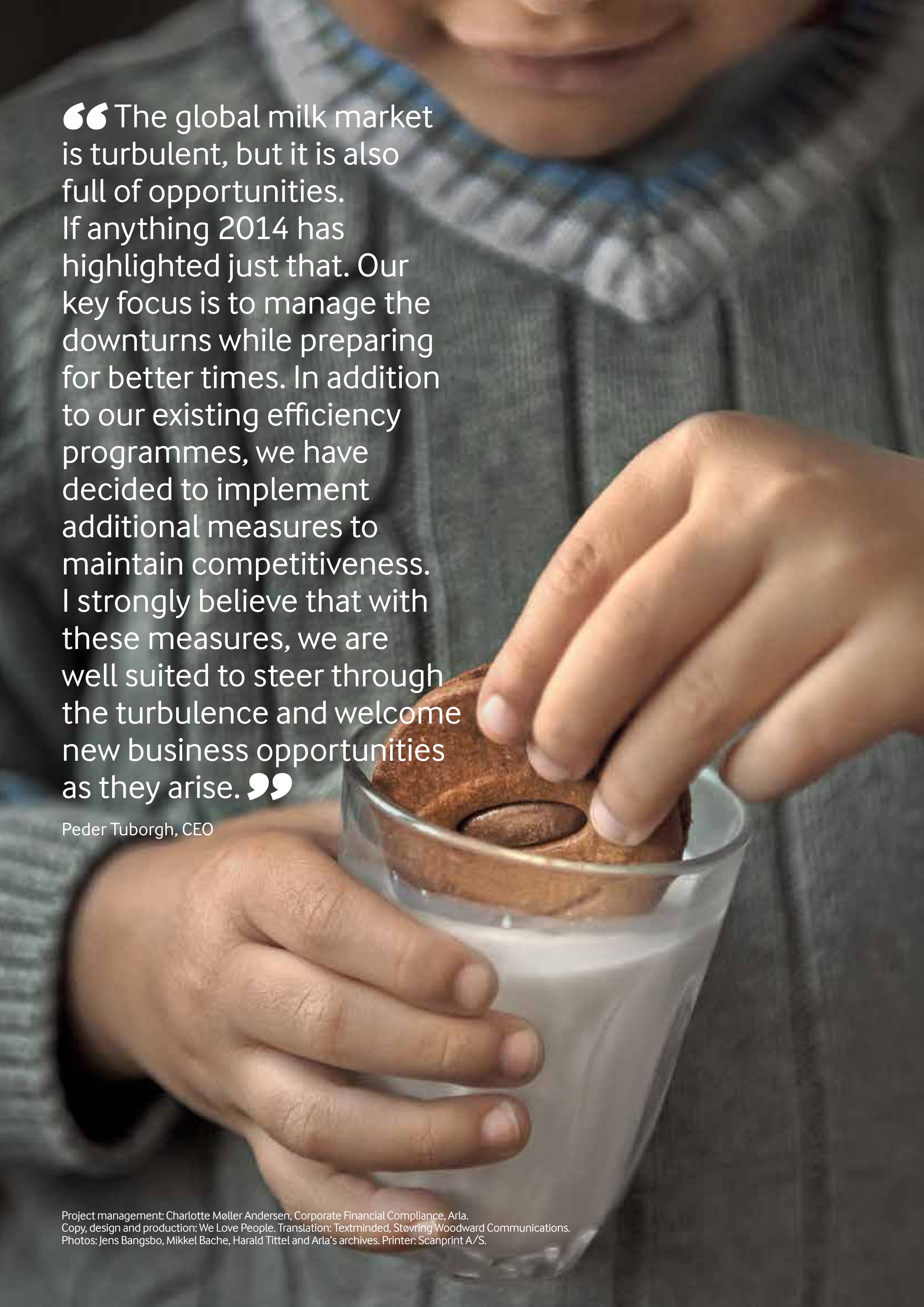
2014

CONSOLIDATED ANNUAL REPORT

A stronger cooperative **in a difficult market**

thanks to efficient operations, global brands and expanding markets



"The global milk market is turbulent, but it is also full of opportunities. If anything 2014 has highlighted just that. Our key focus is to manage the downturns while preparing for better times. In addition to our existing efficiency programmes, we have decided to implement additional measures to maintain competitiveness. I strongly believe that with these measures, we are well suited to steer through the turbulence and welcome new business opportunities as they arise."

Peder Tuborgh, CEO

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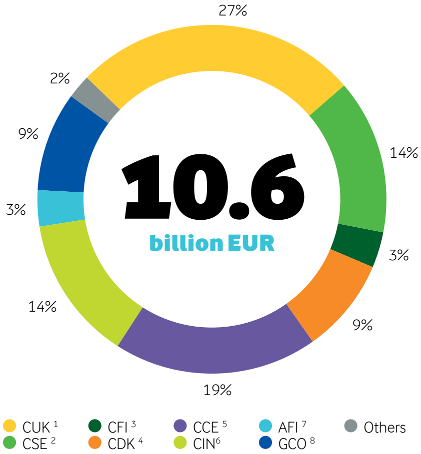
2014 in short

Performance Price

41.7
EUR cent/kg

Revenue



Revenue Growth

7.5%

Milk Volume

13.4
billion kg

Equity

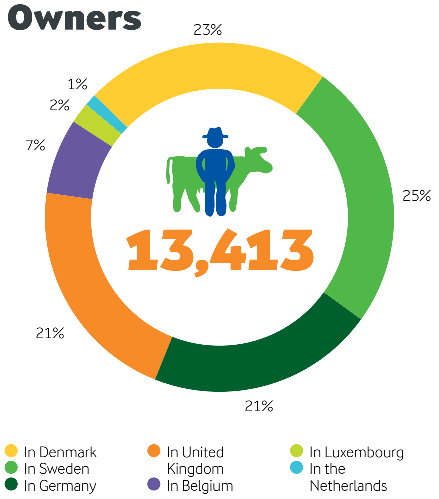
1.9
billion EUR

Equity Ratio
28%

Net interest-bearing debt

2.5
billion EUR

Owners



Profit

0.3
billion EUR

3.0%
of revenue

Leverage 3.7

EUR reporting

Arla is a Danish registered company, and we have historically been reporting in Danish kroner. However, 90 per cent of Arla's business is generated outside Denmark, and our owner group is growing and becoming more international. Reporting in Euro have been requested by our owners and will satisfy the general need for most users of the financial information. Consequently, we have chosen to report in Euro in our financial statements going forward. However, there will still be a performance price in DKK, as there is in SEK and GBP.

1. Consumer United Kingdom, 2. Consumer Sweden, 3. Consumer Finland, 4. Consumer Denmark, 5. Consumer Central Europe, 6. Consumer International, 7. Arla Foods Ingredients, 8. Global categories and Operations

Content

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

Business **Review**

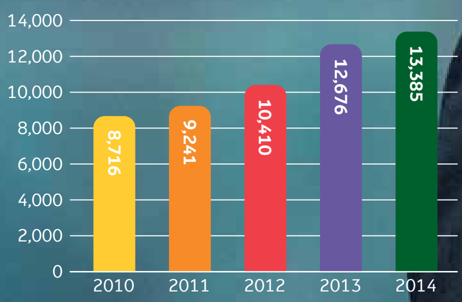
Arla achieved satisfactory results in 2014 despite a difficult market. We benefitted from our long-standing focus on efficiency and cost control, both of which are crucial for competitiveness. Arla's short term goals, The Seven Essentials, were aimed at executing Strategy 2017 and the commercialisation of initiatives. 2015 will be a challenging year for Arla and our milk producers. Our short term goals are increasingly focused on moving expected additional milk intakes into value added products in order to increase profitability.

BUSINESS REVIEW

Greater responsibility in a **stronger cooperative**

Åke Hantoft, Chairman of the Board of Directors

INFLOW OF RAW MILK (MIO.KG)



The board is proud of 2014's strong results.. Looking at the year as a whole, Arla's owners had strong earnings, and we should not let this fact be overshadowed by the difficult situation at present. The dairy business is characterised by loyalty and efficiency, and, in 2014, cooperation amongst Arla's owners was strengthened.

The strong 2014 results confirm that our strategy is on track. The Board of Directors is confident that the current strategy ensures the greatest possible returns for milk farmers while also creating new opportunities for those owners who have the will and the resources to increase their production.

In looking ahead, however, we know that 2015 will be a very challenging year for milk producers. Market volatility has impacted everyone in the dairy industry, and no one is immune to the fallout from international affairs. Because of the current low milk price, some of our owners are now faced with crisis management on their farms.

Forecasts for 2015 suggest that our owners will produce more milk than in 2014. Arla is committed to buying all this milk from our owners, no matter how much they produce, and this gives them piece of mind. At the same time, it is also in the owners' best interest to let a portion of the earnings remain in the company so that new markets, products and sales opportunities can be developed that will improve the milk price in the long-term.

This discussion between short and longer-term approaches was central in the October 2014 decision on a new retainment policy. However, the Board of Directors acknowledges the difficult financial situation that many owners are currently facing, which is why we have suggested to reduce this year's retainment level from 4.75 per cent to 3.95 per cent to deliver the proposed supplementary payment of 1 EUR cent per kilo of milk.

INTERNATIONALISED OWNERSHIP

As Arla grows, I see greater internationalisation among our owners and believe there are several benefits to this. We welcomed new owners in 2014 and many of them came through the merger with Walhorn, which will be very significant for the development of capacity utilisation in central Europe. We are also now better equipped than ever for the role as one of the world's biggest dairy cooperatives, and I feel there is now a much better understanding of how markets near and far impact farm finances.

STRENGTHENED SENSE OF TOGETHERNESS

Change is best achieved through close involvement and local inspiration, and the four national councils, which are subcommittees of the Board of Directors, have made a big difference in relation to farm-related issues in 2014. The result was well-prepared and carefully considered proposals, which facilitated the decision-making process and gave the Board of Directors the time and space they needed to focus more on strategic development.

A good collaborative structure with well-defined processes and room for national and local debate helps strengthen both the individual owner's influence and the sense of togetherness among the approximately 13,400 farmers in seven countries.

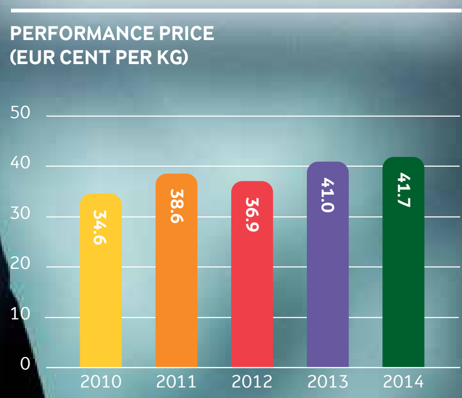
GREATER RESPONSIBILITY

In the circle of owners, we have worked at rolling out the Arlagården quality programme and making our milk production more sustainable. In this way we can guarantee standardised quality and accountability – regardless of which country the milk comes from. I am convinced that this results in better milk and a better operating economy.

It is, of course, hard to take new steps in an unfavourable economic climate. What makes sense the day after tomorrow can be hard to afford today, and we must keep this in mind in 2015, which will be a tough year for most of us. However, there is a strong sense of togetherness in Arla, and we believe in the future.

Satisfactory results in a **difficult market**

Peder Tuborgh, CEO



2014 was a complex year for Arla. We achieved one of the best results ever in a market impacted by volatility and international affairs. Arla's brands are doing relatively well, the streamlining of the business is reflected in the company's earnings, and we can see that Strategy 2017 is having an effect. In 2015, we will continue to rationalise the business and process ever-growing volumes of milk through actively investing in brands and extending our reach worldwide.

Arla's profit in 2014 totalled EUR 0.3bn, which corresponds as targetted to 3 per cent of a total revenue of EUR 10.6bn. At EUR-cent 41.7, the performance price is the highest ever, despite the fact that we had to repeatedly lower the milk price. Market conditions and the Russian embargo are making life difficult for our owners, but the group has worked hard to minimise the effects of these issues and has delivered strong earnings.

The performance price is the sum of a well-run and efficient business, strong brands, good customer service and an innovative ingredients business, which has created growth outside Europe and strengthened our position in core markets. Continuing this growth is particularly important as milk volumes are expected to increase.

TAILWINDS BECAME HEADWINDS

2014 started with a strong economic tailwind which carried us far into early summer. However, the situation changed radically during the summer months. Global supplies rapidly outgrew demand. Chinese consumption ebbed off as inventories were full. Finally, when Russia imposed a ban on dairy products from the EU, the headwinds grew in strength.

EFFICIENT OPERATIONS AND STRONG BRANDS

Under these conditions, I am particularly pleased with our long-standing focus on efficiency and cost control, which are both crucial to our competitiveness.

The market situation has added to our workloads, but also focused everyone's minds in the organisation. We have had to shift more sales to existing and new customers in the retail sector and food service. Adding value to the milk has been important to maintaining a relatively high milk price for the year, and to preventing growing milk volumes from being sold to the least profitable industrial segment.

As part of this work, Arla's corporate identity Good Growth has been a source of strength. All the positive aspects of our cooperative dairy became clearer in 2014, and we saw the first results of the work to translate this into commercial value. The Arla® brand is now clearly focused on what is good, healthy and natural in our products, and a new design has been rolled out in most markets. We have high expectations for a number of entirely new products that will make it easier for people to lead healthier and more natural lives, for example with protein-rich products. Many more are in the pipeline.

OUTLOOK FOR 2015

The global dairy industry has never been as unpredictable as it is now, but we believe that our strategy is the right one to take us forward. We are continuing to rigidly streamline and control costs, while investing significant sums in marketing and new products. Arla's ability to profitably handle larger milk volumes will define the success of the business in 2015. We will enhance the quality of our product range and our positions and stand strong when the market turns.

Highlights 2014

January

Approval of business plan and investment budget for 2014. The investment budget totals EUR 295 million.

Approval of Sustainable Dairy Farming Strategy with four focus areas: Animals, Climate, Nature and Resources. The overall goal is to reduce the total climate footprint per kg milk from Arla's farms by 30% from 1990 to 2020.

1300 British AMCo members start to deliver milk to Arla as owners.

Jonathan Ovens joins the Board of Directors as representative for the new UK owners.

February

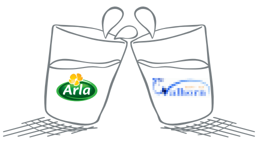
Meeting of the Board of Representatives with approval of the annual report for 2013. EUR 121 million is disbursed to Arla's owners as supplementary payments and EUR 174 million retained in the company.

Start-up of production of Arla products at the

Molvest dairy

in Russia. Arla invested EUR 3 million in modernising the existing dairy facility.

March



The Board of Directors proposes a merger with the

Belgian cooperative EGM Walhorn

The cooperative has 800 owners, who produce 550 million kg milk a year. The milk is processed and sold by Walhorn AG, which is an associated company. The merger is approved by the owners of the companies in May, and by the competition authorities with effect from August 1st.

April

Opening of new innovation centre in Beijing, China. Here, Arla dairy specialists and Chinese dairy and innovation specialists will develop cheeses and other dairy products for the Chinese market.

Closure of the Ashby Dairy in the UK. Milk is transferred to Arla's new dairy in Aylesbury.

Launch of new Lurpak® Cook's range in the UK. This will be followed by launches in additional markets.

Patrick Krings joins the Board of Directors to replace Klaus Land who passed away in December 2013.

May

Arla issues bonds for a total value of SEK 1.5bn (EUR 0.2bn) with a 5 year maturity.

Official opening of the fresh milk dairy in Aylesbury, UK. The dairy can process one billion kg of milk per year. At a cost of EUR 180 million, this dairy is by far Arla's single largest investment, but, as the business case outlined, Aylesbury is key to supporting the cooperative's growth ambitions for the UK business. Aylesbury is the most efficient of its kind and gives the company significant advantages. In addition, the dairy's ambition is to be a zero carbon facility.

June

The process of incorporating Consumer International's (CIN) dairies in Saudi Arabia, the USA and Canada under Global Categories and Operations (GCO) begins to allow full commercial focus in CIN and to achieve synergies.

July

Peter Giørtz-Carlsen leaves his position as the head of Consumer Denmark to take on the responsibility of Arla's UK business. He succeeds Peter Lauritzen, who stepped down in anticipation of his retirement in 2015.

Henri de Sauvage, in addition to his EMG responsibility for Consumer Sweden (CSE) and Consumer Finland (CFI), takes on the EMG responsibility for Consumer Denmark (CDK).

August

Russia announces a ban on agricultural imports from countries involved in sanctions against Russia.

The ban affects Arla Foods' export

and 36 jobs in Russia and 79 jobs in Arla dairies in Denmark are lost.

Arla Foods Ingredients begins test production at ArNoCo – a joint venture with the German cooperative Deutsches Milchkontor (DMK).

Mathieu Dobbelstein joins the Board of Directors.

September

Arla strengthens its presence in the Brazilian market announcing an investment in its long-time partner,

Vigor Alimentos S.A.

one of Brazil's largest dairy companies,

Arla launches a large global marketing campaign to increase the awareness of and loyalty to the company's name and products across national borders. With the new slogan 'Let in the Goodness' the Arla® brand will move closer to what consumers focus on in their daily life: health, natural products and moments of goodness.

October

New retainment policy is set in place: retainment is increased from 4.5 per cent to 4.75 per cent of Arla's performance price, and ceiling on individual capital of 7.8 EUR cent. The individual equity share to stay within 20-30 per cent of total equity. Significant earnings from divestment shall be retained as common capital and reinvested.

Göteborg dairy in Sweden closesand production is consolidated to Jönköping as part of structural changes in Arla Sweden.

Lurpak® is launched in German supermarkets in 'salted' and 'unsalted' forms. Lurpak® is now available in more than 100 countries.

November

Production startsin Falkenberg, Sweden – at the biggest cottage cheese plant in Europe. The former hard cheese dairy was remodelled to produce almost 30,000 tonnes of cottage cheese per year.

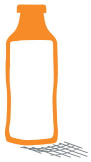
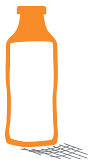
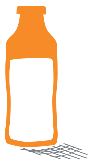
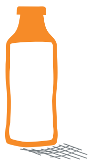
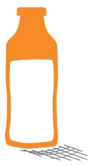
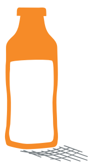
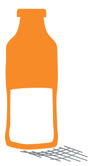
Arla Foods Ingredients (AFI) opens its new, EUR 120 million lactose plant. The dairy is located next to Nr Vium dairy and AFI's whey processing plant, Danmark Protein, in Nr. Vium, Denmark. The plant will be able to produce around 60,000 tonnes of lactose every year using whey from Arla's cheese production in Denmark and Sweden.

December

CUK announces a restructuring to prepare the organisation for its new position as the leading dairy company in the UK. CUK proposes a reduction of around 100 positions; mainly in management and administration. The team will be working hard to support these colleagues.

Seven essential goals
2014

Our "Seven Essentials" reflect Arla's short term goals, one year at a time. These goals support the long view in the strategy. In 2014, the seven essentials were focused on execution of the strategy and the commercialisation of initiatives. Overall the results were good, and this is reflected in the performance price.

2014 TARGETS	RESULT	
1 **Re-establish market price premium on consumer products** ■ A market premium of 0.7 EUR cent	The market premium equals +7.8 EUR cent and our performance price for the year is at a high level. This reflects the ability to push and maintain prices in a downward market.	
2 **Create strong volume growth from three global brands in all business groups and commercialise our Corporate Identity** ■ Three per cent growth for Arla® ■ Seven per cent growth for Castello® ■ One per cent growth for Lurpak® ■ Successful launch of our Corporate Identity	Brands are growing better than expected under the tough market conditions increasing market shares. Arla® 1.0 per cent volume driven revenue growth Castello® 7.9 per cent volume driven revenue growth Lurpak® 0.1 per cent volume driven revenue growth Our Corporate Identity, Good Growth, was launched in the summer and has now been implemented across Arla Foods.	
3 **Create Commercial breakthroughs in China and accelerate Africa, Russia and the ingredients business** ■ Continue strong growth in the Middle East and Africa (MEA); Russia, China, Arla Foods Ingredients and third-party manufactured child nutrition (TPM). ■ Establish new joint ventures in Africa	Overall CIN revenue grew by 14 per cent. Revenue and profit levels increased in MEA and accelerated in all African markets. Russia performed well in the first half of 2014, but was hit hard by the political embargo. In China, retail sales showedvery high growth rates and strong profitability, however, these came from a small base. Revenue for TPM child nutrition was delivered.. A cooperation with a new partner wasestablished in Ivory Coast. AFI delivered organic revenue growth of 6.4 per cent and profit levels below expectations – primarily due to decreased demand in Asia.	
4 **Continue integration and secure more owner milk in Consumer UK and Consumer Central Europe** ■ Complete Integration of MUH and Milk Link ■ New owner milk in Germany and the UK	In Central Europe, additional 550 million. kg. owner milk due to the Walhorn merger. In the UK, additional 300 million. kg. owner milk.	
5 **Strengthen efficiency agenda and balance sheet** ■ Savings of approximately EUR 100 million ■ Reduction of EUR 130 million in working capital from efficiency agenda ■ Leverage of 3.0 - 3.4	Conversion costs decreased significantly primarily due to savings programmes and more milk, which brought higher capacity utilisation. Scalability was above 2.0, and the expected savings were achieved. Net working capital improved by EUR 75 million primarily on receivables and payables. Material inventory savings do not show yet. The leverage of 3.7 was above the target range.	
6 **Increase Profitability through further scaling across core markets** ■ Successful launch of the Arla® brand ■ Positive financial impact from four innovation platforms: Nourish, Satisfy, Delight and Provide	Innovation platforms were finalised and validated. Product concepts across core markets based on the innovation platforms were not launched. Launched a new Arla growth platform worldwide.	
7 **Finalise IT turnaround** ■ Clear operational stability throughout the year ■ Implementation of newly approved IT strategy	IT instability delayed execution of the new IT strategy and standardisation initiatives. Despite progress, more needs to be done to stabilise IT.	

Seven essential goals 2015

Seven essentials – goals and activities

In 2015, Arla has an increased focus on moving expected additional milk intakes into value added products in order to increase profitability. Based on the current situation and guided by the 2017 strategy, the Seven Essentials for 2015 are:

2015 TARGETS

1

Grow the Arla® brand volume

- Complete the implementation of the new Arla® brand platform globally and increase brand volume by three to five per cent.

2

Volume is king in retail & food service

- Increase retail & food service volume by 300-500 million kg of milk
- Reduce milk procurement from non-owners

3

Grow volumes in Consumer International and secure profitability in Arla Foods Ingredients

- Implement accelerated Consumer International growth plan to increase volumes by 9-11 per cent
- Deliver minimum two mergers or acquisitions in growth markets and Arla Foods Ingredients

4

Grow butter and spread (BSM) volumes

- Grow Lurpak® and Anchor® butter and spread products by 3-5 per cent
- Launch Lurpak® in Brazil, Mexico, Australia and Central Europe

5

Increase profitability in Consumer UK and Consumer Central Europe

- Secure increased profitability in Consumer UK through cost savings in supply chain and other market related measures of EUR 80-95 million and growth in the Arla brand position and volume of 5-10 per cent
- Secure increased profitability in Consumer Central Europe by further enhancing brands and value added products

6

Strengthen delivery of efficiency and Net Working Capital programmes

- Continue implementation of LEAN, Total Cost of Ownership (TCO), Design to Value (DTV) and structural plans to deliver cost efficiency gains of EUR 330 million by the end of 2015 compared to 2012
- Freeze capacity cost outside supply chain across Arla with exception of growth markets. Starting September 1, 2014.
- Develop and implement next Net Working Capital plan to deliver EUR 130 million cash release in 2015

7

Deliver excellent customer service through effective IT efficient planning

- Improve customer service and track relevant key performance indicators (KPIs) for core market customer delivery performance

In order to be able to deliver strong results for our owners and ensure that we progress in accordance with Arla's strategic plan, the Board of Directors and the Executive Management Group meet each year to chart out Seven Essential points and priorities for the Group. Those are our navigational points.

Arla's growth agenda is, to a great extent, driven by mergers and acquisitions and by a willingness to seize opportunities as they arise. The traditional budget, which is static and discourages investment willingness, is insufficiently flexible to support this agenda. In an increasingly volatile world, budgets are outdated the moment they are entered into a spreadsheet. Relative targets are far more suitable for managing change.

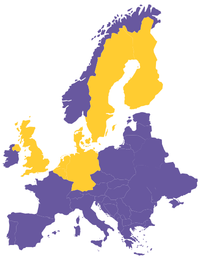
At Arla, we have therefore substituted the traditional budget with rolling forecasts and stretched targets. These concepts are based on the idea of a success criterion that is fundamentally about reaching more ambitious goals and performing significantly better than last year.

The concept of 'Seven Essential Goals' has its roots in this philosophy. They express business priorities one year at a time. They break long-term strategies into short-term goals and create a year-by-year foundation for improved performance at Arla.

Strategy

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

STRATEGY



Arla is owned by farmers. We are committed to properly handling and finding innovative ways to add value to the milk they produce. No matter how much is produced at the farms.

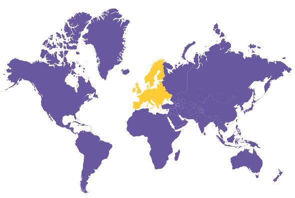
Large milk volumes are a prerequisite for scalability. They provide the basis for innovation, product development and branding, and lead to value creation. Innovation is high on the Arla agenda. We aim to generate 10 per cent of revenue from new product development in 2015.

VOL

13.4

billion kg milk annually

A fair and competitive milk price will give farmers opportunities to develop their milk production. More milk enables us to maintain a modern and efficient supply chain and to invest in innovation and marketing activities that leads to an attractive milk price.



A growing number of people across the world are looking for natural, healthy food to power their everyday lives. In many emerging markets, parents know that milk products of high quality provide good nutrition for the whole family. And with increasing living standards they will be able to afford dairy in their daily diet. This presents new opportunities for Arla's worldwide growth.

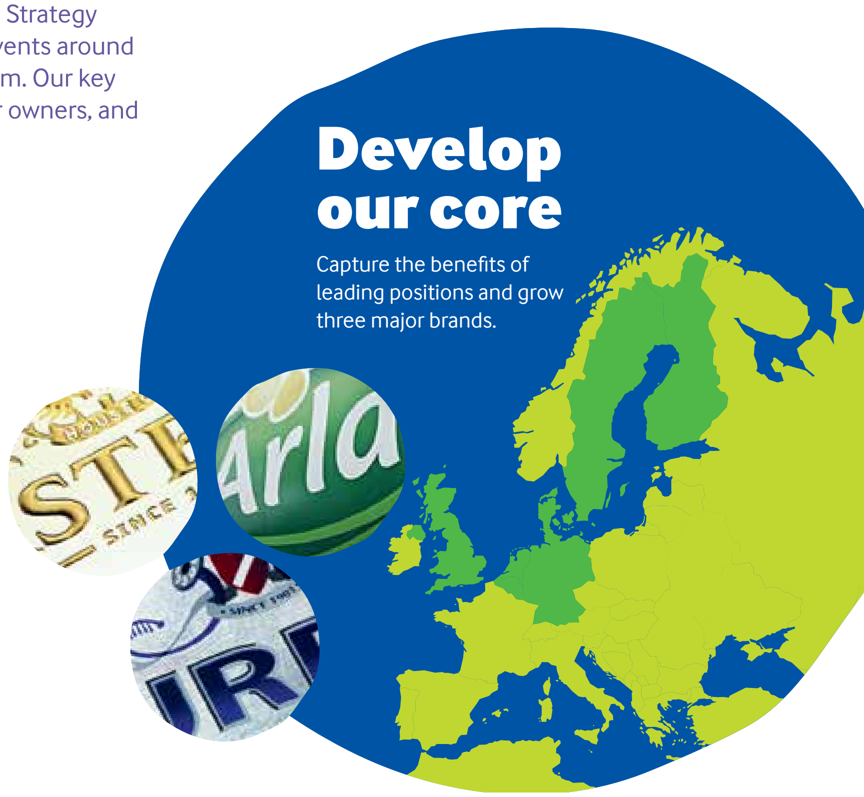
To prepare for the abolition of EU milk quotas in 2015, Arla's farmers started to increase their milk production in 2014. This began sooner, and proceeded faster, than we expected. Our growing milk pool keeps the milk wheel turning and proves the strength of our cooperative business model. However, moving that additional milk into value added products is vital. Going forward, we will turn every stone to increase our volumes in retail and food service and expand our business to new markets.

