lower the cost of our production.

Currently about half of the dairies in Denmark operate according to Lean principles, and in Sweden the first dairies have started implementing Lean. Denmark is expected to be finalised by the end of 2013, and the Swedish dairies during 2014.

*Read more about Arla's operational and financial risk management on the following pages...*

## *...and see also the Group's tool box for risk and compliance.*

### Operational risks

*Product quality*

To successfully operate a food company, product quality must remain an ever-important issue. With the Arla quality programme for dairy production on farm and raw milk, increased scrutiny from the dairies to demonstrate the integrity of their practices across the whole supply chain is required. The quality programmes are updated on an ongoing basis, and in 2011, a number of adjustments were made to 'Arlagården' – the quality programme applied in Denmark and Sweden. Similar programmes exist for the Group's core markets in the UK, Finland, and Germany.

*Key no. 2*

Arla continuously works to ensure that its programmes comply with international standards, and the Group has received a conformity statement from the independent Bureau Veritas Certification organisation.

Arla works with the HACCP-system (Hazard Analysis and Critical Control Point), a methodical tool used to evaluate and control hazards in relation to food safety across the entire food chain. All Arla facilities are food safety certified in accordance with HACCP.

*Price volatility*

In order to maintain its market share, Arla may from time to time need to reduce or raise its prices to customers in response to competitive and customer pressures. This may, in turn, affect the Group's profit margins.

Arla's Global Procurement department – responsible for overall sourcing – also mitigates price volatility by pooling orders with fewer suppliers, working to establish long-term contracts on the supply side. In 2011, 69 per cent of Arla's total spend, excluding milk, were made on the Global contracts.

*Legal and regulatory risks*

Increasing local and governmental duties represents a material risk for Arla. Such increases can have a considerable effect on the demand for milk products on the national markets.

In 2011, Denmark implemented a new tax on saturated fats. The result was a significant price increase on cheese, butter, and meat for consumers – and an extra administrative burden on food manufacturers.

Arla is closely monitoring the development of regulations on the markets where we operate and acts to reduce the potential impact.

*Pension plan risks*

Arla has entered into pension plans with a significant number of its employees. The pension plans comprise both defined contribution plans and defined benefit plans. Under the defined contribution plans, the Group pays contributions to independent pension companies on a regular basis. The Group is not obligated to make any additional payments. The provision comprises defined benefit schemes in the UK, Sweden and the Netherlands. The defined benefit schemes ensure pensions to the employees covered, based on seniority and final salary.

*IT risk*

The Group operates a highly integrated global business and relies on complex information technology to do so. As a result of the increasing complexity of information technology, the Group is exposed to various risks in this context, ranging from the loss or theft of data, stoppages and interruptions to the business, to systems failure, each of which may have a negative impact on the Group's results and financial condition.

To mitigate the above mentioned risk, a strategic IT project called Phoenix, was launched in 2011. In parallel a tender process for IT suppliers is running, which will be finalised during 2012. This is part of normal evaluation of the IT suppliers.

*Currency and interest rate risk*

Arla operates in many different countries and has significant investments in operations outside Denmark and the euro area, of which the UK and Sweden represent the largest part of the business by turnover, profit, and assets. As a large part of Arla's production (particularly that from Denmark) is exported outside the euro area, the US dollar will also contribute to the Group's currency exposure. Significant exchange rate fluctuations may have an impact on Group's results and financial status.

*Key no. 1*

Of Arla's total revenue of 54,893 million DKK in 2011, approximately 86 per cent was accounted for by currencies other than DKK (compared to 83 per cent in 2010).

*Liquidity risk*

Arla manages liquidity risk by ensuring the availability of sufficient operating liquidity and credit facilities for operations. The financing of acquisitions and major investments is assessed separately.

The management of the day-to-day liquidity flow is, for the vast majority of the Group, conducted through Arla Foods Finance A/S, via cash pool arrangements with the Groups banks.

Within Arla, the companies with excess liquidity finance the companies with liquidity deficits. As a result, the Group achieves a more cost-efficient financing.

### Financial reporting risks

Aiming to ensure the quality and consistency of the internal and external financial reporting, and reducing the risk of material misstatements, Arla established a Corporate Risk and Compliance function (CR&C) in 2011. The function has two main purposes: To support all entities within the Arla group and the corporate functions in the context of reporting, and to reduce risks by strengthening the internal control culture.

Departing from the international COSO framework (Committee of Sponsoring Organisations of the Treadway Commission), Arla has established an internal control model following a structured process for identifying, monitoring, mitigating, and controlling risks. Applying a top-to bottom risk assessment, the work of the CR&C is based on an analysis of risk and materiality of individual accounting items as well as overriding policies and processes.

From the risk assessment, a set of minimum requirements for internal controls is currently being defined together with the business. During 2011, the implementation of these minimum requirements commenced, particularly in the financial shared services centre, handling around 80 per cent of Arla's financial transactions. Over the coming years these minimum requirements will be implemented through-out Arla.

Based on a structured approach, the CR&C-team on a regular basis visits the different Arla business entities to review compliance with for example the Arla finance manual, segregation of duties, IT security, etc.

CR&C reports regularly to the Executive Management Group and the auditors, and once a year to the Board of Directors. These reports include findings from the control visits made around Arla sites.

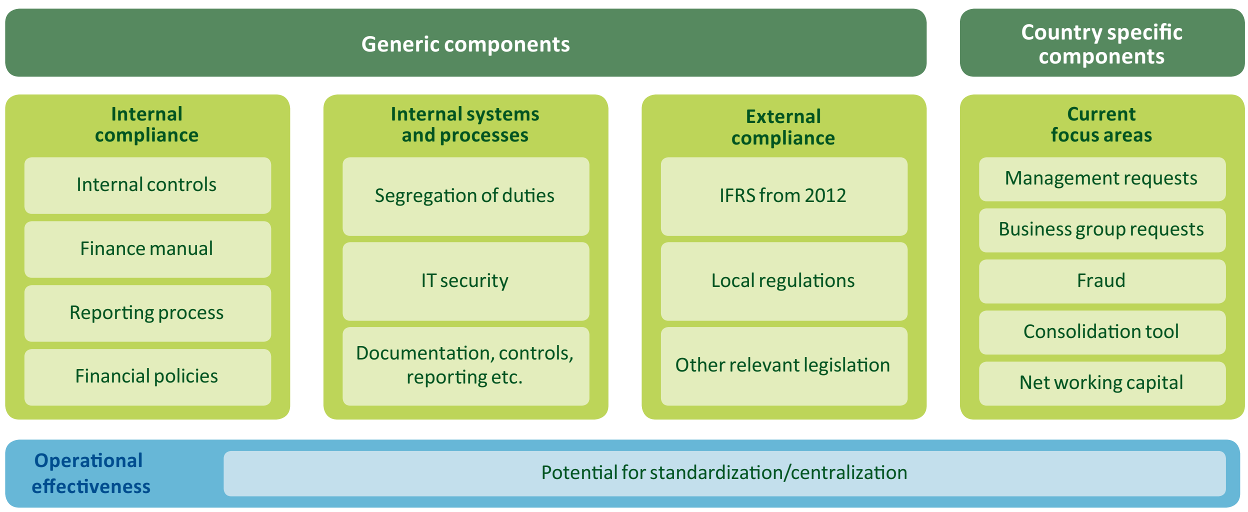
*Key no. 5*

Most core markets, except the Netherlands, are running on a common SAP R/3 platform, which enables Arla to have a standardised solution on system-supported controls, as well as a large degree of harmonised processes. During 2011, a housecleaning project on the SAP R/3 chart of accounts was implemented, resulting in a significant reduction in the numbers of accounts. This has given increased transparency and reduced the risk of errors.

*Whistle-blowing*

Arla encourages dialogue around risks and opportunities throughout the organisation, and values the feedback provided to top management. The Group has formulated a whistle blowing-policy, which will be implemented at the beginning of 2012. This and similar initiatives ensure a focus on fraud and hazards across the organisation.

### Corporate Risk and Compliance tool box



Performance price and settlement to owners

# Allocation of value

*As a cooperative, Arla always strives to pay the owners the highest possible milk price, and for increased recognition of the value of milk on the global market, as stated in the company's vision.*

Milk is a global commodity, traded on international commodity exchanges. As with all commodities, the bulk product is standardised and its price fixed beforehand through mechanisms known as "forward contracts". This set price is affected by a range of factors, often hard to predict or even to subsequently specify. For individual farmers, it is important to have safe, regular, incoming payments. However, market fluctuations do not always allow forward planning. Within the cooperative format, Arla farmers have joined together to raise a stronger common voice.

Throughout the years, Arla has developed a settlement model based on the ideas of cooperation and fair distribution. It includes a number of concepts specially developed to determine the price of their milk.


## Performance price

Performance price is a measure establishing the total performance per kilo of milk during a certain period (usually a year). The measure consists of two main factors: what has been paid for the milk (the prepaid milk price and the supplementary payment) and all consolidation – divided per kilo of owners' milk. The measure enables Arla and our owners to compare milk performance against other dairy companies.

## Prepaid milk price

The prepaid milk price is the cash compensation farmers receive for milk delivered during the settlement period. The amount is calculated on the basis of the milk's quality and composition of fat and protein. This money is paid every other week to owners in Denmark and Sweden and monthly to owners in Germany.

## The Arla Quotation

When it comes to milk price, Arla aims to be as transparent as possible. Every month Arla gives the 'Arla Quotation' which discloses Arla's current highest milk price (based on a delivery of 5,000 tonnes of milk per year). The quotation is given in DKK per kilo of milk (to be recalculated into SEK and EUR). In general calculations, Arla's milk price refers to milk standardised at 4.2 per cent fat and 3.4 per cent protein. Moreover, the quotation for conventional milk differs from the quotation of organic milk, which is priced higher.

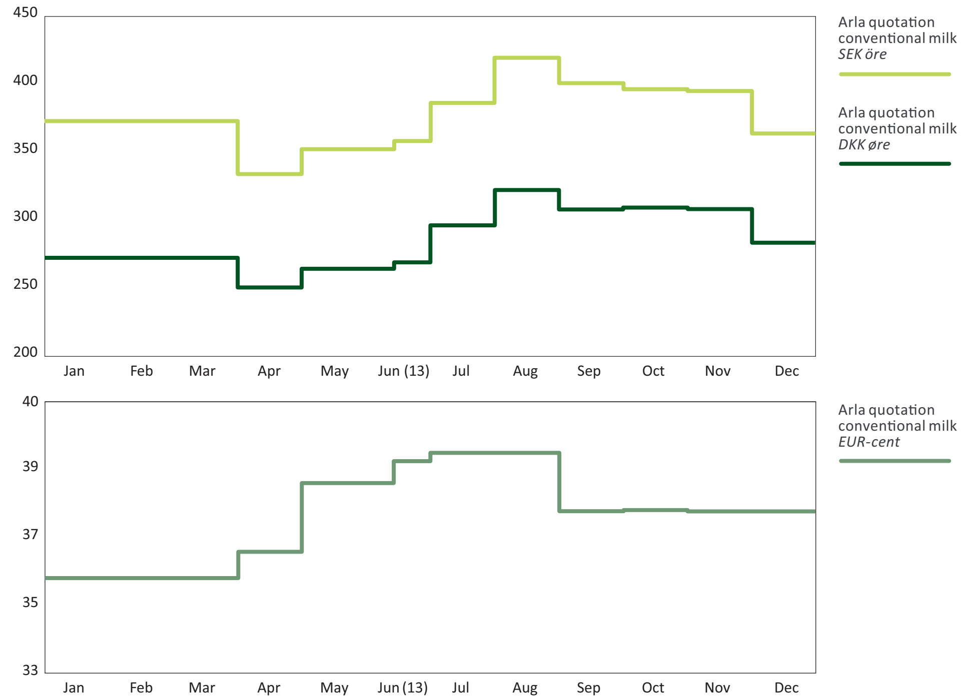
The Arla Quotation includes a range of add-ons that the owners in Denmark and Sweden can receive in addition to the basic value of the milk (see a full list on the next page). It includes the prepaid milk price, but also supplementary payments and consolidation.

In Germany, the company receives a milk payment for the full amount of milk collected from German owners. The owners then get paid accordingly, in line with their old Hansa-Milch system.

| Owners and suppliers | 2011 | 2010 | 2009 |
|---|---|---|---|
| Owners, totally | 8,024 | 7,178 | 7,625 |
| - Denmark | 3,514 | 3,649 | 3,838 |
| - Sweden | 3,865 | 3,529 | 3,787 |
| - Germany | 645 | - | - |
| Suppliers in Germany | 1,338 | - | - |
| Members through AFMP in the UK | 1,330 | 1,362 | 1,400 |
| Suppliers in Finland | 1,000 | 1,060 | 1,113 |

During 2011, the number of owners in Arla has risen by 12 per cent from 2010, largely due to the mergers with Swedish Milko and German Hansa-Milch. The amount of weighted-in milk from owners has increased by 5 per cent compared to 2010.

**ARLA QUOTATION 2011**




*During the year, the milk price has changed several times, upwards as well as downwards. The Arla Quotation is set in DKK and the milk price is the same for all owners. The national differences are due to currency fluctuations.*

## Glossary of milk price terms

**SUPPLEMENTARY PAYMENT** – The supplementary payment is the stake of the result that is paid to the owners after the end of the year. The supplementary payment is calculated in per cent on the basis of the eligible supplementary payment of each individual farmer. The eligible supplementary payment equals the value of the raw milk and the value of the add-on quality payments.

**CONSOLIDATION** – Consolidation is the stake of the result that is kept in the company, in order to finance Arla's growth and further development. Consolidation can be individual or collective (see below).

**OWNERSHIP CERTIFICATE** – Prior to 2010, individual consolidation was given on the basis of a supply-based ownership certificate. The certificate represents the individual member's share of Arla's equity – a share that is paid back over a period of three years, with one payment each year, when the specific member decides to leave the cooperative. (Subject to approval by the Board of Representatives.)

**CONTRIBUTED CAPITAL** – Individual consolidation
The ownership certificate has now been replaced by a new instrument called contributed capital. Contributed capital is remunerated following the discount rate of the Copenhagen Interbank Offered Rate (CIBOR) + 1.5 per cent. If a member decides to leave the cooperative, the contributed capital will be disbursed over a period of three years, with one payment each year. (Subject to approval by the Board of Representatives.)

**COLLECTIVE CONSOLIDATION** – kept in the company to ensure strong capital resources for future growth.

**YEARLY SETTLEMENT** – Result/outcome 2011
The Board of Representatives endorsed the Board of Directors' proposed disposition of Arla's result of 1,311 million DKK. This equals 0.201 DKK per kilo raw milk, to be appropriated on supplementary payment as well as individual and collective consolidation.

**YEARLY SETTLEMENT COMPOSITE:**
- Supplementary payments
- Individual consolidation on contributed capital
- Interest on contributed capital
- Final settlement of seasonal add-ons
- Add-ons for GMO-free feed in Sweden (due to agreement within Swedish dairy association)

## *Included in the Arla Quotation:*

- The value of the raw milk – calculated on the basis of milk with 4.2 per cent fat and 3.4 per cent protein.
- Seasonal add-ons/reductions – reductions of the raw milk value during spring, add-ons of the raw milk value during autumn (not included in the payment during the year but in the yearly settlement).
- Add-ons for quality aspects – equivalent to up to four per cent of the milk value.
- Supplement for logistics – Add-on corresponding to Arla's reduced costs when picking up milk in large quantities (over 1,200 tonnes milk/year in Denmark and 550 tonnes milk/year in Sweden). The Arla quotation is based on delivery 5,000 tonnes milk/year.
- Supplement for independent retrieval – a farmer who allows for Arla to collect the milk at any hour of the day receives an add-on of 0.02 DKK/kg milk.
- Addition for organic production.
- Expected share of Arla's results – distributed on supplementary payments, individual consolidation, and collective consolidation.
- Deductions for expenses related to individual owners, including costs of analysing the milk and settlements.
- Reimbursement of additional costs for GMO-free feed (only in Sweden).
- Add-on for trailer extensions (only in Sweden).

CSR/Responsibility

# Responsible business

## *Global Compact*

The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption. Arla has participated in Global Compact since 2008, and our Code of Conduct complements its 10 basic principles. We undertake to incorporate this initiative and its principles in our strategy and company culture, and to communicate this commitment to colleagues, owners, partners, customers, and the world around us. The commitment to Global Compact also means that every year Arla has to report, in an open and transparent way, on how our company is adhering to the Code of Conduct. The report describes the progress Arla has made over the year and where it sees opportunities for improvement.


