ANNUAL REPORT 2012

Closer to Nature™

THE YEAR IN BRIEF

2012 was a strong and groundbreaking year for Arla with high organic growth outside the EU and successful efficiency improvements in our core business.

- In 2012, Arla's 2015 Strategy for Germany and the United Kingdom was realised three years ahead of time.
- We achieved organic growth of 3.3 per cent across Arla's global brands; this exceeds the Group's average growth at a time when our core market consumers are largely shifting away from brand products.
- The rise in earnings in Russia, the Middle East and Africa and in Arla's ingredients busines, s Arla Foods Ingredients, suggested the potential of Arla's future in the emerging markets.
- We made an investment in China designed to move our members' milk from Europe to China's growing middle class.
- The considerable world wide price pressure during the first six months meant that the milk price globally is not the price wanted by the farmers in the light of the increasing costs of, among other things, feed. However, prices were on the increase at the end of the year.

TRANSITION TO IFRS

From 2012, Arla will present its financial statements applying International Financial Reporting Standards (IFRS). We do so to facilitate a more direct comparison of Arla's results with other similar businesses and to achieve even greater transparency. IFRS sharpens our financial reporting and is a strength with respect to Arla's growth and acquisitions.

The transition to IFRS changes our accounting policies and affects a number of areas in the report:

- Goodwill will no longer be amortised,
- Value adjustments to pensions will now be recognised directly in equity, and
- Minority interests and additional payments will now be classified as equity.

It also affects areas without major significance to the financial statements. The financial statements now include a new statement of Arla's comprehensive income, which details value creation/impairment for the period and includes the results for the period as well as changes in equity not derived from transactions with owners, e.g. developments in pension liabilities and hedging instruments. The price of milk is only affected by the results for the year and not by the changes in other comprehensive income. Moreover, the financial statements now contain a number of new disclosures, which are detailed in the Notes section of the report.

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 for 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 in Danish at http://aarsrapport2012.arlafoods.dk. Income distribution and additional payments for the parent company are shown under distribution of profits in the consolidated financial statements. The Consolidated Annual Report is published in Danish, Swedish, German and English. Only the original Danish text is legally binding. The translation has been prepared solely for practical reasons.

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Arla is a European company with a global strategy. The year's merger agreements will ensure that, going forward, we will have a significant quantity of milk, a balanced product portfolio and thereby the capacity to secure our performance price.

Mission:

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

THE FUTURE-ORIENTED COOPERATIVE MODEL

To be an owner of Arla requires a fundamental understanding that sometimes we will face big challenges. But it also requires that we remain confident that we will overcome those challenges. That is why it is imperative that we remain steadfast with respect to Arla's business model.

Åke Hantoft, Chairman of the Board

I am both a dairy farmer and the chairman of a strong, global, farmer-owner cooperative; a company rooted in skill, perseverance and shared values. In 2012, Arla's ownership was expanded to six countries. We are no longer just a Scandinavian but a true European cooperative. We are preparing for the future by expanding so that we can develop sales opportunities for our members' milk that will be sustainable in the long term. However, 2012 was also a year that started with a positive expectation that we would be able to attain the same results and milk prices as in 2011—alas, the entire market tightened drastically.

Although Arla performed well in the markets, we have been unable to deliver the milk prices that we, as owners, had hoped for and needed on our farms. And this, regretably, means that we have lost some owners who left the industry voluntarily, or involuntarily. During the spring, we were forced to lower the milk price several times. This put pressure on producers, not least because prices for e.g. feed and fuel rose for the same period while primary agriculture segment creditors tightened their credit requirements. Many dairy farmers were forced to reevaluate their future prospects; many voiced frustration at public meetings in Sweden and Denmark; and in the United Kingdom milk producers took to the streets.

Our response to those frustrations was to keep our eyes on the bottom line across the business, also with respect to efficiency improvements and opportunities for earnings. Several times over the past year, I have found myself urging owners to believe in the future. We have been criticised for creating expectations for a great year—and then failing to deliver. But I have also heard voices recognising our accomplishments in guiding Arla through the year.

We have now put 2012 behind us; milk prices rose during last months of the year. My many years of experience has taught me that prices rise and fall in this industry; Arla, however, remains a constant in this equation. We always pick up the milk and we always pay on time. That gives our members great security; and this stability forms an indispensable part of our global development as a company.

Cooperative model is strong

Back in 2010, our owners decided that Arla should remain a cooperative. There is a straight line that goes from that decision to the mergers in recent years. For when no additional external capital is injected, the owners themselves become responsible for investing in the company's growth. It is therefore to everyone's advantage that we now have more shoulders on which to bear the burden.

As chairman, I believe that the cooperative model is the optimal business form for us dairy farmers. Our owners produce the milk; the company processes it and sells it. Together we can assert our influence optimally, and together we will keep the 'milk wheel' turning. And that has never been more important than now as we are approaching 2015 and the anticipated elimination of EU milk quotas. Many people are already asking me, if we will be implementing our own supply restrictions or quota systems once milk quotas are eliminated. But that is not how we think. Our whole reason for being, as a company, is to ensure that we will have the capacity to handle the milk our owners produce. What ever the quantity our new mission also reinforces the message that we are here so that tomorrow's farmers, too, will be able to run and grow their businesses.

It is important for individual owners to secure good earnings right now. We are working on solving that challenge in the best manner possible every single day. But it is also incumbent upon us to expand our business to benefit future generations—precisely what previous generations did for us.

A shared future

Our business model is based on the premise that if there is more milk, we will accept it and process it. That is why Arla is constantly looking for opportunities to grow. For growth generates optimism and the basis for additional milk, which in turn generates more market opportunities. Today's Arla is a company with the courage to say yes when opportunities arise and the strength to say no when the time is not right. We are here to stay. But we must remain patient with each other and remind ourselves that there is more that unites Arla's owners than separates us.

Let us be clear. Mergers or business transactions in China will not pull us through economic downturns. What will pull us through is our experience as a company, our faith in community and unity as cooperative members. It is how we pursue ideas, exercise supervision and develop our matter in the big picture. History shows us that dairies that invest and think long-term do better. That is why I am proud to be the chairman of Arla.

Arla is a cooperative. Therefore we are committed to accept all our owners' milk and add optimum value to it.

MILK WHEEL

The milk wheel is a snapshot of Arla's business model. Our owners are our suppliers. In other words, milk is both our commodity and our growth engine. The more milk there is in the wheel, the more power is supplied to the engine, and the greater the company's growth. Milk is what drives the company's earnings and fuels its opportunities to innovate, its product development, branding and efficiencies. Earnings, however, are a precondition for attracting milk. The performance price is therefore Arla's ultimate goal. After our 2012 mergers, Arla weighs in 12.5 billion kg milk each year. Measured by weighed-in milk, that makes us one of the world's biggest dairy companies.

Arla growth is about maintaining earnings. Our growth drives consolidation in the market and attracts additional raw milk.

More milk is a precondition for innovation, product development, branding and obtaining efficiencies and thereby performance.

12.5
billion kg milk annually

Growth is a precondition for locating sales channels for a rising milk intake. In 2012, our mergers and agreement in China created a volume that provided additional power to the milk wheel.

Vision:

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

EUROPEAN STRENGTH AND GLOBAL VISIONS

Arla is playing a leading role in the current industry consolidations. As a European company with a global strategy, Arla must be able to match growing and increasingly global customers.

Peder Tuborgh, CEO

2012 was a strong and groundbreaking year for Arla. Our owners made a number of critical decisions regarding our future: An overwhelming majority of cooperative members in Denmark, Sweden, Germany, Luxembourg, Belgium and the United Kingdom adopted a motion to join forces to solidify our strength as a dairy company with new opportunities for stability and growth. We are the first cooperative to have owners in six countries. It is an accomplishment rooted in the robustness of the cooperative model and the courage of its owners. Without that, we would have been unable to achieve what we did in 2012. Organic growth and growth through mergers and acquisitions went hand in hand. We have strengthened the sustainability of our cooperative—exceeding previously defined limits. The past year's mergers developed Arla's core business, our DNA.

In 2012, it also became clear that our future opportunities lie in the new emerging markets. Our organic growth in these markets is contributing substantially to financial results of which we have reason to be satisfied given the current market.

Focus on business

It has been a busy year with many new initiatives to generate growth, boost business efficiencies, and increase earnings. We achieved results of DKK 1.9 billion or approx. 3 per cent of revenue and we have delivered solidly across our seven essential goals, which we established for 2012. The work ahead includes executing strategies and realising synergies after the 2011 and 2012 acquisitions and mergers, so that we can increase earnings further.

In 2012, the markets developed more negatively than anticipated. The downturn was primarily a result of an unexpected increase in global milk production, which depressed prices. However, it was also due to general caution among European consumers brought about by the economic situation. We are up against powerful forces, but Arla is in a more robust position than many of our competitors. This has to do with our broad retail and industry product range and our branded goods, which are doing well in markets marked by crisis.