UME drives business opportunities

The milk wheel illustrates Arla's business model. More raw milk gives the company a stronger market position and makes our supply chain more efficient and profitable, which enables us to offer an attractive raw milk price while also bringing new opportunities for growth for our owners. Our cooperative business model is built on this logic, and requires wecontinuously seek to attract more raw milk. An example of this can be seen in the merger with the Belgian cooperative EGM Walhorn in 2014. This will add more owner milk to our supply chain and keep the speed in the milk wheel, thereby securing Arla's development. In order to find customers for the additional milk, we have accelerated our ambitions in growth markets. Long-term, we expect that the demand of Arla's quality milk will increase. People across the world will demand healthier and better food products. We will provide these.

Staying focused in a volatile market

We drive our business forward guided bythe course set in Strategy 2017. We stand firm on our strategic goals, even when events around the world create challenges and setbacks in the short term. Our key focus is to deliver a fair and competitive milk price for our owners, and Strategy 2017 is serving this purpose well.



In 2014, the dairy industry faced dramatic price volatility, however, we maintain our strategic objectives. We are committed to adding value to all the milk that our owners produce. In order to find new markets and new customers for growing milk volumes, we have been expanding our focus on emerging markets.

LONG TERM VIEWS

In the long term, industry analysts expect that the world's demand for milk will grow by more than 2.5 percent per year. There will, however, be occasional short-term periods when the total world supply of milk grows faster than demand. To a large extent, this is what happened in 2014. We expect the demand to be back on track once the Chinese have emptied their current surplus and resume their imports. China's interest in dairy products will grow, as will that of people in the Middle East, Africa, South East Asia and Latin America.

SHORT-TERM ACTIONS

In the currently descending market, we have focused all efforts on freezing costs and strengthening our retail business and brands in order to minimise sales to the less-profitable industry segment. The price gap between consumer products and industry products widened drastically during 2014, and every kilogram of milk that we can move into retail and food service counts.

ACCELERATED AMBITION

We are now expecting significantly more milk by 2017 after the abolition of the milk quotas takes effect.

The accelerated milk challenge calls for an acceleration of the global growth – within the dual ambition of Strategy 2017. We must develop our core to maintain a stable base in Europe and develop our global brands. And we must move milk to markets with a high demand in order to create profitable growth. Our strategy objectives will remain the same, however, we have accelerated execution – especially in regards to our activities in profitable growth markets.

THE FINANCIAL TARGETS OF STRATEGY 2017

	KPI	TARGET
A	Milk price: Peer group index	103-105
B	Organic revenue growth	4 % p.a.
C	Owner milk to retail products	>1 bKG
D	Industry share	<20 %
E	Revenue on growth markets*	20%

The growth markets are: Middle East and Africa, Russia, China, TPM and Arla Foods Ingredients (AFI)

Strategy 2017

DEVELOP THE CORE

Arla has a sound basis not only in our core markets, but also in our branded business – which is of value in both core and growth markets. We want to strengthen our three global brands, Arla®, Lurpak® and Castello®, and develop customer relations, innovation, efficiency and value creation.

In 2014, we mobilised the whole organisation in commercialising Arla's identity. Under the headline Good Growth, we will continue to reinforce four identity traits- Cooperative, Natural, Healthy and Responsible. By early 2015, we will have completed the implementation of the new Arla® brand platform globally.

Innovation is a key driver in building Arla's profitable brand positions, and thereby the milk price paid to our owners, and in generating organic growth. As set out in Strategy 2017, at least 10 per cent of Arla's earnings must be delivered from the development of new products.

In 2014, the launch of products across categories represented an innovation rate of about 11 per cent, which equates to about one billion EUR across categories over three years.

DELIVER THE GROWTH

The value of moving milk to growth markets is substantially increasing. With the increasing milk volumes, accelerated growth in Consumer International (CIN) and Arla Foods Ingredients (AFI) is necessary for Arla to maintain a competitive milk price. More consumers demand healthy and natural dairy products in their daily diets; they have less time to cook and a growing ability to buy high-quality products.

Growth in CIN will be a significant lever to increase the brand share of Arla and deliver on the financial targets of Strategy 2017.
A strengthened partnership with Brazilian company Vigor is an example of this.

FASTER, SIMPLER AND LEANER

Strategy 2017 addresses a number of ambitious cost and efficiency programs with the potential to simplify Arla's business model, streamline production and optimise processes. The programs are expected to contribute with a total savings of EUR 330 million before year-end 2015 compared to 2012. These savingswill, in turn, contribute to a competitive milk price for our owners and provide the organisation with leverage for further growth.

On top of the existing plans, we implemented additional measures across the business in 2014 to maintain competitiveness. We installed a freeze on capacity cost outside supply chain across Arla (with the exception of growth markets). Furthermore, the EMG has decided to reduce the 2015 capacity investment (CAPEX) from the normal three to two per cent of Arla's revenue. Our focus is on steering the business through the current market decline and to find new ways of doing business.

Business **groups**

Our business is organised to service different market needs in the best possible way – sharing global synergies while respecting local differences. We have centralised global functions, such as the development of the global brands and trading of milk for industry. At the same time, we have a strong local presence through our six market oriented business groups – five of which cover our European core markets. They feel the pulse of the unique consumer markets and serve their specific needs. Our business groups are described here.

GLOBAL CATEGORIES **AND OPERATIONS**

Global Categories & Operations (GCO) plays a leading role in translating innovative ideas into profitable products and solutions, and sets the marketing framework for the three global brands: Arla®, Castello® and Lurpak®. In 2014, a key element in delivering these ambitions was the relaunch of the Arla® brand in several markets. GCO has also pushed efficiency through a roll-out of the LEAN, Opex and Design-to-Value programmes and by optimising milk planning and allocation across the business. GCO is responsible for industry sales in the global market.

5,421
Number of employees[1]

983 +9%
Millions (EUR) in revenue[2]

Lurpak® was launched in Germany and marketing activity in key CIN markets was increased.

In 2014, the Arla® Brand relaunched with new positioning, packaging design and a new communication platform across many markets.

A new strategy led to further differentiating the brand and a focus on releasing the potential in the existing product range.

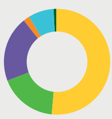
CONSUMER **UNITED KINGDOM**

Consumer United Kingdom (CUK) is the biggest consumer-oriented business in the group. In 2014, it experienced several significant developments: the rollout of one of the biggest cheddar cheese contracts in Arla's history and the official opening of the world's largest fresh milk facility at Aylesbury. Going forward, the group's focus is on becoming more effective and faster at executing; adding value to the milk through cost-efficient operations, strong positions with the customers and strengthening brand-ed positions.

3,473
Number of employees

2,828 +10%
Millions (EUR) in revenue

Product categories



- Fresh dairy products 51.6%
- Cheese 17.6%
- Butter and spreads 20.4%
- Milk powder 2.1%
- Non dairy products 7.5%
- Other 0.8%

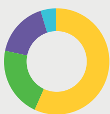
CONSUMER **SWEDEN**

Consumer Sweden has a strong focus on growing both brands and own label. In 2014, CSE grew both in volume and value in all categories during the second half of the year. Arla had, for example, huge growth within butter and cheese and the whole organic assortment. The acquisition of Falbygdens Ost, which ispending approval, is a strategic means for Arla to expand our premium cheese offering to consumers. Changes to the structure of CSE continued according to plan throughout 2014, with the closing of Göteborg Dairy and opening of Falkenberg dairy for Arla's global production of cottage cheese.

2,199
Number of employees

1,516 -2%
Millions (EUR) in revenue

Product categories



- Fresh dairy products 56.9%
- Cheese 21.6%
- Butter and spreads 17%
- Non dairy products 4.6%

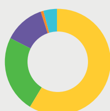
CONSUMER **DENMARK**

Consumer Denmark (CDK) has a strong focus on developing the core business, driving milk volume, building value for the three global brands as well as ensuring an effective and lean business. In 2014, CDK delivered growth for the Arla brand through new innovation in yogurt and fermented drinks (YFD) and new distribution channels with on-the-go products. Key focus areas for CDK in 2014 have been expanding the premium business and the launch of the new Arla brand in Denmark.

1,742
Number of employees

957 +9%
Millions (EUR) in revenue

Product categories



- Fresh dairy products 59.2%
- Cheese 24.2%
- Butter and spreads 12.5%
- Milk powder 0.1%
- Non dairy products 4.0%

1 Number of employees in staff functions: 1,449
2 Revenue not attributable to business groups: EUR 211 million

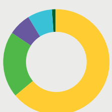
CONSUMER **FINLAND**

Consumer Finland (CFI) has a strong focus on added-value products that strengthen the Arla® brand and ensure good performance. In 2014, the product launches of Arla® fresh milk with new packaging and Arla® protein quarks and yoghurts were successful and created good growth for the CFI business. Arla® protein was also chosen as a global concept and opened export channels for CFI to other Arla countries. During the second half of the year, the focus was on volume growth, especially in yellow cheese, where the cheese assortment grew with Arla® Heritage Label cheeses from different Arla markets. On the whole, CFI delivered a good result in 2014.

329
Number of employees

352 -2%
Millions (EUR) in revenue

Product categories



- Fresh dairy products 64%
- Cheese 20.4%
- Butter and spreads 7.1%
- Non dairy products 7.6%
- Other 0.8%

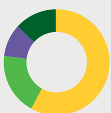
CONSUMER **CENTRAL EUROPE**

In 2014, the harmonization of business systems and programmes and the right approach to markets and the implementation of supply chain footprints have been amongst the most challenging tasks. A successful merger with EGM Walhorn and its integration into Arla was an important topic during the year as well. For the next years CCE has set ambitious targets to further strengthening the Central European business and increasing the branded business.

1,975
Number of employees

1,990 +12%
Millions (EUR) in revenue

Product categories



- Fresh dairy products 57.8%
- Cheese 19.2%
- Butter and spreads 10.1%
- Other 12.8%

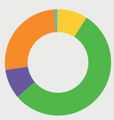
CONSUMER **INTERNATIONAL**

Consumer International (CIN) is Arla's growth engine and responsible for delivering growth outside the core markets. In 2014, CIN delivered strong results – despite the Russian embargo – with total revenue growth of 14 per cent and a new footprint in Africa through a new business in Ivory Coast. Sales in China shows good progress. CIN has started to build new markets in Latin America, South East Asia and Australia, where there is a great potential for increasing sales of branded products made from Arla's owner milk. CIN's ambition is to more than double its revenue from EUR 1.3 billion in 2013 to EUR 2.5 billion in 2017.

1,999
Number of employees

1,437 +12%
Millions (EUR) in revenue

Product categories



- Fresh dairy products 9.2%
- Cheese 54.6%
- Butter and spreads 9.2%
- Milk powder 26.3%
- Non dairy products 0.7%

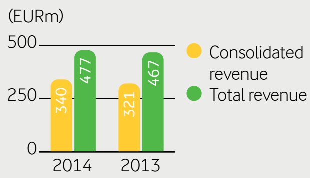
ARLA FOODS **INGREDIENTS**

Arla Foods Ingredients (AFI) is a leading developer and supplier of nutritional and functional milk-based ingredients to the global food industry. 2014 saw a number of important milestones for the group, which included: The AFI production site Denmark Protein started to process whey from Arla's cheese sites in the UK, the joint venture ArNoCo started commercial production of lactose and a new lactose plant at Danmark Protein was inaugurated. When fully implemented, these new activities will increase AFI's protein and lactose/permeate businesses by 22 per cent and 75 percent, respectively.

568
Number of employees

340 +6%
Millions (EUR) in revenue

A large part of AFI's activities are carried out in joint ventures, which are not included in the consolidated financial statements. The total activities including joint ventures had revenue totalling EUR 477 million in 2014 (compared to EUR 467 million in 2013).

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Carr's

CASE: DEVELOP THE CORE

Castello®
– a Pop Up Star

In 2014, a revisedstrategy and innovative execution returned great results for Arla's Castello® brand. A unique creative campaign and a "Pop Up Shop" on international tour proved to be a game changer for speciality cheeses. The strategy showed how new Castello® products could further increase market share and volume.

The Castello® brand is a premium cheese brand sold globally. In 2014, the brand underwent a successful turnaround with notable increases in both volume and market share. Strong volume growth from the global brands was one of the Seven Essentials in 2014. The specific goal for Castello® was an ambitious seven per cent growth. By the end of 2014, thanks to a highly entrepreneurial global team who pushed the boundaries of innovation, Castello® showed

8%

volume driven growth*.

REVIEW THE BRAND STRATEGY

A full-scale review of the Castello® strategy and brand position in 2013 highlighted two essential conclusions.. First, there was a substantial need for differentiating the brand from main competitors. The world of speciality cheeses often seems too complex for consumers and many have chosen not to engage. This led to the second conclusion: that the existing Castello® product range had not reached a maximum potential. Fearing that new products would only lead to more competition, the relaunch focused on making consumers discover and fall in love with the current assortment.

For a limited period of time, the Castello® Pop Up stores gave consumers in Copenhagen, the Hague, London and New York the opportunity to taste a variety of cheeses in a setting that added to the experience. It was a perfect served combination of innovative cheeses, drinks and snacks.

KNOW THE CONSUMERS

In total 4,000 consumers from four different countries were involved in the market research, creating a strong understanding of consumers' choices, behaviour and preferences. A new campaign was executed with a focus on telling the unique story of every single Castello® cheese. In addition, a high-end Pop Up Shop concept was established to tour the world to showcase the uniqueness of the Castello® brand to consumers.

TELL THE STORY

With an educated staff of cheese lovers advising on servings and pairings with, for example, wine, jams and crackers, the idea was to generate enthusiasm for cheese and expand the market for speciality cheeses by making the products more accessible both in terms of experience and logistics. In order to make consumers look at the product in new ways, the campaign launched new concepts like Castello® Burger Blue - a blue cheese sliced for burgers.

** Growth in net revenue driven by volume effects*

CASE: DEVELOP THE CORE

2,800 British farmers strengthen the **cooperative and spur on sales**

Access to raw milk and an increasing number of owners to invest in the business is crucial for Arla's future growth. In 2014, we obtained 300 mio. litres of new owner milk in the UK. In two years we gained more than 2,800 new British owners, and by 2015, almost 20 per cent of Arla's milk will be British. A farmer-led consumer campaign shows the importance and quality of being farmer-owned.

Arla's achievements in the United Kingdom over the last two years are a milestone in our history. In 2012, the merger with Milk Link ensured Arla-owners in the UK. Following the merger, Arla became a complete dairy business in the UK with fresh dairy products, UHT milk and cheese production and more than 1,500 farmer owners. The merger provided Arla with a completely new array of opportunities for retailers with products produced locally in Great Britain.

To further secure the supply of raw milk in the UK, another landmark decision was made in 2013 when Arla reached an agreement with Milk Partnership farmers that they would become Arla owners. This decision increased the number of British farmer-owners to approximately 2,800. In 2014, even more owners joined individually. Today, one in four British dairy farmers are owners of Arla.

THE OWNER PERSPECTIVE

By having more owners in the UK, Arla can secure a solid supply of milk. This means that our UK business has raw milk to expand and increase its market share. For the farmers, the benefits of being an owner are plenty. In joining Arla, they gain security, share best practice and benefit from a strong global business.

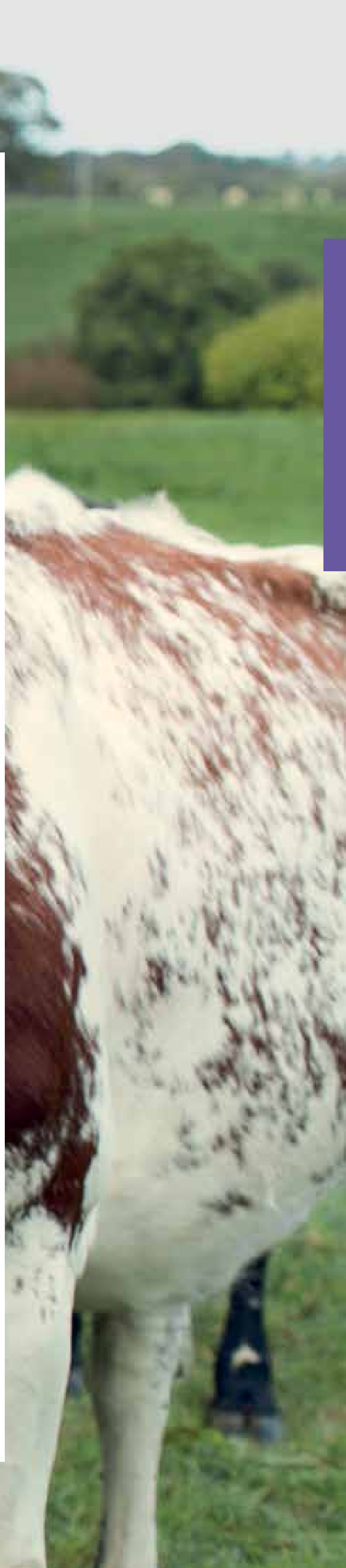
UNLEASHING POTENTIAL

There is great potential in the UK market more UK farmers to become owners of the global business.

With solid investments in high-tech production facilities, Arla is able to offer British customers a full selection of high quality dairy products from a single source. This makes us a very attractive partner for British retailers because it meets their increased demand for industry efficiency and competence. It is important for Arla to document that we have enough milk to service them in their strategies.

FIRST FARMER-LED CAMPAIGN IN THE INDUSTRY

In 2014, Arla launched an initiative to unify British farmers and do something positive at a time of falling milk prices. In October, Arla launched a national campaign that called on shoppers to support dairy farming by buying its well-known dairy products. The campaign-earned editorial coverage in the national media that coincided with full-page advertisements in all the national daily and Sunday newspapers. Arla farmers distributed thousands of leaflets in their local communities at the same time.



The first farmer led campaign in the industry highlights five Arla brands: Cravendale®, Lactofree®, Anchor®, Castello®, and Lurpak®. The aim is to drive a farmer-owned agenda and to build foundations of Arla brand launch in the UK in 2015. The campaign has had a positive response, not only from farmers but the industry too.


Puck
بوك

CASE: DELIVER THE GROWTH

Accelerating growth in **Middle East and Africa**

The Middle East and Africa (MEA) is one of the main growth clusters in the world with great potential for the food industry. Our long-term presence in the region provides Arla with a competitive edge. Great experience, strong brands, a powerful organisation and significant consumer insights will lead the way for further growth.

Arla has more than justlong term experience in MEA, we have also demonstrated good performance and strong consumer understanding. In 2014, Arla in MEA continued to deliver significant revenue growth. Saudi Arabia,the biggest market in the region, delivered a strong growth of 17 per cent, whereas newer regional markets – including Sub-Saharan Africa- are gaining a fast foothold and showing even higher growth rates.

PUCK® IS A LEVER FOR GROWTH

The regional dairy brand Puck® has long had a strong position in local consumers' minds. Supported by well-executed campaigns and innovation based on consumer insights, the brand continued to show great results with an overall growth of 14 per cent in 2014.
Puck® spreadable cheese is a favourite among children. It is packaged in a squeezable tube with a nozzle that allows them to draw with cheese on their toast. The nozzle was developed in response to a very competitive market and to help grow the total spreadable cheese category. In addition to the new nozzle, a new smartphone app that uses virtual reality to interact with the packaging was also introduced to inspire kids to use their imagination at the breakfast table. The new packaging also makes it easy to carry Puck® outside the home, introducing new occasions to enjoy the spreadable cheese when on the go.

EXPANDING WHITE CHEESE PRODUCTION

Two of the main challenges in the rapidly growing Middle East and African market – where cream cheese is extremely popular among consumers- are keeping up with demand and staying competitive. Arla is investing EUR 7.4 million in expanding Danya Dairy in Riyadh and Bislev Dairy in Denmark as part of our efforts to meet the increasing demand for cream cheese in the Middle East. The expansion is fully in line with the growth ambitions set out in Strategy 2017. Bislev Dairy will increase production capacity by 46.000 tonnes, enabling the dairy to produce 110.000 tonnes of cream cheese annually. Danya Dairy has been rebuilt to increase production to 21.000 tonnes cream cheese per year. The investments include an overall rethinking of the production site to make production more efficient and enhancing quality to the consumers.

CASE: FASTER, SIMPLER, LEANER

Investing in **profitability**

Active cost management is vital to Strategy 2017 and a prerequisite for Arla's success. From 2012, our strategic ambition is a cost reduction of EUR 330 million by the end of 2015. Scaling and cost efficiency will benefit the milk price for owners while maintaining competitiveness. An example can be seen in Sweden, where Arla conducted a significant structural rationalisation of the dairy structure in 2014, securing a competitive and modern production with reduced costs and environmental impacts.

Cutting costs by effective knowledge sharing, streamlining production and exploiting large-scale operations is in focus at Arla. We expect to be a cost leader and the process to realise this is on track. Strategy 2017 addresses a number of ambitious cost and efficiency programmes within three main areas:

- Lean and Operational excellence (Opex)
- Procurement and innovation
- Structural rationalisation

In 2014, we reached the group goal of EUR 100 million in savings and a reduction of EUR 75 million in working capital through such programmes. A part of the savings were achieved in a restructuring of the dairy structure in Sweden as described below.

INVESTING IN A MODERN AND EFFICIENT PRODUCTION STRUCTURE IN SWEDEN

To ensure future production capacity and improved competitiveness, Arla's Board of Directors decided to invest in a major transformation of the general production structure in Sweden in 2013. The investments and restructuring were put in place in 2014 , and the dairy structure is now modern and efficient. The changes have also meant a reduction in the environmental and climate impact of production, which is in keeping with Arla's climate strategy.

MODERNISING JÖNKÖPING TO EXPAND AND ADOPT PRODUCTION

One of the measures was to consolidate production of the dairies in Gothenburg and Jönköping. Through 2014, production was gradually phased out in Gothenburg, which had its last day of operation in October. Production was then moved to the dairy in Jönköping, where approx. EUR 5.9 million was invested in modernisations and extensions. Consolidating into one plant instead of two required investments mainly in the areas of production and distribution.

FALKENBERG TO BE REOPENED AS EUROPE'S LARGEST COTTAGE CHEESE DAIRY

The increasing demand for protein-rich milk products led to reorganisation and efficiency measures – especially with regards to cottage cheese productionIn the city of Skövde, a leading cottage cheese dairy with unique production expertise seemed a rational place to look in order to find a way to increase production while keeping costs down. However, the dairy was located in the middle of the city, which limited the possibilities for building extentions to it. Instead, Arla decided to reopen the closed Falkenberg dairy and invest approx. EUR 19 million in making it Europe's largest specialised cottage cheese dairy. In 2014 and 2015, production and expertise will be moved from Skövde to Falkenberg, which will ultimately boast a capacity of 29,500 tonnes of cottage cheese with more than 40 products. This move will reduce production costs by EUR 9,2 cent per kg. and enableuse of already installed whey processing equipment. The keywords for the project were safety, occupational health and safety, efficiency and quality.


Arla

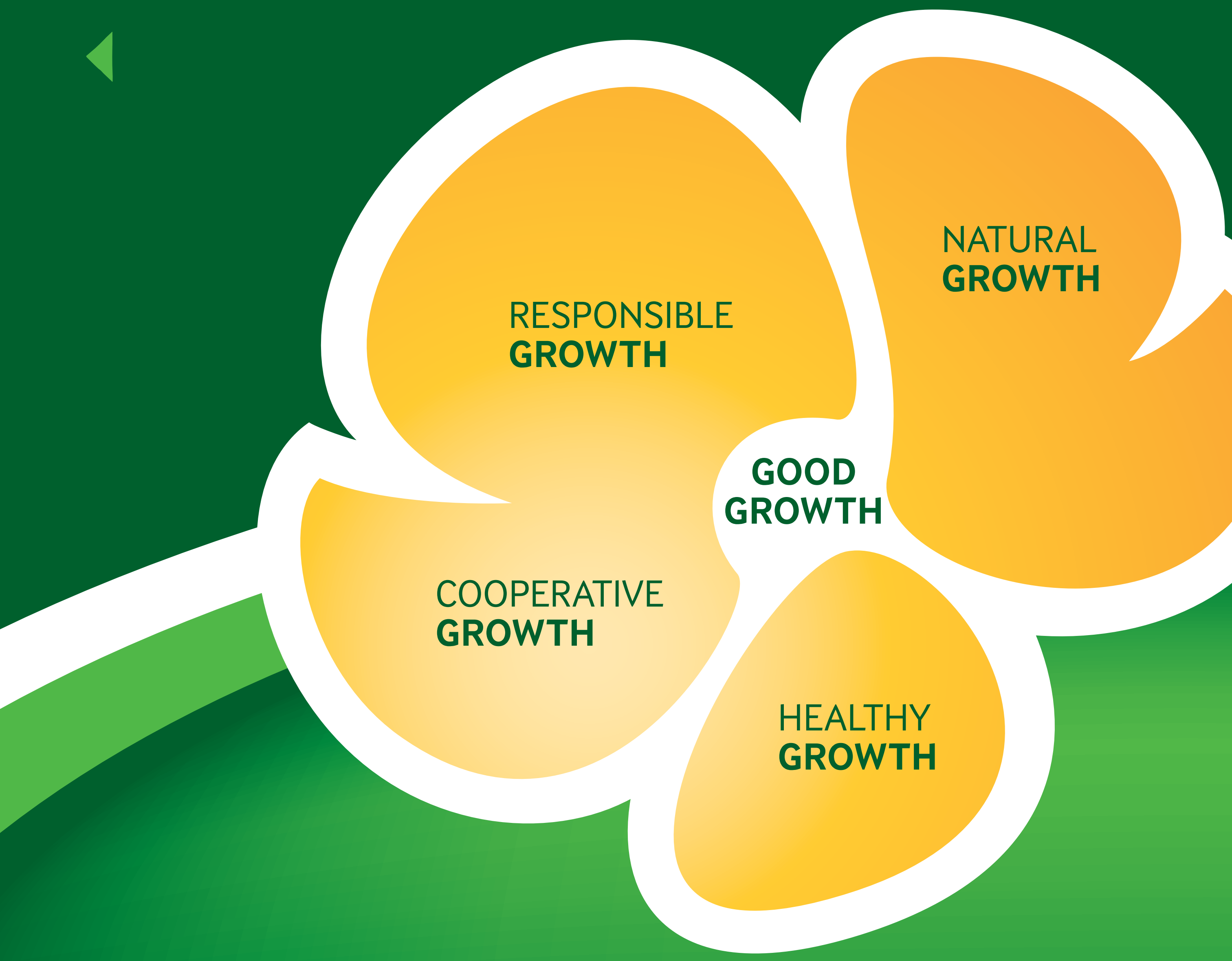
Corporate **governance**

In 2014, Arla had 19,000 employees across 30 countries and 13,400 milk-producing owners in Denmark, Sweden, United Kingdom, Germany, Belgium, Luxembourg and the Netherlands. Together, we are defining the global cooperative and creating the future of dairy. Being a large cooperative is an important differentiator. Running it across seven countries is our biggest challenge. Our identity, Good Growth, shows how we want to create the future of dairy. Together.