## *Our Responsibility report*

Arla publishes every year a corporate responsibility report. This section in the consolidated report is an extract of the complete CSR report that is published on http://csr2011.arla.com

*Arla is an international business – operating in a large number of markets, responsible for 70 production sites in 12 countries and offering a range of products that are being distributed across the world. Guided by the Code of Conduct and the overriding concept Closer to Nature®, Arla aims to run and develop its business sustainably, recognising the importance of environmental, social, and economic variables.*

| ISSUE | PURPOSE |
|---|---|
| *Health* | Arla is committed to meeting consumer demand for healthy products and reliable nutritional information. We inform our consumers about the ingredients in all our products so they can choose those that best suit their tastes and fulfil their needs. |
| *Suppliers* | Arla sources goods and services across the world. Our ambition is for our suppliers to meet our code of conduct for suppliers, which governs ethical, social and environmental responsibilities. We encourage them to help us meet our aim of procuring goods and services in a sustainable way. |
| *Food safety* | Customers show an increasing interest in issues related to food safety. Together with our customers we develop and improve our analysis methods and risk assessments. |
| *Competition* | The dairy market is growing and competition remains tough with local, regional and international players. With a market leading position in several markets, Arla is careful never to contravene applicable competition rules in any way. |
| *Environment* | Food production and transportation of products invariably affect the environment by discharging substances into the air, the fields and the water. Our ambition is to minimise this discharge and continually reduce our environmental impact within the entire supply chain. |
| *People and performance (pp. 38–39)* | Arla strives to continually improve the work environment and organisation. We also work to strengthen our corporate culture. Our Character, which describes what Arla is and what we stand for in our efforts to achieve common targets, unites us across differences in historical and cultural backgrounds. |

**Performance and target summary 2011**

*Health*

Arla's mission is to provide modern consumers with natural milk-based products that create inspiration, confidence, and well-being. Arla is committed to being as transparent as possible about the nutritional content of our products.

*Key no. 1*

Operating in several markets, Arla closely witnesses how trends affect food consumption and concerns. For example, in 2011, a special tax on fat was introduced in Denmark, while, in the same period in Sweden Arla noted an increase in demand for fat products. Arla's general understanding is that a healthy diet contains a balance of many different foods. Arla takes customers' concerns seriously and contributes to the public discussion through investments in nutritional research.

*Suppliers*

Arla sources goods and services around the world. The Arla Global Procurement department was, in 2011, responsible for 69 per cent of the total procurement budget. During the year, the department carried out a cross-company review of all partners. Arla's designated 'preferred suppliers' have signed Arla's code of conduct for suppliers, which establish ethical, social, and environmental responsibilities. Arla's target is to achieve 100 per cent signoff from preferred suppliers.

Development of tools and processes for sustainable sourcing has been ongoing since 2009 and, during 2011, Arla implemented those tools. The Global Procurement department is currently working towards a global supplier assessment programme that applies to all Arla's regions.

*Food safety*
Food safety is a top priority at Arla. Colleagues are pleased to note that customers show an increasing interest in issues related to food safety, and exert pressure on the industry to further improve tools for analysis and risk assessments. In 2011, Arla developed several new analysis methods. As of 31 December 2011, 51 of our 70 facilities have been food safety certified in accordance with ISO 22000.

Key no. 2

*Competition*
In 2011 Arla continued to grow, carrying through several strategically important acquisitions and mergers in its core markets. As a market leader, Arla is continuously engaged with competition law. In 2011, both the Swedish and German competition authorities investigated Arla's operations in connection with the merger and acquisition processes. Naturally, Arla works hard to always comply with the relevant regulations in all markets where the company is present, and Arla does all it can to cooperate with the authorities.

*Environmental strategy 2020*
Throughout the years, corporate responsibility in large corporations has deepened and changed focus. Increased knowledge has led to new insights, shifting expectations on what corporate responsibility includes and how far it extends. As a company with its roots in the natural environment, Arla is determined to be at the forefront of this development.

In the early 2000s, Arla's environmental efforts focused on production and transportation. Limiting our environmental footprint as much as possible, by continuously reviewing and evaluating our transportation and the different stages of our supply chain will continue to be of great importance. However, recognising that 80 per cent of the total greenhouse gas emissions of Arla come directly from the farms, Arla realises it is possible to do more good by broadening the focus.

In 2011, Arla launched its Environmental strategy 2020, which asserts the company's responsibility across the entire lifecycle of Arla's products. The new strategy 2020 sets wide and clear targets covering four broad focus areas. Integrated with 'Closer to Nature' and our corporate character, the key words of the strategy are the life cycle approach, focus on farms, increased efficiency, increased transparency, and stakeholder involvement.

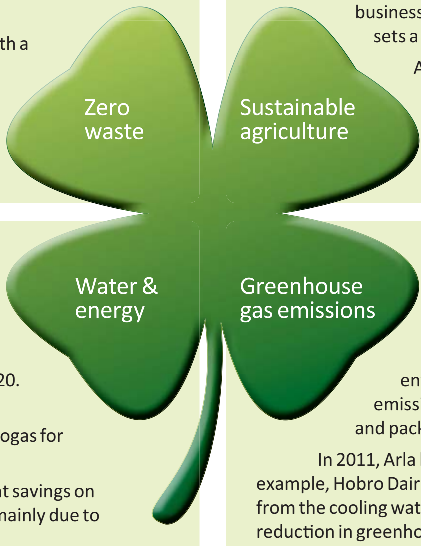
*Arla's new environmental strategy reaches from cow to consumer.*

**ZERO WASTE** Arla has long worked to reduce the amount of food thrown away, both by the company and by consumers. With the concept of zero waste, Arla works to treat waste as a resource, to be reused or recycled.

In 2011, Arla in Canada initiated cooperation with the organisation Second Harvest to distribute products with a short shelf life to hostels, schools, and the needy. Similar initiatives have been done in Germany with the organisation Tafeln, in Finland with the organisation Manna Pankkki and in the UK with St George's Crypt.

**SUSTAINABLE AGRICULTURE** Arla wants to source milk from farms that are managed in a sustainable manner. In 2011, we initiated a strategy with Arla farmers, aiming to develop and implement a standard for sustainable dairy farming. Consumer UK has been the first business group to implement the strategy. The new strategy sets a 2020 target for all Arla-sourced milk.

Arla has decided to accelerate its transition to sustainable soy, and established that by 2015, all soy in feed for cows belonging to Arla's milk producers must be grown in accordance with RTRS principles and criteria.




**WATER & ENERGY** Arla strives to reduce the company's energy and water consumption and move from fossil fuels to renewable energy. Our yearly target is a three per cent reduction of water and energy expenditure per year. Half of our energy consumption will come from renewable sources by 2020.

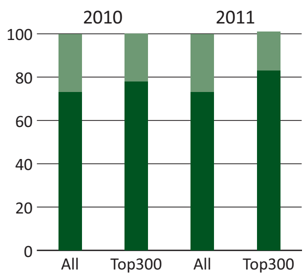
One way that Arla has increased its share of renewable energy is by using biogas. Arla is planning to invest in biogas for the energy-intensive plant in Videbæk, Denmark.

Over the past three years, Arla has achieved 20 per cent savings on water consumption in Danmark Protein, in Denmark, mainly due to increased water recycling.

**GREENHOUSE GAS EMISSIONS**
Arla wants to reduce greenhouse gas emissions throughout its entire supply chain – from cow to consumer. With the launch of the new strategy, Arla's climate strategy has been integrated in the environmental strategy. Arla's target is to reduce $CO_2$ emissions by 25 per cent within production, transportation, and packaging before 2020 (from 2005 levels).

In 2011, Arla has made progress on several fronts, including, for example, Hobro Dairy in Denmark, where Arla has begun to re-use heat from the cooling water system, resulting in an approximate 10 per cent reduction in greenhouse gas emissions.

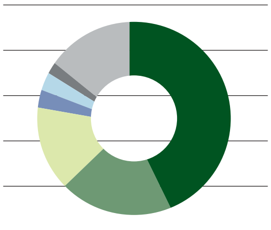
**EMPLOYEES BY GENDER, %**




| | |
|---|---|
| Men | |
| Women | |

The ratio of males and females varies in different parts of the organisation. There are significantly fewer women than men in senior to management positions. A focus area is to recruit more women to senior management positions.

**ARLA COLLEAGUES, %**



| | |
|---|---|
| Denmark | 43 |
| Sweden | 20 |
| UK | 15 |
| Finland | 3 |
| Netherlands | 2 |
| Germany | 3 |
| Other countries | 14 |

The total number of colleagues is approximately 17,400, representing an increase of 1,200 people from last year's level.

People and performance

# Leadership and diversity

*Arla's Code of Conduct clearly states that Arla shall offer a safe and beneficial working environment for all its colleagues. With 17,400 employees in 30 countries, this is a serious commitment that means Arla must continuously develop, implement and rigorously test safe practices and procedures.*

At Arla, everybody strives to continuously improve the organisation and reinforce the business culture. The company's character, 'Our character', is encapsulated in the concepts of lead, sense and create. Operating in a range of countries and cultural environments, Arla needs to ensure that common goals and strategies are understood and pursued in all contexts. Arla believes that if all colleagues have fair service conditions and are committed to their jobs then the fundamentals are in place to perform and enjoy everyday work.

Arla's human resources work is structured and focused to align with the strategies and support Arla's goals. To help achieve this, Arla conducts a tailored, annual, colleague survey, 'The Barometer'. The survey maps perceptions and levels of satisfaction in important areas such as leadership, level of knowledge sharing, level of information, and feeling of purpose. Having developed key performance indicators (KPIs), the survey enables progress tracking over the years, pinpointing improvements and fallbacks. In 2010, the survey identified two areas for special attention; the need to increase involvement among colleagues and the need to reduce bureaucracy. Those areas have thereby been given extra attention during 2011.

### The enabler

Arla's HR strategy is closely integrated in the general business strategy – Arla is a farmer cooperative, guided by the vision to pay the highest possible milk price. Arla has high ambitions and the main aim of the HR function is to help the company realise its growth plans and strategies. To create a sustainable organisation that delivers – now as well as in the future – Arla works with a range of initiatives, which, for 2011, can be grouped in three broad focus areas:

### Focus: Leadership

Arla wants to have the best leaders in the industry. Arla is therefore building a strong leadership culture, based on Our Character and further supported by the company's leadership values: envision, engage, deliver. This means that the Arla leaders should have ambitions for themselves, for their team, and for Arla in general, engaging their colleagues and business partners to deliver on commitments and targets.

*Key no. 1*

Furthermore, Arla develops superior leadership through a range of development initiatives. The business and working environment is constantly evolving at an ever-accelerating pace, so having the right people in the right roles at the right time is never a given, but something that has to be continuously re-assessed.

In 2011, Arla implemented an initiative aimed at clarifying the link between Arla's ambitious growth plans and the areas of responsibility of different managers. The initiative helped define

*Name: Magnus Glennborn*
*Position: Business Development Manager*
*Based in: Stockholm, Sweden*
*Years at Arla: 3.5 years*

***Could you describe a normal day at work?***

"In my job – there are no normal days. There's always so much happening and every day is new. Currently, we're working a lot with the integration of Milko, and my role is a lot about coordinating the different work streams and assuring everything progresses in the right direction. It's very busy – but interesting and fun."

***What is driving you professionally?***

"To be a part of Arla's progress and to really build something is a real kick and it stimulates me. The working environment at Arla is open and I always feel seen and appreciated by both colleagues and managers."

***Have you gone through any training provided by Arla during 2011?***

"Yes, I have attended Arla's 'Commercial Academy', which is an internal development programme focused on sales and marketing. It's on-going, with new courses being presented all the time. It's offered to everyone at Arla, which is great as we get to meet people from all across the organisation. During the year, I have also attended various courses within strategy, M&A and integration".

*Name: Nina Hagbarth Bjerring*
*Position: Head of Yellow cheese innovation*
*Based in: Aarhus, Denmark*
*Years at Arla: 5.5 years*

***Describe your role at Arla.***

"I work in the business group Global Categories & Operations (GCO) where I'm heading Yellow Cheese Innovation. Our role is to understand consumer user needs and translate these into products, services, activations and other initiatives to increase value for the users."

***How are you developing through work?***

"What I like most about my job is that I can really make a visible impact. I feel I develop a lot through working at Arla – the challenges never cease to emerge".

***Have you gone through any training provided by Arla during 2011?***

"I'm currently undergoing two training programmes. One is the Arla Leadership Programme (ALP), for which I was recommended by a colleague, and am really satisfied with. The aim of the ALP is to develop leaders internally. The programme compromises three modules, which are spread over a period of six months. During the year, I have also attended a diversity training programme. In line with the new Diversity and Inclusion strategy, managers at Arla are provided with a toolbox on how to take advantage of and work with diversity".

exceptions and increase accountability. Arla has also focussed on the concept of change management and training leaders to handle change, both with regards to business expansion and organisational restructuring. Arla also has introduced forecasts instead of budgets, creating incentives for leaders to stretch ambitions and expand the view for their team.

**Focus: A flexible and efficient organisation**

Considering that change in the dairy industry continues to accelerate, Arla needs to ensure it has a flexible and fast-moving organisation, ready to adapt to and succeed in new conditions. This necessitates a simple and transparent organisational structure – one that is easy to understand from internal and external points of view.

Making an international organisation efficient is about striking the right balance between local and global perspectives. During 2011, Arla has implemented two major re-structuring initiatives, aimed at improving this balance.

From our growth strategy, Arla enjoys a regular input of new colleagues – not least following on from mergers and acquisitions. The aim is to be as open and welcoming as possible, ensuring new colleagues feel at ease and part of Arla. Organisational changes and transformational demands may also – from time to time – lead to Arla having to give colleagues notice. This is never easy and is always a last resort when all other options have been evaluated.

To speed up decision making and create an agile company, in 2011 Arla established the concept 'span of control', specifying that each manager shall be responsible for at least five staff. The implementation of the concept caused a major review of the leadership structure, strongly reducing the range of management levels and increasing transparency and execution.

Key no. 5

**Focus: Diversity and inclusion**

In 2011, Arla launched the Arla Global Diversity and Inclusions strategy, with the aim of working systematically with inclusion and diversity as business imperatives. Arla sees diversity as a key source of potential and a lever to deliver on the corporate strategy. By increasing the diversity of our workforce Arla believes the teams are better equipped to perform and generate innovative solutions and creative ideas.

The Diversity and Inclusion strategy has long-term objectives, which can be grouped in three overriding dimensions: objectives for the workforce, objectives for the marketplace, and objectives for the workplace. Having defined clear targets for each category, implementation of the strategy is set to be fulfilled over a ten-year period.

As Arla has not previously worked with diversity and inclusion in a structured way, the new strategy will change Arla's general policies for colleagues and recruitment. It will ensure that teams are well composed with regards to national and ethnic background, gender, age, educational and disciplinary background, and personality type. The strategy applies at all levels of Arla.

*Name: Jens S. Ingvardsen*
*Position: Vice President, Supply Chain - Consumer Denmark*
*Based in: Aarhus, Denmark*
*Years at Arla: 16 years*

***What are you working with?***

"I'm head of our supply chain organisation in Consumer Denmark. Basically, this means that I'm responsible for running our dairies and distribution centres, and for developing the right supply chain strategy on the Danish market. In my role I really feel I help to drive Arla's strategy forward. Currently, we're working a lot with implementing Lean principles around all our sites in Denmark."

***How are you developing through work?***

"I'm very result oriented and I like to improve the performance of our company and my team. From a very young age I was interested in the dairy business, and training as a dairyman was a natural first step for me. I then decided to become a dairy engineer, and during my years at Arla, my managers have inspired me to do part time studying along with my work responsibilities. This has resulted in an MBA."

***How would you describe Arla as an employer?***

"As a leader in Arla, you're given lots of responsibility and freedom – presenting great opportunities to develop professionally. I have learnt to manage people, manage organisations and manage relations. For me, these three are the most import disciplines you need to master being a leader.

# Financial Review

*Preparing these financial statements, the format and layout have been changed to make Arla's financial statements less complex and more relevant to readers of the report. The general financial review is stated in this section, but for accounting areas explained in notes, there is an additional and more detailed financial review regarding that accounting item in the notes.*

*Notes to the financial statements provide additional information required by statute or accounting standards for a specific accounting item. The notes will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements. Every note is structured the same way – starting with accounting policies, continuing with the numbers, and finishing with the financial review comments. The purpose of these changes is to provide the readers with a complete overview of an accounting area by just looking in one place.*

**Results compared to expectations**

Arla delivered a strong financial performance in 2011 with net revenues and performance price significantly up compared to the prior year. This has been driven largely by increasing prices.

The continued focus on cost effectiveness, alongside higher revenues, has led to a significantly increased performance price. Performance price per kg milk weighed in by co-operative members reached 2.80 DKK/3.74 SEK/ 37.3 EUR cent, as compared to 2.52 DKK/3.49 SEK in 2010.

**Expectations compared to actual results**

| | Expected | Actual |
|---|---|---|
| Organic growth percentage | 5–6 % | 6,1% |

Weighed in milk volumes for the year totalled 9,241 million kg (8,713 million kg in 2010) of which co-operative member milk accounts for 6,508 million kg (6,174 million kg in 2010). The majority of non-co-operative member milk relates to the UK, Finland and the Netherlands.

**Income statement**

The Group generated total net revenue of DKK 54.9 billion (DKK 49.0 billion in 2010), an increase of 12% compared to 2010, of which 6.1% was due to organic growth. Net revenue related to mergers and acquisitions in 2011 was DKK 2.7 billion. Revenue was significantly increased by higher prices for dairy products, which are deemed to have impacted positively by approximately DKK 2.4 billion.

Production costs include an on-account payment to co-operative members of DKK 17.5 billion, compared to DKK 14.9 billion in 2010. The increases in on-account payments compared to last year cause an effect on the result of DKK 2.6 billion, of which DKK 1.6 billion is paid out to the existing members and DKK 0.9 billion is paid out to the new members from Hansa.

Operating profit totalled DKK 1.7 billion, which is unchanged compared to 2010.

The Group's EBITDA – defined as earnings before interest, taxes, depreciation and amortisation – amounted to DKK 3.6 billion, compared to DKK 3.7 billion in 2010.