Arla has delivered a high milk price under the current market conditions. We have achieved a performance price of DKK 2.71, which is in the high end of the European spectrum of dairy companies. We are above our peer group competitors and have the pleasure of reporting our highest additional payment ever in the present 2012 Annual Report. However, the challenge is that the rise in owners' costs have outstripped the pace of the milk price. The exchange ratio for the individual farmer is therefore not satisfactory,which poses a global challenge.

In 2012, our ingredients business and the markets outside Europe contributed significantly to Arla's income generation. There is evidence that our international strategy is coming to fruition financially. Simultaneously, despite a tough market, our core markets have maintained their high earnings levels. Nevertheless, it is beyond doubt that costs must be kept in check, if we are to protect our branded products in tough market conditions. And we do that through efficiency programmes that, up until 2015, will drive the organisation toward tighter cost management. Through a number of operational excellence programmes, we will be reviewing all our divisions and products in the coming years, in order to minimise costs and simplify work processes permanently. It is a stimulating process that is forcing us to think innovatively and act rapidly.

New mindset and expanded strategy

Five years ago, Arla was a Scandinavian business and our thinking originated in Denmark and Sweden. That is naturally changing these years: Arla now has owners in six countries, is strengthened significantly in our German and UK core markets and asserts itself in an increasing number of markets outside Europe. We have therefore formulated new mission and vision statements so that our words are now following our actions. Our mission statement expresses the objective that has always applied to Arla: As a cooperative, we are here for our owners. Our drive going forward is now expressed in our vision statement: Creating the future of dairy is about contributing to industrial growth and to set and operate new standards within food safety, animal welfare, efficiency, innovation, responsibility, sustainability and earnings.

You can draw a straight line from Arla's international performance over the past year to our global investments. Arla's financial situation will remain conditional on our success in our core markets. However, our future depends on our abilities to build bridges out into the world and to find sales channels for the milk we have promised our owners that we will sell. In 2012, we therefore revised Arla's strategy so that it has a more global focus. The EU's milk quotas, which will be eliminated in 2015, are one of the driving forces behind the initiative. We are expecting that we will add an additional 1 billion kg milk to the milk wheel by 2017. We should not expect to be able to sell additional milk within the EU and will therefore be turning our attention to the Middle East, Africa, Russia and China.

Greater opportunities

In the international reality in which Arla's growth is currently unfolding, it has been strategically important to enter into agreements that can ensure Arla's continued growth. The past year's investments were made in that spirit. Our goal is to procure more milk and generate more sales opportunities in a globalised world.

By merging with MUH and Milk Link, we weigh in 12.5 billion kg milk annually in 2012 and have thereby aggregated one of the biggest milk volumes in Europe. That gives us sufficient power and commodity to participate in the global market. By merging, we have attained a complete business in both Germany and the United Kingdom. The mergers are a logical next step on the road toward greater mass and supply. Combined, the mergers will increase Arla's sales by approx. DKK 11 billion annually. In 2012, the mergers contributed with approx. DKK 2 billion to revenue, which in 2012 stood at DKK 63 billion. This means that we now have our 2015 revenue target of DKK 75 billion in sight.

The 2012 agreement in China was of great strategic significance to Arla. In the spring, COFCO, principal shareholder of China's biggest dairy, China Mengniu Dairy Company Limited, designated Arla as its new strategic partner. This means that we have access to one of the world's fastest growing dairy markets. The agreement is recognition of our global strategy and network; but it is also a sign that, as a business, we are in the lead with respect to quality and food safety. We see the agreement as a solution to the supply and demand imbalance in Europe and as preparing for an EU without the production limiting milk quotas after 2015. Based on the quality programme Arlagården, we are also in a position to help Mengniu and Chinese farmers improve the quality of locally produced goods, which will help feed 1.3 billion Chinese.

The agreement is expected to have a positive impact on our members' milk price because we can perform a far higher degree of processing of milk that will alternatively be sold in the global industry market where earnings have historically been lower.

Quality

Arlagården's emphasis on milk composition, food safety, animal welfare and the environment produces better milk quality, which in turn results in improved products, ultimately generating higher earnings. That is why Arlagården is an investment in the future. Arlagården is currently being extended into the United Kingdom and Germany.

Clean and safe dairy products are part of the ambition behind Arla's philosophy 'Closer to Nature™' and our goal of being the most natural and sustainable global company. In 2012, we also witnessed how this ambition creates value in multiple ways—for the business and for our partnerships and for relationships with third parties. We are committed to pursuing a more sustainable route and to document that Arla's growth will not take place at the expense of the environment and nature. Our growth and our solutions must be sustainable. Moreover, because our owners constitute the first link in the value chain, we—as a cooperative—have a very real opportunity to embed nature into the rest of the value chain. Additionally, Closer to Nature™ is about naturalness, reduced waste and improved resource utilisation.

With size comes responsibility

Market leadership and our prominent position in the dairy industry come with certain responsibilities. The more space Arla occupies, the more eyes will be focused on what we do. So, at this point, we need to show who we are and where we are going. It is about building confidence and exhibiting drive so we will be attractive to present and prospective co-owners, strategic partners, colleagues, customers, consumers and business partners. It is about strengthening innovation, so that we can meet the challenges that await us in our core and emerging markets. And it is about setting new standards for quality and conduct from cow to consumer.

2013 Outlook

The milk price is affected by factors that we cannot always predict or control. On the one hand, forecasts suggest that we are facing continued low growth in the EU from where most of our earnings are derived. On the other hand, markets outside the EU will experience growth. Russia, the Middle East and many of our smaller markets in the world have shown impressive growth rates, and this trend will continue in 2013. In China, we have some major work ahead of us. But our partnership agreement with Mengniu is a unique opportunity. The past year showed us that—when we really set our minds to it—we have the capacity to exceed our own expectations.

MAIN EVENTS OF THE YEAR

Arla's size and structure fundamentally changed in 2012. Arla is currently owned by 12,300 European members in six countries, who together will lift a business with global ambitions. We are in the lead in Denmark, Sweden and the United Kingdom, no. 3 in Germany, and are gaining a foothold in China one of the world's fastest growing dairy markets.

GERMANY

On 22 May, Arla published its plan of merging with one of Germany's 10 largest dairy companies, the cooperative Milch-Union Hocheifel (MUH), which has owners in Germany, Belgium and Luxembourg.

MUH's geographic location creates coherence for Arla in Germany with Hansa Arla Milch in the north and Arla Foods Käsereien, formerly Allgäuland Käsereien in the south. The merger is a natural extension of the business strategy introduced with the 2011 Hansa-Milch merger. The MUH merger will optimise Arla's capacity and purchasing in Germany. MUH's product range supplements that of Hansa Arla Milch, and the dairy's production facilities will strengthen Arla's other activities in Germany. MUH contributes to Arla's revenue with DKK 6 billion on an annual basis.

Of the members of Arla's board of representatives, 98.5% voted in favour of the merger on 26 June and the merger was approved by the competition authorities with effect from 1 October 2012.

UNITED KINGDOM

On 22 May, Arla published its plan to merge with the United Kingdom's fourth largest dairy company, the cooperative Milk Link. The merger with Milk Link ensures that Arla has access to raw milk in the United Kingdom and will add cheese as an attractive customer offering; the company is the largest cheese producer in the United Kingdom and exports cheese to more than 19 countries.

The United Kingdom is currently the biggest market with revenue of almost DKK 14 billion in 2012, excluding revenue from Milk Link. Following the merger with Milk Link, Arla will become the largest dairy company in the United Kingdom and a complete business with fresh dairy products, UHT milk and, as a new feature, cheese production. Revenue will be increased by nearly DKK 5 billion annually.

Of the members of Arla's board of representatives, 96.8% voted in favour of the merger on 26 June and the merger was approved by the competition authorities to take effect on 1 October 2012.

CHINA

On 15 June 2012, Arla signed an agreement to increase exports to China. Our goal is that we will have the capacity in a few years to export 600–800 million kg milk to China each year primarily in the form of value-processed products.

The agreement means that
- Arla is entering into an agreement with China Mengniu Dairy Company Limited for that company to disseminate the Arla® trademark to more Chinese consumers.
- Arla became an indirect co-owner of Mengniu with such entities as the state-owned COFCO, China's biggest food group.
- This venture involved an investment of approx. DKK 1.75 billion.
- Arla has established a knowledge centre for technology and quality, the China-Denmark Milk Technology Cooperation Centre in Beijing, based on the quality programme Arlagården, which will strengthen the Chinese dairy industry.
- In 2012 Arla's total sales in the Chinese market stood at approx. DKK 700 million. Combined, the new agreements are expected to increase Arla's total sales five fold in China in 2016.