CORPORATE GOVERNANCE

OUR IDENTITY FUELS OUR BUSINESS

Arla is a community and a business that is ready for the future. In 2014, we launched Good Growth – an identity with new opportunities. **Being a large cooperative is an important differentiator.** Good Growth shows who we are and how we want to create the future of dairy. Each of the four principles is part of Arla's solid foundation and bright future. Our identity fuels our business and represents clear growth opportunities.



Arla's business model is deeply rooted in our identity. Living the true identity of Arla enables us to create more value for more people while retaining the long term focus rooted **in the cooperative model**.

OUR MISSION

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

OUR OWNERS

Arla is an international dairy cooperative. We believe that we can continuously create something better in collaboration with others. A strong community gives the business stability and strength to grow.

OUR MILK WHEEL

The milk wheel illustrates Arla's business model. To keep the milk wheel running we continuously search for growth opportunities through mergers and acquisitions. More owners increase the amount of raw milk into the business and optimise our ability to deliver our mission and vision.

RESPONSIBILITY THROUGH OUR ENTIRE VALUE CHAIN

As a cooperative, we are in a unique position to act responsibly throughout our value chain – from the cow to the consumer. Our owners represent the first link in the chain.

OUR VISION

Creating the future of dairy to bring health and inspiration to the world, naturally.

GROWING OUR OPPORTUNITIES

Arla's unique history and identity opens a world of possibilities. We will bring health and inspiration to the world and create results together with others: employees, partners and consumers.

OUR MILK

Our products have the power to improve people's lives. Milk is a natural source of nutrients. We will maintain milk's natural benefits and reduce the use of artificial additives.

Corporate **Responsibility** – a part of Arla's identity

Arla is growing continuously, and as we grow, so does our responsibility. We want to set and drive the agenda for a healthy, natural and responsible dairy industry. Acting responsibly is part of our cooperative heritage and now also a main strength in our identity – Good Growth.

One of the four principles of Arla's identity is Responsible Growth – a principle that we are committed to and find increasingly important. The other three principles are: Natural, healthy and cooperative.

As a global company, Arla has the scale required to make a difference to society and the environment. We want to offer products to consumers wherever they are in the world, and we want to take responsibility for our impact on the environment wherever we are present. We must respect local developments while maintaining our global perspective.

We are dedicated to being active in the communities in which we do business. We want to build confidence, show initiative and set new standards for quality and conduct – from the cow to the consumer – so that we can embrace the challenges and seek new opportunities.

OUR RESPONSIBILITY – ARLA'S CODE OF CONDUCT

We have a strong Code of Conduct that helps us manage the ethical challenges and day-to-day operation of our company. Acting responsible and making responsible decisions is a part of everybody's work, which is why we work with increasing awareness of how we grow responsibly.

Arla's principles for ethics and sustainable development are contained in Our Responsibility – Arla's Code of Conduct. It includes our ethical, social and environmental responsibilities and acts as a beacon for the way we do business in a dynamic world. Our Code of Conduct is based on the principles laid out in the UN's Global Compact, and is a tool that – along with education and training – is designed to support our colleagues in handling the dilemmas we unavoidably encounter as a global business.

DEALING WITH DILEMMAS IN A GLOBAL BUSINESS

The following discussions show a selection of cases for working with responsibility in Arla.

PEOPLE

PLANET

BUSINESS

PEOPLE

Providing safe, healthy and yet affordable products in emerging markets

As Arla expands globally, we are faced with different consumer preferences. Infrastructure brings challenges in terms of keeping the products natural, safe and yet affordable.

These questions are examples of challenges we face when entering some of the emerging markets. In response, we have applied three key criteria: never compromise on food safety, always have a positive overall impact in the potential market, and always pursue a sustainable business opportunity for Arla.

Read more about Arla's take on food safety and healthy products in Our Responsibility page 26-35.

New health strategy in place

Arla has launched a health strategy that builds on our responsibility to promote and offer healthy, milk-based, affordable and accessible products to people around the world.

The strategy focuses on four areas with the aim to improve health for our consumers: Stimulate healthy diets, simplify the choice, inspire good food habits and accommodate specific needs.

Read more about how we meet consumer demands for healthy products in Our Responsibility page 31-35.

PLANET

Towards zero carbon production in Aylesbury

With the potential to produce 1.5 million bottles of milk per day and covering the size of 30 football fields, the dairy at Aylesbury is set to be the world's largest fresh milk dairy. Not only will it be the largest, but it also has the potential to be the most efficient facility of its kind.

Setting new environmental standards on a global scale, Aylesbury is designed to become the first zero carbon milk dairy. It has already achieved zero waste to landfill and will utilise cutting edge renewable energy. The design itself reduces greenhouse gas emissions by 60 per cent before adding renewable energy sources, and water usage has been reduced by utilising water recovery and rainwater harvesting. Aylesbury reinforces Arla's leadership in the dairy industry and gives Arla a significant advantage in being more efficient at converting raw milk into consumer products.

Read more about Aylesbury and Arla's strategies and actions on environment and sustainable dairy farming in Our Responsibility page 36-47.

BUSINESS

Doing responsible business in new markets

How far should Arla's responsibility for the local economy go when entering developing countries? Should there be a threshold for social and human rights issues? How can we deal with risks to the safety of our workforce? These questions and many more are discussed amongst colleagues working with these issues.

Arla's stance is that all markets deserve consideration as long as there is a milk deficit to satisfy and the market represents a solid business case. By providing nutritional food products and creating sustainable employment, we expect to make a long-lasting positive contribution wherever we operate. In this respect we trust and adhere to our Code of Conduct, and we expect our business partners to do so as well.

Read more on how we approach working with responsible relations in new and existing markets in Our Responsibility page 8-21 and 54-57.

Concern for employees during cost reductions

Optimization and cost reduction constitute the third pillar in the Strategy 2017. We continuously analyse supply chain efficiency, which often shows a need to restructure production lines – sometimes even whole dairies – in order to improve. But what happens, then, with the people who worked there?

Once a decision is reached to relocate, the process of supporting employees begins. Arla does a lot for affected employees to move on in their worklife. It is a fact that Arla continuously needs to improve efficiency. In the process, we are committed to keeping employees and the environment in mind.

Read more on how Arla faces the challenge of being a Responsible Company in a competitive business in Our Responsibility page 8-25 and 48-61.

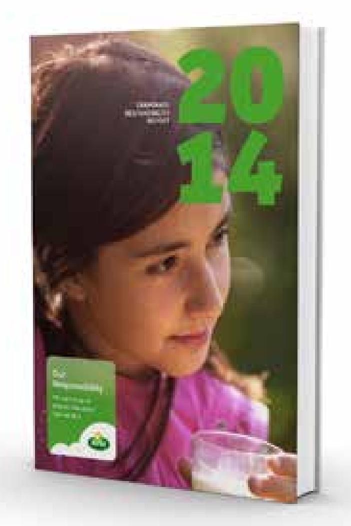
Corporate Responsibility (CSR)

How we meet our responsibilities

Taking responsibility for our impact on society is important to us and a basic part of our core values. That is why, for many years, we have maintained high standards for natural and healthy products. It is why we have high standards in terms of food safety, our impact on the environment, climate, animal welfare and for Arla as a safe and appreciated workplace. It is our conviction that this creates value for society, for individuals and for our business.

Arla has participated in Global Compact since 2008, and our Code of Conduct complements its basic principles. This is an extract from the CSR report, where, every year, we report on how our company is adhering to the Code of Conduct. The report describes the progress Arla has made during the year and where we see opportunities for improvement.

Read more about how we meet our responsibilities in Arla Foods' Corporate Responsibility report on https://csr2014.arla.com



RESPONSIBLE COMPANY

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

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

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

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

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

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

Activities and results in 2014
- Strengthened compliance culture
- E-learning about Code of Conduct available for all colleagues
- One settlement model for all our owners
- New training material for owner seminars
- Good reputation for products and services
- 79 % of preferred suppliers have signed code of conduct for suppliers
- Improved supplier assurance process
- Training of lead supplier auditors

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

CONFIDENCE IN PRODUCTS

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

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

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

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

Activities and results in 2014
- Global food safety standard
- Global Ingredients management system
- Subcontracting demands and process improved
- Launch of global health strategy
- Focus on cooking inspiration
- New EU labelling introduced
- Development of lactose-free products
- Reducing sugar, fat and salt in several products
- All Arla's production sites have a certified or approved HACCP system for food safety (e.g. ISO22000)

Objectives
- None of our products should cause illness or injury.
- We aim for zero recalls, but if we have to make a recall, we have solid routines and procedures to trace our products.
- All sites should be certified according to as minimum one of GFSI (Global Food Safety Initiative) recognised standard.
- Arla will contribute to the health and well-being of consumers in all markets and in all phases of life.

CARE FOR THE ENVIRONMENT AND ANIMAL WELFARE

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

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

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

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

Activities and results in 2014
- Increased production not affecting climate impact
- Mapping of energy consumption
- Continued savings for energy and water
- Focus on waste
- Sustainable dairy farming strategy launched
- Arlagården® implemented in more countries
- Focus on animal welfare
- Soy certificates for all feed in core markets
- Increased requirements on palm oil

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

RESPECTFUL RELATIONS

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

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

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

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

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

Activities and results in 2014
- Improved working conditions
- Training at all levels
- Global perspective on recruitment
- Continuous focus on diversity
- Attention to human rights in new markets
- Contribution to local society
- Engagement in Global Dairy Platform and SAI
- Owners meet consumers, 312,350 people visited farms as part of Arla arranged events
- Employee survey covering 17,200 colleagues in 27 countries and in 14 different languages showed employees were engaged and ready for change. The response rate was 88 per cent.

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

Governance in **a modern cooperative democracy**

Running a cooperative business is complex. Running an international cooperative is ambitious. In 2014, Arla is owned by 13,400 farmers from seven countries who speak different languages. Still, we manage to work towards the same goal. Arla's democratic structure gives decision-making authority to the Board of Directors and to the Board of Representatives and addresses the increased diversity in our ownership.

Arla is attractive for the dairy farmer because it is owned by farmers themselves. This means that farmer-owners realize the full earnings on every litre of milk sold. This is a unique model, which requires a democratic and representative governance. The governance challenge is balancing the need to make quick decisions with the farmer-owners need to understand those decisions and maintain their confidence in the company's leadership.

COOPERATIVE AND CORPORATE GOVERNANCE

In Arla, cooperative governance lies with the The Board of Directors and the Board of Representatives. It is their primary concern to develop the ownership base, safeguard the cooperative democracy, embed decisions, and develop competencies.

Corporate governance, on the other hand, is shared between the Board of Directors and the Executive Management Group. Together, they define and supervise strategic direction, organize and manage the company and supervise management and ensure compliance.

Corporate governance is about trust and timing. Some decisions take time and must be made by the cooperative. The new consolidation policy is a good example of this. Other decisions must be made quickly and on time, trusting that the Board of Directors will comply with the mandate from the cooperative.

In connection with acquisitions, for example of a share of a Brazilian dairy, management works quickly on the authority of the Board. When cooperatives merge, for example as Arla and EGM Walhorn did in 2014, the decision must be approved by both owner groups.

HOW THE COOPERATIVE WORKS

Cooperatives operate according to specific principles. Arla was founded by dairy farmers more than 100 years ago, and the purpose of the cooperative is to buy, process and sell their milk in the best possible way. The cooperative owners are both owners of and suppliers to Arla. This is the key strength of the cooperative: the long-term, mutually obliging cooperation. The owners are obliged to supply their milk to Arla, thereby securing supplies. On the other hand, Arla is obliged to buy the milk. This ensures that the owners can be sure of being able to sell their milk at the highest possible price. Unlike a limited company, the purpose of the cooperative is to pay its suppliers the highest possible price for their raw materials. Arla creates value for its owners as a reliable sales channel which pays as much as possible for the milk.

NEW RETAINMENT POLICY

After eight months of debate, a new retainment policy that will accelerate growth was in place in 2014. The process is truely democratic and this was one of our biggest tasks in the owner democracy in the year.

Arla wants to grow. The basis for growing is that every year, our owners invest in Arla. Retainment is common and individual capital that stays in Arla as part of our equity. It is essential for investment in Arla's business, partly because equity affects our borrowing capacity and credit rating.

The adopted proposal puts the retainment percentage up from 4.5 to 4.75 per cent of Arla's annual performance price. The new retainment policy takes effect from 2014. The Board of Directors propose that the retainment level for 2014 is reduced.

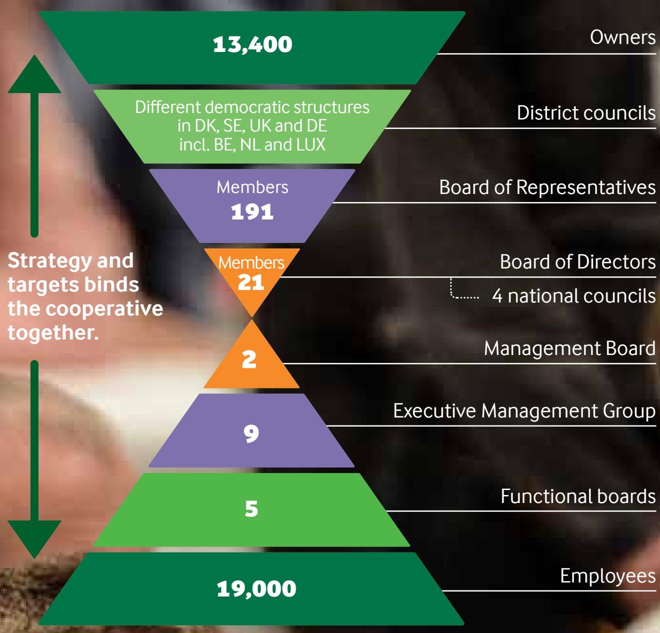
DISTRICT COUNCILS

Each owner country has their own democratic structure. This means that there are different local organisations in Denmark, Sweden, the UK and Central Europe covering Germany, the Netherlands, Belgium and Luxembourg that ensure the democratic influence of the cooperative owners in all countries. Each year, the cooperative owners in the local democratic structures are invited to attend meetings. The members of the local organisations elect members of the Board of Representatives.

NATIONAL COUNCILS

There are four national councils, which are subcommittees of the Board of Directors. The four national councils have been established in the four democratic areas Sweden, Denmark, Central Europe and the UK. The subcommittees to the Board are established to take care of the matters that are of special interest to the dairy farmers in each country. These might include topics like the quality programme Arlagården® and training of owners.

ARLA'S GOVERNANCE MODEL



BOARD OF REPRESENTATIVES

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

BOARD OF DIRECTORS

The composition of the Board reflects Arla's ownership. Arla is owned by milk producers, and the Board of Directors consists of 17 elected Arla farmers and four employee representatives. The fact that members of the Board are farmers as all the other owners bring strong relations in the wider community through the Board of Representatives, districts etc.

The Board of Directors is responsible for monitoring the company's activities and asset management and compliance, maintaining the accounts satisfactorily and appointing the Executive Management Board.

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

DIVERSITY IN THE BOARD OF DIRECTORS

Arla has set targets for the underrepresented gender on the Board of Directors in compliance with the legislation introduced in 2012. The target reflects the gender composition in the owner group.

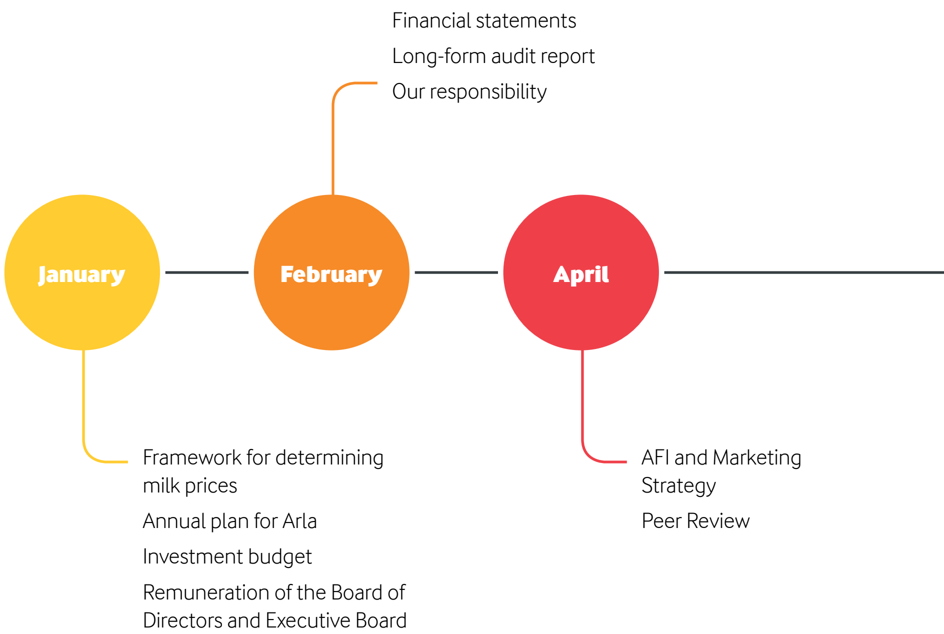
The Board of Directors and Board is elected in a democratic process. Diversity is increased by enhancing awareness of the benefits related to diversity in general – not just on gender.

2014 status on the gender composition of the Board of Directors:
6 per cent women – 94 per cent men.

2014 status on the gender composition of the Board of Representatives:
13 per cent women – 87 per cent men.

Year **2014**

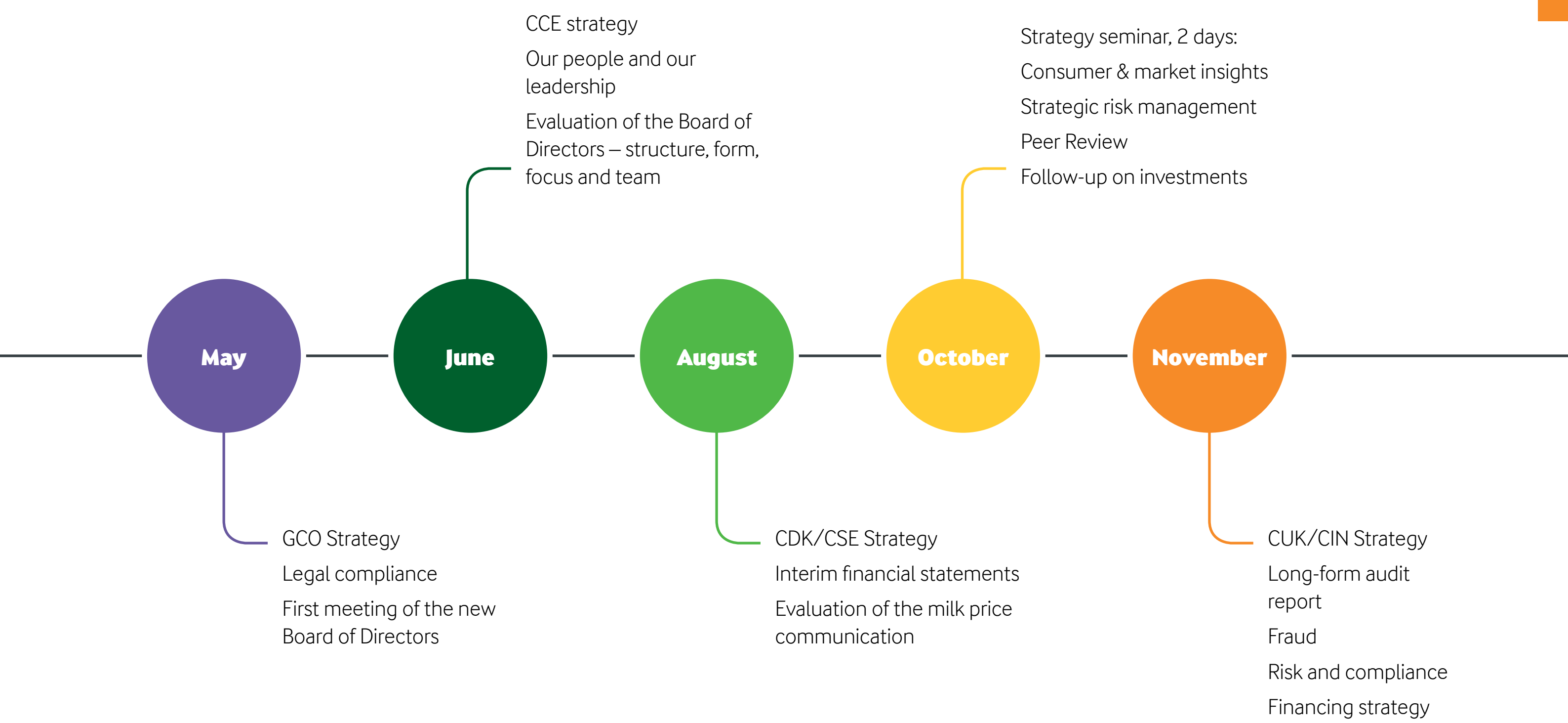
Work in the Board of Directors follows an annual plan to cover all the important areas – supervision, strategy, organisation and corporate governance.



Composition of **the Board of Directors**

		Year of birth	Nationality	Member of the board since	National council	Learning & Development Committee	Global Training Committee*	Audit Committee	Remuneration Committee	Language	Experience from other honorary positions: Agricultural interest groups	Other companies
Åke Hantoft	Chairman	1952	SE	2000		•		•	•	DK, UK, SE, GE	•	
Jan Toft Nørgaard	Vice Chairman	1960	DK	2000		•		•	•	DK, UK, SE, GE	•	
Viggo Ø. Bloch		1955	DK	2003				•		DK, UK, SE, GE	•	•
Palle Borgström		1960	SE	2008				•		DK, UK, SE, GE	•	•
Jonas Carlgren		1968	SE	2011				•		DK, UK, SE		
Mathieu Dobbelstein		1957	BEL	2014				•		FR, GE, FI	•	
Manfred Graff		1959	DE	2012	•	•		•	•	UK, GE	•	•
Hélene Gunnarson		1969	SE	2008	•	•		•	•	DK, UK, SE, GE		•
Bjørn Jepsen		1963	DK	2011			•	•		DK, UK, SE, GE	•	
Thomas Johansen		1959	DK	2002				•		DK, UK, SE, GE		
Patrick Krings		1962	BEL	2014				•		UK, GE, FR, NL	•	
Steen Nørgaard Madsen		1956	DK	2005	•	•		•	•	DK, UK, SE, GE, FR	•	
Torben Myrup		1956	DK	2006				•		DK, UK, SE, GE	•	
Jonathan Ovens		1957	UK	2014				•		UK	•	
Johnnie Russell		1950	UK	2012	•	•		•	•	UK		•
Manfred Sievers		1955	DE	2013				•		GE	•	•
Peter Winstone		1958	UK	2012				•		UK, FR	•	
Oliver Brandes	Employee representative	1971	DE	2013				•		GE		
Leif Eriksson	Employee representative	1951	SE	2000				•		DK, UK, SE		
Ib Bjerglund Nielsen	Employee representative	1960	DK	2013				•		DK, UK		
Harry Shaw	Employee representative	1952	UK	2013				•		UK, GE		

**The global training committee consists of 1 board member and 8 representatives.*



Shaping a results-oriented, **market-facing business**

EXECUTIVE BOARD

Peder Tuborgh
CEO

2005: CEO, Arla Foods

2002: Executive Group Director, Nordics Division, Arla Foods

2000: Divisional Director, Denmark Division, Arla Foods

1994: Marketing Director, Denmark Division, MD Foods

1990: Marketing Manager, Danya Foods Saudi Arabia

1987: Product Manager, MD Foods Germany

Povl Krogsgaard
Vice CEO

2004: Vice CEO, Arla Foods

2000: Executive Group Director, Arla Foods

1998: Executive Group Director, MD Foods

1994: CEO, Mejeriernes Produktionsselskab

1991: Director, Home Market Division, MD Foods

1989: Production Manager, Yellow Cheese, MD Foods

1988: Head of Home Market Division, MDFoods

1987: Head of Mejeriselskabet Denmark

1979: Danske Mejeriers Fællesorganisation

MANAGEMENT BOARD AND EXECUTIVE MANAGEMENT GROUP

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

The Executive Management Group (EMG) is responsible for Arla's day-to-day business operations and for preparing strategies and planning the future dairy structure. The EMG holds a minimum of 11 meetings a year. The business groups are Arla's executive bodies and focus on ensuring that Arla is a results-oriented, market-facing business.

OTHER EXECUTIVE MANAGEMENT GROUP

Frederik Lotz
CFO

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

Ola Arvidsson
CHRO

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

Jais Valeur
Executive Vice President, GCO

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

Henri de Sauvage Nolting
Executive Vice President, CSE/FI + CDK

2013: Executive Vice President, Consumer Sweden & Finland, from 2014 also Consumer Denmark
2009: Chairman of Unilever Nordic
2006: Country Manager, Unilever Sweden
2004: Chairman of Ice Cream, Unilever Nordic
1998: Customer & Category Director, Lever Faberge Netherlands
1996: General Manager, Hefei Lever, China
1993: Factory Manager, Lever Vlaardingen, Netherlands
1991: Operations Manager, Lever Brothers Port Sunlight, UK
1989: Technical Manager, Unilever de Fenix, Netherlands

Peter Giørtz-Carlsen
Executive Vice President, CUK

2014: Executive Vice President, Consumer UK
2011: Executive Vice President, Arla Foods, Consumer Denmark
2010: Vice CEO, Bestseller Fashion Group China
2008: Managing Director, Cocio Chokolademælk A/S
2003: Vice President, Corporate Strategy, Arla Foods
2002: Business Development Director, Semco/Bravida Danmark
1999: Management Consultant, Accenture Strategy Practice

Tim Ørting Jørgensen
Executive Vice President CCE

2012: Executive Vice President, Consumer Central Europe, Arla Foods
2007: Executive Vice President, Consumer International, Arla Foods
2001: Divisional Director, Denmark Division, Arla Foods
1999: Group Project Manager, MD Foods
1996: Commercial Manager, MD Foods do Brasil/Dan Vigor, Brazil
1993: Product Manager, Danya Foods, Saudi Arabia
1992: Trade Marketing Manager for France, MD Foods
1991: Trade Marketing Assistant, Cheese Division, MD Foods

Finn S. Hansen
Executive Vice President, CIN

2012: Executive Vice President, Consumer International, Arla Foods
2008: Senior Vice President, Middle East & North Africa, Arla Foods, Dubai
1994: Regional Director, Division Overseas, Arla Foods, Copenhagen
1994: Regional Director, Overseas Division, MD Foods, Copenhagen
1990: General Manager, Danya Foods, Riyadh, Saudi Arabia
1988: Branch Manager, Danya Foods, Jeddah, Saudi Arabia
1986: Export Manager, Dofo Cheese, Haderslev, Denmark
1984: Area Manager, Dofo Cheese, Haderslev, Denmark
1981: Traffic Manager, Dofo Cheese Inc., Canada

SPECIALISATION IN FUNCTIONAL BOARDS

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

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

CSR COMMITTEE

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

COMPLIANCE COMMITTEE

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

INCLUSION & DIVERSITY

Arla believes in inclusion and diversity as a business imperative. We define diversity broadly as differences between people with individual personalities and from different backgrounds. In 2010, we launched a ten-year Global Diversity & Inclusion strategy. We believe this will benefit our people, our business and our suppliers, consumers and our customers. Our focus is on making the most of the diversity of thought created by these differences.