**Balance sheet**

The balance sheet total amounted to DKK 34.9 billion at 31 December 2011, compared to DKK 30.1 billion in 2010. The increase was mainly caused by the mergers and acquisitions in 2011 – primarily Hansa Milch, Allgäuland and Milko. The effect of the higher exchange rates for, mainly relating to GBP and SEK, compared to 2010, contributes to an increase in the balance sheet total of DKK 0.3 billion.

For 2011 the total CAPEX budget was DKK 1.7 billion plus 0.5 billion for the new dairy in Aylesbury, London. A large part of the remaining CAPEX budget was attributed to capacity increases mainly in GCO – yellow cheese.

Supplementary payments amount to DKK 0.5 billion compared to DKK 0.6 billion the previous year. Consolidation based on the year's profits is DKK 0.8 billion, which is allocated to the capital account by DKK 0.5 billion (8,4 Danish øre per kg weighed in co-operative member milk) and DKK 0.3 billion (4,2 Danish øre per kg weighed in co-operative member milk) that is allocated as contributed capital.

The gross interest-bearing debt amounted to DKK 15.0 billion and net interest-bearing debt amounted to DKK 10.0 billion. The difference of DKK 5.0 billion consists of interest-bearing assets, including DKK 0.5 billion in cash and cash equivalents. Of the gross interest-bearing debt, 60% (DKK 9.0 billion) is long term, that is, with maturity more than one year from 31 December

2011, and consists primarily of facilities in DKK, SEK and EUR. During 2011, the Group issued bonds of SEK 1.5 billion corresponding to DKK 1.3 billion and obtained a 30 year mortgage loans of approximately DKK 1.0 billion. The subordinated loan of DKK 1.0 billion was redeemed in May 2011. Following the bond issue, the maturity profile of the debt has been extended further.

**Cash flow**

During 2011 Arla has worked on improving working capital and, thereby, cash flows from operating activities. However the effect is not directly visible in the financial statements because of mergers and acquisitions, consolidation of former associated companies as well as reclassifications made. However the specific efforts related to reducing net working capital amounted to a positive contribution of approximately DKK 1 billion.

Cash flow from operating activities in 2011 was DKK 2.3 billion, compared to DKK 2.6 billion for 2010.

Cash flow from investing activities was DKK –2.5 billion, compared to DKK –1.6 billion in 2010. Operational capital expenditure was DKK 2.2 billion, an increase of DKK 0.6 billion, impacted by the increased CAPEX expenditures.

Cash flow from financing activities was affected by the bond issue, mortgage loans and repayment of subordinated loan in 2011. Total cash flow from financing activities are DKK 1.4 billion compared to DKK –2.4 billion in 2010.

Mergers and acquisitions have influenced the cash flows by approximately DKK 0.1 billion.

**Expected developments**

Arla expects growth in revenue as well as in results. The acquisition strategy continues and the revenue is expected to move in the area of DKK 59 billion in 2012.

Cost and efficiency throughout the organisation are priorities and Arla continuously works to keep costs down and adabt to the competition and the general economic climate. Through new initiatives steps are taken to reduce costs and improve efficiency with an expected sustainable savings of DKK 0.5 billion.

According to the newly agreed policy, the results under IFRS is expected to be 3% of net revenue as described on page 29.

With a view to achieving the Arla Foods Group's growth targets up to 2015, the Group's investment budget for 2012 contains expected CAPEX investments of DKK 2.3 billion. The investments are to a large extend related to increased efficiency and rationalisation that support the longer-term competitiveness.

**Transition to IFRS**

From 2012 Arla has decided to report according to the international accounting standards, IFRS. An analysis of the differences between the current accounting policies and IFRS has been finalised. The effect of the implementation on the results of operations, the financial position and cash flow will be published in connection with the half-year report in 2012.

**Events after the balance sheet date**

In 2012, Arla is taking a significant step into the Russian market under an agreement regarding joint production of yellow cheese with Molvest Group, Russia's third largest dairy. For Arla this means an investment of DKK 25 million. Joint production is expected to begin early in 2013.

Due to the ongoing restructuring of yellow cheese, it has been decided in the beginning of 2012, that the dairies in Klovborg and Hjørring will be closed.

In January it was decided that the Danish employers' association Mejeribrugets Arbejdsgiverforening would join Dansk Industri during 2012. Arla has the right to a part of the assets when this happens.

# Statement by the board of directors and executive management board

### *Consolidated annual report*

This consolidated report is according to the Danish Financial Statements Act §149 an excerpt from the company´s complete annual report. To make this report more manageable and user-friendly Arla Foods group has chosen to publish a consolidated annual report, which does not contain the annual report for the parent company, Arla Foods amba.

The annual report for the parent company is an integrated part of the complete annual report and is available in Danish at www.arlafoods.dk.

The profit appropriation and supplementary payments from the parent company appear in the consolidated income statement.

The complete annual report has the following statements by the Board of Directors and Executive Management Board and Independent auditors' report.

The Board of Directors and Executive Board have today discussed and approved the annual report of Arla Foods amba for the financial year, 1 January – 31 December 2011.

The annual report has been prepared in accordance with the Danish Financial Statements Act and the company's Articles of Association. It is our opinion that the financial statements give a true and fair view of the Group and company's financial position at 31 December 2011 and of the results of the operations and consolidated cash flows for the financial year, 1 January – 31 December 2011.

Further, in our opinion, the management's report gives a fair review of the development of the Group and company's operations and its financial position.

We recommend that the annual report be approved at the Board of Representatives meeting.

Aarhus, 22 February 2012

**Executive Board**

Peder Tuborgh
*CEO*

Povl Krogsgaard
*Vice CEO*

**Board of Directors**

Åke Hantoft
*Chairman*

Jan Toft Nørgaard
*Vice Chairman*

Viggo Ø. Bloch

Bjørn Jepsen

Bjarne Hass Nielsen

Palle Borgström

Thomas Johansen

Gunnar Pleijert

Bjarne Bundesen

Uwe Krause

Anders Ramström

Jonas Carlgren

Steen Nørgaard Madsen

Ingela Svensson

Leif Eriksson

Torben Myrup

Pejter Søndergaard

Heléne Gunnarson

Anne-Lie Nielsen

Bent Juul Sørensen

# Independent auditors' report

**To the members 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 2011. The consolidated financial statements and the parent company financial statements comprise income statement, balance sheet, statement of changes in equity, accounting policies and other notes for the Group as well as for the parent company and consolidated cash flow statement. The consolidated financial statements and the parent company financial statements are prepared in accordance with 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 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 2011 and of the results of the Group's and the parent company's operations and consolidated cash flows for the financial year 1 January – 31 December 2011 in accordance with 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, 22 February 2012

KPMG
Statsautoriseret Revisionspartnerselskab

KPMG AB, Sverige

Finn L. Meyer
Statsaut. revisor

Carl Lindgren
Auktoriserad revisor

# Contents

## PRIMARY STATEMENTS



## NOTES

# Consolidated income statement

| *DKK million* | Note | 2011 | 2010 |
|---|---|---|---|
| **NET REVENUE** | 2 | 54,893 | 49,030 |
| Production costs | 3/5 | –43,983 | –39,154 |
| **Gross profit** | | **10,910** | **9,876** |
| Sales and distribution costs | 3/5 | –6,781 | –5,926 |
| Administration and joint costs | 3/5 | –2,514 | –2,313 |
| Other operating income | 5 | 137 | 123 |
| Other operating costs | 5 | –87 | –76 |
| **Operating profit** | | **1,665** | **1,684** |
| Results in joint ventures | 10 | 17 | 0 |
| Results in associates | 10 | 15 | 23 |
| Financial income | 6 | 143 | 147 |
| Financial costs | 6 | –448 | –441 |
| **Profit before tax** | | **1,392** | **1,413** |
| Tax | 7 | –60 | –160 |
| **Profit for the year** | | **1,332** | **1,253** |
| Minority interests | 13 | –21 | 15 |
| **ARLA FOODS AMBA'S SHARE OF PROFIT FOR THE YEAR** | | **1,311** | **1,268** |
| **Proposed profit appropriation:** | | | |
| Supplementary payment for milk | | 483 | 569 |
| Interest on contributed capital | | 8 | 0 |
| **Supplementary payment, total** | | **491** | **569** |
| **Transferred to equity:** | | | |
| Capital account | | 547 | 466 |
| Contributed capital | | 273 | 233 |
| **Transferred to equity, total** | | **820** | **699** |
| | | | |
| **APPORTIONED PROFIT, TOTAL** | | **1,311** | **1,268** |

# Consolidated balance sheet

## Assets

| *DKK million* | Note | Balance at 31.12.11 | Balance at 31.12.10 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| *Intangible assets* | | | |
| Goodwill | | 3,731 | 3,744 |
| Licences and trademarks etc. | | 450 | 328 |
| IT development | | 401 | 380 |
| **Total intangible assets** | 8 | **4,582** | **4,452** |
| | | | |
| *Property, plant and equipment* | | | |
| Land and buildings | | 4,897 | 4,728 |
| Plant and machinery | | 5,688 | 5,189 |
| Fixtures and fittings, tools and equipment | | 667 | 649 |
| Assets in course of construction | | 1,270 | 652 |
| **Total property, plant and equipment** | 9 | **12,522** | **11,218** |
| | | | |
| *Financial assets* | | | |
| Investments in joint ventures | 10 | 421 | 0 |
| Investments in associates | 10 | 264 | 634 |
| Deferred tax assets | 14 | 148 | 150 |
| Other securities and investments, etc. | 10 | 560 | 550 |
| **Total financial assets** | | **1,393** | **1,334** |
| **TOTAL FIXED ASSETS** | | **18,497** | **17,004** |
| | | | |
| **CURRENT ASSETS** | | | |
| **Total inventories** | 11 | **5,367** | **4,385** |
| | | | |
| *Receivables* | | | |
| Trade receivables | 12 | 5,756 | 4,781 |
| Amounts owed by associates | | 50 | 65 |
| Other receivables | | 394 | 304 |
| Derivatives | | 67 | 36 |
| Prepayments | | 180 | 186 |
| **Total receivables** | | **6,447** | **5,372** |
| | | | |
| **Total securities** | | **4,088** | **2,888** |
| **Total cash at bank and in hand** | | **504** | **448** |
| **TOTAL CURRENT ASSETS** | | **16,406** | **13,093** |
| | | | |
| **TOTAL ASSETS** | | **34,903** | **30,097** |

## Equity and liabilities

| *DKK million* | Note | Balance at 31.12.11 | Balance at 31.12.10 |
|---|---|---|---|
| **EQUITY** | | | |
| Capital account | | 7,892 | 7,082 |
| Delivery-based owner certificates | | 826 | 838 |
| Contributed capital | | 676 | 231 |
| Reserve fund B | | 500 | 500 |
| Value adjustments of hedging instruments | | –566 | –71 |
| **Total equity** | | **9,328** | **8,580** |
| | | | |
| **MINORITY INTERESTS** | **13** | **168** | **116** |
| | | | |
| **PROVISIONS** | | | |
| Deferred tax | 14 | 214 | 194 |
| Pension liabilities | 15 | 1,465 | 1,584 |
| Other provisions | 16 | 323 | 204 |
| **Total provisions** | | **2,002** | **1,982** |
| | | | |
| **LIABILITIES** | | | |
| *Long-term liabilities* | | | |
| Subordinate bond loan | | 0 | 1,000 |
| Issued bonds | | 1,251 | 0 |
| Mortgage credit institutions | | 5,952 | 4,932 |
| Credit institutions, etc. | | 1,828 | 1,427 |
| **Total long-term liabilities** | 17 | **9,031** | **7,359** |
| | | | |
| *Short-term liabilities* | | | |
| Short-term portion of long-term liabilities | 17 | 108 | 104 |
| Bank loans and overdrafts | | 5,830 | 4,587 |
| Supplementary payments | | 491 | 1,031 |
| Trade payables | | 4,910 | 4,475 |
| Amounts owed to joint ventures | | 3 | 0 |
| Amounts owed to associates | | 14 | 1 |
| Tax | | 29 | 51 |
| Other payables | | 1,939 | 1,492 |
| Derivatives | | 920 | 138 |
| Deferred income | | 130 | 181 |
| **Total short-term liabilities** | | **14,374** | **12,060** |
| **TOTAL LIABILITIES** | | **23,405** | **19,419** |
| | | | |
| **TOTAL EQUITY AND LIABILITIES** | | **34,903** | **30,097** |

# Consolidated statement of equity

2011

| *DKK million* | Balance at 01.01.11 | Results for the year | Additions & payment to members | Other adjustments | Exchange rate adjustments | Balance at 31.12.11 |
|---|---|---|---|---|---|---|
| Capital account | 7,082 | 547 | 214 | 0 | 49 | 7,892 |
| Delivery-based owner certificates | 838 | 0 | –14 | 0 | 2 | 826 |
| Contributed capital | 231 | 273 | 161 | 0 | 11 | 676 |
| Reserve fund B | 500 | 0 | 0 | 0 | 0 | 500 |
| Value adjustments of hedging instruments | –71 | 0 | 0 | –495 | 0 | –566 |
| **Total equity** | **8,580** | **820** | **361** | **–495** | **62** | **9,328** |

2010

| *DKK million* | Balance at 01.01.10 | Results for the year | Additions & payments to members | Other adjustments | Exchange rate adjustments | Balance at 31.12.10 |
|---|---|---|---|---|---|---|
| Capital account | 6,471 | 466 | 0 | 38 | 107 | 7,082 |
| Delivery-based owner certificates | 857 | 0 | –54 | 0 | 35 | 838 |
| Contributed capital | – | 233 | –2 | 0 | 0 | 231 |
| Strategy fund | 462 | 0 | –462 | 0 | 0 | 0 |
| Reserve fund B | 500 | 0 | 0 | 0 | 0 | 500 |
| Value adjustments of hedging instruments | –9 | 0 | 0 | –62 | 0 | –71 |
| **Total equity** | **8,281** | **699** | **–518** | **–24** | **142** | **8,580** |

## ACCOUNTING ITEMS

### Capital account

The capital account consists of the undistributed equity of the company.

### Delivery-based owner certificates

These were established in accordance with Section 19, sub-section 1 (ii) of the Articles of Association and accompanying regulations. Deposits on the certificates of each owner are payable on termination of membership of Arla Foods amba, in accordance with the provisions of the regulations and subject to the approval of the Board of Representatives. The account is held in DKK and SEK.

### Contributed capital

This was established in 2010 in accordance with Section 19, sub-section 1, (iii) of the Articles of Association and accompanying regulations. The individual member's balance as contributed capital is only payable on termination of membership of Arla Foods amba, in accordance with the provisions of the regulations and subject to the approval of the Board of Representatives. The account is held in DKK, SEK and EUR.

### Reserve fund B

Reserve fund B comprises the reserves set aside on the incorporation of the company. Following a proposal by the Board of Directors, the Board of Representatives can decide to use the fund to cover extraordinary losses or write-downs, but solely in respect of such activities or business that are not primarily based on the milk volumes sourced from co-operative members and only if such losses are not covered by other reserves under the equity.

### Value adjustments of hedging instruments

The item comprises the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future cash flows.

### Deterioration clause

According to the articles of associations, no payments shall be made to the members of Arla Foods amba that reduce the total of the company's capital account and any transfers from the annual profits appropriation are subject to net revaluation under the equity method. Changes to the articles of associations have been made with effect from 2012 (please refer to page 29).

## FINANCIAL REVIEW

Equity at 31 December 2011 was DKK 9.328 million, representing a rise of DKK 748 million compared to 31 December 2010. The equity ratio measured as equity in proportion to the balance sheet total declined to 27 % as at 31 December 2011 compared to 29 % last year.

In accordance with the consolidation policy 4.5% of the performance price for the year is consolidated with 1/3rd to individual member accounts (contributed capital account) and 2/3rds to the collective capital (capital account). Consolidated results from previous years on contributed capital entitle members to a yearly interest of Cibor + 1.5 %. Interest is paid out in connection with the supplementary payment. If a member leaves or retires deposits on individual accounts (delivery-based owner certificates and contributed capital) will be paid out, if approved by the Board of Representatives.

### Result for the year

In 2011 the performance price was 2.80 DKK compared to 2.52 DKK in 2010. Profits for consolidation amounts to DKK 820 million with DKK 273 million to be consolidated on contributed capital and DKK 547 million to be consolidated on the capital account (2010: DKK 233 million on contributed capital and DKK 466 million on capital account).

### Additions

During 2011 Arla Foods merged with Hansa Milch in Germany and Milko in Sweden. As a consequence of the transactions the contributed capital account has increased with DKK 167 million and the capital with DKK 214 million totalling DKK 381 million.

On 1 April 2011 Arla Foods amba merged with Hansa Milch. With the merger Hansa Milch became a member of Arla Foods amba. As part of the transaction Arla Foods amba issued DKK 110 million DKK on the contributed capital account and DKK 214 million on the capital account. As part of the agreement Hansa Milch is entitled to consolidation on contributed capital as if they had become member from 1 January 2011. The issue of additional DKK 6 million contributed capital related to this part of the agreement has been considered part of the acquisition cost in the opening balance.

On 1 November 2011 Arla Foods merged with the dairy activities of Milko and the majority of that company's former members entered into Arla Foods amba. As part of the transaction members entering Arla Foods amba have to contribute with DKK 51 million on the contributed capital. The amount will be paid in upon liquidation of Milko Ekonomisk Förening, which is expected to occur in the middle of 2012.