EFFICIENCY IMPROVEMENTS

Arla is preparing for a future, highly competitive environment by analysing its business across all countries and product categories. Efficiency improvements in 2012 are designed to secure DKK 500 million annually in sustained savings by reducing complexity, consolidating knowledge and expertise and harnessing synergies of scale. Additionally, initiatives designed to save an additional DKK 2.5 billion over the next three to four years. The goal is to increase earnings by strengthening the organisation's flexibility and ability to act. We have achieved the savings planned for 2012, a total of nearly DKK 300 million.

We have also initiated efforts to free up funds for growth. Over the past two years, we have systematically worked on reducing the enterprise's funds tied up in working capital. Among other things, this has resulted in longer payment terms for external suppliers and shorter payment terms for customers. Both provide more disposable funds for the enterprise. In 2011, improvements of DKK 1 billion in working capital were realised and in 2012, an additional DKK 1.2 billion.

STRATEGY 2017—GLOBAL FOCUS AND NEW GOALS

Arla reached a number of milestones the past year. We created a strong platform for future earnings, and global developments opened up new opportunities for Arla. The Board of Directors and the Executive Management Group have therefore revised and extended the strategy. The key principles behind Strategy 2017 remain unchanged. But greater opportunities require a new lodestar.

Strategy 2015 has been a powerful driving force for Arla. We have stretched our targets and generated positive changes across the organisation, company management, the supply chain and our geographic structures. And they are changes that have manifested themselves in our approach to customers, innovation, marketing, efficiency and sustainability. Arla has been undergoing constant change in recent years, and everyone has understood the need to think creatively to achieve our strategic goals.

Even though two years remain of the Strategy 2015 term, we have reached a number of goals prematurely, among which was a significant increase in sales. Arla is part of the global dairy market, and in 2012 we were given a variety of new opportunities to shape the future of the dairy industry. We consequently had to adjust our strategy, in order to realise Arla’s potential and deliver the expected returns on our owners’ investments.

The most significant change in the revised Strategy 2017 was our increased focus on the Middle East and Africa (MEA), Russia and China. The strategy lays Arla's foundations for the expected growth in these markets, bearing in mind that Arla's finances will be conditional upon a strong performance in Europe.

Revised strategic ambition
As a cooperative, Arla’s value creation starts and ends on the farm. The raw milk comes from the farm, and the value-added processing of the milk is returned to the farmer. The greater the value, the brighter our farmers' outlook. They are willing to invest in their own milk production and therefore in the business. And this strengthens Arla’s opportunities for growth and earnings—and produces a higher milk price. It is therefore Arla’s ambition to become the world’s leading farmer-owned cooperative. A company the size of Arla must grow if it is to manage global competition for customers, employees and the commodity—the milk. Our revised strategic ambition sets clear local and global goals for Arla up towards 2017.

Develop the core
Arla's strategy is to release the potential of our leading positions across all markets. In the core markets, we will continue to develop our positions and become more sophisticated in how we approach the business. We need to realise cross-national synergies and strengthen the three global trademarks Arla®, Castello® and Lurpak®. We need to fire up innovation and strengthen our position as the global dairy company with the most natural products and the most sustainable approach from cow to consumer. Arla’s finances will also be conditional upon a strong performance in Europe going forward. We need to maximise value creation in the United Kingdom, Germany, the Netherlands and Finland and grow profitability in Denmark and Sweden.

Deliver growth
In 2015, the EU's milk quota system will be abolished and we expect that our owners will produce at least one extra billion litres of milk annually. Arla is unable to market this extra milk profitably within the EU but we expect a rise in demand from the growing middle classes in the profitable emerging markets. The aim of our strategy is to move our milk from Europe to those areas. Russia, China, the Middle East and Africa are key emerging markets where we will be investing in sales and marketing, local partnerships and the acquisition of local dairies and production facilities. The goal is for 20 per cent of Arla’s revenue to come from these markets in 2017. Currently, those areas account for approx. 10 per cent of Arla’s revenue. The growth will be sustained by categories that can travel further, i.e. more powder, butter, cheese and UHT milk, but also by specialised whey proteins for the food industry. We have a target of doubling sales for Arla Foods Ingredients over the next five years.

Faster, simpler and leaner
A precondition for Arla's success is an active focus on costs. In 2012, we therefore launched a number of ambitious cost and efficiency programmes with great potential. The programmes will simplify Arla's business model, streamline production and optimise processes and they are expected to contribute with total savings of DKK 2.5 billion before year-end 2015. This will ensure a competitive milk price for our owners, provide the organisation with leverage for further growth and generate synergies with the integration of MUH and Milk Link.

Strategic milestones for Arla 2008-2012

- √ Strong dairy company for +250 million consumers in Northern Europe
- √ Market leading positions and scale have been established in all core markets (No.1 in UK, SE, DK, No.3 in GE, No.2 in FI, NL)
- √ Consolidation has been rapid and access to raw milk has been ensured in Sweden, UK and Germany (Milko, Westbury, Milk Link, Hansa Milch, Allgäuland, MUH)
- √ Promising growth platform in place in China, impressive growth in Russia, very strong position in the Middle East
- √ Arla Foods Ingredients transformed into a strong global business
- √ Global leader in BSM and solid growth of Lurpak®
- √ Global Arla™ brand established – Closer to Nature™ position defined with a strong sustainability proposition
- √ Clear efficiency agenda throughout Arla Foods with ongoing works streams in various areas.

Vimmerby, Sweden

THE LEADING FARMER-OWNED DAIRY

Develop the core

Capture the benefits of leading positions and grow three major brands.

Deliver growth

Increase revenue from non-core markets by 20 per cent, move milk outside Europe.

Faster, simpler and leaner

Achieve cost leadership and strong execution with savings of DKK 2.5 billion.

SEVEN ESSENTIAL GOALS FOR 2012

2012 Targets	Attained	Result
1. Strengthen performance price relatively compared to our competitors. Target: Deliver competitive milk prices	DKK 2.71 in 2012 compared with DKK 2.81 in 2011. We are on par with our closest competitors.	
2. Low cost levels Target: Attain DKK 500 million in annual sustainable cost savings	Savings of nearly DKK 300 million were realised in 2012. The full impact of the efficiency programmes will be felt in 2013.	
3. Mergers and acquisitions Target: Major mergers/acquisitions in the United Kingdom, Germany and emerging markets	The Milk Link and MUH mergers entered into effect on 1 October 2012	
4. Germany as core market Target: Achieve a place among top 5	The MUH and Hansa mergers and the acquisition of Allgäuland have placed Arla among the three top players in Germany. Going forward, Arla's focus will be on emerging markets, especially in China.	
5. Growth in brands Target: Continue growth in global brands: Arla®, Lurpak® and Castello®	Arla is experiencing continued growth for its three global brands with total organic growth of 3.3 per cent. However, growth is lower than in 2011.	
6. Closer to Nature™ Target: Execute major activities in core markets	Activities across all core markets have been successfully executed. Closer to Nature™ is now part of our business approach and, going forward, will form part of our strategy and vision as a sustained ambition.	
7. IT Target: Maintain a stable IT operational environment	Arla focused on improving IT in 2012 and has made major progress. However, the work is not complete and will continue in 2013.	

SEVEN ESSENTIAL GOALS FOR 2013

2013 Targets

1. Arla performance price above our peer group

Target: Index 103–105

2. Bottom line top priority

Target:
Savings from efficiency programmes and improved scalability, total DKK 1 billion

3. Efficient integration of Milk Link and MUH

Target: Delivery according to business plans

4. Developing a Chinese platform for growth

Target: Double revenue in China

5. Increase volume and strengthen global trademarks and categories

Targets:
- 2–4 percent growth for Arla®
- 4 per cent growth for Castello®
- 6 per cent growth for Lurpak®

6. Strengthen balance sheet

Targets:
- Reduce working capital and free up DKK 1 billion
- Reduce gearing from 3.9 to approx. 3.5

7. Stabilise IT operations

Target:
- New IT strategy
- Improve the user experience
- MUH and Milk Link integrated with Arla's IT platform

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 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 a world in flux, 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.

Top to bottom

In 2012, the Seven Essential Goals were clearly focused on the top line with goals of mergers and Germany as the core market. It was a busy year with many new initiatives for generating growth and increasing earnings. We are well on our way toward the Seven Essential Goals in spite of the depressed markets. In 2013, we will be working on executing and realising synergies from our 2011 and 2012 acquisitions and mergers. For this reason, in 2012 we decided to change our focus from the top to our bottom line. This change is reflected in our goals for 2013, which maintain our focus on our working capital and on reducing the Group's gearing.

COST FOCUS

In 2012, Arla launched a number of ambitious efficiency programmes with the potential to deliver significant cost savings. Our rapid growth means that we need to find new ways of working and the capacity to identify and achieve synergies, exploit large-scale operations and reduce our cost per unit. Within three to four years, we must find savings of DKK 2.5 billion. The objective is to streamline Arla and equip our business for future competition.