TARGETS DEFINED FOR 2020

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

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

Status in 2014 for team composition for our Director level and above is:

56%

15%

11%

7%

Other nation-alities 11%

To comply with legislation introduced in 2012, we have set 2017 targets for gender at Director level and above:

TARGET

>20%

<80%

STATUS 2014

20%

80%

ARLA AS A WHOLE

28%

72%

In 2015 we will have a specific focus on implementing practices that will improve gender representation at all levels of our organisation. Under Executive Management Sponsorship, a Gender Representation Task force has been set up consisting of 10 Senior Females from across Arla. The aim of this Task Force is to define strategic actions to:

- Empower Women at all levels of the organisation to achieve their full potential
- Propose changes to processes and policies to align and support improvements in gender representation in Arla
- Engage all employeesto support this agenda but also to benefit from the changes proposed

STATUS ON INCLUSION & DIVERSITY INTERVENTIONS IN 2014

We continue to believe that our competence-building diversity & inclusion training for our management teams will create a more inclusive culture and promote processes that will enable us to succeed in attaining our goals for diversity in our workforce and teams – and most importantly that will help us meet the goals set out in our business strategy.

Inclusion & Diversity training in Arla focuses on:

- building capabilities in leading and collaborating across differences
- identifying implications of unconscious behavioural patterns
- mitigating unconscious bias
- developing inclusive leadership and team cultures
- adapting implicit cultural norms to be aligned with the demographic changes in the global work force.

During 2014: 500 leaders and 900 specialists and functional team members, both in business groups and functions, have received this training.

We have also continued to implement techniques to mitigate unconscious bias in HR processes. In the recruitment process we use diverse recruiting teams, we require job advert writers to use a diverse/neutral language to attract a diverse pool of candidates and we require that search companies deliver short lists of diverse candidates. During 2015 we will further devlope the proposals of the Gender Representation Task Force and monitor impact in the business.

Tax governance under **a special tax scheme**

In Arla, we aim to ensure full compliance and support transparency. While managing tax risks, our goal is to manage our tax affairs in a proactive manner. We seek to maximise our milk price while operating in accordance with the tax law at all times. Arla Global Tax proactively handles the complex tax legislation and increased regulatory demands of the globalised business.

Tax is a topic increasingly debated by businesses, governments and other stakeholders worldwide. Our view on tax is aligned with our business strategy and conformed to our global code of conduct, Our Responsibility. In order to sustainably and fairly ensure a competitive level of taxation for Arla, we balance and optimise tax while managing risks by application of compliance and prudence. We aim to act credibly and with integrity in the relations with stakeholders including the tax authorities.

OPEN INTERACTION WITH AUTHORITIES

We build on good working relationships with the tax authorities and trust that transparency, along with good working relationships, minimises the risk of unnecessary disputes and encourages a "no surprises" environment. In the UK, we have for several years worked with the authorities to maintain a low risk status, and, in Denmark, we are also entering into an enhanced relationship with the tax authorities.

SPECIAL TAX SCHEME

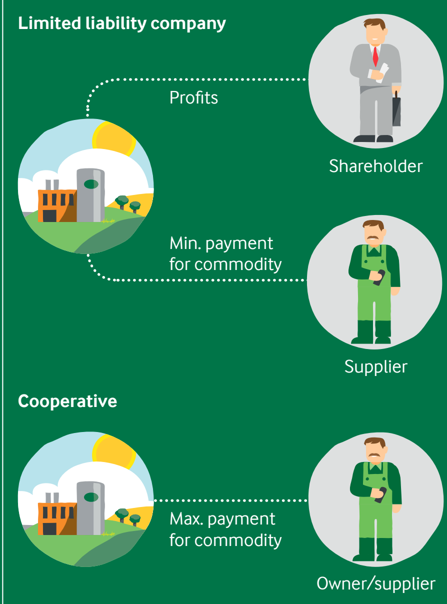
As a cooperative company our activities are covered by Danish tax rules for cooperatives. Danish cooperative tax rules take account of the fact that Arla acts as the farmer's extended arm. Our owners are also our suppliers, and earnings end up with them in the form of the highest possible milk price. The company's earnings can therefore be viewed as the owners' personal income. This means that owners of a cooperative, as opposed to shareholders, pay income tax on the prepaid milk price and their share of the profit under the applicable rules in the countries in which Arla has owners. It also means that Arla pays income tax based on our assets (equity). This income tax can be viewed as interest on the tax of the portion of earnings retained in the company.

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

CORPORATION TAX

For the cooperative, the farmer is the primary source of taxation. The company does not pay much corporate tax, but the cooperative's owners are taxed on the profit created in the company. However, this is not reflected in financial reporting.

GUIDE TO COOPERATIVE TAXES



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

Compliance strengthened through **communication and controls**

With Arla's global strategy, we need a strengthened and more uniform approach to compliance and control over financial reporting. In 2014, we accelerated efforts to evolve our financial compliance focus. This will support decision making and keep the business safe. We focused on completing the implementation of Minimum Controls across all business entities in order to strengthen our controlling foundation and reduce the risk of fraud and surprises.

Consumers all over the world are increasingly focusing on compliance with all rules and regulations, including the unwritten ones. In keeping with our Code of Conduct we must always follow the rules - regardless of where we venture in the world. The Compliance & Control Committee is Arla's watchdog and charged with ensuring that this part of the Arla culture is maintained and adhered to in the financial field, for example when we welcome new businesses to the Group.

STRUCTURED COMPLIANCE AND CONTROL APPROACH

We continuously strive to improve our compliance and control framework throughout the Group, to ensure that our ethical values and Arla's Code of Conduct are appropriately adopted and integrated in the business.

Our financial compliance activities are structured in five levels. The activities are dedicated to develop and sustain efficient systems and internal controls that support business objectives. This supports the business as it adapts to increasing global complexity and the pace of changing business environments. Furthermore, it helps manage risks and improves the quality of financial reporting.

1

A STRONG TONE AT THE TOP

We believe that a strong tone from top management is essential for achieving high performance in and compliance with ethical standards. Focus on the risk and compliance framework starts with the Board of Directors.

Communication is a key to reaching this goal and we aim to provide all relevant employees with the necessary awareness to ensure that our values live in our business. In 2014, we have worked on creating awareness of Arla's ethical values, directives and policies. For instance, a Policy Office has been established to coordinate communication of Group Directives and Policies.

2

IDENTIFY AND ANALYSE SIGNIFICANT RISKS

We continually strive to identify financial risks that could threaten Arla's business objectives. In 2014, we focused on developing a risk assessment concept and tool. This has been used to assess risks in all business groups. For the identified risks, mitigating actions have been established to address selected higher risks.

3
IMPLEMENT ADEQUATE MEASURES TO MITIGATE RISKS

Using a risk-based approach, the compliance maturity in Arla is monitored through various compliance activities and local compliance visits in order to ensure implementation of adequate risk mitigating measures.

In 2013, the Risk and Compliance function implemented a minimum controls catalogue into our growth, value and selected core markets. The integrated programme was launched using a tailored approach that focused on efficiency and controls appropriate to the business. The catalogue consisted of a number of critical controls covering six different financial processes. In 2014, the programme was updated and further improved and a separate control catalogue in our shared service center was implemented. Minimum controls are now embedded in end-to-end processes.

4
EFFECTIVELY COMMUNICATE OBJECTIVES AND RESPONSIBILITIES

Awareness programs related to finance policies and fraud were launched throughout the Group to support the tone from top management and grow the compliance culture. Focus in 2014 has especially been on the shared service centre.

Increasing global merger and acquisition activities demand a solid due diligence and post merger integration process. The financial compliance function acts as a sparring partner for the business and, in the process, contributes to informed decision making by enhancing the quality of information available and by ensuring that this information reflects all costs and risks.

5
MONITOR CONTROL ENVIRONMENT CONTINUOUSLY

The Compliance & Control Committee (C&CC) is to ensure that Arla stays compliant. The committee's tasks include:

Monitoring compliance and the internal control environment

Ensuring proper training and communication

Ensuring the continued progress of implementing required internal controls

Ensuring standardisation of processes implementing anti-fraud plans

Apart from this, compliance is monitored during visits across the business groups. The selection of which reporting entities to visit is based on the risk assessment. Furthermore, the reporting entities prepare a self assessment on minimum controls for all business groups.

FOCUS ON INFORMATION SECURITY

Global IT connectivity provides opportunities, but, at the same time, cyber related risks are increasing. In 2014, we conducted a number of activities to strengthen our Cyber Security Controls:

- Cyber Security Risk Assessment
- Global launch of new IT Code of Conduct ensure that all end users have an understanding of the acceptable use of IT in Arla when working with each other and our partners.
- Global launch of Cyber Security awareness campaign. Linked to our risk assessment and our new IT Code of Conduct, we conducted an awareness campaign "Are You Cyber – safe?" with the purpose of enhancing the culture around Cyber security.

EXTERNAL AUDITS

Audit is independent and provides a safety net for our owners in terms of financial statements and the regulatory environment. We regularly put audit services out to tender, including in 2014 and previously in 2006. We regard openness in our cooperation with our auditors very important and involve the auditors in special accounting problems, internal controls etc.

The Board of Directors nominates the auditors for approval by the Board of Representatives in February every year. The auditors report to the Board of Directors twice a year in the audit report and issues an audit opinion for the annual report, confirming that the report gives a fair presentation. Arla has no internal audit function; however, the group functions review and analyse accounting figures.

We must manage the downturn and **prepare for the upturn**

Arla is working actively to identify the 'black swans' – strategic risks, that can seriously shake a business. We saw a few in 2014, including two factory accidents and an import ban in Russia. We have experienced first hand that being a global company creates opportunities, but it also increases potential risks. This is why it is important for Arla to ensure a balance in activities in order to help manage risk.

All big companies face some similar risks. What distinguishes them is their ability to manage these risks. For this reason, strategic risk management is an important priority for Arla's Board of Directors. We continuously evaluate major strategic risks that may impair our performance significantly and prevent Arla from offering a competitive milk price. At Arla, strategic risk management is three-pronged.

1. SPREADING OF RISK

Arla is growing, and still more of this growth is achieved in markets outside of Arla's European home ground. The strategy is to spread risk, and, today, Arla has sales, production and subsidiaries in several countries, including Russia, China, the Middle East, South America and Africa.

The impact is big, when Russia closes its borders, but it will not destroy the company. We have been here before, and we know that when we spread risk, we soften the blow. In 2014, we have been forced to scale down Arla's activities in Russia, but instead we have intensified our focus on new markets. In addition to this, we have a stable base in Europe.

2. CALCULATED RISK

Some risks are worth taking to preserve our business in the long term. If we do not invest in the growth markets of the world, we cannot keep pace with our competitors. We risk loosing milk and then the business will lose momentum. The Board of Directors' job is to weigh the pros and cons of each individual risk and carefully choose the best opportunities and solutions for the company.

3. ADAPTABILITY

One of the key roles of the global finance community is to capture the performance of our business in a manner to avoid unpleasant surprises. It is vital for management to carefully monitor market movements and to be able to exercise due care and flexibility to minimise the risk of surprises in operations. A good example from 2014 is our handling of the Russian embargo. In spite of the consequences of the embargo, we decided to maintain the long term strategy of tripling growth in Russia – and recognising that Russia is an important growth market for Arla in the future.

Arla is also looking for alternative growth markets for its milk. Some of it will be sold as butter and cheese to Brazilian consumers. Arla has acquired 8 per cent of Brazil's largest dairy, Vigor Alimentos, which we have cooperated with for many years.

RISK MANAGEMENT IS AN ONGOING EXERCISE

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

CASE: RISK

We still believe in a future **in Russia**

In August of 2014, the Russian embargo put a stop to Arla's rapid growth in an interesting market. Instead, the second half of 2014 showed declining sales – reducing our expected revenue of EUR 125 million to a realised revenue of EUR 107 million. The import ban represents one of the "black swans" identified by the Board of Directors in 2013. It is a known exposure in a large market with a huge potential. We will not give up on our investments and the trust that we have built, and that is why Arla is staying on in Russia. We will maintain our strategy and are geared continue our growth the moment the embargo is lifted.

There is a known risk involved in building a business in Russia. The embargo was nonetheless very sudden and was a hard blow to our Russian business, which has generated impressive growth for six years. We now have an urgent need to sell our milk in other markets, and several initiatives have been launched to limit the impact of the lost sales. However, we have many opportunities to keep the Russian business active and ensure that the Arla Natura® brand will live on in the consumers' minds during the import ban.

STRENGTHENED DOMESTIC PRODUCTION IN RUSSIA

One of the opportunities is to intensify local production of Arla Natura® yellow cheese at the Kalach dairy in south-west Russia. Arla has had its own cheese production here since February 2014 through cooperation with the country's third-largest milk weighing in entity, Molvest. The dairy has now been put to the test. It has to increase the production from 1,000 to 8,000 tonnes a year during 2015 to ensure that Russians will have access to Arla Natura® during the embargo.

They have the production facilities to do it. The challenge will be to get hold of enough raw milk of the right quality from the local farmers, because local demand is increasing after the sanctions. If the dairy manages to do this, it will be possible to recoup one third of Arla's previous revenue from Russia. In addition, we are examining opportunities in the product categories not limited by the embargo, and how to ensure that Arla branded products will continue to be available through possibilities with dairy partners in countries not affected by the embargo.

KNOWLEDGE-SHARING ON CRISIS MANAGEMENT

Arla's business strategy is a long-term strategy. In previous crises Arla has learned to adhere to the long term business strategies in times of difficulty. The Russian team is knowledge-sharing and sparring with employees who experienced earlier crises and managed to stand their ground throughout.

We see this embargo as an opportunity to strengthen our cooperation with our Russian partners.

FACTS

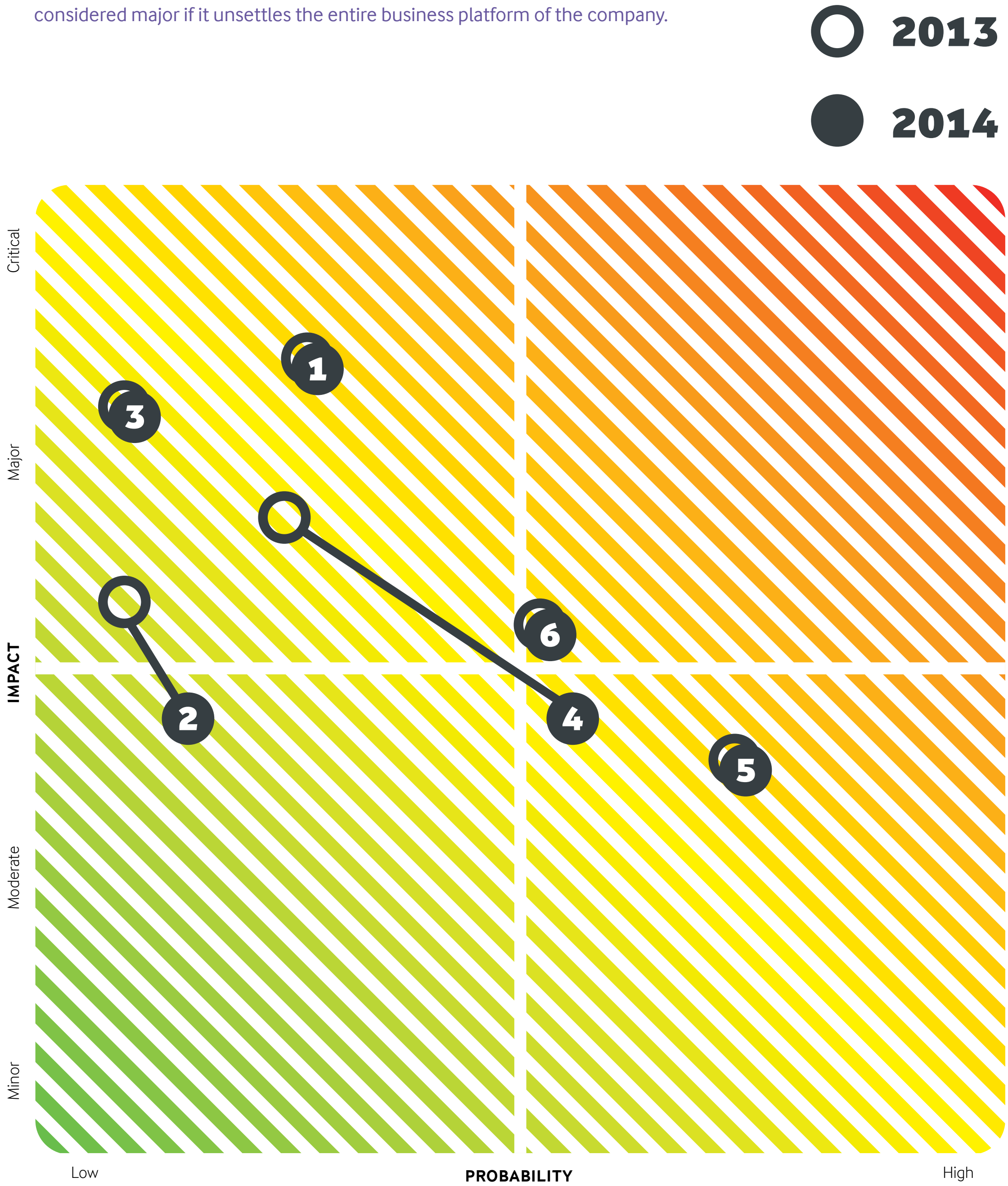
Arla's revenue in Russia reached EUR 107 million in 2014, and an average growth of 8 per cent.

As a result of the Russian embargo, Arlas growth in second half of 2014 was -32 per cent compared to +69 per cent in the first half of 2014.

We have abolished 79 positions at five dairies in Denmark and 36 positions in Russia.

Mapping risks **in Arla**

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



1 Severe dip in reputation and consumer confidence

2 Large-scale dairy accident

3 Anti competitive ruling

4 Political and/or socio-economic instability in emerging markets

5 Lack of milk supply/ member dissatisfaction

6 IT meltdown

Strategic risks

RISK	CHARACTERISTICS	CURRENT MITIGATING ACTIONS	POTENTIAL MITIGATING ACTIONS
1 **Severe dip in reputation and consumer confidence**	An external or internal event resulting in a significant impact on the reputation of Arla Foods - either immediately or over time. The causes could be e.g. animal welfare, ethics or food safety resulting in major call-back of products and medium/ longterm damage to our brands and positions.	Clear focus on CSR and 'code of conduct'. Quality programmes across all sites and physical locations. Systematic focus on 'issues management' in order to constantly be aware of potential damaging issues that could arise.	Increase focus on crisis management at EMG and BoD level. Further increase awareness about reputation for all employees (e.g. through mandatory education). Strengthen quality and food safety procedures.
2 **Large-scale dairy accident**	Fire, chemical spill, explosion, sabotage related to one or more of Arla Foods' production sites. The specialisation of dairies has increased the level of exposure.	An emergency programme exists across all dairies. Learnings from historical accidents are continuously built into the emergency programme in order to prevent accidents. Continuous back-up plans for re-allocation of raw milk to other dairies in the case of a serious breakdown.	The current emergency programme is to a large extent based on trust ... ... for which reason internal/external auditing of the emergency programme could improve the security further.
3 **Anti competitive ruling**	Anti-competitive agreement and/or abuse of dominant position. Adverse publicity and damage to reputation. The potential fine is up to 10% of group revenue (maximum). Time-consuming and costly investigations; additional third-party claims; sanctions include imprisonment.	Compliance manager function supported by governance model and mandate – 2013. "Tone from the top". Implementation of compliance programme for all relevant employees.	Further business group involvement and appointment of compliance responsible in each business group (already in process). Developing an E-learning system (already in process). Refining reporting mechanisms, controls and reviews.
4 **Political and/or socio-economic instability in emerging markets**	Regulative measures or financial downturn in individual countries/regions preventing Arla Foods from exporting/ selling products to these. A potential new revolt hitting Arla growth/profit in one of our growth Markets.	Diversification strategy across many international markets reducing dependency on single growth markets. Joint ventures and partnerships with lower risk.	Increase the level of diversification across growth markets. Local production in e.g. Russia in order to prevent the consequences of a potential milk import ban.
5 **Lack of milk supply/ member dissatisfaction**	Significant drop in the supply of raw milk from owners. 'Reverse' milk wheel due to the inability to pay a competitive milk price compared to competitors. Significant worsening of the (financial) framework conditions for the farmers.	Arla's active part in the consolidation of the industry in Europe is a clear measure to constantly secure a forward-going milk Wheel. Strategy 2017 emphasising profit and performance in order to pay a competitive milk prices to owners. Active participation in lobbying activities.	Further focus on consolidating the European dairy industry. More active communication with financial institutions in order for them to understand the volatility in the market and thereby enhance their long term commitment to our owners even in times of low milk price.
6 **IT meltdown**	An internal or external event causing a major IT-related issue with significant medium- or long-term business impact. Examples: Digital terrorism, bankruptcy of key vendor(s), environmental threats (Solar flares, earth quakes), Infrastructure breakdown (Internet) or radical political disturbance in India (vendors' global outsourcing centre of IT services).	Multi-vendor setup completed in order to reduce exposure to single vendors. Clear mandate and process for Information Security in place. Thorough due diligence processes and recruitment checks at all strategic vendors.	Roll out of IT Code of Conduct. Cyber Security programme addressing external threats and incident response plan and awareness campaign. Thorough due diligence processes checks in all strategic M&A's. IT user role security extended additionally with new projects for increased control and surveillance.

Financial **Review**

In 2014 our earnings reached an all time high, but the market is now in decline. The Chinese have placed their import of milk products on standby, and Russia, the world's largest cheese importermaintains its ban on imports from the EU. In a declining market where our owners are having a tough time, it remainscrucial that we deliver a better milk price than our competitors. To ensure this, we must continue to strengthen our retail business and brands. We must keep a constant focus on holding our share of milk sales to industry down and demonstrate that we can control costs and scale the business.

FINANCIAL REVIEW

Inherent strength mitigates impact of fluctuating **global economy**

Frederik Lotz, CFO

Arla's results for 2014 reflect our robustness in a year which saw high prices being replaced by challenging market conditions for the entire industry. Our operations are efficient, costs are under control, and we are well-positioned in relation to the market. Arla is therefore ready for a demanding 2015. Our investments support the strategy, the rationalisation programmes are delivering promised results, the strategic brands are strong, and we have a promising innovation pipeline. Arla is therefore ready to shift up to 500 million kg of owners' milk into value-added products in 2015.

2014 was another good year for Arla in terms of both revenue and earnings. However, the second half saw unexpected falls in global milk prices, which are now putting the company's owners under a lot of pressure. The global fall in milk prices is impacting the entire industry and all its players. However, Arla has done relatively well despite these circumstances. The performance price of 41,7 EUR-cent is the highest ever, we have won significant market share in our core markets, and we are seeing growth for Arla's strategic brands in an otherwise stagnating or declining European dairy market.

FOCUS ON RISK MANAGEMENT

2014 will also be remembered as the year when a number of potential risks for Arla suddenly turned into reality. We suffered major accidents at two powder plants, there was a significant slowdown in growth in demand in China, and international affairs closed exports to Russia. Nevertheless, Arla emerged from these situations without any loss of momentum thanks to our ability to address them properly. The year showed that our work with strategic risks is valuable, is creating a robust business and is helping to mitigate the effects of these risks. In 2014, we successfully managed to avoid the most negative effects of the challenges we faced.

SIGN OF A WELL-RUN BUSINESS

A number of factors contributed to the year's results. In spite of a declining market and the impact of external factors, Arla demonstrated in 2014 that operations are being efficiently controlled. The large mergers in Germany and the UK in 2011-12 were fully implemented, and significant synergies realised to make Arla a major and competent player in both markets. At the same time, Arla's continued growth ensures scalability of the business as our fixed costs are not increasing at the same rate. In 2014, costs were tightly managed, with revenue growing more than twice as fast as capacity costs.

Active cost management is a precondition for Arla's success. Arla expects to reduce its costs by EUR 330 mio. relative to 2012. Total Cost of Ownership (TCO) is one method being employed to optimise expenditure and increase our speed and flexibility. The aim of TCO is to optimise and standardise products, services and materials across categories and business units. By the end of 2014, global cooperation on TCO projects resulted in a net savings of approximately EUR 16m since 2012. A further savings potential of EUR 35m was also identified in

Arla's Design to Value (DtV) projects, which aim to innovate products and packaging for improved competitiveness and quality without losing focus on the positive customer experience.

NEW GROWTH GEAR

Arla's international operations and ingredients business had yet another strong year with expanding opportunities. In the international business, we saw 14 per cent growth despite the Russian embargo. There has been steady growth in China, we have created growth of 20 per cent in the MEA market, and we have accelerated our ambitions in Africa, where the goal is to increase our existing business south of the Sahara from EUR 87m in revenue in 2014 to EUR 270m in 2017. This will happen through sales of milk powder and long-life UHT milk, which is popular with the rapidly growing middle class in and around large cities. In Russia, we are ready to continue our growth from the day the current embargo is lifted. We are also focusing on new markets in South-east Asia and Latin America, where the investment in Vigor in Brazil has given access to a strong distribution network.

Arla Foods Ingredients (AFI) is continuing to play a key role in Arla's growth story. The plan is promising, even though profits are being hit by world market developments. In 2014, we saw the successful implementation of AFI's joint venture with the German dairy company DMK in ArNoCo and the completion of the lactose factory with Danmark Protein, the full-year effect of which will be seen in 2015.

Arla is primarily looking for growth outside Europe, but also won market share in European core markets in 2014. We maintained our position in Denmark, there was increasing milk volumes in Sweden, and we saw growth in most categories in the UK. The core markets in central Europe are still under pressure, but after integrating activities and adapting our systems, a strong platform is in place in Germany.

This year's merger with the Belgian cooperative EGM Walhorn is important for strengthening the cooperative foothold, and our 800 new owners are testament to the viability and growth of the cooperative model in Europe.

At the same time, we have strengthened our investments in innovation, brands and marketing to help our customers win market share. In short, 2014 demonstrates that Arla's is on the right course. Consequently, we will continue to pursue our strategy, despite the economic fluctuations.

KEY FIGURES FOR 2014

In 2014, Arla achieved an all-time-high milk price of EUR-cent 41.7 against EUR-cent 41.0 in 2013, but the market pointed downwards in the second half. Arla posted its highest-ever revenue of EUR 10.6bn, with much of it attributable to organic growth of 6.7 per cent.