### Payments to members

During 2011 a few of members have decided to leave Arla Foods amba. Subject to approval by the Board of Representatives the deposits on individual member accounts will be paid out in March 2012. As a consequence DKK 14 million on delivery based owner certificates and DKK 6 million on contributed capital has been transferred to other payables.

### Other adjustments

The value adjustments of hedging instruments in 2011 amount to DKK –495 million relating primarily to the value adjustment of interest rate hedging instruments DKK –428 million (2010: DKK –75 million). Hedging of interest rates is done to secure flexibility in interest and to balance risk according to the finance policy approved by the Board. This is done using interest swaps and options. An interest rate increase of 1% point will influence the marketvalue positively by DKK 400 million.
The value adjustment of foreign currency hedges amounts to DKK –159 million (2010: DKK –5 million) and value adjustment of raw material hedges amounts to DKK 14 million (2010: DKK 5 million). This is done using financial fixed price contracts covering the use of energy and diesel. Related tax effects amounts to DKK 78 million.

### Exchange rates adjustments

Exchange rate adjustments have increased the equity by DKK 62 million compared to DKK 142 million in 2010. This relates primarily to translation of net assets in foreign reporting units, including subordinated loans considered part of the investment. Deposits on delivery based owner certificates and contributed capital are denominated in DKK, SEK and EUR. The effect of the year's exchange rate adjustment is transferred to the capital account.

# Consolidated cash flow statement

| *DKK million* | Note | 2011 | 2010 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Arla Foods amba's share of profit for the year | | 1,311 | 1,268 |
| Depreciation and impairment | 3 | 2,036 | 2,059 |
| Other operating items without cash impact | | –310 | –285 |
| Share of results in joint ventures and associates | 10 | –32 | –23 |
| Change in deferred taxes | | –78 | 96 |
| Change in inventories | | –380 | –618 |
| Change in trade and other receivables | | –160 | –316 |
| Change in provisions | | –389 | –272 |
| Change in trade and other payables etc. | | 381 | 795 |
| Tax paid | | –78 | –152 |
| **Total Cash flow from operating activities** | | **2,301** | **2,552** |
| | | | |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Investment in intangible fixed assets | 8 | –144 | –110 |
| Investment in property, plant and equipment | 9 | –2,165 | –1,508 |
| Sale of property, plant and equipment | | 6 | 3 |
| Investments in financial assets | 10 | –30 | –11 |
| Acquisition of enterprises | 18 | –149 | 0 |
| **Total Cash flow from investing activities** | | **–2,482** | **–1,626** |
| | | | |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Supplementary payment regarding the previous financial year | | –1,031 | –660 |
| Paid out from equity regarding terminated member contracts | | –56 | –34 |
| Change in long-term liabilities | | 1,492 | –102 |
| Change in short-term liabilities | | 969 | –1,596 |
| **Total Cash flow from financing activities** | | **1,374** | **–2,392** |
| **Change in cash funds and securities** | | **1,193** | **–1,466** |
| | | | |
| Cash funds and securities at 1 January | | 2,508 | 3,889 |
| Exchange rate adjustments of cash funds | | 17 | 85 |
| **Cash funds and securities at 31 December** | | **3,718** | **2,508** |

## ACCOUNTING ITEMS

### Operating activities

Cash flows from operating activities are calculated as the Group's share of the profit/loss for the year adjusted for non-cash operating items, such as depreciation, amortisation and impairment losses, provisions and changes in working capital.
Cash flows from acquisitions of enterprises are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of enterprises are recognised up until the date of disposal.

### Investing activities

Cash flows for investing activities comprise payments in connection with acquisitions and disposals of intangible assets, property, plant and equipment and financial assets. The cash flow effect of acquisitions and disposals of enterprises is shown separately in cash flows from investing activities.

### Financing activities

Cash flows from financing activities comprise incurrence and repayment of current and non-current liabilities to credit institutions, mortgage credit institutions, additional payment to members regarding the previous financial year and payments from equity.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and marketable listed bonds which are subject to an insignificant risk of changes in value.

The cash flow statement cannot be derived solely from the consolidated financial statements.

## FINANCIAL REVIEW

Cash flow from operating activities totalled DKK 2,301 million in 2011 compared to DKK 2,552 million in 2010. The reduction in cash flow from operating activities amounts to DKK 251 million.

Working capital defined as the sum of inventories and trade receivables less payables amount to DKK 6,213 million at 31 December 2011 compared to DKK 4,691 million in 2010. Arla Foods has strengthened the focus on improving cash flow from operating activities (Programme Zero). The focus on improving working capital is assessed to have released approximately DKK 1 billion which primarily relates to higher trade payables. The positive impact on cash tied up, has been off-set by growth, mergers and acquisitions, consolidation of former associated companies and increasing revenue.

Cash flow for investing activities totalled DKK –2,482 million compared to DKK – 1,626 million in 2010. The year's investments in property, plant and equipment amounts to DKK 2,165 million.

Free cash flow totalled DKK –181 million in 2011 compared to DKK + 926 million in 2010. The free cash flow is calculated as the cash flow from operating activities less cash flow for investing activities. The development primarily relates to increased capital expenditures.

Cash flow from financing activities totalled DKK 1,374 million. Securities and cash at bank and in hand together amount to DKK 3,718 million compared to DKK 2,508 million the previous year. This includes bonds used in sale and repurchase agreements at a value of DKK 3,950 million compared to DKK 2,765 million in 2010. In the cash flow statement, bank overdrafts are offset against cash and cash equivalents with a total of DKK 873 million (2010: DKK 828 million).

## Note 1 *Accounting policies*

**General information**
The annual report of the Arla Foods Group for 2011 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

The accounting policies set out below are unchanged. However, the control definition has been changed in the Danish Financial Statements Act. As a consequence a number of Arla's companies, that were previously classified as associates, now are classified as subsidiaries and are, thus, fully consolidated in the financial statements as from 1 January 2011. Furthermore, other companies which were previously associated companies are now considered joint ventures. In accordance with the Danish Financial Statements Act, the comparative numbers are not adjusted.

The annual report is presented in Danish kroner, the functional currency of the parent company.

***In note 1, the general accounting policies are described. For accounting areas with more details in the notes, the accounting policies for that area are moved to the note. The description of accounting policies in the notes are part of the complete description of accounting policies.***
*Net revenue – note 2*
*Functional split of costs – note 3*
*Other operating income and other operating costs – note 5*
*Financial income and financial cost – note 6*
*Tax – note 7*
*Intangible assets – note 8*
*Property, plant and equipment – note 9*
*Leases – note 9*
*Financial assets – note 10*
*Inventory – note 11*
*Trade receivables – note 12*
*Minority interests – note 13*
*Deferred tax – note 14*
*Pension liabilities – note 15*
*Other provisions – note 16*
*Long-term liabilities – note 17*
*Business combinations – note 18*
*Derivatives – note 19*
*Contingent liabilities - note 20*

**Consolidated financial statements**
The consolidated financial statements comprise Arla Foods amba (the parent company) and the subsidiaries in which the parent company directly or indirectly holds more than 50% of the voting rights or which it, in some other way, controls. Jointly controlled enterprises are considered joint ventures. Enterprises over which the Group exercises significant influence, but which it does not control, are considered associates. Significant influence is generally obtained by direct or indirect ownership or control of more than 20% but less than 50% of the voting rights. The consolidated financial statements have been prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements in accordance with the Group's accounting policies. Intra-group income and expenses, shareholdings, intra-group balances and dividends and realised and unrealised gains and losses on intra-group transactions are eliminated. Unrealised gains on transactions with joint ventures and associates are eliminated in proportion to the Group's ownership share of the enterprise. Unrealised losses are eliminated in the same way, to the extent that impairment has not taken place.

**Foreign currency translation**
On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates on the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or costs.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the end of the reporting period and at the date on which the receivable or payable arose or the rates in the latest annual report is recognised in profit or loss as financial income or costs.

On recognition in the consolidated financial statements of joint ventures and associates with functional currency other than DKK, the income statements are translated at average exchange rates per month to the extent that this does not significantly distort the presentation compared to the situation, if the exchange rates at the transaction date had been applied. Balance sheet items are translated to the exchange rates at the balance sheet date.

Any translation differences arising on translation of the foreign operations' opening equity at the exchange rates at the balance sheet date and the translation differences arising on translation of the foreign operations' income statements at average exchange rates are recognised directly in equity.

Correspondingly, foreign exchange adjustments on loans and derivative financial instruments which are designated as hedges of investments in foreign operations are recognised directly in equity to the extent that they effectively hedge against foreign currency risks related to the net investment.

**Government grants**
Government grants include grants and funding for R&D activities, investment grants and similar items. Government grants are not recognised until there is reasonable assurance that the grants will be received. Grants for costs, etc., recognised directly in the income statement are recognised as other operating income. Forgivable grants are recognised as liabilities until there is reasonable assurance that the terms for remission have been met.

**Prepayments**
Prepayments comprise costs incurred concerning subsequent financial years, including prepaid rent and insurance costs, etc.

Prepayments are measured at amortised cost, which is usually equivalent to the nominal amount.

**Securities**
Securities primarily consist of listed Danish bonds. On initial recognition, securities are measured at cost, and, subsequently, they are measured at fair value at the balance sheet date.

Changes in fair value are recognised in the income statement as financial income or costs.

**Cash and cash equivalents**
Cash and cash equivalents denominated in foreign currencies are translated at the exchange rate at the balance sheet date.

**Equity and supplementary payments offered to the members**
Supplementary payments to the members are recognised as payables by the share of profit or loss for the year that the Board of Directors proposes to the Board of Representatives that they pay to the members. The amount is recorded via the profit appropriation.

**Other liabilities**
Trade payables, payables to joint ventures and associates and other payables are measured at amortised cost, which is usually equivalent to the nominal amount.

**Deferred income**
Deferred income comprises among other things payments received concerning income in subsequent years and negative goodwill. Deferred income is measured at amortised cost, which is usually equivalent to the nominal amount.

**Consolidated cash flow statement**
The cash flow statement for the Group is presented in accordance with the indirect method, based on the Group's share of profit/loss for the year. The cash flow statement shows the cash flows divided by

operating, investing and financing activities and how these cash flows have affected cash and cash equivalents.

Cash flows from operating activities are calculated as the Group's share of the profit/loss for the year, adjusted for non-cash operating items.

Cash flows for investing activities comprise payments in connection with acquisitions and disposals of intangible assets, property, plant and equipment and financial assets.

Cash flows from financing activities comprise incurrence and repayment of current and non-current liabilities other than provisions to credit institutions, mortgage credit institutions, supplementary payment to members regarding the previous financial year, and payments from equity.

Cash and cash equivalents comprise cash at bank and in hand and marketable listed bonds which are subject to an insignificant risk of changes in value.

**Uncertainty regarding recognition and measurement**

In preparing the consolidated financial statements, management makes various estimates and assumptions, that form the basis of presentation, recognition and measurement of the Group's assets and liabilities. The most significant accounting estimates and judgements are presented below. The estimates and assumptions made about future events are based on historical experience and other factors, which by management are considered reliable, but which by nature are associated with uncertainty. The assumptions may be incomplete or inaccurate, and unexpected events or circumstances may arise.

Sometimes it is necessary to change previous estimates due to changes in the conditions on which they were based, or due to new information or subsequent events. Changes to accounting estimates are recognised in the accounting period in which the change takes place, and also in future accounting periods if the change affects both the period in which it was made and subsequent accounting periods.

**Fixed assets:** Estimated useful lives for intangible assets and property, plant and equipment that are amortised on a continuous basis are reviewed periodically.

If there are indications of impairment, an impairment test for goodwill and other intangible assets is performed. An estimate is made of whether the parts of the business to which the asset is allocated (cash generating units) will be capable of generating sufficient positive net cash flows in the future (value in use) to support the carrying amount of the asset and other net assets in the relevant part of the business. Due to the nature of the business, an estimate must be made of expected cash flows for many years in the future, as well as a reasonable discount rate, which naturally leads to some uncertainty. Intangible assets are specified in note 8 and property, plant and equipment in note 9.

**Inventory:** The cost of finished goods and work in progress comprises the cost of raw materials, consumables, direct labour and indirect production overheads. Indirect production overheads comprise indirect supplies, wages and salaries as well as maintenance and depreciation of the machinery, plant and equipment used for production and costs of plant administration and management.

Entities in the Group, that use standard costs in the measurement of inventories review these costs at least once a year. The standard cost is also revised if it deviates materially from the actual cost of the individual product. Indirect production overheads are calculated on the basis of relevant assumptions as to capacity use, production time and other factors pertaining to the individual product.

The net realisable value of inventories is calculated as the selling price less costs of completion and costs necessary to make the sale. Furthermore it is determined taking into account marketability, obsolescence and developments in expected selling price. The calculation of net realisable value is mainly relevant to discount products. Inventory is specified in note 11.

**Receivables:** Writedowns on receivables are based on an individual assessment of indication of impairment in connection with customer insolvency, expected insolvency, and a mathematical calculation based on grouping of receivables after a number of days' of maturity. Note 15 shows movements for the year in writedowns arising from receivables relating to sales and services.

**Deferred tax:** Deferred tax reflects judgments of actual future tax payable concerning items in the financial statements, taking into account timing and probability. In addition, these estimates reflect expectations of future taxable earnings and the Group's tax planning. Actual future tax may differ from these estimates due to changes in expectations with regard to future taxable earnings, future statutory changes in income tax or the outcome of tax authorities' final review of the Group's tax returns. Recognition of deferred tax assets is also subject to estimation of future use of the assets. Deferred tax is specified in Note 14.

**Pension commitments:** Assessment of the value of defined benefit plans is based on a number of actuarial assumptions including discount rates, expected yield on plan assets, and expected rate of increase in pay and pensions. The value of Arla's defined benefit plans is based on assessments by external actuaries. Further information on these plans is contained in Note 15.

**Other provisions:** relate principally to restructuring and insurance provisions. In connection with restructurings management reassesses useful lives and residual values for non-current assets used in the entity undergoing restructuring. The extent and amount of onerous contracts, as well as employee and other obligations arising in connection with the restructuring, are also estimated. Other provisions are specified in Note 16.

**Financial instruments:** When entering into financial instruments, management assesses whether the instrument is an effective hedge of recognised assets and liabilities, expected future cash flows, or financial investments. The effectiveness of recognised hedge instruments is assessed at least quarterly, and any ineffectiveness is recognised in the income statement.

**Leases:** Arla has entered into a number of lease contracts. When entering into these agreements, management considers the substance of the contracts in order to classify the leases as either finance leases or operating leases. The Group has mainly entered into operating leases for standardised assets with a short duration relative to the life of the assets and, accordingly, the leases are classified as operating leases.

**Business combinations:** In the case of mergers and acquisitions where Arla gains control over the company concerned, the purchase method is applied. Uncertainty is related to identification of assets, liabilities and contingent liabilities, and to measurement of their fair value at the acquisition date. On business combinations and establishment of new collaborative agreements, assessment is made in order to classify the acquired business as a subsidiary, joint venture or associate. The assessment is made against the background of the constituent agreements relating to acquisition of ownership or -voting interest in the business, and against the background of constituent shareholder agreements or other issues, that regulate the actual control in the business. This classification is significant because subsidiaries are consolidated, while joint ventures and associates are not consolidated but recognised on one line with the proportional share of the equity value and of its profit for the year. Joint ventures and associates are shown in Note 10. Note 18 shows the fair value at the time of acquisition for assets and liabilities for business combinations in the year.

## Note 2 *Net revenue*

### ACCOUNTING POLICIES

Net revenue is recognised in the income statement when risks and rewards have been transferred to the buyer. It comprises the invoiced sales for the year less sales discounts, cash discounts, VAT and duties. Refunds and production aid received from the EU are included in revenue.

Information is provided on business areas, including geographical markets and product categories, in respect of the break-down of revenue. The information is based on the Group's accounting policies and internal financial management.

**Revenue split by Business group/market**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| *DKK million* | Revenue | Organic growth | Revenue | Organic growth |
| **Consumer:** | | | | |
| Denmark* | 6,766 | 2.5% | 7,059 | 2.0% |
| Sweden | 10,668 | 3.4% | 9,606 | 2.1% |
| Finland | 2,250 | 5.0% | 2,142 | –7.4% |
| United Kingdom | 12,751 | 6.0% | 12,184 | 3.2% |
| Germany | 4,443 | 4.4% | 2,021 | 0.4% |
| Netherlands | 1,574 | 2.5% | 1,535 | 6.5% |
| Core markets | 38,452 | 2.8% | 34,547 | n/a |
| Growth markets | 3,786 | 22.7% | 3,227 | n/a |
| Value markets | 4,014 | 5.3% | 3,699 | n/a |
| Others | 8,641 | n/a | 7,557 | n/a |
| **Total revenue** | **54,893** | **6.1%** | **49,030** | **3.0%** |

*Organic growth for Consumer Denmark concerns only dairy related products

**Revenue split by product category**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| *DKK million* | Revenue | Revenue share | Revenue | Revenue share |
| Fresh dairy products | 22,370 | 41.3% | 19,678 | 40.1% |
| Cheese | 13,206 | 24.1% | 12,168 | 24.8% |
| Butter and spreads | 7,614 | 13.9% | 6,691 | 13.6% |
| Other | 11,703 | 20.7% | 10,493 | 21.5% |
| **Total revenue** | **54,893** | **100%** | **49,030** | **100%** |

### FINANCIAL REVIEW

Net revenue in 2011 totalled DKK 54.9 billion compared to DKK 49.0 billion in 2010 equating to a rise of 12.0 %. The organic growth for 2011 accounts for 6.1%.