It is Arla's mission to obtain the highest possible milk price for our farmers' milk. We are therefore constantly focusing on increasing earnings while keeping costs low to remain on par or ahead of our closest competitors. That is necessary for several reasons. Arla's European core markets are stagnant and competition is tough. Additionally, a greater share of Arla's earnings is now derived from private label or trading products where profitability is not as high as for branded products.

We will continue to make efficiency improvements to our supply chain through investments and Lean programmes. In 2011 and 2012, in order to make Arla's business more competitive, we have therefore implemented a number of major changes. To improve the organisation's speed and capacity to act, Arla must find savings of DKK 2.5 billion over the next three to four years within the following key areas:

1 – Lean and Operational Excellence (OPEX)
2 – Procurement (Total Cost of Ownership and Design To Value)
3 – Structural streamlining

In addition to achieving savings, the programmes are very much about simplifying our business model and ensuring clear lines throughout the organisation. Our goal is to consolidate corporate functions and avoid duplication of roles; and the results began to show in the second half of 2012. These ongoing efficiency improvements will lay the groundwork for further growth and contribute to a higher milk price.

Lean & OPEX
Arla's production facilities are getting ready for the efficiency programme OPEX, which is a natural extension of Lean. OPEX is about sharing knowledge across Arla. It is about creating a knowledge bank that gives us the capacity to share and exploit best practices across a variety of supply chain processes. OPEX benchmarks the various dairies, in order to identify the best methods of planning, removing production waste, reducing complexity and incorporating new technologies. Over the course of 2013, a best-practice catalogue of 200 descriptions will be generated against which each individual dairy can be measured and to serve as inspiration.

Lean is a precondition for OPEX. In other words, a dairy must have internalised the experiences and awareness of working with performance management and continuous improvements before OPEX can be rolled out. While Lean emphasises the structure of individual dairies, how they utilise knowledge and Lean tools, OPEX looks across dairies. OPEX will be launched in 2013 to realise the savings that accrue from operating our production better and more efficiently. The plan is to implement Lean at 12–14 dairies per annum, while OPEX will run at eight to nine dairies per annum.

Procurement
We plan to achieve DKK 500 million in savings by examining Total Cost of Ownership (TCO) and Design-to-Value (DTV) (for more information, see p. 46). TCO is about standardising and combining purchases from fewer suppliers. If, for example, we use fewer types of external packaging, fewer colours and few regular suppliers, we can achieve 15 per cent savings on a given expense.

Over the course of 2013 and 2014, we will be reviewing 100 different procurement areas, each of which has a savings target range of 15–20 per cent. Ingredients and packaging are the two biggest areas.

Streamlining measures
Arla is committed to growing and strengthening its competitive and efficient production structure. In 2012, we continued our production streamlining of yellow cheese. Producing this particular cheese is expensive and competition is tough. The goal is therefore to make production more profitable, which will be accomplished by closing our dairies in Klovborg and Hjørring in Denmark and Falkenberg in Sweden. We are concurrently investing in massive expansions of the Danish dairies in Taulov and Nr. Vium, where Arla will consolidate production of yellow cheese going forward.

Another example of restructurings benefitting both the business and the environment is the butter brand Anchor®, which is sold in the British market. Up until 2012, Anchor® was produced using frozen New Zealand butter shipped around the globe and repackaged at Varde Dairy in Denmark. Anchor® will now be produced at the Westbury dairy in the United Kingdom using British milk. Varde dairy will be closed as a result of this decision.


Slagelse Mejericenter
Denmark

Performance price

DKK 2.71

Milk volume

10.4 billion kg

Revenue

DKK 63 billion

Revenue growth

15%

Income

DKK 1.9 billion

Gearing

3.9

ORGANIC GROWTH AND EFFICIENCY IMPROVEMENTS

The annual report contains a number of positive news on organic growth outside the EU, successful streamling of its core business and rapid integration of new enterprises. Recent years have been characterised by major investments in Arla. Going forward, will be about realising returns on those investments for our owners.

Frederik Lotz, CFO

Arla's ability to generate earnings proves the strength of our business. However, Arla's ability to generate earnings proves the strength of our business. We had the capacity to grow and to increase our profit margin in several areas in 2012. 2012 was a year of much positive news. The most important was that underlying performance price showed a distinct upward tendency at the end of the financial year. This was primarily due to price increases in retail trading and savings obtained from the Group's rationalisation programmes. Arla's growth areas moreover showed increasing earnings.

Business

Revenue for the year stood at DKK 63 billion (DKK 55 billion in 2011). We realised revenue growth of approx. 15 per cent (12 per cent in 2011), largely driven by mergers and acquisitions in 2011 and 2012. The 2012 mergers are recognised under revenue as of October with a total of approx. DKK 2 billion. Organic growth represented 2.1% per cent (6 per cent in 2011), primarily driven by the emerging markets Russia at +28 per cent, the Middle East and Africa (MEA) at +22 per cent and our whey business division Arla Foods Ingredients (AFI) at +24 per cent. In most of the European market, growth was only slightly positive.

Russia, MEA and AFI not only produced positive revenue figures for the year; they also had the highest growth in earnings. The reason is that Arla now has established its position in Russia and the MEA—and earnings have followed. The success of AFI is based on high protein prices, which maintained their levels despite the 2012 decline in milk prices. Russia, the MEA and AFI are showing Arla's future potential in the emerging markets.

In 2012, we changed our emphasis from the top to the bottom line and introduced a number of efficiency improvement programmes. During the first half of the year, Arla introduced a programme that will bring about DKK 500 million in annual savings. After that, another programme was kicked off, which is expected to produce savings of at least DKK 2.5 billion over three to four years. These efforts will support the value creation taking place in pressured core markets by making production as efficient as possible. We will not see the full impact of those programmes until 2013. However, already in 2012, we have seen declines in marketing and capacity costs below 2011 levels and the savings seem to be sustainable.

As expected, results for the year stood at DKK 1.9 billion or 3 per cent of revenue. However, in spite of the market conditions, our major and targeted focus on efficiency improvements and our efforts to keep costs in check have left Arla with relatively good earnings during the year. The market recovered in the autumn—as we enter 2013—our momentum is positive once again. However, earnings are always lower at the start of the year and, as in previous years, we have therefore been forced to lower the milk price at 1 January.

Integration following mergers and acquisitions

As in 2011, mergers and acquisitions were first and foremost in 2012. It was the year when Arla's 2015 Strategy for German and the United Kingdom was realised three years ahead of Schedule. The businesses introduced in 2011 have been integrated, and the first critical steps were taken toward successfully integrating MUH and Milk Link so that they can be linked to Arla's systems and the global organisation efficiently and rapidly. The goal is to drive synergies and seek savings. New colleagues must be placed in their proper professional communities and introduced to our standardised processes so we can create ONE Arla. That is the reason we are working intensively with employee development, talents, management and performance.

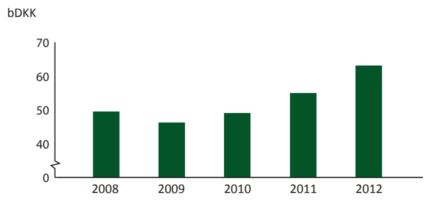
By merging with Milk Link, we are now no. 1 in the United Kingdom while MUH—aided by Arla's other positions in Germany—will establish that country as a consolidated core market and form the basis for sending more milk out of Europe.

Our China agreement is a forward-looking initiative intended to move members' milk from Europe to China's growing middle class in the long term. The products are being exported to and expectations are high. Mengniu and COFCO are the right partners for us to succeed in China. The investment has been recognised as a financial asset as an associated enterprise but also resulted in debts of DKK 1.75 billion. It is an asset that will be built up over the comming years through exports from Arla.

Working capital and debts

Arla must maintain its good credit worthiness, especially with an general economic climate in crisis. For this reason, debt and tied up funds across the enterprise are central priorities for the business. The debt rose in 2012 because of the investment in China, the year's other investments, and debts assumed in connection with mergers. Additionally, pension obligations increased through mergers and as a result of declining interest rate levels.

REVENUE DEVELOPMENT OVER 5 YEAR



Our investments, which increased gearing in 2012, were made with our eyes wide open: They were excellent opportunities that needed to be exploited. Also, we had robust support from our financial investors. However, with the debts incurred this year, we have reached a level where we need to realise synergies and ensure a strong cash flow in order to reduce our gearing.

Gearing at year's end stood at 3.9 compared with 4.5 at 30 June 2012. Our target range is 2.8–3.4. Arla is totally committed to reducing the gearing and to maintaining its good credit worthiness with the banks. We are dedicated to reducing the gearing by, for example maintaining a sustained focus on reducing funds tied up in working capital. Also, the financial ratio for 2012 was impacted negatively because we still do not have a full year's earnings on our investments.