There are a lot of benefits in adding value to the milk. At the end of 2014, 21 per cent of milk was being sold to industry as opposed to 18 per cent at the end of 2013. It is our long-term strategic ambition to reduce this figure to below 20 per cent. However, this is a big challenge, as we are also expecting growing milk volumes from our owners.

This justifies a number of investments in milk processing in 2015. We are also planning additional marketing initiatives to strengthen sales of Arla's brands across the markets. At the same time, we are making the most of the opportunities open to us within the own-label and food-service segments, which are both seeing strong growth.

At the end of 2014, leverage was high at 3.7, and thus outside our target range of 2.8-3.4. We are working hard to reduce leverage again, and have, for example, cut the level of investment in 2015. In recent years, we have made a number of structural investments to align Arla's production structure with our growth ambitions. For the coming years, we have the capacity to handle the increased milk volumes. At the same time, we are maintaining focus on the programmes which will reduce working capital to finance growth and reduce leverage.

OUTLOOK

In 2015, Arla will continue to focus on its costs and risk management. We are increasing expenditure on marketing and innovation to accelerate volume growth across the markets. In addition, we expect new investments outside Europe to open up new sales channels. This will allow us to sell the growing milk volumes profitably to the retail and food-service sectors without increasing the proportion of milk being sold to industry, thereby optimising earnings. We expect clear and positive volume growth in 2015.

2014 showed that the global milk price is extremely volatile, and therefore we can not announce any expectations for Arla's absolute milk price for 2015. What we can say is that we expect Arla to perform relatively well compared to our competitors with a milk price index of 103-105. Based on our strong brands and streamlined operations, Arla is well positioned.

	EXPECTATIONS FOR 2014	ACHIEVED 2014	EXPECTATIONS FOR 2015
PERFORMANCE PRICE	43.5-45.0 EURcent/Kg	41.7 EURcent/Kg	103-105 Peergroup index
MILK VOLUME	13.0 bn kg	13.4 bn kg	14.0 bn kg
REVENUE	10.6 EURbn	10.6 EURbn	–
REVENUE GROWTH	7.5%	7.5%	3-5% Volumedriven revenue growth
PROFIT	3.0%	3.0%	3.0-3.2%
LEVERAGE	3.0-3.4	3.7	3.2-3.4

FINANCIAL CASE

Focused **core business**

Over the past ten years, Arla has worked to sharpen our focus on the core business of dairy production. We have divested shares and ownership of companies outside the dairy industry, and instead invested in the growth potential inherent in our own areas of expertise.

In 2014, for instance, the packaging company Danapak Flexibles and the fruit ingredient company Dairy Fruit were divested. Arla is still a major client with both, and our cooperation continues in a new form, in which each company can focus on their respective business model.

ACQUISITIONS BOOSTING POSITION IN GROWTH MARKETS AND CORE MARKETS

Arla is continuously strengthening our core business through acquisitions and cooperation that widen our sales possibilities. In 2014, we strengthened our presence in the strategically important growth markets and our production in core markets.

Since 1986, Arla has had a strong joint venture cooperation in Brazil, which is one of the biggest growth markets, with the country's largest dairy, Vigor. In September 2014, this cooperation was strengthened further, when we took over eight per cent of the shares in Vigor and assumed a seat on its Board of Directors. At the same time, we sold our joint venture Dan Vigor back to Vigor. Brazil is already the world's fourth-largest dairy product market, and with a quickly growing middle class and a population of more than 200 million, Brazil's potential is vast. Our co-ownership and strong partnership with Vigor give us access to one of the strongest distribution networks in South America, which provides added market potential for the global brands Arla®, Lurpak® and Castello®.

Arla has increased sales possibilities with the acquisition of Falbygdens Ost in Sweden, a company that purchases, matures and fortifies cheese for resale. This acquisition is in line with our strategy for boosting sales of processed milk. With the inclusion of Falbygdens Ost, Arla will welcome around 100 new employees and gain access to new expertise and strong sales channels in the market for speciality cheeses. In return, Falbygdens Ost will benefit from Arla's experience and capacity in innovation, production and marketing. The aim of this cooperation is to boost the passion and interest for specialty cheeses in the Nordic countries. The acquisition is pending approval by the competition authorities.

BUSINESS STRUCTURE GUARANTEEING AN OUTLET FOR OUR OWNERS' MILK

The divestment of companies unrelated to our core business combined with continued investments in dairy companies is giving us a more focused business structure and growth potential. Ultimately, these things will create a platform that ensures the highest possible milk price for our owners.

Consolidated **Financial Statements**

The consolidated financial statements included in this Annual report have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statement Act. The consolidated financial statements were authorised for issue by the Company's board of directors on 17 February 2015 and presented for approval by the board of representatives on 25 February 2015.

The consolidated financial statements are presented in EUR. As this is the first time, comparative figures for the balance sheet as per 1 January 2013 are included. Further, of 1 January 2014, the Company has implemented the standards and implementations which are effective from 2014, included IFRS 10-12. The implementation has not impacted recognition and measurement materially.

The notes and accounting policies are divided into sections that describe the various parts of the financial statements. The sections comprise accounting policies, estimates and uncertainties when relevant, specifications of the figures, general accounting policies, consolidation and foreign currency translation.

1) Accounting policies
2) Uncertainties and estimates

Consolidated Income Statement 1 January - 31 December

Profit accounts for 3.0% of revenue, which is just at the Group's performance target. Revenue for 2014 totalled EUR 10.6 billion and EUR 9.9 billion in 2013 – an increase of 7.5 per cent. Revenue growth is primarily driven by a solid organic growth of 6.7 per cent.

Production costs, sales and distribution costs and administration costs have in total risen 8.5 per cent which is above the revenue growth of 7.5 per cent. The main reason for this is the increased milk price, that on average has been 1.7 per cent higher than in 2013. The prepaid milk price is determined to reach a profit in the area three per cent of revenue.

(EURm)	NOTE	2014	2013
Revenue	1.1	10,614	9,870
Production costs	1.2	-8,395	-7,587
Gross profit		**2,219**	**2,283**
Sales and distribution costs	1.2	-1,454	-1,466
Administration costs	1.2	-468	-456
Other operating income and costs	1.3	14	45
Share of results after tax in joint ventures and associates	3.4	57	19
Earnings before interest and tax (EBIT)		**368**	**425**
Specification:			
Earnings before interest, tax, depreciation and amortisation (EBITDA)		681	737
Depreciation, amortisation and impairment losses	1.2	-313	-312
Earnings before interest and tax (EBIT)		**368**	**425**
Financial income and costs	5.1	-30	-88
Profit before tax		**338**	**337**
Tax	6.1	-18	-37
Profit for the period		**320**	**300**
Minority interests		-6	-5
Owners of Arla Foods amba		**314**	**295**

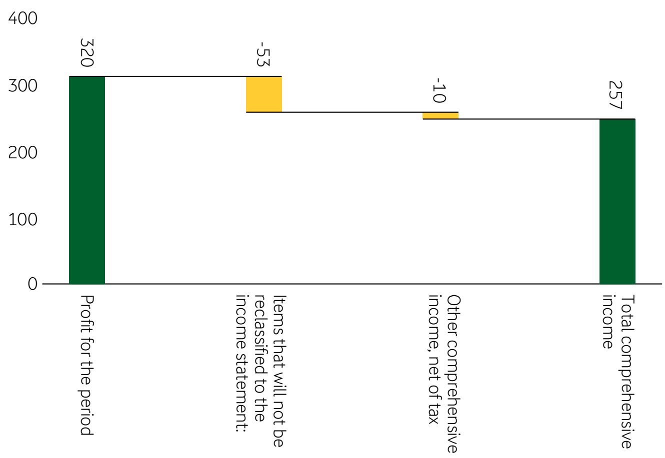
3.0%

Consolidated **Statement of Comprehensive Income 1 January - 31 December**

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

(EURm)	NOTE	2014	2013
Profit for the period		**320**	**300**
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Actuarial gains/(losses) on defined-benefit plans etc.	5.7	-65	22
Income tax on actuarial gains/(losses) on defined benefit plans		12	-6
Items that may be reclassified subsequently to the income statement:			
Deferred gains/(losses) on cash flow hedges arising during the period	5.4.a	-80	9
Value adjustments of hedging instruments reclassified to other operating income and costs	5.4.a	-25	12
Value adjustments of hedging instruments reclassified to financial items	5.4.a	20	25
Value adjustments of hedging instruments reclassified to production costs	5.4.a	-1	-2
Value adjustments of financial assets for the period classified as held for sale		3	5
Foreign exchange adjustments of foreign entities		67	-7
Income tax on items that may be reclassified to profit or loss		6	-7
Other comprehensive income, net of tax		**-63**	**51**
Total comprehensive income		**257**	**351**
Allocated as follows:			
Owners of Arla Foods amba		249	348
Minority interests		8	3
Total		**257**	**351**

OTHER COMPREHENSIVE INCOME (EURm)

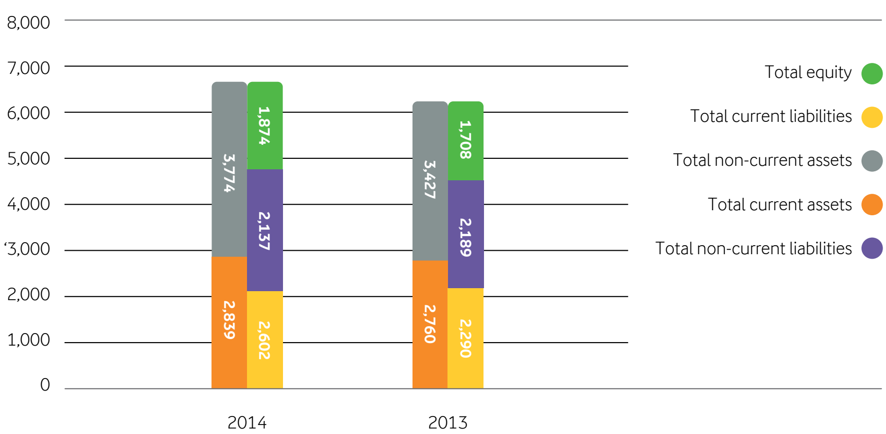


Consolidated **Balance Sheet 31 December**

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

(EURm)	NOTE	2014	2013	1/1 2013
ASSETS				
Non-current assets:				
Intangible assets	3.1	791	746	729
Property, plant and equipment	3.3	2,399	2,259	2,097
Investments in associates	3.4	432	262	257
Investments in joint ventures	3.4	55	53	59
Deferred tax	6.1	72	57	58
Other non-current assets		25	50	73
Total non-current assets		**3,774**	**3,427**	**3,273**
Current assets:				
Inventories	2.1	988	1,014	809
Trade receivables	2.1	917	906	901
Derivatives		30	28	34
Current tax		5	4	11
Receivable for un-paid equity instruments		1	15	-
Other receivables	3.4	249	156	115
Securities	5.5	560	534	539
Cash and cash equivalents		81	76	98
Total current assets excl. assets held for sale		**2,831**	**2,733**	**2,507**
Assets held for sale	4.2	8	27	48
Total current assets		**2,839**	**2,760**	**2,555**
TOTAL ASSETS		**6,613**	**6,187**	**5,828**

BALANCE SHEET BY MAIN ITEMS (EURm)



(EURm)	NOTE	2014	2013	1/1 2013
EQUITY AND LIABILITIES				
Equity:				
Equity excl. proposed supplementary payments to owners		1,747	1,566	1,293
Proposed supplementary payments to owners		104	121	149
Equity attributable to the parent company's owners		**1,851**	**1,687**	**1,442**
Minority interests		23	21	22
Total equity		**1,874**	**1,708**	**1,464**
LIABILITIES				
Non-current liabilities:				
Pension liabilities	5.7	376	348	420
Provisions	3.5	8	9	10
Deferred tax	6.1	46	36	13
Loans	5.2	1,702	1,789	1,596
Other non-current liabilities	5.2	5	7	10
Total non-current liabilities		**2,137**	**2,189**	**2,049**
Current liabilities:				
Loans	5.2	1,130	885	974
Trade payables	2.1	977	1,014	920
Provisions	3.5	19	42	25
Derivatives		206	83	116
Current tax		9	11	4
Other current liabilities	3.4	261	255	270
Total current liabilities excl. liabilities reg. assets held for sale		**2,602**	**2,290**	**2,309**
Liabilities regarding assets held for sale	4.2	-	-	6
Total current liabilities		**2,602**	**2,290**	**2,315**
Total liabilities		**4,739**	**4,479**	**4,364**
TOTAL EQUITY AND LIABILITIES		**6,613**	**6,187**	**5,828**

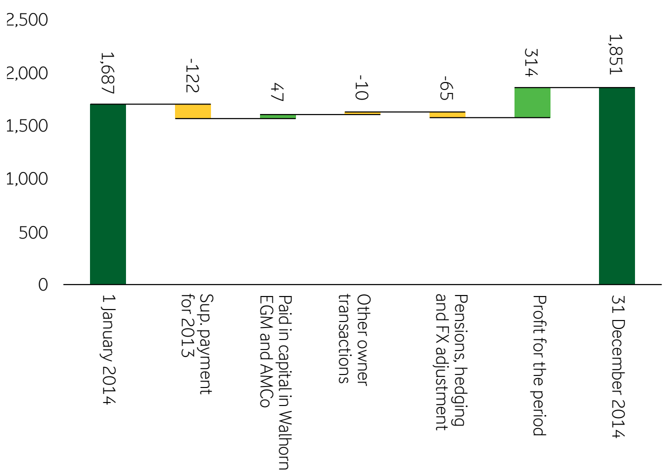
Consolidated **Statement of Changes in Equity 1 January - 31 December**

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

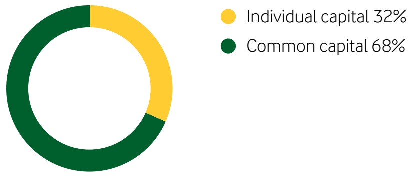
(EURm)	CAPITAL ACCOUNT	DELIVERY-BASED OWNER CERTIFICATES	CONTRIBUTED CAPITAL	RESERVE FOR SPECIAL PURPOSES	RESERVE FOR VALUE ADJUSTMENT OF HEDGING INSTRUMENTS	AFS RESERVE	RESERVE FOR FOREIGN EXCHANGE ADJUSTMENTS	PROPOSED SUPPLEMENTARY PAYMENT TO OWNERS	TOTAL	MINORITY INTERESTS	TOTAL EQUITY
Equity at 1 January 2014	**924**	**107**	**323**	**261**	**-45**	**2**	**-6**	**121**	**1,687**	**21**	**1,708**
Profit for the period			39	171				104	314	6	320
Other comprehensive income	-42				-86	3	60		-65	2	-63
Total comprehensive income	**-42**	**-**	**39**	**171**	**-86**	**3**	**60**	**104**	**249**	**8**	**257**
Capital issued to new owners	23		24						47		47
Payments to owners		-6	-4						-10		-10
Dividend to minority shareholders									0	-6	-6
Supplementary payment to owners								-122	-122		-122
Foreign exchange adjustments	-4	-2	5					1	0		0
Total transactions with owners	**19**	**-8**	**25**	**-**	**-**	**-**	**-**	**-121**	**-85**	**-6**	**-91**
Equity at 31 December 2014	**901**	**99**	**387**	**432**	**-131**	**5**	**54**	**104**	**1,851**	**23**	**1,874**
Equity at 1 January 2013 mDKK	**6,894**	**835**	**1,628**	**969**	**-673**	**-19**	**9**	**1,112**	**10,755**	**163**	**10,918**
Equity at 1 January 2013 mEUR (exchange rate 7,4604)	**924**	**112**	**218**	**130**	**-90**	**-2**	**1**	**149**	**1,442**	**22**	**1,464**
Profit for the period			43	131				121	295	5	300
Other comprehensive income	11				45	4	-7		53	-2	51
Total comprehensive income	**11**	**-**	**43**	**131**	**45**	**4**	**-7**	**121**	**348**	**3**	**351**
Capital issued to new owners	5		67						72		72
Payments to owners		-4	-3						-7		-7
Dividend to minority shareholders									0	-5	-5
Acquisition of non-controlling interests	-19								-19	1	-18
Disposal of non-controlling interests	-1								-1	1	0
Supplementary payment to owners								-151	-151		-151
Foreign exchange adjustments	4	-1	-2					2	3	-1	2
Total transactions with owners	**-11**	**-5**	**62**	**-**	**-**	**-**	**-**	**-149**	**-103**	**-4**	**-107**
Equity at 31 December 2013	**924**	**107**	**323**	**261**	**-45**	**2**	**-6**	**121**	**1,687**	**21**	**1,708**

Profit appropriation (mEUR)	**2014**	**2013**
Profit for the year	320	300
Minority interests	-6	-5
Arla Foods amba's share of the net profit for the year	**314**	**295**
Proposed profit appropriation:		
Supplementary payment for milk	101	119
Interest on contributed capital	3	2
Supplementary payment, total	**104**	**121**
Transferred to equity:		
Reserve for special purposes	171	131
Contributed capital	39	43
Transferred to equity, total	**210**	**174**
Appropriated profit, total	**314**	**295**

DEVELOPMENT IN EQUITY ATTRIBUTABLE TO ARLA (EURm)



INDIVIDUAL/COMMON CAPITAL 2014



Financial comments

As at 31December 2014, equity amounted to EUR 1,874 million an increase of EUR 166 million compared with 31 December 2013. 32 per cent of the total equity is individual capital. Solvency measured as equity in relation to the balance sheet total was 28 per cent compared with 28 per cent the year before.

The supplementary payment for 2013 was paid out from equity in March 2014.The payment including interest on paid-in capital amounted to EUR 122 million after exchange rate adjustments. Additionally EUR 10 million was paid out to owners who had decided to leave the company. Walhorn EGM became a member on 1 August 2014 contributing EUR 23 million on common capital and EUR 12 million on contributed capital. Those owners started delivering milk in 2014 as part of the AMCo merger from 2013 have paid in EUR 12 million on contributed capital. Furthermore, in the profit appropriation EUR 17 million has been transferred to Reserve for special purposes as set out in the merger agreement with AMCo. Other adjustments are primarily attributable to adjustments of hedging instruments regarding foreign currencies, commodities and interest rate risks. Further there is an actuarial loss on pension liabilities of EUR 65 million primarily as a result of a declining discount rate on the UK and the Swedish liabilities.

Equity accounts

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

Common capital

The capital account comprises of the Group's undivided equity not allocated to other specific equity accounts. This account is used for accounting technical items such as movements on actuarial gains/losses on defined benefits pension schemes, effects from disposal and acquisitions of non-controlling interests in subsidiaries and exchange rate differences in the Group's equity instruments. Furthermore the account is affected by agreed contributions from new corporate members. In connection with Walhorn EGM becoming a corporate member at 1 August 2014, EUR 23 million was contributed to the Capital account. The Reserve for special purposes may, upon the Board of Director's proposal, be applied by the Board of Representatives for the full or partial offsetting of material extraordinary losses or impairment, cf. art. 19(iii) of the Articles of Association. Amounts added from the profit appropriation in 2014 was EUR 171 million (compared to EUR 131 million in 2013) including EUR 17 million transferred as part of the profit appropriation as set out in the merger agreement with AMCo.

Individual capital

Delivery-based owner certificates established in accordance with art. 19(1)(ii) of the Articles of Association and related regulations. Consolidation on this account is suspended from 2010. Contributed capital established in accordance with art. 19(1)(iii) of the Articles of Association and regulation. The supplementary payment to owners is recognised separately in equity until it is paid out to owners. Amounts added in contributed capital from the profit appropriation represent EUR 39 million (compared to EUR 43 million in 2013). In addition to this, EUR 12 million has been issued in connection with the Walhorn EGM transaction and EUR 12 million has been additionally paid in as set out in the AMCo merger agreement. Amounts consolidated as contributed capital via the annual distribution of net profit carry interest at CIBOR 12 months + 1.5%. Amounts paid into the contributed capital in connection with mergers carry no interest. Interest is paid out along with the supplementary payment. Interest for 2014 amounts to EUR 3 million compared with EUR 2 million in 2013. Individual owners' balances on delivery-based owner's certificate and on contributed capital can be paid out over three years upon termination of membership of Arla Foods amba in accordance with the provisions set out in the regulation subject to the Board of Representatives' approval. In 2014, a net amount of EUR 10 million has been paid out to members who had decided to leave the company. It is expected that EUR 13 million will be paid out in 2015. Balances on individual accounts are denominated in the currency relevant to the country in which the owners are registered. Foreign currency translation adjustments are calculated annually, the amount of which is then transferred to the capital account. The proposed supplementary payment amount to EUR 104 million, of which interest on the contributed capital amounts to EUR 3 million. In March 2014, a resolution was passed to pay out EUR 122 million in supplementary payment and interest on contributed capital in connection with the 2013 profit appropriation.

Other equity accounts

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

Non-impairment clause

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

Minority interests

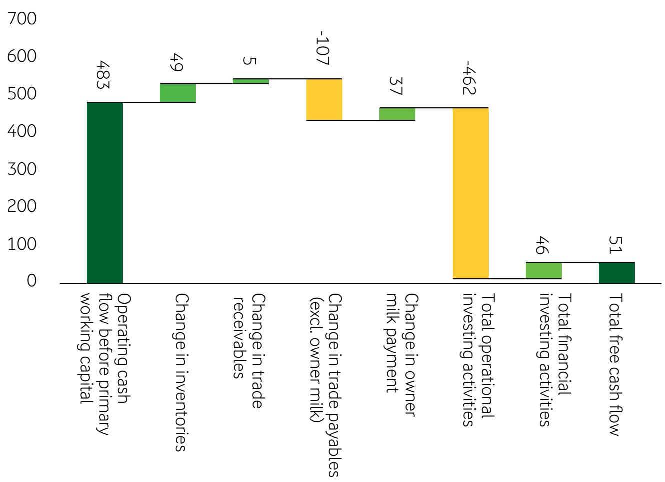
Subsidiaries are fully recognised in the consolidated financial statements. Minority interests' shares of the results for the year and of the equity in the subsidiaries that are not wholly owned are recognised as part of the consolidated results and equity, respectively, but are listed separately. On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

Consolidated **Cash Flow Statement 1 January - 31 December**

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

(EURm)	NOTE	2014	2013
Cash flows from operating activities			
EBITDA		681	737
Share of results in joint ventures and associates	3.4	-57	-19
Change in primary working capital	2.1	-16	-130
Change in other working capital		-75	-146
Other operating items without cash impact		-2	-28
Dividends received, joint ventures and associates		7	2
Interest paid		-72	-63
Interest received		3	5
Tax paid	6.1	-2	-16
Total Cash flow from operating activities		**467**	**342**
Investment in intangible fixed assets	3.1	-33	-34
Investment in property, plant and equipment	3.3	-429	-505
Sale of property, plant and equipment	3.3	0	46
Total operating investing activities		**-462**	**-493**
Free operating cash flow		**5**	**-151**
Investment in financial assets		0	0
Sale of financial assets		14	23
Acquisition of enterprises		15	0
Sale of enterprises		17	0
Total financial investing activities		**46**	**23**
Total cash flow from investing activities		**-416**	**-470**
Total free cash flow		**51**	**-128**
Cash flows from financing activities:			
Supplementary payment regarding the previous financial year		-122	-151
Paid in funds from new owners		12	53
Paid out from equity regarding terminated membership contracts		-10	-7
Loans obtained, net	5.2	88	161
Change in current liabilities		-35	43
Net change in marketable securities		18	11
Total Cash flow from financing activities		**-49**	**110**
Net cash flow		**2**	**-18**
Cash and cash equivalents at 1 January		**76**	**98**
Exchange rate adjustments of cash funds		**3**	**-4**
Cash and cash equivalents at 31 December		**81**	**76**

SPECIFICATION OF TOTAL FREE CASH FLOW (EURm)



Accounting policies

The consolidated cash flow statement is presented according to the indirect method, whereby the cash flow from operating activities is determined by adjusting EBITDA for the effects of non-cash items such as undistributed results in joint ventures and associates and the effects of changes in working capital items during the period.

Financial comments

Cash flows from operating activities were EUR 467 million in 2014 compared with EUR 342 million in 2013. The change in cash flows from operating activities represented an increase of EUR 125 million, which is mainly attributable to primary working capital. Our effort to reduce working capital continues to bring cash effects, however growth adds working capital and the total net working capital has increased in the period.

Cash flows from investment activities were EUR -416 million compared with EUR -470 million in 2013. Main investments in 2014 are related to facilities in Arinco (DK), AFI facilities in Videbæk (DK), Falkenberg (SE), Pronsfeld (GE) and finalisation of the dairy in Aylesbury (UK). Free cash flows totalled EUR 51 million in 2014 compared with EUR -128 million in 2013. These are calculated as cash flows from operating activities less cash flows from investment activities.

Cash flows from financing activities were EUR -49 million, which are mainly affected by the supplementary payment and the issue of new bonds.

Cash and cash equivalents combined represented EUR 81 million, compared with EUR 76 million end of 2013.

Note 1 **Operating Profit**

This note section focuses on the Group's performance – the growth in activity shows in increased revenue whilst efficiency remains a priority affecting the level of costs. 2014 started out well for Arla but over the summer market prices started declining. Revenue growth of 7.5 per cent was mainly achieved by organic growth. The merger with EGM Walhorn from 1 August 2014 increased revenue by EUR 85 m. Arla's organic growth was driven in particular by growth in non-core markets and global market price increased at the beginning of the year. Costs have been kept under control creating an increase in earnings shown in the performance price of EUR-cent 41.7 compared to EUR-cent 41.0 per kg owner milk in 2013.