Mergers and acquisitions has effected the net revenue by DKK 2.7 billion split on Hansa DKK 2.1 billion, Allgäuland DKK 0.3 billion and Milko with DKK 0.2 billion. Sales prices has increased the net revenue with DKK 2.4 billion mainly effected by increasing market prices. Furthermore the net revenue has increased with DKK 0.8 billion due to higher volumes and changed productmix.

**Markets**

Looking at the net revenue by business group/market DKK 39 billion was realised on the core markets covering approximately 70 % of the net revenue.

Consumer International mainly have business in the growth markets in Poland, Russia, USA and Middle East and North Africa. Net revenue from growth markets of DKK 4 billion has increased by 23% in 2011 and is now 6% of total net revenue. Especially Russia and the Middle East show good growth rates.

The net revenue on the value markets in 2011 was DKK 4 billion equalling 8% of total net revenue.

**Product categories**

The net revenue growth in 2011 is realised throughout the product categories. The major growth comes from Fresh Dairy Products (FDP) with at increasing net revenue of DKK 3 billion and Cheese with DKK 1 billion.

## Note 3 *Functional split of costs*

### ACCOUNTING POLICIES

**Production costs**
Production costs include goods purchased (including the purchase of milk from the members) and direct and indirect costs (including depreciation and impairment losses on production assets, and wages and salaries paid) generating the revenue for the year. Purchase of milk from the members is recognised at the on-account prices for the year and thus does not comprise supplementary payment.

**Sales and distribution costs**
Costs incurred during the year in selling and distributing goods sold and in conducting initiatives such as sales campaigns, are recognised as sales and distribution costs. Moreover, costs relating to sales staff, write-down of trade receivables, costs relating to sponsorships, advertising and exhibitions and depreciation and impairment losses are recognised as sales and distribution costs.

**Administrative and joint costs**
Administrative expenses and overhead costs comprise expenses incurred during the year for management and administration, including expenses for administrative staff, office premises and office expenses, and depreciation and impairment losses.

**Staff costs**

| *DKK million* | **2011** | **2010** |
|---|---|---|
| Wages, salaries and remuneration | –5,797 | –5,411 |
| Pensions | –522 | –520 |
| Other social security costs | –659 | –623 |
| **Total staff costs** | **–6,978** | **–6,554** |
| Staff costs relate to: | | |
| Production costs | –3,949 | –3,780 |
| Sales and distribution costs | –2,232 | –2,006 |
| Administration and joint costs | –797 | –768 |
| **Total staff costs** | **–6,978** | **–6,554** |
| | | |
| Fees to parent company's Board of Representatives | –6 | –5 |
| Fees to the parent company's Board of Directors | –5 | –5 |
| Fees to parent company's Executive Management Board | –20 | –18 |
| Average number of full-time employees | 17,417 | 16,215 |

**Depreciation, amortisation and impairment**

| *DKK million* | **2011** | **2010** |
|---|---|---|
| Intangible assets | –436 | –485 |
| Property, plant and equipment | –1,600 | –1,574 |
| **Total depreciation, amortisation and impairment** | **–2,036** | **–2,059** |
| Depreciation/amortisation and impairment relate to: | | |
| Production costs | –1,439 | –1,436 |
| Sales and distribution costs | –152 | –185 |
| Administration and joint costs | –445 | –438 |
| **Total depreciation, amortisation and impairment** | **–2,036** | **–2,059** |

### FINANCIAL REVIEW

**Total costs**
Total production costs, sales and distribution and administration and joint costs have increased by 12%, which is about the same level as the increase in revenue. Of the increase, DKK 2.7 billion corresponding to 6% is due to the mergers and acquisitions of Hansa, Allgäuland and Milko. Average exchange rates for SEK and GBP have increased in 2011, which have influenced total costs by DKK 0.2 billion.

The split of total costs in production costs, sales and distribution and administration and joint costs has not changed significantly compared to 2010.

Production costs include an on-account payment to co-operative members of DKK 17.5 billion compared to DKK 14.9 billion in 2010. The relation between revenue and production costs as well as distribution costs has not changed significantly.

Administration costs have increased mainly due to the mergers and acquisitions.

**Staff costs**
Arla Foods operates a bonus programme applying to a number of employees in leading positions. Under the programme an employee can earn up to 20% or 30% of their yearly salary based on defined targets. In the financial statements the amount of DKK 46 million (2010: DKK 36 million) is recognised as accrued bonus to employees. This is based on an estimated average bonus percentage of 17% (2010: 11%).

**Depreciation, amortisation and impairment**
Amortisation of intangible assets amount to DKK 436 million, compared to DKK 485 million in 2010. The decrease is caused by several assets being fully amortised or written down to DKK 0 in 2010 mainly on goodwill and IT development.

Depreciation on property, plant and equipment amount to DKK 1,600 million, which is an increase of DKK 26 million from 2010. Impairment write-downs of DKK101 million remain on the same level as in 2010.

## Note 4 *Fees to auditors appointed by the Board of Representatives*

**Fees to auditors**

| *DKK million* | **2011** | **2010** |
|---|---|---|
| Statutory audit | –13 | –14 |
| Tax assistance | –7 | –5 |
| Other services | –10 | –4 |
| **Total fees to auditors** | **–30** | **–23** |

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

Fees are specified according to the demands in the Danish Financial Statements Act. Other services comprise, fees related to due diligence in connection with mergers and acquisitions of companies.

## Note 5 *Other operating income and other operating costs*

### ACCOUNTING POLICIES

Other operating income and costs comprise items that are secondary compared to the Group's principal activities. These items include gains/losses on sale of intangible assets and property, plant and equipment, etc.

**Other operating income and other operating costs**

| *DKK million* | **2011** | **2010** |
|---|---|---|
| **Other operating income:** | | |
| Gain on disposal of intangible assets and property, plant and equipment | 13 | 13 |
| Sale of electricity | 64 | 54 |
| Rental and other secondary income | 7 | 12 |
| Other items | 53 | 44 |
| **Total other operating income** | **137** | **123** |
| **Other operating costs:** | | |
| Loss on disposal of intangible assets and property, plant and equipment | –10 | –13 |
| Costs related to sale of electricity | –37 | –37 |
| Other items | –40 | –26 |
| **Total other operating costs** | **–87** | **–76** |

**Effect on income statement**

| *DKK million* | Including other income and costs and special items | Other income and costs and special items | Excluding other income and costs and special items |
|---|---|---|---|
| **2011** | | | |
| NET REVENUE | 54,893 | 0 | 54,893 |
| Production costs | –43,983 | +60 | –43,923 |
| **Gross profit** | **10,910** | **+60** | **10,970** |
| Sales and distribution costs | –6,781 | 0 | –6,781 |
| Administration and joint costs | –2,514 | –52 | –2,566 |
| Other operating income | 137 | –137 | 0 |
| Other operating costs | –87 | +87 | 0 |
| **Operating profit** | **1,665** | **–42** | **1,623** |

## FINANCIAL REVIEW

### Other operating income and costs

Other operating income and costs relate to items of a secondary nature.

Included in this are revenue and cost in connection to the sale of surplus electricity from the condensation plants. In 2011 total net result related to this activity amounts to DKK 27 million (2010: DKK 17 million). In 2011 profitable contracts regarding delivery of electricity was entered, which caused the profit increase.

Gains and losses related to disposed fixed assets are recognised in operating income, with a profit of DKK 13 million (2010: 13 million), and in operating costs, with a loss of DKK 10 million (2010: DKK 13 million).

### Special items

In addition to other operating income and costs, the note also specifies other special items. These items are included in the income statement as production costs, sales and distribution costs as well as administrative and joint costs.

In production cost DKK 60 million can be referred to as special items. In 2010, fixed assets in Poland were written-down. This write-down was reversed in 2011 which has caused a positive effect on the income statement of DKK 23 million.

A total of DKK 83 million are related to restructuring costs, including impairment write-downs. In 2011 a restructuring of yellow cheese in Denmark and Sweden began. This led to both impairment write-downs of assets and redundancy provisions totalling DKK 53 million. The remaining parts relates to other restructurings in Denmark and Sweden.

In administration and joint costs DKK +52 million can be referred to as special items. This mainly relates to recognition of costs in assets, which has not previously met the requirements for recognition. This has led to a positive impact of DKK 42 million.

## Note 6 *Financial income and financial costs*

### ACCOUNTING POLICIES

Interest income and cost as well as capital gains and losses, etc., are included in the income statement in the amounts attributable to the financial year.

Moreover, financial income and cost comprise realised and unrealised value adjustments of securities and foreign currency, amortisation of financial assets and liabilities as well as the interest element of finance lease payments. Furthermore, realised and unrealised gains and losses on derivative financial instruments, that are not designated as hedging instruments are included. Accounting policies for leases are described in note 9 and for derivative financial instruments in note 19.

**Financial income and financial costs**

| *DKK million* | 2011 | 2010 |
|---|---|---|
| *Financial income:* | | |
| Interest, cash at bank and in hand | 26 | 21 |
| Interest, securities | 53 | 40 |
| Exchange rate gains (net) | 61 | 77 |
| Other | 3 | 9 |
| **Total financial income** | **143** | **147** |
| | | |
| *Financial costs:* | | |
| Interest, bank loans etc. | –437 | –441 |
| Other | –11 | 0 |
| **Total financial costs** | **–448** | **–441** |
| | | |
| **Net financial cost** | **–305** | **–294** |

### FINANCIAL REVIEW

Net financial items are recognised in the income statement in 2011 as DKK 305 million (2010: DKK 294 million). The rise in the Group's financial expenses can primarily be attributed to lower gains on foreign currency.

Net financials include the Group's net interest costs excluding interest relating to pensions at DKK 315 million compared to DKK 338 million in 2010 are recognised as staff costs. The average interest rate decreased to 3.1% in 2011 compared to 3.7% in 2010.

## Note 7 *Tax*

### ACCOUNTING POLICIES

Taxable income is determined based on the national rules applicable to the enterprises. Tax is computed based on cooperative taxation or company taxation. Cooperative taxation is based on capital, while company taxation is based on income for the year.

Tax for the year comprises current tax for the year and changes in deferred tax for the year. The tax cost relating to the profit/loss for the year is recognised in the income statement. The tax cost relating to income and expenses recognised in equity is recognised directly in equity. Full distribution of tax between the jointly taxed enterprises is made.

**Current tax liabilities**

Current tax payable and receivable are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax regarding the taxable income of prior years, if any, and for tax paid on account.

**Tax for the year**

| *DKK million* | 2011 | 2010 |
|---|---|---|
| Cooperative tax | –35 | –57 |
| Tax on taxable income for the year | –34 | –125 |
| Adjustment, deferred tax | –20 | –7 |
| Change in tax rate | –18 | –5 |
| Adjustment of tax from previous year | 47 | 34 |
| **Total tax for the year** | **–60** | **–160** |

### FINANCIAL REVIEW

Expensed tax declined during the year, primarily attributable to a lower taxable income for the year. The tax rate in UK will reduce from 1 April, 2012, from 27% to 25%. The tax rate in Finland was lowered on 1 January, 2012, from 26% to 24.5%. The deferred tax for these countries has been reduced accordingly.

## Note 8 *Intangible assets*

### ACCOUNTING POLICIES

Intangible assets are measured at purchase price/cost less accumulated amortisation and impairment losses.

**Goodwill**
Goodwill is initially recognised at cost as described under "Business combinations" in note 18.

**Licences and trademarks etc.**
A licence is an authorisation to use the licensed material. A trademark is a distinctive sign or indicator used by a company to identify that the products or services to consumers with which the trademark appears originate from a unique source, and to distinguish its products or services from those of other companies.

**Product development costs**
Research and development costs comprise direct costs, salaries and amortisation directly or indirectly attributable to the Group's development activities.

Capitalisation of product development costs is commenced only when the criterias in this respect have been met. Development projects that are clearly defined and identifiable, and where the technical use, sufficient resources and a potential market or development opportunities are evidenced, and where the Group intends to produce, market or use the product commercially, are recognised as intangible assets. Usually, the criterias are met late in the development stage.

Product development costs meeting the criterias for recognition in the balance sheet are measured at cost, including any indirect costs incurred.

Product development costs that do not meet the criterias for capitalisation in the balance sheet are recognised as costs in the income statement on an ongoing basis.

**IT development costs**
IT development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved IT processes, systems or services before the start of commercial use. For IT development projects, mainly external costs for the establishment of the group's IT systems are recognised.

**Amortisation of assets**
Intangible assets are amortised on a straight-line basis over the estimated economic life. The estimated economic lives are as follows:

- Goodwill – up to 20 years
- Licences and trademarks, etc., – up to 20 years
- Product development – 3 years
- IT development – 5–8 years

Intangible assets are amortised from the date of acquisition or -entry into service.

**Impairment of assets**
The carrying amount of intangible assets is assessed annually for indications of impairment. Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Assets are written down to the lower of the recoverable amount and carrying amount.

The recoverable amount is the higher of an asset's value in use and its fair value. The value in use is determined as the present value of the expected future net cash flows from the use of the asset or -group of assets and expected net cash flows from the disposal of the asset or -group of assets after the end of their useful life.

**Intangible assets 2011**

| *DKK million* | Goodwill | Licences and trademarks etc. | Product development | IT development |
|---|---|---|---|---|
| Cost at 1 January 2011 | 5,070 | 587 | 86 | 1,038 |
| Exchange rate adjustments | 90 | 3 | 0 | 7 |
| Additions | 0 | 0 | 0 | 144 |
| Mergers and acquisitions | 178 | 183 | 0 | 1 |
| Reclassification | 0 | 0 | 0 | 87 |
| Disposals | –159 | –1 | –86 | –17 |
| **Cost at 31 December 2011** | **5,179** | **772** | **0** | **1,260** |
| Amortisation and impairment at 1 January 2011 | –1,326 | –259 | –86 | –658 |
| Exchange rate adjustments | –29 | –1 | 0 | 0 |
| Amortisation for the year | –252 | –63 | 0 | –121 |
| Reclassification | 0 | 0 | 0 | –87 |
| Amortisation on disposals | 159 | 1 | 86 | 7 |
| **Amortisation and impairment at 31 December 2011** | **–1,448** | **–322** | **0** | **–859** |
| **Carrying amount at 31 December 2011** | **3,731** | **450** | **0** | **401** |

**Intangible assets 2010**

| *DKK million* | Goodwill | Licences and trademarks etc. | Product development | IT development |
|---|---|---|---|---|
| Cost at 1 January 2010 | 5,133 | 548 | 111 | 1,248 |
| Exchange rate adjustments | 168 | 41 | 5 | 0 |
| Additions | 0 | 0 | 0 | 110 |
| Disposals | –231 | –2 | –30 | –320 |
| **Cost at 31 December 2010** | **5,070** | **587** | **86** | **1,038** |
| Amortisation and impairment at 1 January 2010 | –1,237 | –188 | –78 | –809 |
| Exchange rate adjustments | –47 | –19 | –4 | 0 |
| Amortisation for the year | –265 | –53 | –21 | –163 |
| Impairment for the year | –8 | –1 | –13 | 0 |
| Amortisation on disposals | 231 | 2 | 30 | 314 |
| **Amortisation and impairment at 31 December 2010** | **–1,326** | **–259** | **86** | **–658** |
| **Carrying amount at 31 December 2010** | **3,744** | **328** | **0** | **380** |

## FINANCIAL REVIEW

Intangible assets amount to DKK 4,582 million compared to DKK 4,452 million last year. Amortisation amounts to DKK 436 million. There were no impairment write-downs in 2011. Additions amount to DKK 506 million of which DKK 362 million relates to mergers and acquisitions. These are specified in note 18.

**Goodwill**
Opening balances for goodwill comprise mainly goodwill related to Arla Foods UK, AFF, Tholstrup and Arla Ingman. From the mergers with Milko, goodwill of DKK 122 million is recognised.

Impairment tests have not indicated a need for impairment write-downs of goodwill in 2011. However the risk of impairment write-downs in Finland is increasing due to the difficult competitive situation and operating losses. The total amount of goodwill related to Finland is approximately DKK 280 million.

**Licences and trademarks etc.**
Opening balances for licences and trademarks etc. comprise mainly the trademarks Cocio, Anchor, licences in Canada and God Morgon. Additions from mergers and acquisitions of DKK 183 million mainly comprise the trademark Hansano.

**Product development**
In 2011 no product development costs were considered to comply with the definition of recognition in the balance sheet. The book value is DKK 0 million and remaining value of accumulated cost and amortisation has been disposed of in 2011.

**IT development**
Additions were part of the normal business and there are no special developments in 2011.

# Note 9 *Property, plant and equipment*

## ACCOUNTING POLICIES

**Property, plant and equipment**
Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Construction in progress, land and decommissioned plants written down to net realisable value are not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. Interest expenses for the period of production are not included.

Property, plant and equipment are depreciated on a straight-line basis from the date of acquisition or entry into service based on an assessment of the expected useful life. The expected useful lives are as follows:

- Office premises – 50 years
- Production buildings – 20 years
- Plant and machinery – 5–20 years
- Fixtures and fittings, tools and equipment – 3–7 years

Depreciation is recognised in the income statement as production costs, sales and distribution costs and administrative and joint costs.

Gains and losses are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal.

**Leases**
For accounting purposes, leases are divided into finance and operating leases.

Leases regarding property, plant and equipment that transfer substantially all the risks and rewards incident to ownership to the Group are classified as finance leases. All other leases are classified as operating leases.