The working capital was high on the agenda in both 2011 and 2012. Therefore we have worked systematically on reducing Arla's funds tied up in working capital, in order to free up capital. In 2011, we implemented a payment policy designed to increase financing from trade payables, and in 2012 we optimised the process relating to customer payment terms, in order to reduce funds tied up in receivables. The impact of these efforts is estimated at approx. DKK 2.2 billion for the period. In aggregate, operating cash flows were better than in 2011 because of improved results (*cf*. our target of 3 per cent) and improvements in the working capital.

Compliance

Strong financial management is the foundation for sustainable growth. These years, we are in the process of changing the way we manage and developing our business. We need to maximise the benefits from the assets our owners have hired us to handle. We are focusing on constant improvements, stretching our targets and challenging existing structures.

As a result of this thinking, Arla is currently working on implementing an even more secure and efficient control culture. Our internal control measures will be adapted and updated in line with the rapid growth and development of the business. It is an area that deserves attention in a business with global ambitions. We are already seeing significant progress with the tone being set by Arla's top management. A new programme has been launched to ensure implementation of finance policies, global minimum controls and processes that can reduce bureaucracy and increase transparency.

2013 Outlook

We are expecting to reach revenue levels near DKK 72 billion in 2013. The year's results are expected to be 3 per cent of revenue, corresponding to DKK 2.2 billion. Based on our present market outlook, our ambition is to deliver a performance price that exceed 2012 earnings levels.

Even as we continue to train the spotlight on our European core markets, Arla will expand its activities outside Europe to exploit growth opportunities—also beyond China, the Middle East and Russia where we have already established strong positions. We are expecting a sharp rise in demand in the world's emerging markets which we expect will utilise our increasing milk volume in Europe.

EXPECTATIONS FOR 2013

Performance price

DKK >2.71 per kg member milk

Milk volume

12.5 billion kg

Revenue

DKK 72 billion

Revenue increase

16%

Income

3% ~ 2.2 billion DKK

Gearing

3.5

Pronsfeld, Germany

CORPORATE SOCIAL RESPONSIBILITY (CSR) —WITH SIZE COMES RESPONSIBILITY

Arla currently has the scale and resources to make a difference for people and the environment in our markets. Our vision sets out a sustainable way forward. Our goal is to operate our business with respect for and in harmony with our surroundings.

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

Arla has truly become part of the global dairy market. New opportunities have opened up for us to shape the future of the industry and the dairy products an increasing number of people around the world choose to make part of their daily lives. With greater size comes greater responsibility. The bigger we are, the more we want to set and drive the agenda for healthy and safe foods and technology—an agenda that benefits both the environment and production efficiencies. An agenda that increases our stakeholders' trust and confidence in us.

Each market means new demands, new opportunities and new types of responsibility. The environment knows no borders and consumers shop both globally and locally. Arla balances on this global-local axis every single day—we must respect both local developments while also be able to maintain our global perspective. We face the world with respect and the understanding that each new market is a new reality that requires new navigational tools.

Our responsibility—Arla Foods' Code of Conduct

We are dedicated to being an active team player in the local communities where we do business. It is of great importance to Arla that the outside world understands our views and knows what to expect of us. We need to show that we are willing to assume responsibility for the environment and the people we touch. We need to build confidence, show initiative and set new standards for quality and conduct from cow to consumer, so that we can solve the challenges and embrace the opportunities that will inevitable come our way.

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

Our CSR report provides a detailed description of how, throughout the year, we work with 11 different areas from business principles to human rights. You can download this year's CSR report at our website.

Executive Board in the forefront

Arla has established a CSR committee where matters relating to ethics and the development of proper conduct are discussed. Peder Tuborgh, our CEO, chairs the committee and thereby anchors responsibility for CSR in Arla's top management.

CSR is a task we take very seriously. However, we must also accept that we will never reach 100% perfection. There will always be new challenges that need to be addressed and managed.

Closer to Nature™

Our consumers expect that we remain accountable to nature across the entire supply chain. As a cooperative, we are in a unique position to incorporate nature from cow to consumer—our owners represent the first link in the chain.

loser to Nature™ is a corporate philosophy that obligates Arla to ensure that our products are as natural as possible, that our milk is produced at farms in harmony with nature, and that Arla's own processes have minimum impact on nature and the environment. We have defined a number of long-term goals for our Closer to Nature™ activities and we sum up our activities from all our business units and functional areas.

A couple of examples from 2012: In Denmark, Arla launched an initiative to reduce food waste. In several locations, efforts are underway to reduce energy consumption. In Finland, sales of organic products have increased and knowledge of Arla's efforts been disseminated through our introduction of a new organic product line. In the Netherlands, we have introduced innovative drinking yoghurt sweetened with the plant-based sweetener stevia; and in the United Kingdom and Germany, a number of Arla initiatives are inspiring children to seek out and use nature.

Arla's 2020 Environmental Strategy
In 2011, we adopted an ambitious environmental strategy to involve our members in how they can achieve even more sustainable milk production. This strategy also ensures that we will transition to sustainable energy sources, save water and energy, reduce waste and work with packaging development.

Exporting Arla's quality philosophy
In the spring, COFCO—principal shareholder of China's biggest dairy, China Mengniu Dairy Company Limited—designated Arla as new co-owner of Mengniu. The quality programme Arlagården was a contributing factor to choosing us. Chinese companies would like to benefit from our expertise and experience and we are now being given the opportunity to contribute to improving milk quality among China's farmers. The Chinese will be drawing on our experience within the areas of ensuring high milk quality, traceability and controlled milk production in farms. That is a big pat on the back of the thousands of Arla milk producers who are part of the quality programme Arlagården on a daily basis.

Whistleblower service—a new option
In 2012, Arla's CSR committee took the initiative to establish a whistleblower programme that will provide colleagues with yet another option to react if they see managers or colleagues violating our Code of Conduct or other policies.

For deviations from Arla's Code of Conduct, policies or local laws or regulations, colleagues can now also submit an anonymous report by phone or via a website available in 12 languages. People can choose to remain anonymous and the report cannot be traced back to the reporting person's computer. The new service will help ensure that we can all be proud of what we are accomplishing at Arla.

CORPORATE SOCIAL RESPONSIBILITY (CSR) HOW WE MEET OUR RESPONSIBILITIES

Social responsibility is part of Arla's DNA. That is why, for many years, we have maintained high standards for natural products, the environment, the climate and food safety. It is a conviction that creates value—also for our business. It is therefore only natural that we would commit ourselves to constant improvement. We combine tradition and world-class innovation and incorporate nature into the entire chain from cow to consumer.

Responsible company

You can operate a profitable business that is ethically responsible and retain your integrity. However, it requires expertise, willpower and hard work.

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

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

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

Market conduct
We communicate openly, act responsibly and carry on an open dialogue with customers and consumers to deserve their trust.

Confidence in products

Product safety is Arla's highest priority. We are currently exporting this philosophy of quality to China. We want to enable consumers in all markets to make informed choices about healthy products.

Food safety
We have an obligation to ensure that consumers do not get sick or are harmed by eating and drinking our products.

Nutrition and health
We are committed to meeting our consumers' demand for healthy products and reliable nutritional information.

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
Our ambition is to reduce our environmental impact from cow to consumer through food production and transportation of goods to contribute to sustainable development.

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.

Respectful relations

Arla touches people, organisations, communities and countries. Our goal is to build long-term relationships with all those points of contact.

Workplace
We will strengthen Arla's culture —Our Character—which specifies what Arla is and what we stand for across our colleagues' historical and cultural backgrounds.

Community relations
Through our business activities, we are committed to engage with broader social questions and to contribute to social development.

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

POLICIES AND RESULTS

Arla's policies and principles are set out in Arla Foods' Code of Conduct. In the following, we are showing a number of examples of the principles, activities and objectives within our four key areas. Read more about the year's CSR report at https://csr2012.arlafoods.com.

Responsible company

Policies and principles:
- Arla Foods' Code of Conduct helps us always to exemplify good business practice.
- Arla does not accept the use of bribery.
- Arla exclusively enters into contracts with suppliers that comply with local laws and respect the requirements set out in our Code of Conduct for Suppliers.

Activities and results in 2012:
- A new whistleblower programme strengthens options for reporting deviations.
- Arla has 930 preferred suppliers approved by Global Procurement. Of these, 85 per cent have signed our Code of Conduct for Suppliers. In 2012, we have carried out 60 audit inspections on the premises of various suppliers.

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

Policies and principles:
- Arla will contribute to the health and wellbeing of consumers in all markets.
- We use Hazard Analysis and Critical Control Point (HACCP) to evaluate and control food risks throughout the entire chain.
- Arla's ambition is to produce dairy products for everyone—also those on special diets.