NOTE 1.1 REVENUE

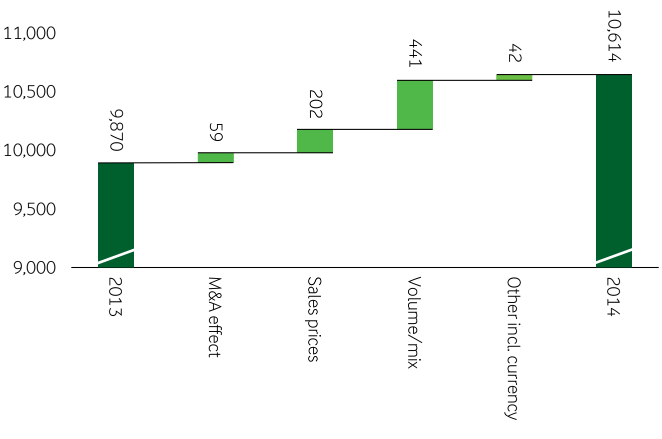
Accounting policies

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

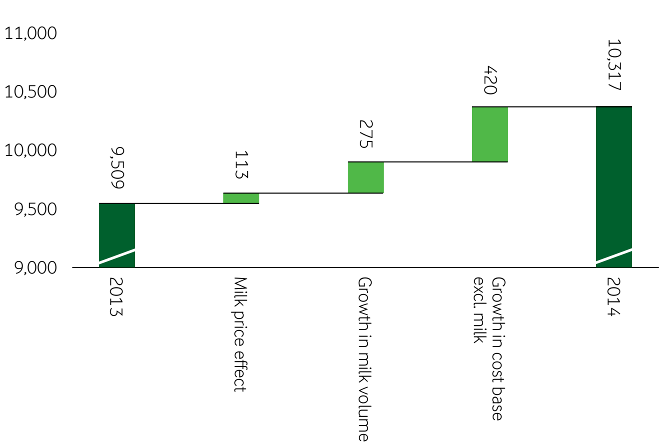
Note 1.1.a Revenue split by business group/market
(EURm)

	2014		2013
	ORGANIC GROWTH	REVENUE	REVENUE
Consumer United Kingdom [1]	4.3%	2,828	2,577
Consumer Sweden [1]	2.6%	1,516	1,554
Consumer Finland [1]	-2.1%	352	359
Consumer Denmark [1]	8.6%	957	881
Consumer Central Europe	10.8%	1,990	1,776
Consumer International – Russia [2]	7.7%	107	115
Consumer International – Middle East & Africa [2]	19.8%	534	447
Consumer International – China & TPM [2]	22.8%	198	161
Consumer International – Value markets [3]	7.6%	598	562
Total Consumer International	**13.8%**	**1,437**	**1,285**
Arla Foods Ingredients [2]	6.4%	340	321
Global categories and Operations – trading [4]	n/a	983	900
Others [4]	n/a	211	217
Total revenue	**6.7%**	**10,614**	**9,870**
1 Core markets	**5.9%**	**7,643**	**7,147**
2 Growth markets and Arla Foods Ingredients	**14.8%**	**1,179**	**1,044**
3 Value markets	**7.6%**	**598**	**562**
4 Trading and others	**n/a**	**1,194**	**1,117**

DEVELOPMENT IN REVENUE (EURm)

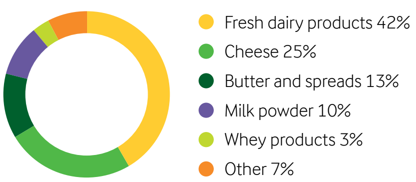


DEVELOPMENT IN COSTS (EURm)

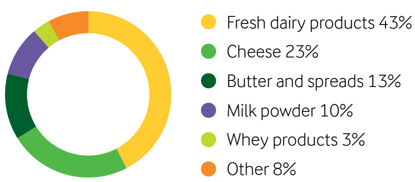


Note 1.1.b. Revenue by product category

REVENUE SPLIT BY PRODUCT CATEGORY, 2014



REVENUE SPLIT BY PRODUCT CATEGORY, 2013



Financial comments

Revenue has increased significantly primary due to organic growth in both core markets and growth markets. The merger with EGM Walhorn has increased revenue by EUR 85 million.

Core markets in total show an organic growth of 5.9 per cent primarily related to price increases, while growth markets including Arla Foods Ingredients in total display an organic growth of 14.8 per cent and now represent 11.1 per cent of the total revenue.

Especially the Middle East show high growth rates in 2014. The market in Russia was influenced negatively by the embargo starting August 2014.

The largest category is fresh dairy product (FDP) that is mainly sold in core markets. The category is responsible for almost half of total revenue. FDP contain milk, cream, cooking ingredients, UHT and yoghurt. The sale of cheese represent 25 per cent of total revenue and contains yellow cheese primarily on the core markets and other cheese categories around the world – cream cheese, white cheese and mould cheese. Substantial growth can be found in the milk powder category, which, however, only represents a relatively small part of the business – about 10 per cent of total revenue.

NOTE 1.2 COSTS

Accounting policies

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

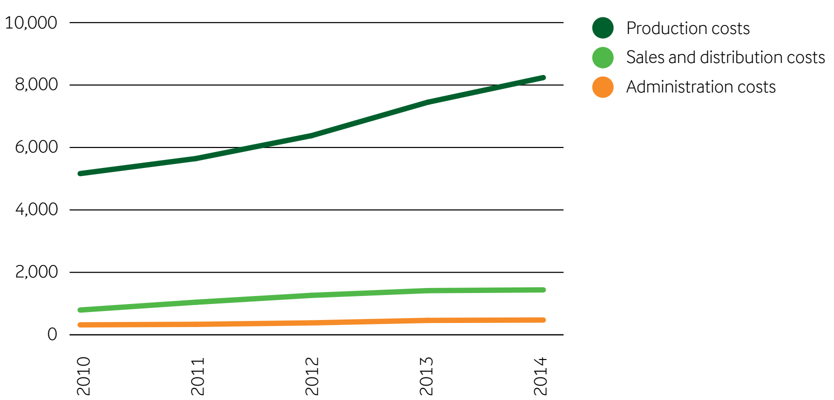
Sales and distribution costs
Costs incurred for the sale and distribution of goods sold in the course of the year and for promotional campaigns etc. during the year are recognised as sales and distribution costs. Costs relating to sales staff, write-down of receivables, costs relating to sponsorships,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

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

Note 1.2.a. Total costs
(EURm)

	2014	2013
Production costs	-8,395	-7,587
Sales and distribution costs	-1,454	-1,466
Administration costs	-468	-456
Total	**-10,317**	**-9,509**
of this:		
Cost of raw milk	-5,165	-4,778
Staff costs	-1,156	-1,118
Depreciation, amortisation and impairment	-313	-312
Other costs	-3,683	-3,301
Total	**-10,317**	**-9,509**

DEVELOPMENT IN COSTS (EURm)



Financial comments

Production costs, sales and distribution costs and administration costs have in total risen 8.5 per cent which is above the revenue growth of 7.5 per cent. The main reason for this is the increased milk volume.

The prepaid milk price is determined to reach a profit of three per cent of revenue.

However the focus is on keeping all other costs down to pass on the highest possible milk price to the owners through the milk price and supplementary payment. In general whilst the variable costs have risen due to increased activities while fixed costs have increased at a proportionatly lesserrate.

Hence, the cost per kg milk processed has decreased due to economies of scale.

The total inflow of raw milk has increased by 709 million kg. milk, which is mainly delivered by our owners. Research and development cost incurred amounts to EUR 39 million (2013: 37 million).

Note 1.2.b. Cost of raw milk	**2014**		**2013**	
	WEIGHED IN MIO. KG.	EURm	WEIGHED IN MIO. KG.	EURm
Owner milk	11,737	-4,559	9,474	-3,607
Other milk	1,648	-606	3,202	-1,171
Total	**13,385**	**-5,165**	**12,676**	**-4,778**
Average cost per kg. milk (EUR cent)		-38.59		-37.69

Note 1.2.c Staff costs (EURm)	**2014**	**2013**
Wages, salaries and remuneration	-982	-945
Pensions - defined contribution plans	-64	-63
Pensions - defined benefit plans	-2	-5
Other social security costs	-108	-104
Total staff costs	**-1,156**	**-1,118**
Staff costs relate to:		
Production costs	-641	-604
Sales and distribution costs	-344	-332
Administration costs	-161	-182
Staff cost recognised as inventory or fixed assets	-10	0
Total staff costs	**-1,156**	**-1,118**
Average staff cost per kg milk (EUR cent)	-8.64	-8.82
Average number of full time employees	19,155	19,577

Note 1.2.d. Depreciation, amortisation and impairment losses (EURm)	**2014**	**2013**
Intangible assets, amortisation	-31	-30
Property, plant and equipment, depreciation	-282	-264
Property, plant and equipment, impairment losses	-	-18
Total depreciation, amortisation and impairment losses	**-313**	**-312**
Depreciation/amortisation and impairment losses relate to:		
Production costs	-263	-245
Sales and distribution costs	-21	-24
Administration costs	-29	-40
Total depreciation, amortisation and impairment losses	**-313**	**-312**
Average depreciation/amortisation and impairment losses per kg milk (EUR cent)	-2.34	-2.46

NOTE 1.3. OTHER OPERATING INCOME AND COSTS

Accounting policies

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

Note 1.3.a. Other operating income

(EURm)	2014	2013
Gain on disposal of intangible assets and property, plant and equipment	10	29
Insurance proceeds	22	0
Sale of electricity	8	8
Rent and other secondary income	0	4
Financial instruments	0	12
Other items	26	25
Total other operating income	**66**	**78**

Note 1.3.b. Other operating cost

(EURm)	2014	2013
Loss on disposal of intangible assets and property, plant and equipment	-3	-4
Costs relating to the sale of electricity	-5	-6
Financial instruments	-25	0
Other items	-19	-23
Total other operating costs	**-52**	**-33**

Financial comments

Other income includes insurance compensation regarding two facilities, Arinco and Pronsfeld. Gains and losses related to sale and disposal of assets amount to a gain of EUR 7 million in 2014 compared to a gain of EUR 25 million in 2013.

Other operating income and costs include income and costs related to the sale of surplus power from condensation plants. The net result of this in 2014 is EUR 3 million compared to EUR 2 million in 2013.

Note 2 **Net working capital**

Working capital is one of the measures, that in recent years has contributed to financing growth, and it requires continuous focus as the business grows. At Arla we focus on reducing funds tied up in the primary working capital, i.e. inventories and trade receivables less trade payables. There is an intensive focus on reducing inventories by optimising internal planning and forecasting accuracy. This note shows development of the primary working capital elements used to support the company's business performance.

NOTE 2.1. NET WORKING CAPITAL

Accounting policies

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

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

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

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

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

Uncertainties and estimates

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

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

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

Note 2.1.a Primary net working capital

(EURm)	2014	2013
Inventories	988	1,014
Trade receivables	917	906
Trade payables	-977	-1,014
Total primary net working capital	**928**	**906**
Payables for owner milk	305	271
Total primary net working capital excl. owner milk	**1,233**	**1,177**

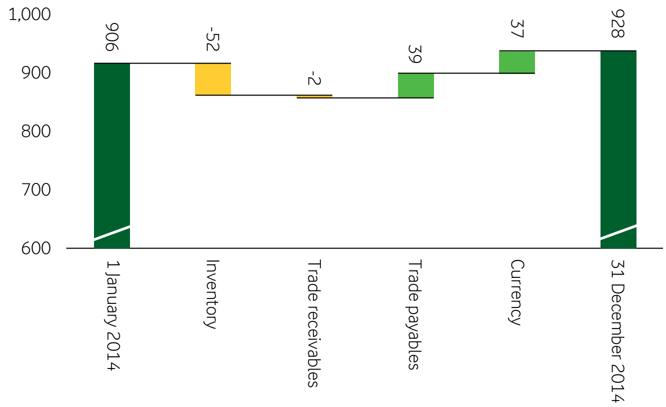
Note 2.1.b Inventory

(EURm)	2014	2013
Inventory, gross	1,025	1,036
Write-downs	-37	-22
Total inventory	**988**	**1,014**
Raw materials and consumables	213	223
Work in progress	334	299
Finished goods and goods for resale	441	492
Total inventory	**988**	**1,014**

Note 2.1.c Trade receivables

(EURm)	2014	2013
Trade receivables		
Trade receivables before provision for bad debts	940	918
Write-downs for bad debts	-23	-12
Total trade receivables, net	**917**	**906**
Write-down for bad debts, 1 January	12	11
Foreign currency translation adjustments	1	-
Addition	11	2
Write-downs used	-1	-1
Write-down for bad debts, 31 December	**23**	**12**

DEVELOPMENT IN PRIMARY WORKING CAPITAL (EURm)



Financial comments

Processes are continuously being optimised across the group with focus on terms of payment to both customers and suppliers.

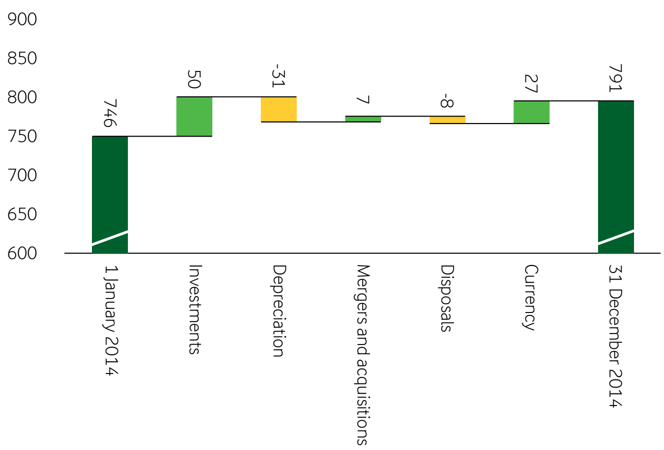
Inventories are optimised by internal planning and forecasting accuracy.

Exposure to credit risk on trade receivables is managed locally in the operating entities and credit limits set as deemed appropriate for the customer taking into account the customer's financial position and the current market conditions. Generally, the Group does not hold collateral as security for trade receivables. The Group's customer portfolio is diversified in terms of geography, industry sector and customer size. The Group is not exposed to credit risk related to significant individual customers. The Group is exposed to the general credit risk in the retail sector. Historically amounts written off as uncollectable have been relatively low, which is also the case in 2014.

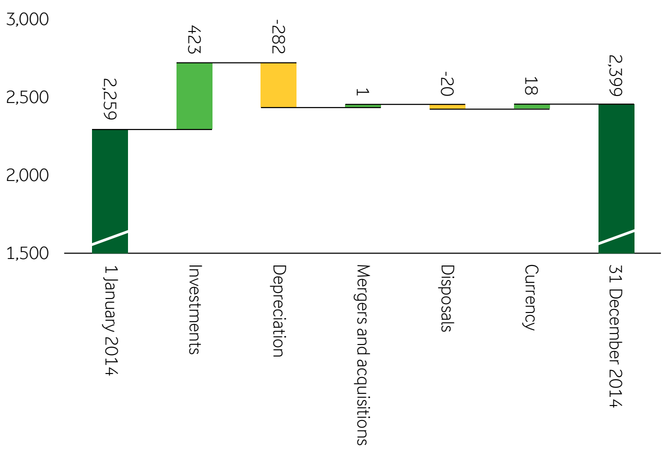
Note 3 Other operating assets and other operating liabilities

In 2014, Arla invested aproximately EUR 470 million in capacity increases, efficiency and environmental improvements, quality and innovation. The aim is to contribute to increasing the profitability of Arla's business globally, thereby improving long-term earnings for Arla's owners. At the same time, we want to make production more efficient and environment-friendly. In this note, both the Group's intangible assets and property, plant and equipment are specified as well as their development and any depreciation/amortisation. Intangible assets and property, plant and equipment represent the majority of the Group's non-current assets. Additionally, the note specifies impairment tests about which there is a high degree of uncertainty, and therefore a sensitivity analysis has also been carried out.

DEVELOPMENT IN INTANGIBLE ASSETS (EURm)



DEVELOPMENT IN TANGIBLE ASSETS (EURm)



NOTE 3.1. INTANGIBLE ASSETS

Accounting policies

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

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

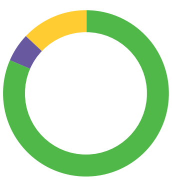
Licences and trademarks
Licences and trademarks are initially recognised at cost. The cost is subsequently amortised on a straight-line basis over their expected useful lives, however, this is limited to a maximum period of 20 years.

IT development
Costs incurred during the research phase in carrying out general assessments of the Group's IT needs and available technologies are expensed as incurred.

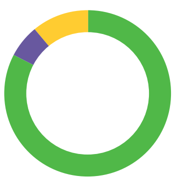
Directly attributable costs incurred during the IT development stage relating to the design, programming, installation and testing of projects before they are ready for commercial use are capitalised as intangible assets. Such costs are only capitalised provided the expenditure can be measured reliably,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

Note 3.1. Intangible assets (EURm)	GOODWILL	LICENSES AND TRADEMARKS ETC.	IT DEVELOPMENT	TOTAL
2014				
Cost at 1 January	618	104	197	919
Exchange rate adjustments	27	1	-	28
Additions	-	5	45	50
Mergers and acquisitions	-	7	-	7
Reclassification	-	-2	1	-1
Disposals	-	-12	-37	-49
Cost at 31 December	**645**	**103**	**206**	**954**
Amortisation and impairments at 1 January	-	-57	-116	-173
Exchange rate adjustments	-	-1	-	-1
Amortisation for the year	-	-8	-23	-31
Reclassification	-	2	-1	1
Amortisation on disposals	-	4	37	41
Amortisation and impairment at 31 December	**-**	**-60**	**-103**	**-163**
Carrying amount at 31 December	**645**	**43**	**103**	**791**
2013				
Cost at 1 January	620	104	187	911
Exchange rate adjustments	-10	-4	-1	-15
Additions	8	4	30	42
Mergers and acquisitions	-	-	-	-
Reclassification	-	-	16	16
Disposals	-	-	-35	-35
Cost at 31 December	**618**	**104**	**197**	**919**
Amortisation and impairments at 1 January	-	-52	-130	-182
Exchange rate adjustments	-	4	-	4
Amortisation for the year	-	-9	-21	-30
Reclassification	-	-	-	-
Amortisation on disposals	-	-	35	35
Amortisation and impairment at 31 December	**-**	**-57**	**-116**	**-173**
Carrying amount at 31 December	**618**	**47**	**81**	**746**

INTANGIBLE ASSETS 2014



INTANGIBLE ASSETS 2013



Financial comments

Intangible assets were EUR 791 million compared with EUR 746 million last year. Amortisation was EUR 31 million. There was no impairment in 2014.

Goodwill
Opening balances for goodwill primarily related to Arla Foods UK, Arla Ingman in Finland and Milko in Sweden. Impairment testing showed no need for impairment of goodwill in 2014.

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

IT development
Arla continues to invest in the development of IT. Investments are part of normal business operations. In 2014 focus has been on integration of CCE and CUK into Arla's IT platform.

NOTE 3.2. IMPAIRMENT TESTS

Accounting policies

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

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

Impairment of goodwill is recognised on a separate line in the income statement and is not reversed. The carrying amount of other non-current assets is assessed annually to determine whether there is any indication of impairment. The assets are measured on the balance sheet at the lower value of the recoverable amount and the carrying amount. The recoverable amount of other non-current assets is the higher value of the asset's value in use and the market value (fair value), less expected disposal costs. The value in use is calculated as the present value of the estimated future net cash flows from the use of the asset or the cash-generating unit of which the asset is part of.

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

Uncertainties and estimates

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

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

Note 3.2. Impairment tests
(EURm)

		APPLIED KEY ASSUMPTIONS	
2014	CARRYING AMOUNT, GOODWILL	DISCOUNT RATE, NET OF TAX	DISCOUNT RATE, BEFORE TAX
Consumer Finland	40	6.7%	8.5%
Consumer UK	524	7.8%	10.0%
Consumer Sweden	17	7.1%	9.3%
Other	64	6.9%	7.6%
Total carrying amount at 31 December	**645**		
2013			
Consumer Finland	40	7.3%	9.0%
Consumer UK	496	7.5%	8.3%
Consumer Sweden	18	7.7%	9.9%
Other	64	7.4%	7.8%
Total carrying amount at 31 December	**618**		

Financial comments

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

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

Applied estimates
The recoverable amount for each cash-generating unit is determined based on its value in use. Calculations are based on forecasts that cover the following three fiscal years. The performed impairment tests do not include growth in the terminal value. In the applied forecasts, the milk is the most significant cost. The milk is recognised at a milk price that corresponds to the expected price at the time the test is performed. A discount rate (WACC) is applied for the specific business areas based on assumptions about interest rates, tax and risk premiums. In the applied forecasts the key operational assumption is an increased profitability based on a combination of positive impact from moving the milk intake into value added products and cost reductions.

Test results
No impairments write downs of intangible assets have been recorded in 2014. For goodwill in Finland, there was indication of an impairment loss because of the challenging competitive situation. Impairment testing showed that there was no need for impairments in 2014. In that regard, sensitivities to changes in milk prices and discount rates have been calculated. The discount rate may rise by 4.0 percentage points before the need for impairment arises. In 2014, underlying earnings improved compared to 2013.

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

NOTE 3.3. PROPERTY, PLANT AND EQUIPMENT

Accounting policies

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

Cost
Cost comprises the acquisition price as well as costs directly associated with the asset until such time as the asset is ready for its intended use. For self-constructed assets, cost comprises direct and indirect costs relating to materials, components, payroll etc. and the borrowing costs from specific and general borrowing that directly concerns the construction of assets.
If significant parts of an item of property, plant and equipment have different useful lives, they are recognised as separate items (major components). When component parts are replaced, any remaining carrying value of replaced parts is removed from the balance sheet and recognised as an accelerated depreciation charge in the income statement. Subsequent expenditure items of property, plant and equipment are only recognised as an addition to the carrying amount of the item, when it is likely that incurring the cost will result in financial benefits for the Group. Other costs for e.g. general repair and maintenance are recognised in the income statement when incurred.

Depreciation
Property, plant and equipment are depreciated on a straight-line basis from the time of acquisition, or when the asset is available for use based on an assessment of the anticipated useful life.

The estimated useful lives are as follows:
- Office buildings – 50 years
- Production buildings – 20 years
- Technical facilities and machinery – 5-20 years
- Other fixtures and fittings, tools and equipment – 3 -7 years

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

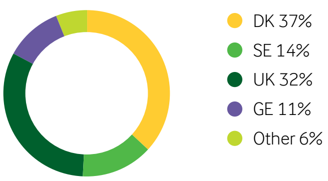
Uncertainties and estimates

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

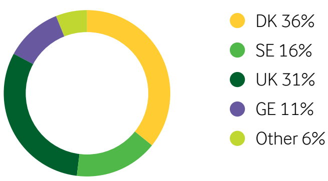
Note 3.3. Property, plant and equipment
(EURm)

	LAND AND BUILDINGS	PLANT AND MACHINERY	FIXTURE AND FITTING, TOOLS AND EQUIPMENT	ASSETS IN COURSE OF CONSTRUCTION	TOTAL
2014					
Cost at 1 January	1,250	2,133	441	325	4,149
Exchange rate adjustments	22	4	5	4	35
Additions	10	70	8	335	423
Mergers and acquisitions	-	-	1	-	1
Transferred from assets in course of construction	100	243	33	-376	-
Disposals	-	- 82	-16	-2	-100
Cost at 31 December	**1,382**	**2,368**	**472**	**286**	**4,508**
Depreciation and impairments at 1 January	-418	-1,160	-312	-	-1,890
Exchange rate adjustments	-20	3	-	-	-17
Depreciation for the year	-62	-182	-38	-	-282
Depreciation on disposals	-	66	14	-	80
Depreciation and impairment at 31 December	**-500**	**-1,273**	**-336**	**-**	**-2,109**
Carrying amount at 31 December	**882**	**1,095**	**136**	**286**	**2,399**
Of which assets held under finance lease	48	29	5	-	82
2013					
Cost at 1 January	1,105	1,897	408	400	3,810
Exchange rate adjustments	-16	-28	-10	-8	-62
Additions	44	98	31	355	528
Mergers and acquisitions	-	-	-	-	-
Transferred from assets in course of construction	172	205	31	-408	-
Disposals	-55	-39	-19	-14	-127
Cost at 31 December	**1,250**	**2,133**	**441**	**325**	**4,149**
Depreciation and impairments at 1 January	-388	-1,023	-303	-	-1,714
Exchange rate adjustments	6	17	7	-	30
Depreciation for the year	-58	-175	-31	-	-264
Impairment for the year	-5	-13	-	-	-18
Depreciation on disposals	27	34	15	-	76
Depreciation and impairment at 31 December	**-418**	**-1,160**	**-312**	**-**	**-1,890**
Carrying amount at 31 December	**832**	**973**	**129**	**325**	**2,259**
Of which assets held under finance lease	43	37	3	-	83

PROPERTY, PLANT AND EQUIPMENT BY COUNTRY 2014, EURm



PROPERTY, PLANT AND EQUIPMENT BY COUNTRY 2013, EURm



Financial comments

Property, plant and equipment totalled EUR 2,399 million compared with EUR 2,259 million last year. The largest part of Arla's tangible assets is located in its core markets in Denmark, Sweden, Germany and the UK.

Investments in dairy structure and increased capacity continued in 2014. The year's investments add a total of EUR 423 million to property, plant and equipment.

Main investments in 2014 were related to facilities in Arinco (DK), AFI facilities in Videbæk (DK), Falkenberg (SE), Pronsfeld (GE) and finalisation of the dairy in Aylesbury (UK).

Arla continues to strive for efficiency improvements by investing in new facilities, which also means centralising production.

NOTE 3.4. JOINT VENTURES AND ASSOCIATES

Accounting policies

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

Note 3.4.a. Joint ventures **Reconciliation of recognised value of Joint Ventures** (EURm)	**2014**	**2013**
Share of equity in material	-	-
Goodwill in material	-	-
Share of equity in non material	55	53
Recognised value, total	**55**	**53**

Note 3.4.b. Associates **Reconciliation of recognised value of associates** (EURm)	**2014**	**2013**
Share of equity in material associates	148	83
Goodwill in material associates	142	154
Share of equity in non material assosicates	142	25
Recognised value, total	**432**	**262**

Note 3.4.c. Material associates

Financial information for associates that are considered material for the group
(EURm)

	2014	2013
	CHINA COFCO DAIRY HOLDING LIMITED CHINA	CHINA COFCO DAIRY HOLDING LIMITED CHINA
Revenue	8	7
Results after tax	8	7
Other comprehensive income	-	-
Non-current assets	649	-
Current assets	-	633
Non-current liabilities	-	-
Current liabilities	-	-
Dividens received	3	2
Ownership share	5.3%	5.7%
Arla's share of result after tax	13	10
Recognised value, total	290	237

Note 3.4.d. Transactions with Joint Ventures and associates
(EURm)

	2014	2013
Sale of goods to joint ventures	9	17
Sale of goods to associates	113	27
Total sale of goods to joint ventures and associates	**122**	**44**
Purchase of goods from joint ventures	-	-
Purchase of goods from associates	-	27
Total purchase of goods from joint ventures and associates	**-**	**27**
Trade receivables joint ventures[1]	3	5
Trade receivables associates[1]	58	5
Total trade receivables joint ventures and associates	**61**	**10**
Trade payables joint ventures[2]	-	-
Trade payables associates[2]	-	1
Total trade payables joint ventures and associates	**-**	**1**

1) Included in other receivables
2) Included in other payables

Financial comments

In 2014 Arla merged with Walhorn EGM, whereby Walhorn AG became an associated company. The level of influence in LRF – Lantbrukarnas Riksförbund – has been reassessed and the investment has been reclassified from other non-current assets to investments in associates (58 mEUR). During the year an 8 pct investment in Vigor was made amounting to 31 mEUR. The investment was made through a divestment of a joint venture resulting in a gain of EUR 15 million. Furthermore the investment in China COFCO Dairy Holdings Limited was in 2014 affected by a capital increase in China Mengniu Dairy Company Limited leading to a dilution of Arla's ownership share and resulting in a gain of EUR 13 million.

China COFCO Dairy Holdings Limited and Vigor are associated companies based cooperation agreements giving significant influence including right of Board representation. The computation of Arla's share of profit for the year and share of equity is based on the latest published financial information from the company, other publicly available information on the company's financial development and the effect of re-assessed net assets. Fair value of shares in China Mengniu Dairy Company Limited at 31 December 2014 equals EUR 355 million. The fair value of shares in Vigor equals book value.