On initial recognition, finance leases are recognised in the balance sheet at the lower of the fair value and present value of the future lease payments. In calculating the present value, the discount factor is the interest rate implicit in the lease or an approximation thereof.

Assets held under finance leases are subsequently depreciated in line with other property, plant and equipment.

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

**Impairment of assets**
The carrying amount of property, plant and equipment, is assessed annually for indications of impairment. Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Assets are written down to the lower of the recoverable amount and carrying amount.

The recoverable amount is the higher of an asset's value in use and its fair value. The value in use is determined as the present value of the expected future net cash flows from the use of the asset or -group of assets and expected net cash flows from the disposal of the asset or -group of assets after the end of their useful life.

**Property, plant and equipment 2011**

| DKK million | Land and buildings | Plant and machinery | Fixture and fittings, tools and equipment | Assets in course of construction |
|---|---|---|---|---|
| Cost at 1 January 2011 | 7,046 | 11,262 | 2,652 | 652 |
| Exchange rate adjustment | 52 | 59 | 32 | 17 |
| Additions | 49 | 220 | 41 | 1,855 |
| Mergers and acquisitions | 342 | 343 | 48 | 17 |
| Transferred from assets in course of construction | 101 | 1,037 | 107 | –1.245 |
| Disposals | –96 | –384 | –81 | –26 |
| **Cost at 31 December 2011** | **7,494** | **12,537** | **2,799** | **1,270** |
| Depreciation and impairment at 1 January 2011 | –2,318 | –6,073 | –2,003 | 0 |
| Exchange rate adjustments | –14 | –26 | –23 | 0 |
| Depreciation for the year | –330 | –1,019 | –173 | 0 |
| Impairment for the year | –14 | –87 | 0 | 0 |
| Impairment reversal | 17 | 0 | 6 | 0 |
| Depreciation on disposals | 62 | 356 | 61 | 0 |
| **Depreciation and impairment at 31 December 2011** | **–2,597** | **–6,849** | **–2,132** | **0** |
| **Carrying amount at 31 December 2011** | **4,897** | **5,688** | **667** | **1,270** |
| **Of which assets held under finance lease** | **42** | **145** | **0** | **0** |

**Property, plant and equipment 2010**

| DKK million | Land and buildings | Plant and machinery | Fixture and fittings, tools and equipment | Assets in course of construction |
|---|---|---|---|---|
| Cost at 1 January 2010 | 6 395 | 10,885 | 1,196 | 916 |
| Exchange rate adjustment | 268 | 480 | 110 | 41 |
| Additions | 93 | 535 | 102 | 883 |
| Transferred from assets in course of construction | 267 | 748 | 169 | –1,184 |
| Reclassification | 30 | –895 | 1,202 | 0 |
| Disposals | –7 | –491 | –127 | –4 |
| **Cost at 31 December 2010** | **7,046** | **11,262** | **2,652** | **652** |
| Depreciation and impairment at 1 January 2010 | –1,812 | –5 913 | –924 | 0 |
| Exchange rate adjustments | –66 | –265 | –93 | 0 |
| Depreciation for the year | –336 | –934 | –191 | 0 |
| Impairment for the year | –60 | –53 | 0 | 0 |
| Reclassification | –44 | 609 | –902 | 0 |
| Depreciation on disposals | 0 | 483 | 107 | 0 |
| **Depreciation and impairment at 31 December 2010** | **–2,318** | **–6,073** | **–2,003** | **0** |
| **Carrying amount at 31 December 2010** | **4,728** | **5,189** | **649** | **652** |
| **Of which assets held under finance lease** | **46** | **170** | **1** | **0** |

## FINANCIAL REVIEW

Property, plant and equipment amount to DKK 12,522 million in 2011 compared to DKK 11,218 million in 2010. Opening balances comprise mainly production facilities in Denmark, Sweden and the UK.

The year's additions of DKK 2,165 million primarily comprise investments related to GCO in Denmark and Sweden and the new dairy in Aylesbury, London.

Additions from the mergers and acquisitions of Hansa, Milko and Allgäuland amount to a total of DKK 750 million.

Depreciation amounts to DKK 1,522 million compared to 1,461 in 2010. Impairment amounts to DKK 101 million compared to DKK 113 million in 2010. Impairments include assets in the yellow cheese restructuring in Denmark and Sweden as well as other property, plant and equipments. Impairment regarding operations in Poland of DKK 23 million has been reversed in 2011.

## Note 10 *Financial assets*

### ACCOUNTING POLICIES

**Investments in joint ventures**
Investments in joint ventures are recognised in the balance sheet according to the equity method at the proportionate share of the enterprises' net asset values, calculated in accordance with the Group's accounting policies. Goodwill related to joint ventures is recognised under "Investments in joint ventures".

Joint ventures with a negative net asset value are measured at nil, and any amounts owed by such entities are written down by the Group's share of the negative net asset value if the amount owed is deemed irrecoverable. If the negative net asset value exceeds the amount owed, the remaining amount is recognised under provisions only if the Group has a legal or a constructive obligation to cover the joint venture's negative balance.

The proportionate share of the results of the joint ventures after tax is recognised in the Group's income statement.

**Investments in associates**
Investments in associates are recognised in the balance sheet according to the equity method at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies. Goodwill related to associates is recognised under "Investments in associates".

Associates with a negative net asset value are measured at nil, and any amounts owed by such entities are written down by the Group's share of the negative net asset value if the amount owed is deemed irrecoverable. If the negative net asset value exceeds the amount owed, the remaining amount is recognised under provisions only if the Group has a legal or a constructive obligation to cover the associate's negative balance.

The proportionate share of the results after tax of the associates is recognised in the Group's income statement.

**Other securities and investments**
Other securities and investments, etc., are measured at fair value at the balance sheet date. Changes in fair value are carried as financial income or costs. Other securities under non-current assets primarily comprise bonds where the Group intends to hold the securities to maturity. These are measured at amortised cost. Other bonds are included in current assets.

**Impairment of assets**
The carrying amount of financial assets is assessed annually for indications of impairment. Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Assets are written down to the lower of the recoverable amount and carrying amount.

The recoverable amount is the higher of an asset's value in use and its fair value. The value in use is determined as the present value of the expected future net cash flows from the use of the asset or -r -group of assets and expected net cash flows from the disposal of the asset or -group of assets after the end of their useful life.

**Financial assets excluding deferred tax asset 2011**

| *DKK million* | **Investments in joint ventures** | **Investments in associates** | **Other securities etc.** |
|---|---|---|---|
| Cost at 1 January 2011 | 0 | 667 | 610 |
| Reclassification | 389 | –440 | 0 |
| Additions regarding mergers and acquisitions | 0 | 57 | 25 |
| Additions | 16 | 0 | 14 |
| Disposals | 0 | 0 | –5 |
| **Cost at 31 December 2011** | **405** | **284** | **644** |
| Adjustments at 1 January 2011 | 0 | –33 | –60 |
| Dividends | –6 | 0 | 0 |
| Results for the year | 17 | 15 | 0 |
| Exchange rate adjustments | 5 | 3 | 0 |
| Other adjustments | 0 | –5 | –24 |
| **Adjustments at 31 December 2011** | **16** | **–20** | **–84** |
| **Carrying amount at 31 December 2011** | **421** | **264** | **560** |

**Financial assets excluding deferred tax asset 2010**

| *DKK million* | **Investments in joint ventures** | **Investments in associates** | **Other securities etc.** |
|---|---|---|---|
| Cost at 1 January 2010 | **0** | 665 | 591 |
| Additions | **0** | 2 | 29 |
| Disposals | **0** | 0 | –10 |
| **Cost at 31 December 2010** | **0** | **667** | **610** |
| Adjustments at 1 January 2010 | **0** | –80 | –80 |
| Dividends | **0** | –12 | 0 |
| Results for the year | **0** | 23 | 10 |
| Exchange rate adjustments | **0** | 34 | 10 |
| Other adjustments | **0** | 2 | 0 |
| **Adjustments at 31 December 2010** | **0** | **–33** | **–60** |
| **Carrying amount at 31 December 2010** | **0** | **634** | **550** |

**Investments in joint ventures consists of**

2011

| *DKK million* | Results after tax | Equity | Ownership share |
|---|---|---|---|
| Arla Foods Ingredients SA, Argentina | 13 | 103 | 50% |
| Arla Foods UK Farmers, UK | 0 | 86 | 50% |
| Biolac GmbH, Germany | 20 | 102 | 50% |
| Dan Vigor Ltda., Brazil | 12 | 56 | 50% |
| Others | –28 | 74 | 40–50% |
| **Total investments in joint ventures** | **17** | **421** | |

**Investments in associates consists of**

2011

| *DKK million* | Results after tax | Equity | Ownership share |
|---|---|---|---|
| Svensk Mjölk, Sweden | 2 | 84 | 53% |
| Immobilien K/S, Denmark | 8 | 77 | 35% |
| Agri Norcold, Denmark | 7 | 48 | 50% |
| Others | –2 | 55 | 30–50% |
| **Total investments in associates** | **15** | **264** | |

2010

| *DKK million* | Results after tax | Equity | Ownership share |
|---|---|---|---|
| Arla Foods Ingredients SA, Argentina | 5 | 87 | 50% |
| Arla Foods UK Farmers, UK | 0 | 84 | 50% |
| Biolac GmbH, Germany | 9 | 88 | 50% |
| Dan Vigor Ltda., Brazil | 10 | 48 | 50% |
| Svensk Mjölk, Sweden | −1 | 77 | 42% |
| Immobilien K/S, Denmark | 0 | 72 | 35% |
| Agri Norcold, Denmark | 5 | 43 | 50% |
| Others | –5 | 135 | 40−50% |
| **Total investments in associates** | **23** | **634** | |

## FINANCIAL REVIEW

**Investments in joint ventures and associates**

The change of the control definition has caused changes for the former associated companies. A number of the companies in the Middle East are now considered subsidiaries and are fully consolidated in the financial statements.

Other companies are considered joint ventures. These are separately presented but otherwise accounted for the same way as associated companies.

Transfer of carrying amount related to companies reclassified to subsidiaries is DKK 51 million and transfer related to joint ventures is DKK 389 million.

In 2011 Arla Foods Group in connection with the mergers and acquisitions acquired investments in entities that are classified as associates. These are Bergland Naturkäse GmbH and Milei GmbH.

In note 24 the total group chart including joint ventures and associated companies is presented.

**Other securities etc.**

Other securities consists mainly of listed shares and bonds held by Mejeriforeningen. In 2011 these contributed positively to the net financials by DKK 8 million compared to DKK 15 million in 2010.

# Note 11 *Inventory*

## ACCOUNTING POLICIES

Raw materials and consumables as well as goods for resale are measured at cost, comprising purchase price plus delivery costs. The on-account price plus expected supplementary payment to Arla Foods amba's members is used as the cost of milk delivered by members included in inventories.

Work in progress and finished goods are measured at cost, comprising the costs of raw materials and consumables plus costs of conversion and other costs directly or indirectly attributable to the individual goods. Indirect production costs comprise costs relating to indirect materials, wages and salaries and depreciation of capital equipment. Borrowing costs are not included in the cost.

Inventories are measured in accordance with the FIFO method. If cost exceeds the net realisable value, a write-down is made to this lower value. The net realisable value of inventories is determined taking into consideration marketability, obsolescence and estimated sales price less costs of completion and costs necessary to make the sale.

**Inventory**

| *DKK million* | **2011** | **2010** |
|---|---|---|
| Raw materials and consumables | 1,601 | 1,281 |
| Work in progress | 570 | 530 |
| Finished goods and goods for resale | 3,196 | 2,574 |
| **Total inventory** | **5,367** | **4,385** |

## FINANCIAL REVIEW

Inventories total DKK 5.367 million at 31 December 2011 compared to DKK 4,385 million in 2010. The increase can be explained by increasing prices for milk and also increasing volumes in 2011, which has caused an increase of approximately DKK 400 million. Mergers and acquisitions has affected invenories by approximately DKK 450 million, and also the change of investments in associates to subsidiaries has caused an increase of approximately 100 DKK million.

## Note 12 *Trade receivables*

### ACCOUNTING POLICIES

Receivables are measured at amortised cost less write-down for bad debt losses based on an individual assessment or a write-down on a portfolio basis. Large receivables are assessed individually. If there is no objective indication of impairment, an assessment is made on a portfolio basis of receivables on similar markets based on the maturity of the receivables.

Substantially, amortised cost corresponds to nominal values.

### Trade receivables

| *DKK million* | 2011 | 2010 |
|---|---|---|
| Trade receivables before provision for bad debt | 5,838 | 4,861 |
| Provision for bad debt | –82 | –80 |
| **Total trade receivables, net** | **5,756** | **4,781** |

### Trade receivables split by market

| *DKK million* | 2011 | 2010 |
|---|---|---|
| Denmark | 1,140 | 1,315 |
| Sweden | 848 | 800 |
| Finland | 210 | 189 |
| United Kingdom | 1,038 | 978 |
| Germany | 536 | 215 |
| Netherlands | 166 | 92 |
| Others | 1,900 | 1,272 |
| **Total trade receivables** | **5,838** | **4,861** |

### FINANCIAL REVIEW

Trade receivables total DKK 5,765 compared to DKK 4,781 million the previous year. The increase can primarily be attributed to higher revenue, but also mergers and aquisitions, which has increased the trade receivables by DKK 450 million. The change of associated companies has added DKK 120 million to the receivables.

Trade receivables in Germany increased by DKK 321 million compared to 2010. The increased is primarily related to Allgäuland and Hansa Milch which were acquired during the course of the year.

The provision for bad debt has remained stable compared to prior year. There has been no material write-offs in 2011.

## Note 13 *Minority interests*

### ACCOUNTING POLICIES

In the consolidated financial statements, the items of subsidiaries are recognised in full. On initial recognition, non-controlling interests are measured at the proportionate share of the acquired business' s identified assets and liabilities. The minority interests' proportionate shares of the subsidiaries' results and equity are recognised separately in the income statement and balance sheet, respectively.

**Minority interests**

| *DKK million* | **2011** | **2010** |
|---|---|---|
| Minority interests at 1 January | 116 | 128 |
| Share of results | 21 | –15 |
| Additions and disposals, changes in ownership shares etc. | 31 | 3 |
| **Minority interests at 31 December** | **168** | **116** |

### FINANCIAL REVIEW

Minority interests have increased DKK 52 million in 2011. The majority of the increase is related to the changed status of a number of companies in the Middle East because of a change in the definition of parent/subsidiary relationship in the Danish Financial Statements Act. These companies are now being accounted for as subsidiaries which means that they are now fully consolidated in the consolidated statements and consequently a minority interest share is calculated. The related effect amounts to DKK 42 million on 1 January 2011. Minority share of net results in 2011 amounts to DKK 21 million. Other equity movements amount to DKK –11 million.

## Note 14 *Deferred tax*

### ACCOUNTING POLICIES

Deferred tax and adjustment of deferred tax for the year are measured using the balance sheet liability method as the tax value of all temporary differences between the carrying amount and the tax base of assets and liabilities.

Deferred tax assets, including tax value of tax loss carryforwards, are recognised under other non-current assets at the expected value of their use; either as an off-set against tax on future income or as an off-set against deferred tax liabilities in enterprises in the same legal tax entity and jurisdiction.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the end of the reporting period when the deferred tax is expected to crystallise.

Changes in deferred tax assets and liabilities due to changes in the tax rate are recognised in the income statement.

**Deferred tax assets**

| *DKK million* | **2011** | **2010** |
|---|---|---|
| Deferred tax assets at 1 January | 150 | 215 |
| Exchange rate adjustments | 4 | 11 |
| Acquisition of enterprises | 8 | 0 |
| Other changes during the year | –14 | –76 |
| **Deferred tax assets at 31 December** | **148** | **150** |

**Deferred tax liabilities**

| *DKK million* | **2011** | **2010** |
|---|---|---|
| Deferred tax liabilities at 1 January | 194 | 229 |
| Exchange rate adjustments | 1 | 21 |
| Acquisition of enterprises | 33 | 0 |
| Other changes during the year | –14 | –56 |
| **Deferred tax liabilities at 31 December** | **214** | **194** |

### FINANCIAL REVIEW

**Deferred tax assets:**
Deferred tax assets relate predominantly to pension liabilities in the UK. A deferred tax asset of DKK 92 million (2010: DKK 82 million) has not been recognised as it is not expected to be used.

**Deferred tax liabilities:**
Deferred tax liabilities predominantly relates to property, plant and equipment in Sweden.

## Note 15 *Pension liabilities*

### ACCOUNTING POLICIES

**Pension plans**

The Group has entered into pension plans with a significant number of its employees. The pension plans comprise both defined contribution plans and defined benefit plans.

Under the defined contribution plans, the Group pays contributions to independent pension companies on a regular basis. The Group is not obliged to make any additional payments.

Defined benefit plans are characterised by the fact that the Group is obligated to pay a specific benefit from the date of retirement dependent on for example the employees' seniority and final salary.

The liability regarding defined benefit plans is calculated annually by means of actuarial calculations based on assumptions regarding the future development in interest rate, inflation and average life expectancy, etc.

Costs for the year regarding defined benefit plans are based on actuarial calculations.

The actuarial present values less the fair value of any plan assets are recognised in the balance sheet under pension provisions.

If the actuarial assumptions change, gains and losses are thus only recognised in the income statement if they exceed 10% of either the present value of the pension obligation or the fair value of the pension fund's assets and, in that event, over the relevant employees' average expected number of remaining working years in the Group (the corridor method).