Activities and results in 2012:
- Arla and Mengniu's knowledge centre—the China-Denmark Milk Technology and Cooperation Centre—opened in China.
- A new groundbreaking screening method with the capacity to detect foreign substances in milk was presented. The method is expected to contribute to increasing food safety in China.
- Arla Foods Ingredients developed new whey-based products that, among other things, can be used to restore muscle mass after disease.
- In 2012, 69 per cent of Arla's production locations were certified under the ISO 22000 Food Safety Standard.
- There were six product recalls.

Objectives:
- Arla will transition to the new FSSC 22000 Food Safety Management System Standard, the successor to the ISO 22000.

Care for the environment and animal welfare

Policies and principles:
- The 2020 Global Environment Strategy comprises products' total life cycles from milk production at the farm to consumer's handling of packaging and food waste.
- The quality programme Arlagården focuses on the composition of milk, food safety, animal welfare and the environment.

Activities and results in 2012:
- Updates to Arlagården.
- Investment of DKK 133 million in eco-friendly and energy-saving initiatives, among other things, using excess heat and biogas plants.
- Optimisation of routes for the collection of milk and shipping of goods to save fuel.
- Groundbreaking ceremony for the fresh milk dairy Aylesbury outside London, which will be Arla's biggest and CO_2 neutral.

Objectives:
- To reduce CO_2 emissions for the dairy business by 25 per cent before 2020 compared to 2005 levels
- To reduce energy consumption by three per cent a year until 2020, with half of the energy consumption derived from sustainable energy sources.
- To help consumers reduce food waste

Respectful relations

Policies and principles:
- Our responsibility—Arla Foods' Code of Conduct
- Human rights—Responsibilities and obligations
- Our Character: Lead, Sense & Create
- Diversity Strategy

Activities and results in 2012:
- Arla grew by 3,000 employees and 4,000 owners in 2012.
- The diversity agenda was driven by recruitment and management training.
- The employee survey (Barometer) covered 14,000 colleagues in 29 countries with responses submitted in 16 different languages. The response rate was 88.2%
- Arla joined a number of partnerships relating to sports, outdoor activities and charity.
- 150,000 people contacted our consumer service.

Objectives:
- That all colleagues comply with Arla Foods' Code of Conduct
- That all colleagues thrive and are engaged. That there will be no work-related injuries and no harassment.
- Increased consumer confidence.

COOPERATIVE STRUCTURE

In 2012, Arla had 19,000 employees across 30 countries and 12,300 milk-producing owners in Denmark, Sweden, Germany, Luxembourg, Belgium and the United Kingdom. Together, they point to the cooperative model as the business form of the future. Why? Because it is the model that provides the best care for the company's financial interests and therefore also those of its owners. As a cooperative, Arla is covered by special rules relating to participatory democracy, value allocation and taxation.

Cooperatives operat according to a special ethos. Arla is formed of milk producers and tasked with buying, refining and selling its members' milk. The members are not only owners of Arla; they are also its suppliers. And this is the strength of the cooperative: It is a long-term, mutually binding partnership. Owners are obligated to supply milk, which provides Arla with security of supply. Conversely, Arla is obligated to accept the milk. That provides owners with the security that they will be able sell their milk at the highest possible price. Contrary to the objective of limited liability companies, the goal of cooperatives is to pay suppliers as high a price as possible for their products. Arla creates value for its owners by being a safe sales channel that settles the milk purchase optimally. The owners' returns come in the shape of both an on-account price, which is presented as a cost, and as an additional payment and corporate consolidation. The Arla performance price is therefore Arla's ultimate performance indicator.

More owners at the same terms
As a cooperative, Arla complies with a number of fundamental democratic and unifying principles. In principle, each member has one vote—regardless of that member's volume of milk supplied to Arla. Moreover, Generally, all members receive the same price for their product—regardless of the country of production.

Following 1 October 2012 approval from Arla merged with MUH and Milk Link welcome owners in four countries. Effective 1 October, the new owners received the same on-account price for their milk as existing members. The price is set in Danish øre and translated into the relevant currenies All owners also receive the same information via *Owner Update*, which in 2012 was published in Danish, Swedish, German, English and French.

Even though Arla's owners are on the same footing, they are nonetheless subject to different cost structures and political business regulations. These are factors outside Arla's control. At the 2012 end, there were six different interest rate levels and six different prices for animal feed, while all owners received the same milk price across the various countries.

The many new owners strengthen Arla while, of course, also increasing the level of complexity. We are therefore faced with the challenge of consolidating the new owners and companies into ONE Arla. That requires paying special attention to communication, training and coordination.

Cooperative structure reviewed
With the many new cooperative members in 2012, Arla had to step back and appraise its democratic structure. We need to ensure that Arla will have the ability going forward—to remain a cooperative with up-to-date and well-structured decision processes, where owners are properly represented and dedicated to Arla's future. At the meeting at the Board of Representatives in October, Arla's Board of Directors presented a proposal for slimming down the Board of Directors and creating a number of national councils that will function as subcommittees to the Board of Directors. The objective of this exercise will be to ensure, among other things, that our national and global perspectives remain balanced.

On the road to a new democratic model

The process behind a new democratic model in Arla is in full swing.

October–December 2012
New democratic structure debated by elected representatives and members.

January 2013
Arla's Board of Directors proposed a new democratic structure seeking input from the various countries. This applies to the Board of Directors, the Board of Representatives, national councils and national reorganisation across e.g. areas, regions and constituencies. Proposal for altering the Articles of Association.

February 2013
Discussions in regions regarding draft articles. Board of Representatives vote on a new democratic structure (altering the Articles of Association).

March 2013
Membership meetings—representatives are elected to the various Arla forums (but not the Board of Directors).

May 2013
Meeting of the Board of Representatives with elections to Arla's Board of Directors. Then, constitution of the Board of Directors.

Arla's governing bodies
The democracy of a cooperative is more participatory than that of a limited liability company; and all of Arla's members have historically had an influence on the organisation's management.

Every other year, elections are held for Arla's Board of Representatives, Arla's chief decision-making body. It has 179 members, of which 169 are cooperative members. The Board of Representatives comprises 85 members from Denmark, 60 from Sweden, 14 from Germany and 10 from the United Kingdom, as well as 10 employee-elected board members from Arla's workplaces in Denmark and Sweden. The Board of Representatives convenes at least twice annually.

Arla regularly invites all newly elected representatives to participate in a two-part introductory programme, which consists of a general introduction to Arla and a mentor scheme in which individual newly elected representatives are assigned a mentor from a different member country. After the 2013 elections, a new round of mentor programmes will kick off in which mentor pairs will visit each other's farms to learn more about the conditions of Arla's farmers in other countries.

The Board of Representatives appoints members to the Board of Directors, which is Arla's top executive body. The Board of Directors are responsible for the organisation's overall strategies and for ensuring that Arla is managed in its owners' best interest. In 2012, the Board of Directors comprised 20 milk producers: Eight from Denmark, seven from Sweden, two from the United Kingdom and three from Germany. Arla's Board of Directors also includes four employee-elected representatives, two each from Denmark and Sweden.

Focus of Board of Directors
The Board of Directors maps out Arla's strategic course and is responsible for decisions related to long-term strategies, major investments, mergers and acquisitions as well as the planning and recruiting of top management. The Board also focuses on the delivery of Arla's goals. It allocates supervisory duties; it ensures that Arla remains a business that adheres to the course mapped out; that it generates results by following up on past investments; and that it meets current challenges proactively by supervising ongoing efficiency and cost-control programmes.

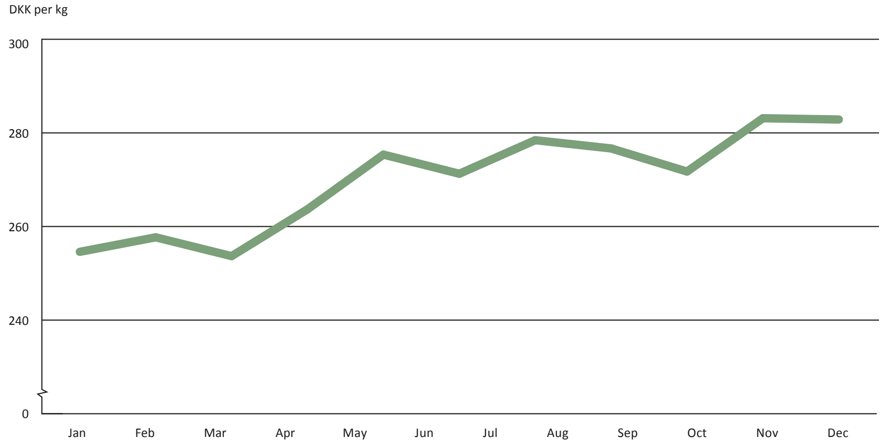
The Board's primary task is to keep the milk wheel turning and the milk prices up by ensuring that the business is constantly growing. Arla must always have the capacity to match customers and consumers globally with volume as well as processed products.