NOTE 3.5. PROVISIONS

Accounting policies

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

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

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

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

Uncertainties and estimates

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

Note 3.5. Provisions (EURm)	INSURANCE PROVISIONS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS	TOTAL
2014				
Provisions at 1 January	16	22	13	51
New provisions during the year	4	-	18	22
Reversals	-2	-9	-8	-19
Used during the year	-5	-8	-14	-27
Provisions at 31 December	**13**	**5**	**9**	**27**
Current provisions	5	5	9	19
Non-current provisions	8	-	-	8
Total provisions	**13**	**5**	**9**	**27**
2013				
Provisions at 1 January	17	11	7	35
New provisions during the year	4	22	11	37
Reversals	-2	-	-	-2
Used during the year	-3	-11	-5	-19
Provisions at 31 December	**16**	**22**	**13**	**51**
Current provisions	7	22	13	42
Non-current provisions	9	-	-	9
Total provisions	**16**	**22**	**13**	**51**

Financial comments

Provisions totalled EUR 27 million as at 31 December 2014, which represents a decrease of EUR 24 million compared to last year. Provisions primarily pertain to insurance provisions (occurred but not reported) and restructuring provisions.

Insurance provisions primarily concern occupational injuries. Payment relating to these totalled EUR 5 million in 2014 (2013: EUR 3 million). New provisions of EUR 4 million were recognised.

Restructuring provisions mainly relate to the decommissioning of facilities related to restructuring of Skövde in Sweden there will be closed. Minor new provisions were made for redundancies in connection with the efficiency programmes. Restructuring provisions were reduced over the course of the year in line with disbursements of termination benefits, etc. Other provisions include such charges as onerous contracts. With the exception of occupational injuries, all provisions are expected to be exercised within one year.

Note 4 Purchase and sale of business or activities

For many years, mergers and acquisitions have been an important part of Arla's strategy. Growth in milk volumes is key to developing the business and increasing the profitability of Arla's business globally, thereby improving long-term earnings for Arla's owners.

As a natural element of the development of the business, Arla continuously assesses which activities are to be divested.

NOTE 4.1. BUSINESS COMBINATIONS

Accounting policies

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

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

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

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

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

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

Uncertainties and estimates

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

Mergers and acquisitions in 2014

Note 4.1. Business combinations
(EURm)

	INCOME STATEMENT CONSOLIDATED FROM	HOLDING ACQUIRED	REVENUE PER YEAR	NO OF EMPLOYEES
Company				
Walhorn	1 August	100%	239	24

Intangible assets (excl. goodwill)	-
Property, plant and equipment	1
Other assets	40
Liabilities	-18
Total net assets acquired	**23**
Goodwill	-
Purchase price (net)	**23**
Cash in acquired company	15
Issued individual capital	-12
Issued common capital	-23
Other payment	-3
Cash payment during the year	**-**

Mergers and acquisitions in 2013
Arla made no acquisitions during 2013

Financial comments

On August 1, 2014, Arla merged with the Belgian company Walhorn with an annual milk weighing-in of approx. 550 million kg. Walhorn primarily sells milk through an associated company. Arla merged by issuing EUR (35) million in new contributed capital to Walhorn and based on fair values of identified net assets no goodwill was recognised.

NOTE 4.2 ASSETS HELD FOR SALE

Accounting policies

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

Note 4.2.a. Assets held for sale

(EURm)	2014	2013
Fixed assets	8	27
Current assets	-	-
Carrying amount assets	**8**	**27**

Note 4.2.b. Liabilities associated with assets held for sale

(EURm)	2014	2013
Non current liabilities	-	-
Current liabilities	-	-
Carrying amount liabilities	**-**	**-**

Financial comments

Assets classified as held for sale relates to land and buildings, which are expected to be sold off within the next 12 months. In 2014 Arla Foods has sold a property with a gain of EUR 7 million. Assets held for sale in 2014 consist of land in the UK.

Note 5 **Financial Matters**

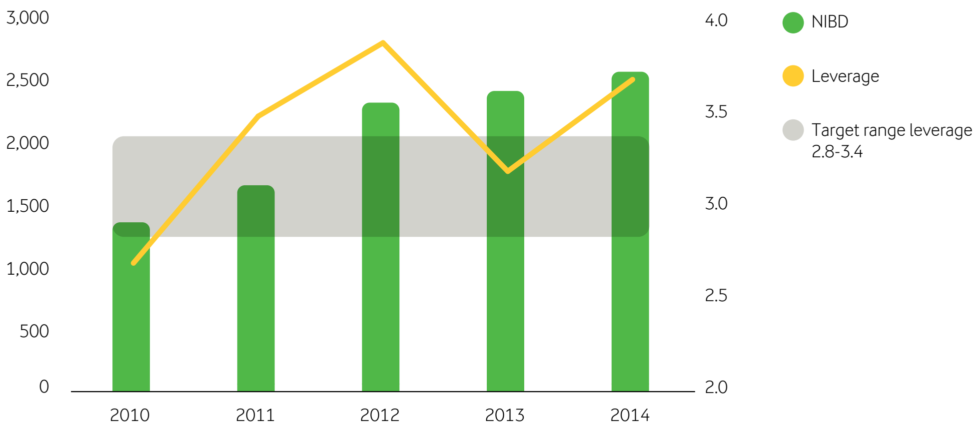
This note describes the Group's capital structure, financing, liquidity and related items. Arla's investments are financed with both equity and with external funding. The balance between the two is expressed in the equity ratio.

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

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

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

NET INTEREST BEARING DEBT (EURm)



NOTE 5.1. FINANCIAL ITEMS

Accounting policies

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

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

Note 5.1.a. Financial income and financial costs

(EURm)	2014	2013
Financial income:		
Interest, cash and cash equivalents	1	1
Interest, securities	4	2
Fair value adjustments	1	1
Other financial income	48	1
Total financial income	**54**	**5**
Financial costs:		
Financial cost on financial instruments measured at amortised cost	-73	-58
Exchange rate losses (net)	-3	-22
Interests, pension liabilities	-15	-15
Interests transferred to property, plant and equipment	10	4
Other financial costs	-3	-2
Total financial costs	**-84**	**-93**
Net financial cost	**-30**	**-88**

Financial comments

Finance income and costs totalled a net EUR -30 million in 2014 against EUR -88 million in 2013. Under other financial income a gain of EUR 48 million is recognized relating to revaluation and reclassification of investments in LRF – Lantbrukarnas Riksförbund. Financial cost has increased due to higher interest bearing debt. The increase has been offset by lower FX adjustments. Average interest cost, excluding pensions, totalled 3,0% compared with 3,1% in 2013.

NOTE 5.2 NET INTEREST-BEARING DEBT

Accounting policies

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

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

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

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

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

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

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

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

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

Other financial liabilities are measured at amortised cost.

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

Note 5.2.a. Borrowings

(EURm)	2014	2013
Long-term borrowings:		
Issued bonds	472	336
Mortgage credit institutions	817	824
Bank borrowings	370	572
Finance lease liabilities	43	57
Other non-current liabilities	5	7
Total	**1,707**	**1,796**
Short-term borrowings:		
Mortgage credit institutions	5	10
Bank borrowings	911	700
Commercial papers	194	155
Finance lease liabilities	20	20
Other current liabilities	2	2
Total	**1,132**	**887**
Total long-term and short-term borrowings	**2,839**	**2,683**

Note 5.2.b Net interest-bearing debt

	2014	2013
Securities, cash and cash equivalents	-641	-611
Other interest-bearing assets	-27	-26
Current liabilities	1,132	887
Non-current liabilities	1,707	1,796
Net interest-bearing debt excl. pension liabilities	**2,171**	**2,046**
Pension liabilities	376	348
Net interest-bearing debt incl. pension liabilities	**2,547**	**2,394**

Note 5.2.c. Net interest-bearing debt excl. pension obligations, maturity
(EURm)

December 31, 2014	Total	2015	2016	2017	2018	2019	2020	2021	2022-2024	After 2024
DKK	753	-43	17	20	19	48	49	57	178	408
EUR	360	113	49	93	31	29	24	2	8	11
GBP	318	181	13	102	10	3	3	3	3	-
SEK	691	215	158	-	158	158	-	-	-	2
Other	49	9	40	-	-	-	-	-	-	-
Total	**2,171**	**475**	**277**	**215**	**218**	**238**	**76**	**62**	**189**	**421**

December 31, 2013	Total	2014	2015	2016	2017	2018	2019	2020	2021-2023	After 2023
DKK	755	-41	13	21	24	25	53	54	154	452
EUR	452	113	72	21	77	42	74	27	7	19
GBP	296	35	73	13	160	9	1	2	3	-
SEK	502	163	1	169	-	167	-	-	2	-
Other	41	2	39	-	-	-	-	-	-	-
Total	**2,046**	**272**	**198**	**224**	**261**	**243**	**128**	**83**	**166**	**471**

MATURITY OF NET INTEREST BEARING DEBT, 2014 PERSPECTIVE (EURm)

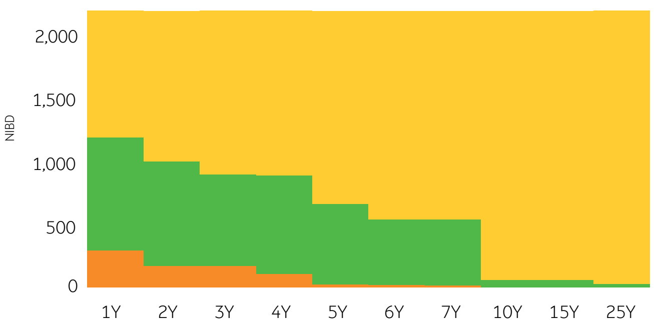
MATURITY OF NET INTEREST BEARING DEBT, 2013 PERSPECTIVE (EURm)

Note 5.2.d Interest rate risk as at 31 December (EURm)	INTEREST RATE	AVERAGE INTEREST RATE	FIXED FOR	CARRYING AMOUNT	INTEREST RATE RISK
2014					
Issued bonds:					
SEK 1.150m maturing 22.06.2016	Fixed	5.00%	1-2 years	122	Fair value
SEK 500m maturing 04.06.2018	Fixed	3.25%	3-4 years	50	Fair value
SEK 800m maturing 28.05.2019	Fixed	2.63%	4-5 years	84	Fair value
SEK 350m maturing 22.06.2016	Floating	2.06%	0-1 year	37	Cash flow
SEK 1.000m maturing 04.06.2018	Floating	1.97%	0-1 year	105	Cash flow
SEK 700m maturing 28.05.2019	Floating	1.42%	0-1 year	74	Cash flow
Total issued bonds		**2.93%**		**472**	
Mortgages credit institutions:					
Floating-rate	Floating	1.00%	0-1 year	821	Cash flow
Fixed-rate	Fixed	2.95%	3-4 years	1	Fair value
Total mortgages credit institutions		**1.00%**		**822**	
Bank borrowings:					
Fixed-rate	Fixed	0.15%	0-1 year	496	Fair value
Floating-rate	Floating	1.53%	0-1 year	792	Cash flow
Total bank borrowings		**1.00%**		**1,288**	
Commercial papers:					
Fixed-rate	Fixed	0.83%	0-1 year	194	Fair value
Total commercial papers		**0.83%**		**194**	
Finance lease liabilities:					
Fixed-rate	Fixed	4.98%	0-4 years	15	Fair value
Floating-rate	Floating	2.33%	0-1 year	48	Cash flow
Total finance lease liabilities		**2.96%**		**63**	

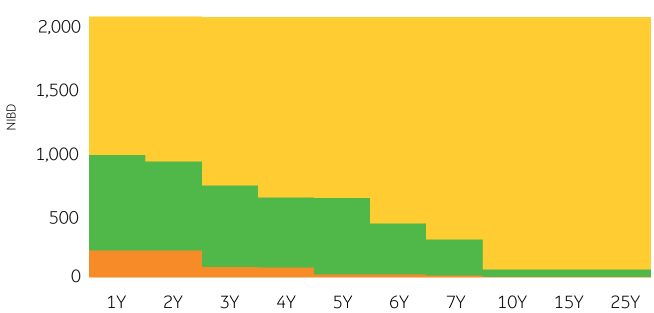
Note 5.2.d Interest rate risk as at 31 December (EURm)	INTEREST RATE	AVERAGE INTEREST RATE	FIXED FOR	CARRYING AMOUNT	INTEREST RATE RISK
2013					
Issued bonds:					
SEK 1.150m maturing 22.06.2016	Fixed	5.00%	2-3 years	129	Fair value
SEK 500m maturing 04.06.2018	Fixed	3.25%	4-5 years	56	Fair value
SEK 350m maturing 22.06.2016	Floating	2.73%	0-1 year	39	Cash flow
SEK 1.000m maturing 04.06.2018	Floating	2.78%	0-1 year	112	Cash flow
Total issued bonds		**3.70%**		**336**	
Mortgages credit institutions:					
Floating-rate	Floating	1.24%	0-1 year	832	Cash flow
Fixed-rate	Fixed	2.96%	3-4 years	2	Fair value
Total mortgages credit institutions		**1.24%**		**834**	
Bank borrowings:					
Fixed-rate	Fixed	0.44%	0-1 year	472	Fair value
Floating-rate	Floating	1.59%	0-1 year	809	Cash flow
Total bank borrowings		**1.16%**		**1,281**	
Commercial papers:					
Fixed-rate	Fixed	1.72%	0-1 year	155	Fair value
Total commercial papers		**1.72%**		**155**	
Finance lease liabilities:					
Fixed-rate	Fixed	5.03%	0-4 years	22	Fair value
Floating-rate	Floating	2.85%	0-1 year	55	Cash flow
Total finance lease liabilities		**3.48%**		**77**	

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

INTEREST PROFILE – NET INTEREST BEARING DEBT 2014 (EURm)



INTEREST PROFILE – NET INTEREST BEARING DEBT 2013 (EURm)



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

Note 5.2.e Currency profile of borrowings
(EURm)

Currency profile of borrowings before and after derivative financial instruments	ORIGINAL PRINCIPAL	EFFECT OF SWAP	AFTER SWAP
2014			
DKK	753	0	753
EUR	360	158	518
GBP	318	264	582
SEK	691	-422	269
Other	49	0	49
Total	**2,171**	**0**	**2,171**
2013			
DKK	755	-112	643
EUR	452	168	620
GBP	296	224	520
SEK	502	-280	222
Other	41	0	41
Total	**2,046**	**0**	**2,046**

Financial comments

The Group's net interest-bearing debt, including pensions, increased from EUR 2,394 million at 31 December 2013 to EUR 2,547 million at 31 December 2014.

Net interest-bearing debt, excluding pension obligations, increased by EUR 125 million to EUR 2,171 million at 31 December 2014. The Group's leverage ratio increased to 3.7 at 31 December 2014 (31 December 2013: 3.2). This is outside the Group's long-term objective of 2.8-3.4, and the Group is determined to reach its target range in 2015.

The solvency ratio measured 28% at 31 December 2014 and is unchanged compared to last year.

NOTE 5.3 FINANCIAL RISKS

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

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

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

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

Note 5.3.a Liquidity risk

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

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

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

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

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

Activities in 2014
In 2014 Arla has further included CCE's business into the central cash management setup. Inspired by liquidity models from the rating agencies, the company is in the process of reviewing its liquidity reserve targets and the split between committed and uncommitted facilities. The aim is to continue to have an adequate liquidity reserve matching the risk and needs of Arla. Unused credit facilities and available cash have during 2014 been on a comfortable level.

Liquidity reserves
(EURm)

	2014	2013
Cash and cash equivalents	81	76
Securities (free cash flow)	57	12
Unutilised committed loan facilities	322	249
Unutilised other loan facilities	401	471
Total	**861**	**808**

Financial comments

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

The management of the day-to-day liquidity flow is, representing more than 95% of the net revenue of the Group, conducted by Arla Foods Finance A/S, via cash pool arrangements with the Group's banks. This secures a scalable and efficient operating model.

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

The credit facilities contains relaxed financial covenants on equity/total assets and minimum equity as well as standard non-financial covenants. Arla did not in 2014 nor in 2013 default on or fail to fulfil any loan agreements. Further information on net interest bearing debt is provided in note 5.2.

The Group's liquidity reserves increased from EUR 808 million at 31 December 2013 to EUR 861 million at 31 December 2014. Credit lines and facilities are continually managed at in order to secure an adequate liquidity reserve.

Note 5.3.b Funding activities

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

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

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

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

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

Activities in 2014
During 2014 Arla has strengthened its funding by issuing a new bond issue on SEK 1,500 million under the EMTN bond program markets.

Note 5.3.b Funding activities

Gross Financial liabilities
(EURm)

		Non-discounted contractual cash flows									
2014	**CARRYING AMOUNT**	**TOTAL**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022-2024**	**AFTER 2024**
Issued bonds	472	474	-	158	-	158	158	-	-	-	-
Mortgage credit institutions	822	845	6	17	17	20	50	50	59	191	435
Credit institutions	1,485	1,486	1,116	48	223	33	32	27	4	3	-
Finance lease liabilities	63	63	20	19	14	10	-	-	-	-	-
Other non-current liabilities	7	7	2	2	2	1	-	-	-	-	-
Interest expense - interest bearing debt	-	147	29	23	17	14	10	7	7	16	24
Trade payables etc.	977	977	977	-							
Derivative instruments	206	344	105	57	40	37	31	18	15	21	20
Total	**4,032**	**4,343**	**2,255**	**324**	**313**	**273**	**281**	**102**	**85**	**231**	**479**

2013	**CARRYING AMOUNT**	**TOTAL**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021-2023**	**AFTER 2023**
Issued bonds	336	336	-	-	169	-	167	-	-	-	-
Mortgage credit institutions	834	856	10	11	21	21	24	54	55	193	467
Credit institutions	1,426	1,426	873	143	43	268	30	30	29	10	-
Finance lease liabilities	77	77	20	18	17	21	1	-	-	-	-
Other non-current liabilities	10	9	2	2	2	2	1	-	-	-	-
Interest expense - interest bearing debt	-	145	28	21	20	13	12	7	6	16	22
Trade payables etc.	1,015	1,015	1,015	-	-	-	-	-	-	-	-
Derivative instruments	84	122	57	23	14	9	7	4	1	1	6
Total	**3,782**	**3,986**	**2,005**	**218**	**286**	**334**	**242**	**95**	**91**	**220**	**495**

Assumptions:
The contractual cash flows are based on the following assumptions:

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

Financial comments

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

During 2014 Arla has raised the following mix of funding:
- Credit institutions: Arla uses bank loans as part of the daily liquidity management.
- Mortgage credit institutions: Arla raises long-term funding by obtaining mortgage loans under the Danish Mortgage Act with mandatory security in land and buildings.
- Issued bonds: Arla made one issue in 2014. The issue was split between a five year SEK 700 million bond with a fixed coupon of 2,63% and a SEK 800 million bond with a floating interest coupon of Stibor 3 months + 1.15%.
- Commercial papers: Arla raises short-term funding by having a commercial paper program in Sweden denominated in SEK and EUR. Currently the commercial papers are issued in SEK. The average utilization in 2014 has been in the level of SEK 1,800 m.
- Repo: Arla raises short-term funding by entering into sale and repurchase arrangement of its investment in listed Danish Mortgage Bonds. This sale and repurchase agreement has been described in further details in note 5.6.

Note 5.3.c Currency risks

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

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

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

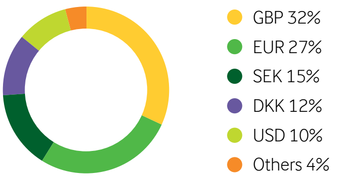
Balance sheet
Changes in currency rates could cause volatility in balance, equity and cash flow. The majority of local funding is obtained in local currencies. Investments in subsidiaries is normally not hedged.

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

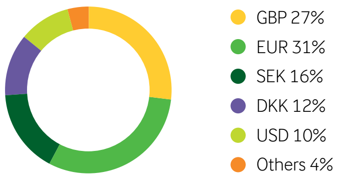
Policies and systems
The Treasury and Funding Policy and profound understanding of the business of Arla combined with deep knowledge of the financial markets.

Activities in 2014
During 2014 Arla has continued to hedge Arla's forecasted sales and purchases in foreign currency always taking the current market situation into consideration.

REVENUE BY CURRENCY 2014



REVENUE BY CURRENCY 2013



Note 5.3.c Currency risks

Currency exposures (EURm)	EUR/DKK	USD/DKK*	GBP/DKK	SEK/DKK
2014				
Financial liabilities	-337	-22	-262	-841
Financial assets	292	196	601	36
Derivatives	-165	-444	-874	574
Net external exposures	**-210**	**-270**	**-535**	**-231**
Net internal exposure from financial activities	172	-18	415	254
Net exposures	**-38**	**-288**	**-120**	**23**
The net exposure relates to:				
Hedging of expected commercial cash flow that qualify for hedge accounting	0	-229	-153	-32
Hedging of expected commercial cash flow where hedge accounting is not used	-38	-59	0	0
Exposure not hedged	0	0	33	55
Applied sensitivity	1%	5%	5%	5%
Impact on profit or loss	0	-3	2	3
Impact on OCI	**0**	**-11**	**-8**	**-2**
2013				
Financial liabilities	-431	-16	-234	-515
Financial assets	454	160	121	41
Derivaties	-167	-292	-468	207
Net external exposures	**-144**	**-148**	**-581**	**-267**
Net internal exposure from financial activities	-1	-9	498	229
Net exposures	**-145**	**-157**	**-83**	**-38**
The net exposure relates to:				
Hedging of expected commercial cash flow that qualify for hedge accounting	0	-128	-125	-23
Hedging of expected commercial cash flow where hedge accounting is not used	-145	-29	0	-15
Exposure not hedged	0	0	42	0
Applied sensitivity	1%	5%	5%	5%
Impact on profit or loss	-1	-1	2	-1
Impact on OCI	**0**	**-6**	**-6**	**-1**

* Incl. AED and SAR

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

Financial comments

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

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

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

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

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

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

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

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

Note 5.3.d Interest rate risk

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

Risk impact
An increase in interest rates impacts Arla's financial items with an adverse effect on milk prices, but a positive impact on OCI due to hedge instruments.

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

Performance indicator
Predictability in realised funding costs.

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

Activities in 2014
Interest rate risk from refinancing was partly hedged by entering interest rate swaps

Note 5.3.d Interest rate risks

Sensitivity based on 1 percentage point increase in interest rate
(EURm)

			Potential accounting impact	
	CARRYING VALUE	SENSITIVITY	P/L	OCI
2014				
Financial assets	-668	1%	6	-1
Derivatives	-	1%	8	67
Financial liabilities	2,839	1%	-23	0
NIBD excl. pensions	**2,171**		**-9**	**66**
Pensions	376	1%	-3	n/a
NIBD incl. pensions	**2,547**			
Following year cash flow impact			**-12**	

2013				
Financial assets	-637	1%	6	-2
Derivatives	-	1%	8	51
Financial liabilities	2,683	1%	-22	0
NIBD excl. pensions	**2,046**		**-8**	**49**
Pensions	348	1%	-3	n/a
NIBD incl. pensions	**2,394**			
Following year cash flow impact			**-11**	

Financial comments

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

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

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

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

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

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

The average duration of the Group's net interest-bearing debt, excluding pensions, has increased from 2.9 at 31 December 2013 to 3.3 at 31 December 2014 The duration is impacted by new variable rate loans converted into fixed interest rate loans by means of interest swaps and reduction in time to maturity, issue of new bonds and the level of net interest bearing debt.

Note 5.3.e Commodities

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

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

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

Performance indicator
Realised commodity prices.

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

Activities in 2014
The level of hedging activities has been on the same level as previous years.

Note 5.3.e Commodities

Hedged commodities (EURm)	SENSITIVITY	CONTRACT VALUE	POTENTIAL ACCOUNTING IMPACT (OCI)
2014			
Oil / natural gas	5%	-14	3
Electricity	5%	-4	2
2013			
Oil / natural gas	5%	1	3
Electricity	5%	-3	3

Financial comments

Arla is exposed to commodity risk on future commodity purchases. The risk mainly concerns energy commodities. The risk is divided between profit and loss exposure and exposure to other comprehensive income. The profit and loss exposure relates to future purchases whereas the exposure to other comprehensive income (OCI) relates to the revaluation of commodities hedges. The Corporate Supply Chain department uses derivatives financial instruments to reduce the risk of fluctuations in the prices of energy commodities. The financial impact from derivative hedging contracts has been insignificant in 2014.

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

Note 5.3.f Credit risk

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

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

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

Performance indicator
Expected and realised credit losses on customers.

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

Activities in 2014
Arla has, like in previous years, experienced a very low level of losses on customers

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

Note 5.3.f Credit risk

External rating of financial counterparties (EURm)	ASSETS	QUALIFING FOR NETTING	NET ASSETS	LIABILITIES	QUALIFING FOR NETTING	NET LIABILITIES
2014						
AA-	3	3	-	63	3	60
A+	16	16	-	49	16	33
A-	4	4	-	67	4	63
Total	**23**	**23**	**-**	**179**	**23**	**156**
2013						
AA-	11	11	-	24	11	13
A+	2	1	1	19	1	18
A-	8	8	-	31	8	23
Total	**21**	**20**	**1**	**74**	**20**	**54**

In addition, Arla has entered into sales and repurchase agreements on mortgage bonds.
This sale and repurchase agreement has been decribed in futher details in note 5.6.

Financial comments

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

For financial counterparties, Arla minimises the credit risk by only entering into transactions with those with a credit rating of least A-/A-/A3 from either S&P, Fitch or Moody's. All financial counterparties had a satisfactory credit rating at 31 December 2014 except in one case where a dispensation by the Board of Directors was granted.

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

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

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

NOTE 5.4 DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policies

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

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

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

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

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

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

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

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

Note 5.4.a Hedging of future cash flow from highly probable forecast transactions
(EURm)

			Expected recognition				
2014	CARRYING VALUE	FAIR VALUE RECOGNISED IN OCI	2015	2016	2017	2018	LATER THAN 2018
Currency contracts	-10	-10	-10	0	0	0	0
Interest rate contracts	-104	-104	-16	-15	-14	-13	-46
Commodity contracts	-18	-18	-12	-6	0	0	0
	-132	-132	-38	-21	-14	-13	-46

2013	CARRYING VALUE	FAIR VALUE RECOGNISED IN OCI	2014	2015	2016	2017	LATER THAN 2017
Currency contracts	2	2	2	0	0	0	0
Interest rate contracts	-44	-44	-20	-15	-8	-6	5
Commodity contracts	-3	-2	-1	-1	0	0	0
	-45	-44	-19	-16	-8	-6	5

Note 5.4.b Net investment hedges
(EURm)

	2014	**2013**
Net investment hedges (OCI) at 1 January	1	3
Change in net investment hedge	-3	-2
Net investment hedges (OCI) at 31 December	**-2**	**1**
Profit or loss	**0**	**0**

Financial comments

Fair value hedge
At 31 December 2014, Arla had no derivative financial instruments that qualified for the criteria for fair value hedge.

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

Hedging of net investments
As at 31 December 2014 (2013) Arla has hedged an insignificant part of currency exposures relating to its investments in subsidiaries, joint ventures and associated companies using loans and derivatives. The above table shows the change in fair value recognised in other comprehensive income and the ineffectiveness recognised in profit or loss.