The provision comprises defined benefit schemes in UK and Sweden. The defined benefit schemes ensure pensions to the employees covered, based on seniority and final salary.

**The net pension liability is recognised in the balance sheet as follows:**

| *DKK million* | 2011 | 2010 |
|---|---|---|
| Present value of defined benefit schemes | 7,782 | 7,042 |
| Fair value of plan assets | –5,636 | –5,218 |
| Net pension liabilities | 2,146 | 1,824 |
| Non-recognised actuarial gains/losses, net | –681 | –240 |
| **Net pension liabilities recognised in balance sheet** | **1,465** | **1,584** |

**Development in net pension liability:**

| *DKK million* | 2011 | 2010 |
|---|---|---|
| Net pension liability recognised in balance sheet at 1 January | 1,584 | 1,670 |
| Exchange rate adjustments | 17 | 161 |
| Expensed in the income statement, net | 72 | 74 |
| Additions from mergers and acquisitions | 118 | 0 |
| The Group's payments to the schemes | –326 | –321 |
| **Net pension liabilities recognised in the balance sheet at 31 December** | **1,465** | **1,584** |

**Assets invested in pension funds comprise:**

| *DKK million* | % | 2011 | % | 2010 |
|---|---|---|---|---|
| Equities | 36 | 2,018 | 39 | 2,048 |
| Bonds | 45 | 2,553 | 40 | 2,075 |
| Properties | 12 | 678 | 13 | 653 |
| Other assets | 7 | 387 | 8 | 442 |
| **Total assets** | **100** | **5,636** | **100** | **5,218** |

**Return on pension assets:**

| *DKK million* | 2011 | 2010 |
|---|---|---|
| Expected return on plan assets | 324 | 327 |
| Actuarial gains/losses on plan assets for the year (not recognised) | –76 | 110 |
| **Actual return on plan assets** | **248** | **437** |

The Group expects to pay DKK 277 million to defined pension schemes in 2012 compared to DKK 326 in 2011.

**Assumptions for the actuarial calculations at the balance sheet date are:**

| | 2011 | 2010 |
|---|---|---|
| Discounting rate, Sweden | 3.8% | 3.9% |
| Discounting rate, UK | 5.0% | 5.6% |
| Expected payroll increase Sweden | 3.0% | 3.0% |
| Expected payroll increase UK | 4.4% | 4.7% |
| Expected average return on plan assets | 6.3% | 6.7% |

Expected return on plan assets is determined by external actuaries on the basis of the composition of the assets and general expectations of economic developments.

### FINANCIAL REVIEW

Net pension liabilities in the UK and Sweden are recognised at DKK 1,465 million compared to DKK 1,584 million the previous year.

The present value of defined benefit schemes has decreased due to the Group's payments to the schemes and increased due to the merger with Milko.

The provision comprises defined benefit schemes in UK and Sweden. The defined benefit schemes ensure pensions to the employees covered, based on seniority and final salary.

**UK**

The defined benefit schemes in the UK are administered by independent pension funds that invest the amounts paid to cover the liabilities. The actuarial present value of the liabilities (DKK 6,355 million at 31 December 2011 compared to DKK 5,846 million at 31 December 2010) less the fair value of the assets (DKK 5,636 million at 31 December 2011 compared to DKK 5,218 million at 31 December 2010) amounts to DKK 719 million (2010: DKK 627 million).

Following the use of the corridor method, the actuarial loss of DKK 302 million (gain of DKK 51 million at 31 December 2010) has not increased the provision and consequently, the net commitment at 31 December 2011 is DKK 417 million (2010: DKK 679 million).

During the year Arla has performed a pension increase exercise with the aim to reduce the pension liability and the future risk, resulting in a past service cost income of DKK 4 million. Arla is closing the defined contribution pension schemes for future accruals, with effect from 1. February 2012 after reaching agreement with the pension funds trustees and after a constructive dialog with active members.

**Sweden**

The defined benefit schemes in Sweden are not covered by payments to pension funds.

The actuarial present value of the liability totals DKK 1,427 million (2010: DKK 1,196 million), which is increased by DKK 118 million because of the merger of Milko. Following the use of the corridor method, the actuarial loss of DKK 379 million (DKK 291 million at 31 December 2010) has not increased the provision and consequently the net liability at 31 December 2011 is DKK 1,048 million (2010: DKK 905 million).

In 2011 the method for deriving at the discount rate for pension obligations in Sweden are changed. Accordingly the defined benefit obligation decreased by approximately DKK 350 million. However, as Arla Foods applies the corridor method the recognised net liability in the balance sheet is not affected.

## Note 16 *Other provisions*

### ACCOUNTING POLICIES

Other provisions comprise insurance provisions and liabilities in relation to business combinations, restructurings, onerous contracts, warranty commitments and litigation.

Other provisions are recognised when, as a result of past events, the Group has a legal or a constructive obligation and it is probable that there will be an outflow of resources embodying economic benefits to settle the obligation.

Other provisions are measured at net realisable value or at fair value based on a best estimate of the costs necessary at the balance sheet date to settle the liability.

**Other provisions**

| *DKK milllion* | **2011** | **2010** |
|---|---|---|
| Other provisions at 1 January | 204 | 202 |
| Exchange rate adjustments | 2 | 5 |
| Additions regarding mergers and acquisitions | 92 | 0 |
| New provisions during the year | 88 | 66 |
| Used during the year | −63 | −69 |
| **Other provisions at 31 December** | **323** | **204** |
| | | |
| Insurance provisions | 128 | 117 |
| Restructuring provisions | 118 | 34 |
| Other provisions | 77 | 53 |
| **Total other provisions** | **323** | **204** |

### FINANCIAL REVIEW

Other provisions totalled DKK 323 million at 31 December 2011, an increase from the previous year. Other provisions primarily relate to insurance-related provisions (incurred but not reported) and restructuring provisions.

The insurance provisions relates mainly to industrial injuries, for which DKK 31 millions was paid out in 2011 (2010: DKK 18 million) and DKK 6 million on other insurances (2010: DKK 7 million). New provisions of DKK 8 million for industrial injuries and DKK 40 million for other insurances were recognised in 2011.

The restructuring provisions relates to Falkenberg, and the merger of Milko and acquisition of Allgäuland in 2011.

All provisions except from industrial injuries are expected to be used within 1 year.

## Note 17 *Long-term liabilities*

### ACCOUNTING POLICIES

Amounts owed to mortgage credit institutions and banks, etc., and issued corporate bonds are recognised at the date of borrowing, at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement under financial income or costs over the term of the loan.

Amounts owed to credit institutions, etc., also include the capitalised residual obligation on finance leases. The interest element of the lease payment is recognised in the income statement over the term of the lease.

**Long-term liabilities**

| *DKK million* | **2011** | **2010** |
|---|---|---|
| Subordinated bond loan | 0 | 1,000 |
| Issued bonds | 1,251 | 0 |
| Mortgage-credit institutes | 5,985 | 4,965 |
| Credit institutions, etc. | 1,903 | 1,498 |
| **Recognised value** | **9,139** | **7,463** |
| Debt to credit institutions is recognised as follows in the balance sheet: | | |
| Long-term liabilities | 9,031 | 7,359 |
| Short-term liabilities | 108 | 104 |
| **Recognised value** | **9,139** | **7,463** |
| **Nominal value** | **9,364** | **7,589** |

**The Group's net interest bearing debt excluding pension commitments**

| **2011** | | **Falls due (number of years after the financial year)** | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Equivalent value *DKK million* | Total | 0–1 | 1–2 | 2–3 | 3–5 | 5–7 | 7–10 | 10+ |
| DKK | 5,756 | –227 | 87 | 87 | 232 | 299 | 1,465 | 3,813 |
| EUR | 887 | –63 | 8 | 574 | 15 | 353 | 0 | 0 |
| GBP | 554 | 54 | 14 | 486 | 0 | 0 | 0 | 0 |
| SEK | 2,409 | 1,126 | 20 | 0 | 1,251 | 0 | 0 | 12 |
| Other | 384 | 69 | 1 | 312 | 0 | 1 | 1 | 0 |
| **Total 2011** | **9,990** | **959** | **130** | **1,459** | **1,498** | **653** | **1,466** | **3,825** |

| **2010** | | **Falls due (number of years after the financial year)** | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Equivalent value *DKK million* | Total | 0–1 | 1–2 | 2–3 | 3–5 | 5–7 | 7–10 | 10+ |
| DKK | 5,727 | –251 | 45 | 92 | 1,177 | 351 | 1,162 | 3,151 |
| EUR | 1,018 | 69 | 12 | 18 | 570 | 347 | 2 | 0 |
| GBP | 42 | –46 | 33 | 14 | 29 | 12 | 0 | 0 |
| SEK | 1,354 | 1,322 | 20 | 0 | 0 | 0 | 0 | 12 |
| Other | 316 | 4 | 0 | 1 | 309 | 0 | 1 | 1 |
| **Total 2010** | **8,457** | **1,098** | **110** | **125** | **2,085** | **710** | **1,165** | **3,164** |

### FINANCIAL REVIEW

Most of the Group's long-term liabilities are based on Danish mortgage loans with terms of up to 30 years with security in the Group's plants in Denmark, Sweden and the UK.

In May 2011 Arla obtained additional 30 year mortgage funding of approximately DKK 1,000 million.

In June 2011 Arla issued a SEK 1,500 million denominated bond maturing in 2016, of which SEK 1,150 million are at a fixed interest of 5% and SEK 350 million are at a floating interest of Stibor 3 month + 1.8%. The bonds are listed on the exchange in Luxemburg. Via swaps 2/3rd of the loan is transferred into fixed EUR financing of 3,9% and 1/3rd is transferred into floating GBP financing.

As planned the subordinated loan of DKK 1,000 million with maturity in 2014 was prepaid in May 2011.

To guarantee the debt with a nominal value of DKK 6,329 million (compared to DKK 5,208 million at 31 December 2010), the Group provided security in property. The book value of property is DKK 2,928 million compared to DKK 3,054 million at 31 December 2010. With regard to open sales and repurchase transactions at 31 December 2011, bonds at a value of DKK 3,950 million have been used in repurchase agreements. The corresponding amount for 2010 is DKK 2,756 million.

## Note 18 *Business combinations*

### ACCOUNTING POLICIES

On acquisition of enterprises, business combinations are recognised in the consolidated financial statements from the time of acquisition and for the part of the year during which the enterprises have been owned by the Arla Foods Group. Enterprises disposed of are recognised in the consolidated income statements until the time of disposal. The comparative figures are not restated for acquisitions and divestments.

Acquisitions of enterprises are accounted for using the purchase method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. Provision is made for costs related to adopted and announced plans to restructure the acquired enterprise in connection with the acquisition. The tax effect of the fair value adjustments on assets and liabilities is taken into account.

The cost of an acquired enterprise comprises the fair value of the consideration agreed upon and costs directly attributable to the acquisition. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the amount of that adjustment is included in the cost of the combination if the adjustment is probable and can be measured reliably.

Any excess of the cost of the acquired interest over the fair value of the acquired assets and liabilities (goodwill) is recognised under intangible assets. Goodwill is amortised in the income statement based on an individual assessment of the useful life of the asset, not exceeding 20 years.

Any excess of the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition (negative goodwill), representing an anticipated adverse development in the acquired enterprises, is recognised as deferred income and recognised in the income statement as the adverse development is realised.

Gains or losses on full or partial disposal of subsidiaries, joint ventures or associates are stated as the difference between the sales amount and the carrying amount of net assets at the date of disposal plus non-amortised goodwill and disposal costs. The gains and losses are recognised in the income statement as gain on disposal of enterprises, etc.

**Business combinations 2011**

| *DKK million* | Hansa-Milch AG | Allgäuland | Milko | Other | Total |
|---|---|---|---|---|---|
| Intangible assets (excl. goodwill) | 130 | 4 | 3 | 47 | 184 |
| Property, plant and equipment | 415 | 137 | 159 | 39 | 750 |
| Other assets | 325 | 380 | 239 | 63 | 1,007 |
| Provisions | –33 | –80 | –160 | –1 | –274 |
| Liabilities | –444 | –425 | –244 | –40 | –1,153 |
| **Total acquired net assets** | **393** | **16** | **–3** | **108** | **514** |
| Goodwill | 0 | 18 | 122 | 38 | 178 |
| **Purchase price incl. transaction costs** | **393** | **34** | **119** | **146** | **692** |
| Cash in acquired company | 0 | –28 | 0 | 0 | –28 |
| Issued capital | –330 | 0 | –51 | 0 | –381 |
| Other payment | –28 | –34 | –68 | –4 | –134 |
| **Cash payments in the year** | **35** | **–28** | **0** | **142** | **149** |

### FINANCIAL REVIEW

**Hansa-Milch (merger)**

On 1 April 2011, Arla merged with the German Hansa Milch, located in the north of Germany with a weighed-in yearly volume of approximately 500 million kg of milk. Hansa-Milch produces fresh milk products both under its own brands and for private labels.

Arla acquired the dairy activities from Hansa Milch by paying DKK 35 million. In addition, Arla issued DKK 116 million of new contributed capital and DKK 214 million in un-allocated collective capital to Hansa Milch.

**Allgäuland (acquisition)**

On 1 November, Arla acquired the Allgäuland Group located in the southern German Alps, with a weighed-in yearly volume of approximately 230 million kg of milk. Allgäuland produces specialty cheeses.

Total consideration transferred amounted to DKK 34 million. Based on the provisionally determined fair values of identifiable net assets goodwill amounts to DKK 18 million.

**Milko (merger)**

On 1 November, Arla merged with Sweden's third largest dairy cooperative, Milko located in the lower nothern region with a weighed-in volume of approximately 230 million kg of milk. However the competition authorities require that Arla divest the Grådö dairy, as well as a number of brands.

Arla acquired the dairy activities from Milko for a total purchase price of DKK 119 million and Arla issued DKK 51 million of new contributed capital to the former Milko-members. Based on the provisionally determined fair values of identifiable net assets goodwill amounts to DKK 122 million. The goodwill recognised is expected to be deductable for income tax purposes.

**Other acquisitions**

Other acquisitions consist of Boxholm Mejeri AB, Sundsvall Dairy and Faurholt & Thrane I/S. For these acquisitions goodwill of DKK 38 million was recognised.

**Business combinations in 2010**

No company mergers or acquisitions were completed in 2010.

## Note 19 *Derivatives*

### ACCOUNTING POLICIES

Derivative financial instruments are recognised at the date a derivative contract is entered into and are measured in the balance sheet at cost on initial recognition and, subsequently, at fair value. Positive and negative fair values of derivative financial instruments are recognised in separate line items in the balance sheet. Off-set of positive and negative values is only made when the Group has the right and the intention to settle several financial instruments net. The fair value is computed on the basis of current market data and generally accepted valuation methods.

**Fair value hedge**
Changes in the fair value of derivative financial instruments designated as, and qualifying for recognition as a fair value hedge of recognised assets and liabilities are recognised in the income statement together with changes in the value of the hedged asset or liability as far as the hedged portion is concerned.

**Cash flow hedge**
Changes in the fair value of derivative financial instruments designated as, and qualifying for recognition as a hedge of future cash flows are recognised directly in equity. Income and expenses related to such hedges are transferred from equity by realisation of the hedged item and recognised in the same financial statement item as the hedged item.

**Net investment hedge**
Changes in the fair value of derivative financial instruments used to hedge net investments in foreign subsidiaries that are effective hedges of currency fluctuations in these entities are recognised directly in equity as foreign exchange adjustments.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in profit or loss as financial income or financial expenses.

| *DKK million* | **2011** | **2010** |
|---|---|---|
| To cover exchange and interest rate risks, the following forward contracts have been entered into: | | |
| Cross currency swaps | 2,142 | 867 |
| Interest swaps | 6,635 | 5,499 |
| Securities through sales and repurchase agreements (repo) | 3,965 | 2,765 |
| Net nominal sales on forward contracts and options: | | |
| EUR | 929 | 1,975 |
| GBP | 2,270 | 1,321 |
| SEK | 1,096 | 282 |
| USD | 2,750 | 1,873 |
| RUB | 93 | 37 |
| Other | 604 | 416 |

### FINANCIAL REVIEW

**Cross-currency swap and interest rate swaps**
In 2011, Arla issued its first bond comprising SEK 1,500 million denominated bond of which SEK 350 million is a floating interest rate bond. The bond was issued as part of the funding of Arla's activities in non-SEK countries. Consequently, Arla has swapped the notional amount into EUR with fixed interest and GBP with floating interest.

**Repurchase agreements**
Arla manages the liquidity risk by having sufficient cash resources to fund the operating activities. In order to ensure sufficient cash resources Arla has obtained new 30 year mortgage funding against receiving the underlying mortgage bonds. As the mortgage bonds are traded in an active market, they are readily convertible into cash. In 2011, Arla have used the bonds to obtain a cost efficient short-term funding by entering into a repurchase agreement (REPO) of the mortgage bonds. The notional amount of repurchase agreements has therefore increased compared to 2010.

**Forward contracts and options**
As described on page 32 of the management report Arla has significant export activities and hence, Arla is exposed to changes in the foreign currency rates. As at 31 December 2011 Arla has hedged the majority of currency exposures to trade receivables and trade payables in foreign currency. Furthermore 21% of the expected foreign currency flow in 2012 are hedged.