In 2012, the Board put a special focus on mergers, Arla's investment in China and the updated strategy. It also engaged in a lively discussion with general members regarding Arla's performance. It was a dynamic dialogue characteristic of a vibrant cooperative and democracy—and one that will become even more crucial now that we have owners in six different countries.

Corporate structure
Arla's parent company Arla Foods amba has headquarters in Denmark. The Company has a branch in Sweden whose sole purpose it is to weigh in deliveries from Arla Foods amba's Swedish members for milk resold to Arla Foods AB. In addition, Arla Foods amba has numerous subsidiaries in other countries, as indicated in the Corporate Overview.

ASSET ALLOCATION AT ARLA

ARLA PERFORMANCE PRICE FOR THE YEAR



The Arla performance price fluctuates throughout the year. It is typically low during the first half of the year and higher during the second. It is naturally also highly dependent on the global market milk price.

Arla's primary obligation is to pay its owners the highest possible price for their milk by value processing and selling their milk. Over the years, Arla has developed a settlement model based on the cooperative concept of equitable allocation. It covers a number of models and parameters developed especially for calculating the price of members' milk.

For the individual farmer, it is important that his or her milk is picked up and paid for on time. That creates stability on a day-to-day basis. However, market fluctuations mean that you cannot always plan ahead. So, the cooperative structure provides Arla's farmers with a mutually obligating community designed to ensure that they will have their products sold at the highest possible price.

Performance targets and consolidation policy
Arla's performance target is 3 per cent of annual revenue. However, the Arla performance price fluctuates throughout the year: it is typically lower during the first half of the year and higher during the second, which necessitates regulation of the on-account price of milk. Additionally, the performance price is also highly dependent on the global market milk price. The Board of Representatives have adopted the following consolidation policy:

- Arla's consolidation should be 4.5 per cent of the Arla performance price.
- Arla's consolidation will generally be allocated with one-third for individual consolidation and two-thirds for corporate consolidation.

Milk price developments
Milk drives Arla's earnings and capacity for innovation, product development, branding and efficiency. However, earnings are also a precondition for being able to attract more owners and more milk. The Arla performance price is therefore Arla's ultimate performance goal.

The Arla performance price covers the Group's total earnings; and those include the portion that is disbursed to owners on an ongoing basis, additional payments and corporate consolidation. Arla's milk price is always influenced by the global market price, which in June and July 2012 was very low. That is why the Arla performance price for 2012 was below 2011 levels; however, Arla performed on par with our closest competitors during the year. Over the course of 2012, we defined a peer group of our closest competitors: DMK and a basket of general German dairies, Royal FrieslandCampina and Dairy Crest.

The Arla quotation covers the same components as the Arla performance price and is calculated based on standardised milk.
These were the movements in 2012:

- Over the summer, the price lowered because of the decline in global market prices.
- We saw a relatively high Arla quotation during the first months of the year in relation to the Arla performance price, i.e. during these months, Arla's results were 3 per cent below revenue.
- There were price increases in November and December.
- At year-end 2012, the Arla quotation was on par with year-end 2011.

Glossary

The Arla performance price represents total income per kilo milk for a specified period (normally one year). It is calculated based on two key factors: The paid price for milk (average on-account price standardised at 4.2 per cent fat and 3.4 per cent protein and additional payment) and total consolidation - calculated per kilo of member 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 it specifies Arla's present, highest milk price (based on the delivery of 5,000 tonnes of milk per year). In addition to the on-account price, it includes additional payments and consolidation. The quotation is denominated in Danish kroner (DKK) per kilo of milk (which is then translated into SEK and 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.

On-account price
The on-account 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 composition of fat and protein. This payment is made every other week to owners.

Additional payment is the share of income paid out to owners by year's end. Additional payment is calculated as a percentage of every single member's additional payment-entitled value. This corresponds to the value of the raw milk as well as the quality settlement.

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

Individual consolidation on ownership certificates. Before 2010, individual consolidation was deposited into a delivery-based ownership certificate representing the individual member'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 member in question decided to leave the cooperative. (To be approved by the Board of Representatives.)

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

Corporate consolidation remains in the enterprise to ensure that it maintains sufficiently strong capital resources to finance future growth.

COOPERATIVE TAXES

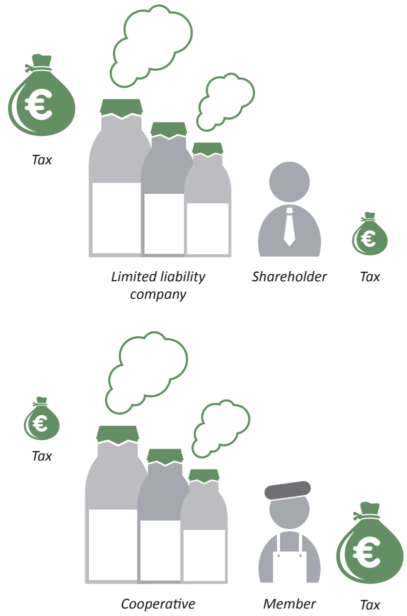
Arla is a cooperative company with headquarters in Denmark. Our activities are therefore governed by Danish tax rules for cooperatives, which take into account the basic principles of the enterprise. When the owner of an enterprise is also its supplier, earnings end up with the owner in the form of the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

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

That means that members, as opposed to shareholders, pay income tax on distributed earnings under the rules that apply in the six countries in which Arla has owners. That also means that Arla Foods amba pays income tax based on its assets (equity)—retained profits kept at a minimum because, in principle, the funds belong to the owners. This income tax can be viewed as interest on the tax of the portion of earnings retained in the enterprise.

Arla Foods amba has a number of subsidiaries in Denmark and other countries. When these are limited liability and private limited enterprises, they are subject to regular corporate taxation—just like all other such enterprises. Arla complies with all applicable tax rules that govern our activities.

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



We pass on our earnings to our owners who are also our suppliers. That is why Arla's earnings are primarily taxed with the individual farmer instead of the company. That is the basic difference between a cooperative company and a limited liability company.

ORGANISATION

The dairy industry is changing ever faster and Arla needs a flexible and adaptable organisation with the capacity to adjust and function in a world of constant flux. That requires a simple and transparent organisational structure that is easy to understand from both the inside and outside. An efficient organisation requires that local and global perspectives be balanced optimally. At Arla, that capacity is provided by our four central management levels, which map out our course and ambition levels across Arla.

The increasing external complexity in which Arla plays a part also affects our internal structure. Management in a matrix organisation with activities and employees in more than 30 countries is a daily challenge. Balancing global and local considerations has become part of life at Arla, and such considerations offer as many opportunities as challenges.

Arla's global activities increase the need for managers and employees to communicate and cooperate. At top level, this task is handled by four central governing bodies whose task it is to adopt a bird's eye view and dismantle traditional information silos and balance individual areas of responsibilities.

This structure ensures that we maintain our local focus in business-facing areas while retaining our capacity to share knowledge and exploit synergies globally across the organisation.

Executive Management Group (EMG)
The duty of Arla's top management is to ensure our proper, long-term growth in a global environment and to drive corporate strategy by following up on the year's goals. This is where the contents of ONE Arla are defined; where decisions are made regarding activities and resource allocations across geographical areas and functions; and where the Group's ambition level is defined for such cross-disciplinary efforts as Closer to Nature™ and social responsibility. The EMG convenes at least 11 times annually.

Business boards
Arla's business boards function as the executive boards for the individual business units. This is where the strategic development of the business groups is managed; where performance dialogue is conducted; and where ongoing activities are discussed to help move the respective units closer to their goals. No strategic efforts are initiated in Arla's business groups, unless they have the support of a business board. The corporate functions are represented across the various business boards, since the members of Arla's top functional management serve on all the boards. Business board meetings are held four times a year.

Business areas
The business groups are Arla's executive bodies. This is where strategies are executed and competitive advantages are built. The business groups focus on ensuring that we have an effective supply chain and a results-oriented market-facing business. These areas target organic growth and growth through mergers and acquisitions. Additionally, they focus on customers and consumers in the markets in which they operate.

In the business groups, executive team meetings are held monthly or as needed.

In addition to market-facing business groups, the organisation has four cross-disciplinary corporate functions: Corporate Supply Chain, Corporate Affairs, Corporate Human Resources and Corporate Finance & IT.

Functional boards
Functional boards are interdisciplinary, coordinating forums that create transparency and chart one course for the entire organisation. 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. Functional boards meet four to six times a year.