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

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

NOTE 5.5 FINANCIAL INSTRUMENTS DISCLOSED

Note 5.5.a Categories of financial instruments

(EURm)	2014	2013
Available for sale financial assets	560	535
Loans and receivables	978	930
Financial assets measured at fair value through profit or loss	53	64
Derivatives	206	83
Financial liabilities measured at amortised cost	3,817	3,682

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

Note 5.5.b Fair value hierarchy - Accounting value

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

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

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

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

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

Note 5.5.b Fair value hierachy - accounting value

(EURm)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2014				
Financial assets				
Bonds	572	0	0	572
Shares	13	0	0	13
Derivatives	0	30	0	30
Total assets	**585**	**30**	**0**	**615**
Financial liabilities				
Issued Bonds	0	472	0	472
Mortgage credit institutions	822	0	0	822
Derivatives	0	206	0	206
Total liabilities	**822**	**678**	**0**	**1,500**
2013				
Financial assets				
Bonds	555	0	0	555
Shares	10	0	0	10
Derivatives	0	28	0	28
Total assets	**565**	**28**	**0**	**593**
Financial liabilities				
Issued Bonds	0	336	0	336
Mortgage credit institutions	834	0	0	834
Derivatives	0	84	0	84
Total liabilities	**834**	**420**	**0**	**1,254**

NOTE 5.6 TRANSFER OF FINANCIAL ASSETS

Note 5.6.a. Transfer of financial assets

(EURm)	CARRYING VALUE	NOTIONAL AMOUNT	FAIR VALUE
2014			
Mortgage bonds	503	516	503
Repurchase liability	-496	-516	-496
Net position	**7**	**0**	**7**
2013			
Mortgage bonds	480	498	480
Repurchase liability	-472	-498	-472
Net position	**8**	**0**	**8**

Financial comments

As at 31 December 2014 Arla has invested in the mortgage bonds underlying its mortgage debt. The reason for investing in the mortgage bonds is that Arla is able to achieve a lower interest rate than the current market interest rate on mortgage debt by entering into a sale and repurchase agreement on the listed Danish mortgage bonds. The net interest rate payable by Arla, by raising financing through this kind of sale and repurchase agreement, is the interest rate inherent in the sale and repurchase agreement and the contribution to the mortgage institute.

Due to the repurchase agreement the risks and rewards arising from the ownership of the transferred mortgage bonds have been retained by Arla. These mortgage bonds have been classified as available for sale with value adjustments through other comprehensive income. The received proceeds creates a repurchase obligation which has been recognised within short term bank loans and overdrafts.

NOTE 5.7. PENSION OBLIGATIONS

Accounting policies

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

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

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

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

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

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

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

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

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

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

Uncertainties and estimates

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

Note 5.7.a Pension liabilities recognized in the balance sheet
(EURm)

	SWEDEN	UNITED KINGDOM	OTHERS	TOTAL
2014				
Present value of funded liabilities	214	1,315	19	1,548
Fair value of plan assets	-11	-1,172	-4	-1,187
Deficit of funded plans	**203**	**143**	**15**	**361**
Present value of unfunded liabilities	-	-	15	15
Net pension liabilities recognised in the balance sheet	**203**	**143**	**30**	**376**
Specification of total liabilities:				
Present value of funded liabilities	214	1,315	19	1,548
Present value of unfunded liabilities	-	-	15	15
Total liabilities	**214**	**1,315**	**34**	**1,563**
2013				
Present value of funded liabilities	193	1,103	28	1,324
Fair value of plan assets	-11	-964	-1	-976
Deficit of funded plans	**182**	**139**	**27**	**348**
Present value of unfunded liabilities	-	-	-	-
Net pension liabilities recognised in the balance sheet	**182**	**139**	**27**	**348**
Specification of total liabilities:				
Present value of funded liabilities	193	1,103	28	1,324
Present value of unfunded liabilities	-	-	-	-
Total liabilities	**193**	**1,103**	**28**	**1,324**

Note 5.7.b Development in defined benefit pension liabilities

(EURm)	2014	2013
Present value of liability at 1 January	1,324	1,346
Additions from mergers and acquisitions	7	0
Current service costs	6	3
Interest costs	59	55
Actuarial (gains)/losses from changes in financial assumptions (OCI)	168	8
Actuarial (gains)/losses from changes in demographic assumptions (OCI)	-	-2
Benefits paid	-57	-52
Curtailments and settlements	-6	0
Exchange rate adjustments	62	-34
Present value of pension liability at 31 December	**1,563**	**1,324**

Note 5.7.c Development in fair value of plan assets

(EURm)	2014	2013
Fair value of plan assets at 1 January	976	927
Additions from mergers and acquisitions	7	0
Interest income	46	40
Return on plan assets excl. interests income (OCI)	103	28
Contributions to plans	40	48
Benefits paid	-47	-45
Administration expenses	-2	-2
Exchange rate adjustments	64	-20
Fair value of plan assets at 31 December	**1,187**	**976**

The Arla Group expects to contribute EUR 35 million (2014: EUR 56 million) to the plan assets in 2015.

Actual return on plan assets:		
Calculated interest income	46	40
Return excl. calculated interest	103	28
Actual return	**149**	**68**

Note 5.7.d Sensitivity of defined benefit liabilities to key assumptions

(EURm)

Impact on defined benefit liabilities at 31 December 2014	+	-
Discount rate +/- 10bps	-32	34
Salary increases +/- 10bps	20	-15
Life expectancy +/- 1 year	50	-50

Note 5.7.e Pension assets recognised in the balance sheet

(EURm)	%	2014	%	2013
Shares	15%	182	21%	207
Bonds	16%	187	19%	184
Properties	8%	95	9%	88
Other assets	61%	723	51%	497
Total assets	**100%**	**1.187**	**100%**	**976**

Note 5.7.f Recognised in the income statement for the year

(EURm)	2014	2013
Current service costs	6	3
Past service costs	0	2
Administration costs	2	0
Curtailments and settlements	-6	0
Recognised as staff costs	**2**	**5**
Interest costs on obligations	59	55
Interest income on plan assets	-46	-40
Recognised as financial (gains)/losses	**13**	**15**
Total amount recognised in the income Statement	**15**	**20**

Note 5.7.g Recognised in other comprehensive income

(EURm)	2014	2013
Accumulated actuarial gains/(losses) 1 January	-124	-146
Actuarial gains/(losses) for the year	-65	22
Accumulated actuarial gains/(losses) 31 December	**-189**	**-124**

Note 5.7.h Assumptions for the actuarial calculations at the balance sheet date are:	**2014**	**2013**
Discounting rate, Sweden	4.1%	4.5%
Discounting rate, UK	3.6%	4.6%
Expected payroll increase, Sweden	3.0%	3.0%
Expected payroll increase, UK	4.3%	4.8%

Financial comments

Net pension liabilities have been recognised at EUR 1,563m compared with EUR 1,324m. The present value of defined benefit plans declined because of the Group's payments to these plans and an decreasing discounting rate. The provision consists primarily of defined benefit plans in the United Kingdom and Sweden. The defined benefit plans secure pension disbursements to participating employees based on seniority and final salary.

Pension plans in the Sweden
The defined benefit plan in Sweden is not covered by ongoing deposits paid into the fund. The recognised liability stood at EUR 203 million compared with EUR 182 million in 2013. The increase is primarily due to actuarial loss of EUR 30 million resulting from an decrease in the discounting rate and a foreign exchange rate adjustment of EUR 12 million.

Plan participants are insured against the financial consequences of retirement. The schemes dozes not provide any insured disability benefits.

The pension plans are contribution-based plans guaranteeing defined benefit pension at retirement on a final salary. Contributions are paid by Arla Foods. The schemes are legally structured as an investment fund. Arla Foods has control over the operation of the plans or their investments. An external administrator is responsible for the investment of the assets based on the investment strategy defined by Arla Foods.

The pension plans does not include a risk-sharing element between Arla Foods and the plan participants.

Pension plans in the United Kingdom
The defined benefit plans in the United Kingdom are administered of independent pension funds that invest deposited amounts to cover pension liability. All schemes are closed to future accruals. The actuarial present value of the liability totalled EUR 1,315 million at 31 December 2014 compared with EUR 1,103 million at 31 December 2013. Recognised net liabilities - less the fair value of the assets of EUR 1,172 million at 31 December 2014 compared with EUR 964 million at 31 December 2013 - stood at EUR 143 million (2013: EUR 139 million). The increase is primarily due to actuarial loss of EUR 130 million resulting from an decrease in the discounting rate and a foreign exchange rate adjustment of EUR 74 million.

Plan participants are insured against the financial consequences of retirement. The schemes do not provide any insured disability benefits.

The pension plans are defined benefit final salary schemes. The schemes are closed to both new entrants and future accruals. Employer contributions are determined with the advice of independent qualified actuaries on the basis of tri-annual valuations.

The schemes are legally structured as trust-based statutory sectionalised pension schemes. Arla Foods has no control over the operation of the plans or their investments. The trustees of the scheme set the investment strategy and have set up a policy on asset allocation to best match the assets to the liabilities of the scheme. The trustees appoint an independent external advisor to the schemes who is responsible for advising on the investment strategy and investing the assets.

The pension plans does not include a risk-sharing element between Arla Foods and the plan participants.

Note 6 Other areas

Arla's tax platform has changed from local to global in line with the development of our business. However, Arla is a cooperative company headquartered in Denmark. Our activities are therefore covered by Danish tax rules for cooperatives, which take account of the basic principles of cooperatives. When the owner of a cooperative is also a supplier to the cooperative, earnings end up with the owner in the form of the price paid for the commodity. Therefore the owner of the cooperative, the farmer, becomes the primary source of taxation. Our goal is to manage our tax affairs in a proactive manner that seeks to maximise our milk price, while operating in accordance with the law at all times. This note specifies taxes, which are divided into tax in the income statement and deferred tax in the balance sheet. The effective tax rate is calculated, and deferred tax assets not included in the balance sheet are listed. The note also contains other statutory disclosures, such as the remuneration paid to members of the Board of Directors and the Executive Board as well as auditors elected by the Board of Representatives. Furthermore, the note contains disclosures about contractual obligations and related parties.

NOTE 6.1 TAX

Accounting policies

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

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

Current tax
Current tax is assessed on the basis of cooperation or income tax. Cooperative taxation is based on capital, while income tax is based on the company's income for the year. Current tax payable and receivable are recognised in the balance sheet as tax calculated on the taxable income for the year, adjusted for any tax from previous years' taxable income as well as prepaid on-account taxes. The amount is calculated using tax rates enacted or substantively enacted at the balance sheet date.

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

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

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

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

Uncertainties and estimates

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

Note 6.1.a. Tax in the income statement
(EURm)

	2014	2013
Cooperative tax	-5	-9
Current tax	-4	-18
Deferred tax	-12	-2
Change in deferred tax resulting from a change in the tax rate	-	-5
Adjustment regarding previous years, actual tax	3	-
Adjustment regarding previous years, deferred tax	-	-3
Total tax in the income statement	**-18**	**-37**

Note 6.1.b. Calculation of effective tax rate
(EURm)

	2014	2013
Statutory corporate income tax rate in Denmark	24.5%	25.0%
Deviation in foreign subsidiaries' tax rates compared with the Danish tax rate (net)	-0.3%	-
Adjustment for cooperative tax (excl. capital gains)	-22.6%	-14.4%
Non-taxable income less non-tax-deductible costs (net)	-2.1%	-
Change in tax percentage	-	-10.6%
Adjustment regarding previous years	-0.2%	-
Other adjustments (primarily tax losses not recognised)	6.2%	-
Effective tax rate	**5.5%**	**12.0%**

Note 6.1.c. Deferred tax
(EURm)

	INTANGIBLE ASSETS	PROPERTY, PLANT AND EQUIPMENT	FINANCIAL ASSETS	CURRENT ASSETS	PROVISIONS	OTHER LIABILITIES	TAX LOSS CARRY-FORWARDS	OTHER CATEGORY	TOTAL
2014									
Net deferred tax asset/liability at 1 January	-2	2	7	0	45	-9	4	-26	21
Income/charge to the income statement	2	15	-3	1	-9	-19	6	-5	-12
Income/charge to other comprehensive income	0	0	4	0	12	2	0	0	18
Exchange rate adjustment	0	1	0	0	0	1	0	1	3
Other adjustments	0	-28	3	-1	-8	27	3	0	-4
Net deferred tax asset/liability at 31 December	**0**	**-10**	**11**	**0**	**40**	**2**	**13**	**-30**	**26**
Specified as follows:									
Deferred tax asset at 31 December	0	18	7	2	62	4	4	-25	72
Deferred tax liability at 31 December	0	-28	4	-2	-22	-2	9	-5	-46
2013									
Net deferred tax asset/liability at 1 January	-2	-19	10	1	48	1	13	-7	45
Income/charge to the income statement	-1	22	-2	0	2	0	-6	-20	-5
Income/charge to other comprehensive income	0	0	-2	0	5	-3	0	-13	-13
Change in tax rate	0	0	0	0	0	0	-3	-2	-5
Exchange rate adjustment	0	1	0	0	0	-1	0	-1	-1
Other adjustments	1	-2	1	-1	-10	-6	0	17	0
Net deferred tax asset/liability at 31 December	**-2**	**2**	**7**	**0**	**45**	**-9**	**4**	**-26**	**21**
Specified as follows:									
Deferred tax asset at 31 December	-3	7	12	0	46	-9	3	1	57
Deferred tax liability at 31 December	1	-5	-5	0	-1	0	1	-27	-36

Financial comments

Tax in the income statement
Generally the tax cost has decreased. This is mainly due to a decrease in profits in some of our core markets.

Deferred tax
Deferred tax has increased slightly during 2014. Deferred tax assets are primarily based on pension obligations while the deferred tax liabilities mainly relate to property, plant and equipment.

A deferred tax asset of EUR 55m (2013: EUR 36m) has not been recognised, as we do not expect to be able to use it within a limited time range. The increase is mainly caused by non recognized tax losses.

NOTE 6.2 FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES

(EURm)	2014	2013
Statutory audit	-0.6	-1.6
Other assurance engagements	0.0	-0.3
Tax assistance	-0.2	-1.1
Other services	-0.1	-1.2
Total fees to auditors	**-0.9**	**-4.2**

During 2014 KPMG in Denmark joined the EY network and the fees above to auditors are therefore attributable to EY for 2014 and KPMG for 2013. For 2014 the fees paid to KPMG network amounted to EUR 1.2 million. Other services comprise fees related to due diligence in connection with mergers and acquisitions of companies.

NOTE 6.3 MANAGEMENT REMUNERATION AND TRANSACTIONS

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

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

Note 6.3.a. Management remuneration

(EURm)	2014	2013
Board of Directors		
Wages, salaries and remuneration etc.	-1.4	-1.1
Total	**-1.4**	**-1.1**
Executive Board		
Wages, salaries and remuneration etc.	-1.9	-1.9
Pensions	-0.2	-0.2
Bonus and incentive programmes	-0.4	-0.4
Total	**-2.5**	**-2.5**

Note 6.3.b. Transactions with the Board of Directors

(EURm)	2014	2013
Purchase of goods	13.4	11.9
Supplementary payment regarding previous year	0.4	0.5
Total	**13.8**	**12.4**
Trade payables	1.0	1.2
Owner accounts	2.1	1.2
Total	**3.1**	**2.4**

NOTE 6.4 CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIES

Uncertainties and estimates

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

Note 6.4.a Contractual commitments and contingent liabilities

(EURm)	2014	2013
Surety and guarantee commitments	**5**	**4**
0-1 year	22	19
1-5 years	49	40
Over 5 years	44	30
Operating rent commitments	**115**	**89**
0-1 year	37	36
1-5 years	59	56
Over 5 years	4	6
Operating lease commitments	**100**	**98**
Commitments in relation to agreements on the purchase of property, plant and equipment	168	192
Other guarantees and commitments	**6**	**7**

Financial comments

The group is party to a small number of lawsuits, disputes, etc. 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 financial statements.

Contingent assets
Valio have been fined in the market court for a breach of the Competition Act. but have appealed to the Supreme Administrative Court. Arla has filed a damage claim of EUR 50 million against Valio because of a predatory pricing.

To guarantee the debt with a nominal value of EUR 845 million (compared to EUR 856 million at 31 December 2013) the Group provided security in property as security for the debt.

NOTE 6.5. EVENTS AFTER THE BALANCE SHEET DATE

No events with a significant effect on the business has happened after the balance sheet date.

NOTE 6.6 GENERAL ACCOUNTING POLICIES

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

The consolidated financial statements comprise Arla Foods amba (parent company) and the subsidiaries in which the parent company directly or indirectly holds more than 50% of the voting rights or otherwise maintains control in order to obtain benefits from its activities. Companies in which the Group exercises joint control through a contractual arrangement are considered to be joint ventures. Companies in which the Group exercises a significant but not controlling influence are considered to be associates. A significant influence is typically obtained by holding or having at the Group's disposal, directly or indirectly, more than 20% but less than 50% of the voting rights in a company.

Unrealised gains (i.e. profits arising from sales to joint ventures or associates, whereby the customer pays with funds partly owned by the Group) from transactions with joint ventures and associates are eliminated against the carrying amount of the investment in proportion to the Group's interest in the company. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The consolidated financial statements are prepared on a historical cost basis except for certain items with alternative measurement bases, which are identified in these accounting policies.

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

Translation of foreign operations
The assets and liabilities of consolidated companies, including the share of net assets and goodwill of joint ventures and associates with a functional currency other than EUR, are translated into EUR using the year-end exchange rate. The revenue, costs and share of the results for the year are translated into EUR using the average monthly exchange rate if this does not differ materially from the transaction date rate. Foreign currency differences are recognised in other comprehensive income (OCI) and accumulated in the translation reserve.

On partial divestment of associates and joint ventures, the relevant proportional amount of the cumulative foreign currency translation adjustment reserve is transferred to the results for the year along with any gains or losses related to the divestment. Repayment of outstanding balances considered part of the net investment is not in itself considered to be a partial divestment of the subsidiary.

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

Arla expect to incorporate the new standards when they become mandatory.

The new or revised accounting standards and implementations are not expected to have any material impact on the financial statements of Arla.

Motor Transport Awards 2013
WINNER

Group chart

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

COMPANY NAME	COUNTRY	CURRENCY	GROUP EQUITY INTEREST (%)
Fidan A/S	Denmark	DKK	100
Tholstrup International B.V.	Netherlands	EURO	100
Tholstrup Cheese Holding A/S	Denmark	DKK	100
Tholstrup Cheese A/S	Denmark	DKK	100
Tholstrup Cheese USA Inc.	USA	USD	100
Arla Foods Belgium A.G.	Belgium	EURO	99
Mölkerei Walhorn GmbH	Germany	EURO	100
Walhorn AG	Belgium	EURO	49
Arla Foods Ingredients GmbH,	Germany	EURO	100
Arla Tagatose Holding GmbH	Germany	EURO	100
Arla CoAr Holding GmbH	Germany	EURO	100
ArNoCo GmbH & Co. KG*	Germany	EURO	50
Arla Biolac Holding GmbH	Germany	EURO	100
Biolac GmbH & Co. KG*	Germany	EURO	50
Arla Foods Kuwait Company LLC	Kuwait	KWD	49
Arla Kallassi Foods Lebanon S.A.L.	Lebanon	USD	50
Arla Foods Qatar WLL	Qatar	QAR	40
AFIQ WLL	Bahrain	BHD	25
Arla Foods Trading and Procurement Ltd.	Hong Kong	HKD	100
Arla Foods AB	Sweden	SEK	100
Boxholm Mejeri AB	Sweden	SEK	100
Arla Oy Ab	Finland	EURO	100
Ranuan Meijeri Oy	Finland	EURO	99
Kiteen Meijeri Oy	Finland	EURO	99
Halkivahan Meijeri Oy	Finland	EURO	97
Massby Facility & Services Oy	Finland	EURO	60
Arla Foods UK Holding Ltd.	UK	GBP	14
Restaurang akademien Aktiebolag**	Sweden	SEK	50
Arla Foods Russia Holding AB	Sweden	SEK	100
Arla Foods Artis LLC	Russia	RUB	67
L&L International AB	Sweden	SEK	100
Milko Sverige AB	Sweden	SEK	100
Videbæk Biogas A/S	Denmark	DKK	50
Arla Foods Inc.	USA	USD	100
Arla Foods Production LLC	USA	USD	100
Arla Foods Transport LLC	USA	USD	100
Arla Foods SA	Poland	PLN	100
COFCO Dairy Holdings Limited	Hong Kong	HKD	30
Arla Foods Inc.	Cananda	CAD	100
Arla Global Financial Services Centre Sp. Z.o.o.	Poland	PLN	100
Arla National Foods Products LLC	UAE	AED	40
Arla Foods Deutschland GmbH	Germany	EURO	100
Arla Foods Artis LLC	Russia	RUB	33
Bergland Naturkäse GmbH**	Germany	EURO	50
Sengale SAS	France	EURO	100
Team-Pack GmbH	Germany	EURO	100
Arla Foods France, S.a.r.l	France	EURO	100
Milch-Union Hocheifel, Luxemburg GmbH	Luxemburg	EURO	100
Milch-Union Hocheifel, Belgium AG	Belgium	EURO	100
Hansa Verwaltungs und Vertriebs GmbH	Germany	EURO	100
Hansa Logistik eG	Germany	EURO	100
Vigor Alimentos S.A.**	Brazil	BRL	8
Arla Foods Srl	Italy	EURO	100
Arla Foods S.a.r.l.	France	EURO	100
Arla Foods AS	Norway	NOK	100
Arla Foods S.A.	Spain	EURO	100
Arla Foods Hellas S.A.	Greece	EURO	100
Svensk Mjölk Ekonomisk förening**	Sweden	SEK	73
Arla Foods UK Farmers JV Company Limited	UK	GBP	100
Arla Côte d'Ivoire	Ivory Coast	XOF	51
Arla Food Bangladesh Ltd.	Bangladesh	BDT	51
Arla Foods Dairy Products Technical Service (Beijing) Co. Ltd.	China	CNY	100

** Joint ventures ** Associates*
The Group also owns a number of companies without material commercial activities.

Under section 149 of the Danish Financial Statements Act, this consolidated annual report represents an extract of the Company's complete annual report. In order to make this report more manageable and user-friendly, the Arla Foods Group has decided to publish a consolidated annual report without the financial statements for the parent company, Arla Foods amba. The annual report for the parent company is an integrated part of the full annual report and is available in Danish at www.arlafoods.dk. Profit sharing and supplementary payment from the parent company are set out in the equity section of the consolidated annual report. The full annual report contains the following statements from the Board of Directors and the Executive Board as well as the independent auditor.

Independent **auditor's report**

TO THE OWNERS OF ARLA FOODS AMBA

Independent auditors' report on the consolidated financial statements and the parent company financial statements

We have audited the consolidated financial statements and the parent company financial statements of Arla Foods amba for the financial year 1 January – 31 December 2014. The consolidated financial statements and the parent company financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies for the Group as well as for the parent company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

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

Auditors' responsibility
Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the parent company financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of consolidated financial statements and parent company financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and the parent company financial statements.

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

Our audit has not resulted in any qualification.

Opinion
In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2014 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 January – 31 December 2014 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

Statement on the Management's review

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

Aarhus, 17 February 2015

Ernst & Young
Godkendt Revisionspartnerselskab

Jesper Ridder Olsen
State Authorised Public Accountant

Morten Friis
State Authorised Public Accountant

Peder Tuborgh
CEO

Povl Krogsgaard
Vice CEO

Åke Hantoft
Chairman

Jan Toft Nørgaard,
Vice Chairman

Viggo Ø. Bloch

Palle Borgström

Jonas Carlgren

Matthieu Dobbelstein

Manfred Graff

Hélene Gunnarson

Bjørn Jepsen

Statement by the Board of Directors and **the Executive Board**

Thomas Johansen Steen Nørgaard Madsen Jonathan Ovens Manfred Sievers Oliver Brandes Ib Bjerglund Nielsen

Patrick Krings Torben Myrup Johnnie Russell Peter Winstone Leif Eriksson Harry Shaw

Today, the Board of Directors and the Executive Board discussed and approved the annual report of Arla Foods amba for the financial year 2014. The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

It is our opinion, that the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2014 and of the results of the Group's and the parent company's activities and cash flows for the financial year 1 January-31 December 2014.

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

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

Aarhus, 17 February 2015

Financial **Highlights**

	2014	2013	2012	2011	2010
Inflow of raw milk (mkg):					
Owners in Denmark	4,550	4,508	4,419	4,320	4,345
Owners in Sweden	2,035	2,016	2,059	1,819	1,829
Owners in Germany	1,526	1,332	685	369	-
Owners in United Kingdom	3,088	1,254	286	-	-
Owners in Belgium	403	253	53	-	-
Owners in Luxembourg	119	111	27	-	-
Owners in the Netherlands	17				
Others	1,647	3,202	2,881	2,733	2,539
Total million kg milk weighed in by the group	13,385	12,676	10,410	9,241	8,713
Number of owners					
Owners in Denmark	3,144	3,168	3,354	3,514	3,649
Owners in Sweden	3,366	3,385	3,661	3,865	3,529
Owners in Germany	2,769	2,500	2,911	645	-
Owners in United Kingdom	2,854	2,815	1,584	-	-
Owners in Belgium	997	529	501	-	-
Owners in Luxembourg	228	232	245	-	-
Owners in the Netherlands	55	-	-	-	-
Total number of owners	13,413	12,629	12,256	8,024	7,178
Performance price					
EUR-cent per kg cooperative owner milk	41.7	41.0	36.9	38.6	34.6
Key figures (EURm)					
Income statement					
Revenue	10,614	9,870	8,479	7,368	6,584
EBIT (Earnings before interest and tax)	368	425	336	236	226
EBITDA (Earnings before interest, tax, depreciations and amortisations)	681	737	597	475	503
Net financials	-30	-88	-70	-41	-39
Net profit for the year	320	300	255	188	168
Consolidation for the year					
Individual capital	39	43	38	37	31
Common capital	171	131	63	81	1
Supplementary payment	104	121	149	66	138
Balance sheet					
Total assets	6,613	6,187	5,828	4,728	4,037
Non-current assets	3,774	3,427	3,273	2,521	2,281
Current assets	2,839	2,760	2,555	2,207	1,756
Equity	1,874	1,708	1,463	1,281	1,167
Total non-current liabilities	2,137	2,189	2,049	1,542	1,253
Total current liabilities	2,602	2,290	2,316	1,904	1,618
Net interest bearing debt incl. pensions	2,547	2,394	2,298	1,647	1,347
Net working capital	928	906	790	827	629

	2014	2013	2012	2011	2010
Cash flows					
Cash flow from operating activities	467	342	510	309	343
Cash flow from investing activities	-416	-470	-715	-333	-218
Free cash flow	51	-128	-205	-24	125
Cash flows from financing activities	-49	110	235	33	-321
Investments in property, plant and equipment	-429	-505	-444	-291	-202
Purchase of enterprises	15	-	-39	-20	-
Financial ratios					
Organic growth	6.7%	6.6%	2.1%	6.1%	3.0%
EBIT margin	3.5%	4.3%	4.0%	3.2%	3.4%
Leverage	3.7	3.2	3.9	3.5	2.7
Interest cover	8.2	11.1	11.5	9.7	10.0
Solvency ratio	28%	28%	25%	27%	29%

** The figures have been prepared in accordance with IFRS except for 2010, where the numbers have been prepared in accordance with the Danish Financial Statements Act.*

DEFINITIONS

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

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

Net working capital:
Inventories
+ Trade receivables
– Trade payables

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

EBIT margin:
$\frac{\text{EBIT}}{\text{Revenue}}$

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

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

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

GLOSSARY

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

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

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

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

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

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

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

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

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