## Note 20 *Contingent liabilities*

### ACCOUNTING POLICIES

Contingent liabilities comprises possible liabilities related to lawsuits, disputes etc.

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. It can also be a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

### FINANCIAL REVIEW

The group is party to a small number of lawsuits, disputes, etc. The management believes that the outcome of these lawsuits will not significantly impact on the Group's financial position beyond what is recognised in the balance sheet and/or disclosed in the annual report.

## Note 21 *Contractual commitments*

**Contractual commitments**

| *DKK million* | **2011** | **2010** |
|---|---|---|
| Surety and guarantee commitments | 111 | 129 |
| Operational rent commitments | 491 | 532 |
| Operational leasing commitments | 640 | 704 |
| Commitments in relation to agreements on the purchase of fixed assets | 724 | 225 |

### FINANCIAL REVIEW

Surety and guarantee commitments in 2011 totalled DKK 111 million compared to DKK 129 million in 2010. The decrease is mainly due to EU garanties reduction.

Operational rent commitments are DKK 491 million compared to DKK 532 million in 2010 mainly due to decrease of rent facilities in AF UK.

Operational leasing commitments DKK 640 million compared to DKK 704 million in 2010 due to decrease of leasing facilities in Arla Foods AB. Commitments in relation to agreements on the purchase of fixed assets are totalled DKK 724 million compared to DKK 225 million in 2010 mainly due to delays of the CAPEX projects

## Note 22 *Related parties*

Arla Foods amba has no related parties exercising control. Related parties exercising significant influence comprise the Board of Representatives, the Board of Directors and the Executive Management Board.

In addition, subsidiaries, joint ventures and associates are related parties (see Group Chart in note 24).

Members of the Board of Representatives and the Board of Directors are paid for milk supplies to Arla Foods amba on equal terms with other members of the company. In addition, there have been no other transactions with related parties during the year apart from intra-group transactions that have been eliminated in the consolidated financial statements.

Salaries and remuneration have been disclosed separately in Note 3 under staff costs.

## Note 23 *Co-operative members' liability*

No co-operative members are personally liable for the parent company's obligations.

## Note 24 *Group chart*

| Company name | Country | Currency | Direct Group Holding (pct.) |
|---|---|---|---|
| Arla Foods amba | | | |
| 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 S.A.* | Argentina | USD | 50 |
| 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 | 97 |
| Aktieselskabet J. Hansen | Denmark | DKK | 100 |
| J.P. Hansen Inc | USA | USD | 100 |
| Mejeriforeningen | Denmark | DKK | 91 |
| Agri-Norcold A/S ** | Denmark | DKK | 50 |
| Arla Foods Holding A/S | Denmark | DKK | 100 |
| Medlemsartikler ApS | Denmark | DKK | 100 |
| Arla Foods Distribution A/S | Denmark | DKK | 100 |
| Enigheden 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 | 67 |
| Arla Foods UK Farmers JV Company limited | UK | GBP | 50 |
| Arla Foods UK plc | UK | GBP | 6 |
| Arla Foods UK plc. | UK | GBP | 94 |
| Arla Foods Finance Ltd | UK | GBP | 100 |
| Arla Foods Holdings Co Ltd. | UK | GBP | 100 |
| Arla Foods UK Services Ltd | UK | GBP | 100 |
| Arla Foods Limited | UK | GBP | 100 |
| Westbury Dairies Ltd | UK | GBP | 100 |
| Arla Foods Westbury Ltd | U K | GBP | 11 |
| Arla Foods UK Property Co. Ltd | UK | GBP | 100 |
| Arla Foods Holding NL B.V. | Netherlands | EURO | 100 |
| Arla Foods B.V. | Netherlands | EURO | 100 |
| Arla Foods Ltda | Brazil | BRL | 100 |
| Dan-Vigor Ltda * | Brazil | BRL | 50 |
| Denmark Dairy Dev. Corporation | Denmark | DKK | 100 |
| 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 |
| Ravnsbjerg Finans ApS | Denmark | DKK | 100 |
| Kingdom Food Products ApS | Denmark | DKK | 100 |
| Ejendomsanpartsselskabet St.Ravnsbjerg | Denmark | DKK | 100 |
| A/S af 05.06.92 | Denmark | DKK | 100 |
| Arla Insurance Company Ltd | Denmark | DKK | 100 |
| Rynkeby Foods A/S | Denmark | DKK | 50 |
| Kinmaco ApS | Denmark | DKK | 100 |
| Arla Foods Energy A/S | Denmark | DKK | 100 |
| Rynkeby Foods A/S | Denmark | DKK | 50 |
| 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 |
| 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 |
| Iradan S.A. | Switzerland | CHF | 100 |
| Tholstrup Taulov A/S | Denmark | DKK | 100 |
| Arla Foods Ingredients GmbH | Germany | EURO | 100 |
| Arla Tagatose Holding GmbH | Germany | EURO | 100 |
| Sweetgredients GmbH &Co. KG | Germany | EURO | 50 |
| Arla CoAr Holding GmbH | Germany | EURO | 100 |
| ArNoCo GmbH & Co. KG | Germany | EURO | 50 |
| Arla Biolac Holding GmbH | Germany | EURO | 100 |
| Biolac Verwaltungs GmbH | Germany | EURO | 50 |
| 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 |

| Company name | Country | Currency | Direct Group Holding (pct.) |
|---|---|---|---|
| WLL Arla Foods Iraq | Iraq | IQD | 100 |
| Arla Foods AB | Sweden | SEK | 100 |
| Boxholm Mejeri AB | Sweden | SEK | 100 |
| HB Grådö 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 |
| Jk Juusto Kaira Oy | Finland | EURO | 58 |
| Massby Facility & Services Oy | Finland | EURO | 60 |
| Arla Foods UK Holding Ltd | UK | GBP | 33 |
| Restaurang akademien Aktiebolag ** | Sweden | SEK | 50 |
| Arla Foods Russia Holding AB | Sweden | SEK | 75 |
| Arla Foods Artis Ltd | Russia | RUB | 100 |
| L&L International Aktiebolag | Sweden | SEK | 100 |
| Arla Foods Specialost AB | Sweden | SEK | 100 |
| Nordic Food Ingredients AB | Sweden | SEK | 100 |
| Nordic Soft Food AB | Sweden | SEK | 50 |
| FIMA Foods AB | Sweden | SEK | 33 |
| Aktiebolaget Solglass AB | Sweden | SEK | 100 |
| Svensk Ekologisk Mjölk AB | Sweden | SEK | 100 |
| Milko Utbildnings AB | Sweden | SEK | 100 |
| Silvadden AB | Sweden | SEK | 100 |
| Bull-Olles Bageri AB | Sweden | SEK | 100 |
| Milko Sverige AB | Sweden | SEK | 100 |
| AM Foods Hot ApS | Denmark | DKK | 100 |
| AFF P/S | UK | GBP | 100 |
| AFF Partner A/S | Denmark | DKK | 100 |
| Danish Food Consultants A/S | Denmark | DKK | 100 |
| Arla Foods Holding AB | Sweden | SEK | 100 |
| AM Foods AB | Sweden | SEK | 100 |
| Arla Foods Ingredients AB | Sweden | SEK | 100 |
| FIMA Foods AB | Sweden | SEK | 67 |
| Arla Foods Inc | USA | USD | 100 |
| Arla Foods Production LLC | USA | USD | 100 |
| Arla Foods Transport LLC | USA | USD | 100 |
| Arla Foods Sp. Z.o.o. | Poland | PLN | 100 |
| Arla Foods SA | Poland | PLN | 100 |
| Mengniu Arla (Inner Mongolia) Dairy Products Co., Ltd.* | China | CNY | 49 |
| 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 |
| Hansa Milch AG | Germany | EURO | 100 |
| Hansano GmbH | Germany | EURO | 100 |
| Gastoline GmbH | Germany | EURO | 100 |
| Molkerei Karstädt GmbH | Germany | EURO | 100 |
| Hahnheider Milch GmbH | Germany | EURO | 100 |
| Allgäulaund-Käsereien GmbH | Germany | EURO | 98 |
| Allgäuland Frische GmbH | Germany | EURO | 50 |
| Molkerei-Zentrale Südwest eG | Germany | EURO | 99 |
| Sengele SAS | France | EURO | 100 |
| MZ Südwest Alsace SAS | France | EURO | 99 |
| Team-Pack GmbH | Germany | EURO | 100 |
| SOTO Tofu GmbH | Germany | EURO | 100 |
| ALDA GmbH | Germany | EURO | 90 |
| Bergland Naturkäse GmbH** | Germany | EURO | 50 |
| Milei GmbH** | Germany | EURO | 30 |
| Allgäuland-Käsereien Dienstleistungs GmbH | Germany | EURO | 100 |
| Allgäuland Frische GmbH | Germany | EURO | 50 |
| Allgäuluer Molkerei produkts GmbH | Germany | EURO | 100 |
| Gesellschaft Allgäuer Molkereien GmbH | Germany | 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 Mjolk Ekonomisk förening ** | Sweden | SEK | 53 |

** Joint venture*
*** Associate companies*

*The Group also owns a number of companies without material commercial activities*

# Board of Directors

## ELECTED BY MEMBERS

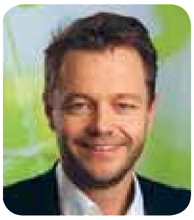
The Board of Directors comprises 16 regularly elected milk producers, 8 from Denmark, 7 from Sweden and 1 from Germany. In Denmark and Sweden the number of members is based on the volume of milk and the number of milk producers in the two countries. The Danish regions each appoint a member of the Board of Directors and the remaining Swedish and Danish members are elected by the Board of Representatives. In Sweden, the electoral committee proposes candidates. All elected members have to stand for re-election in uneven years.

Åke Hantoft
*Chairman*
Laholm, Sweden
Born 1952
Board Member since 1998.
Chairman since May 2011.

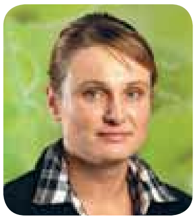
Jan Toft Nørgaard
*Vice Chairman*
Ribe, Denmark
Born 1960
Board Member since 1998.
Vice chairman since
May 2011.

Viggo Ø. Bloch
Varde, Denmark
Born 1955
Board Member since 2003

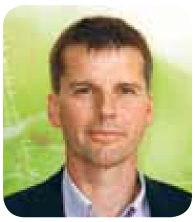
Palle Borgström
Älvängen, Sweden
Born 1960
Board Member since 2008



Jonas Carlgren
Linköping, Sweden
Born 1968
Board Member since
October 2011



Heléne Gunnarson
Tvååker, Sweden
Born 1969
Board Member since 2008



Bjørn Jepsen
Borris, Denmark
Born 1963
Board Member since
May 2011

Thomas Johansen
Egtved, Denmark
Born 1959
Board Member since 2002

Uwe Krause
Schwerin, Germany
Born 1952
Board Member since
May 2011

Steen Nørgaard Madsen
Silkeborg, Denmark
Born 1956
Board Member since 2005

Torben Myrup
Gundersted, Denmark
Born 1956
Board Member since 2006

Gunnar Pleijert
Mörlunda, Sweden
Born 1949
Board Member since 2003

Anders Ramström
Sunne, Sweden
Born 1968
Board Member since November 2011

Ingela Svensson
Gamleby, Sweden
Born 1957
Board Member since 2007

Pejter Søndergaard
Vestervig, Denmark
Born 1947
Board Member since 2002

Bent Juul Sørensen
Ærø, Denmark
Born 1958
Board Member since 1998

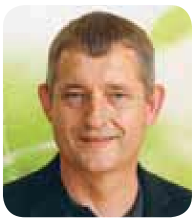
## EMPLOYEE REPRESENTATIVES

There are four employee representatives on the Arla Board of Directors: two from Denmark and two from Sweden. In Denmark, the employees, assisted by an election committee, elect six employees to seats on the Board of Representatives. These six people then select two among them to represent the employees on the Board of Directors. In Sweden, employee representatives are elected to seats on the Board of Directors and the Board of Representatives at a joint annual meeting for all the union organisations. An election committee provides a list of candidates. The Danish employee representatives are elected for a two-year period, while the Swedish employee representatives are elected for a three-year period.

Anne-Lie Nielsen
Employee at Linköping Dairy, Sweden
Born 1970
Board Member since 2010

Bjarne Bundesen
Employee at Christiansfeld Mejericenter, Denmark
Born 1958
Board Member since 2003

Leif Eriksson
Employee at Götene, Sweden
Born 1951
Board Member since 1998

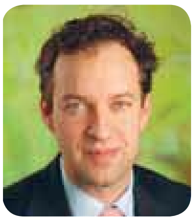


Bjarne Hass Nielsen
Employee at Brabrand, Denmark
Born 1956
Board Member since 2011

# Executive Management Group

**Peder Tuborgh**
*CEO*

**Povl Krogsgaard**
*Vice CEO*

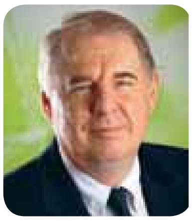


**Frederik Lotz**
*Executive Vice President*
CFO

**Ola Arvidsson**
*Executive Vice President*
Corporate Human Resources

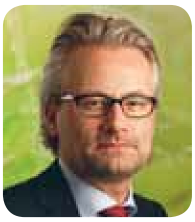
**Jais Valeur**
*Executive Vice President*
Global Categories & Operations

**Finn S. Hansen**
*Executive Vice President*
Consumer International
*From January 1, 2012*



**Peter Lauritzen**
*Executive Vice President*
Consumer UK

**Christer Åberg**
*Executive Vice President*
Consumer Sweden (and Finland)

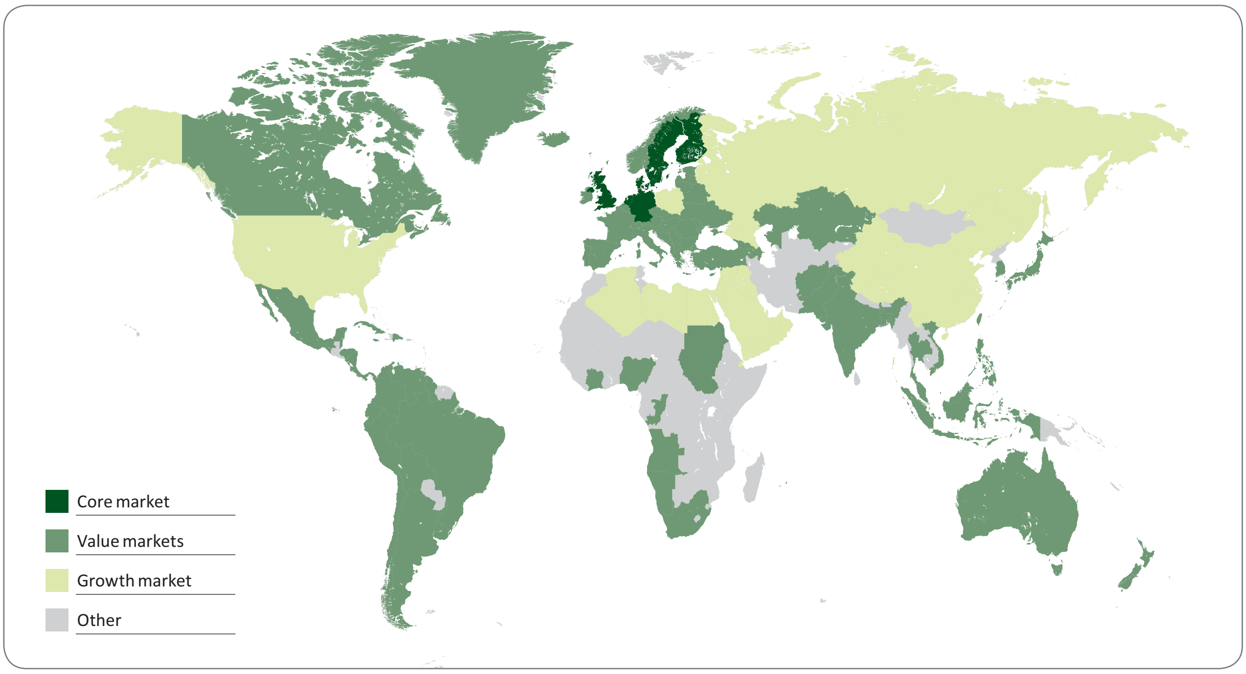


**Peter Giørtz-Carlsen**
*Executive Vice President*
Consumer Denmark

**Tim Ørting Jørgensen**
*Executive Vice President*
Consumer Germany & Netherlands
*From January 1, 2012*

*See page 14 – Organisation – for further information regarding for example responsibilities within Business groups.*

# Leading dairy company with a local and global presence




Project manager: Ulrika Gyllenvik, Arla. Project manager – finance: Charlotte Møller Andersen, Arla. Text, design, production: Intellecta Corporate. Web production: Intellecta Corporate, Bysted and Arla. Translation: Amesto. Images: David Loftus (cover), Niels Aage Skovbo (Åke Hantoft, Peder Tuborgh, Board and Executive Management Group), Thomas Carlgren and Arla archives. Print: Scanprint A/S 2012.

NORDIC ENVIRONMENTAL LABEL
541 006

Scan the code and see the film, Arla Closer to Nature™

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C009911

**ARLA FOODS DENMARK**
Arla Foods amba
Sønderhøj 14
DK-8260 Viby J.
Telephone +45 89 38 10 00
Fax +45 86 28 16 91
E-mail arla@arlafoods.com
www.arla.com
CVR-No. 25 31 37 63

Closer to Nature™