EXECUTIVE MANAGEMENT GROUP

EXECUTIVE BOARD

Peder Tuborgh
CEO

Povl Krogsgaard
VICE CEO

OTHER EXECUTIVE MANAGEMENT GROUP

Frederik Lotz
EXECUTIVE VICE PRESIDENT / CFO

Ola Arvidsson
EXECUTIVE VICE PRESIDENT / CORPORATE HUMAN RESSOURCE

BUSINESS BOARD	BUSINESS GROUP
GCO **Jais Valeur /** *EXECUTIVE VICE PRESIDENT*	Global Categories & Operations
CIN **Finn S. Hansen /** *EXECUTIVE VICE PRESIDENT*	Consumer International
CUK **Peter Lauritzen /** *EXECUTIVE VICE PRESIDENT*	Consumer UK
CSE **Christer Åberg /** *EXECUTIVE VICE PRESIDENT*	Consumer Sweden (and Finland)
CDK **Peter Giørtz-Carlsen /** *EXECUTIVE VICE PRESIDENT*	Consumer Denmark
CGN **Tim Ørting Jørgensen /** *EXECUTIVE VICE PRESIDENT*	Consumer Germany & Netherlands
AFI* **Henrik Andersen** / *CEO*	Arla Foods Ingredients

* Subsidiary
** Not part of EMG

FUNCTIONAL BOARDS

FINANCE BOARD

CHAIR: Frederik Lotz

PURPOSE: Drive, review, and identify key finance and IT priorities. Secure compliance with corporate policies. Provide resolution between Business Groups, Corporate Centre and Global Business Services.

KEY TASKS: Optimisation of the service delivery model. Business standardisation—conversion cost, aligning operational and financial forecasting. Effectively drive the people agenda towards 2015 (attracting, developing and maintaining people). Ensure integration of IT systems and deliver transition to new vendors.

SUPPLY CHAIN BOARD

CHAIR: *Povl Krogsgaard*

PURPOSE: Define and develop supply chain policies and tools within Operations across all product categories, procurement and efficiency programmes. Drive, review and make decisions on key functional development priorities in line with corporate priorities and standards.

KEY TASKS: Define, monitor and follow up on key operational KPIs within the full supply chain: Procurement, Production, Distribution and Warehouse operations. Define and execute lean, OPEX programs and structural development.
Set and execute CAPEX standards and follow up on investment projects.

INNOVATION & MARKETING BOARD

CHAIR: Jais Valeur

PURPOSE: Develop and align cross marketing and innovation excellence. Align innovation platforms across Arla.
Align and commit to top 20 innovation projects at Arla. Share/drive best practice, capability building, and KPIs. Fact-based allocation of marketing spend (80/20 target).

KEY TASKS: Define global policies. Drive functional efficiency. Develop functional capabilities.

HUMAN RESOURCE BOARD

CHAIR: Ola Arvidsson

PURPOSE: Drive, review and identify key development priorities in regard to strengthening and securing the delivery of the corporate ambition. Secure compliance with corporate policies. Provide resolution between Business Groups, Corporate Centre and Global Business Services.

KEY TASKS: Define and follow up on functional strategy delivery. Identify development areas and countermeasures for decision making in EMG. Define overall HR policies and systems at Arla. Prioritise HR systems investments and ensure Corporate Culture alignment across the business. Ensure there are adequate plans in place for top talent. Leadership capability development.

RISK MANAGEMENT: OPPORTUNITIES AND THREATS FOR ARLA

Risk management traditionally deals with what might go wrong in a complex business and how to steer around potential challenges. However, sometimes the biggest risk may be to overlook an opportunity for growth or development. Arla’s range of opportunities is growing and, in our assessment, a 'no' can sometimes entail as much risk as a 'yes.' That is why our risk exposure profile contains both opportunities and threats.

As Arla grows so do the risks and opportunities to which the Group may be exposed. Some risks can be circumnavigated. Others are necessary and should be assumed with one's eyes wide open: sometimes not taking a certain course of action poses the greater risk.

As Arla’s production, sales and employee platforms are growing and investments move further away from home, the need for risk management increases. Some risks can be difficult to manage because they are outside our control while others can be more easily handled in out internal control system.

Management is responsible for managing risk and it is component at all corporate levels. It is the duty of the Board of Directors to ensure that the business is managed soundly, to assess the magnitude of various risks, and to ensure that the business is prepared to handle unintended events.

Our Code of Conduct shows the way forward

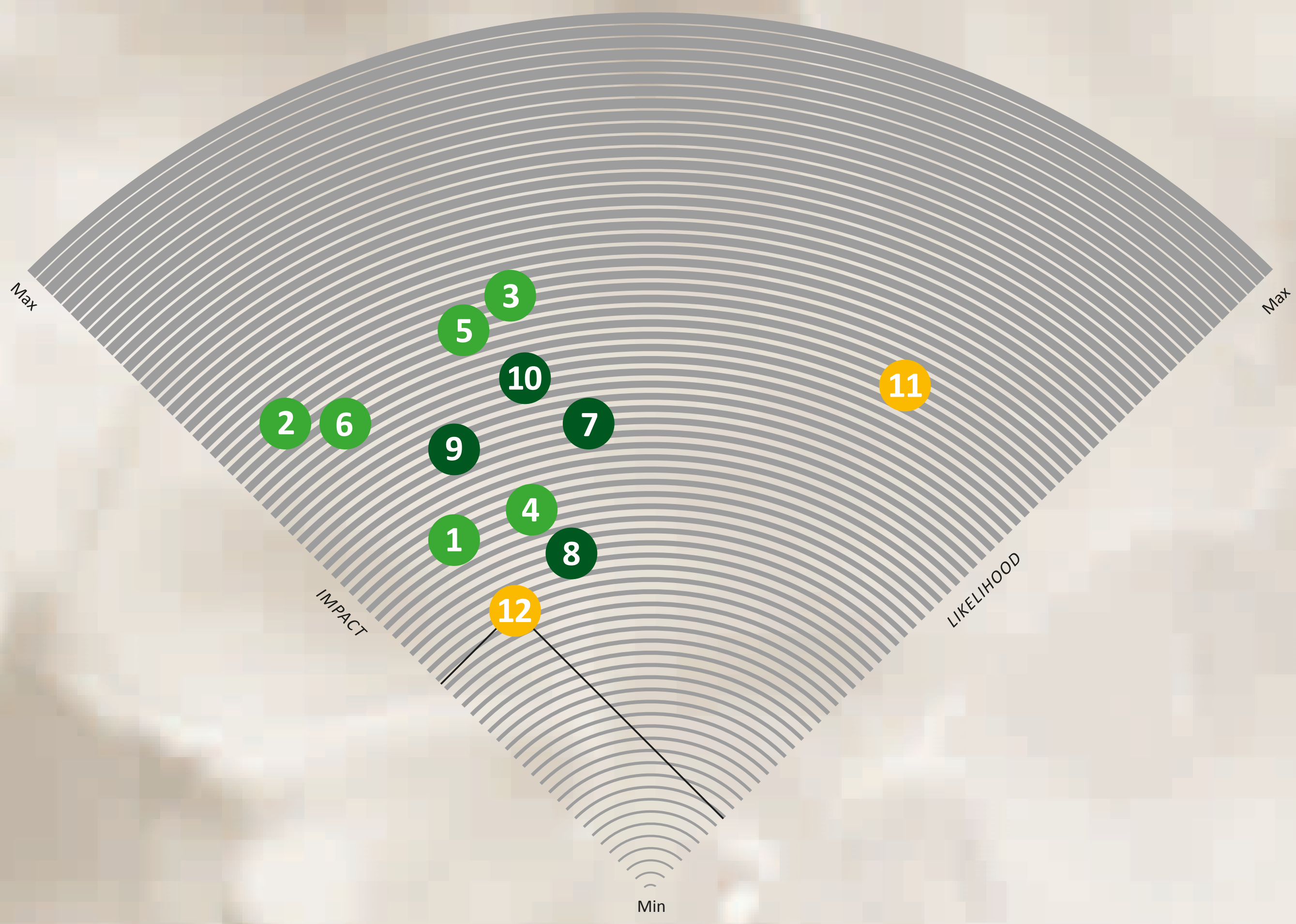
Arla’s ambition is to exploit the global opportunities that exist, and we are not afraid of the risks that accompany our widening range of opportunities. However, we also know that bigger seas require more sophisticated vessels and navigational tools. Ethical and proper conduct is defined in Arla Foods’ Code of Conduct, which provides a critical shared framework for our operational activities and for how we, as a Group, should act in a complex world. We prioritise training our employees in our Code of Conduct and in handling the many challenges that accompany our global presence.

Risks at three levels

Arla’s risk profile is divided into **strategic**, **operational** and **financial** risks. Strategic risks are the risks that can prevent us from fulfilling our strategic ambitions. Operational risks are closely associated with our business function and may impair earnings in the short term, while financial risks are limited to financial matters and financial reporting.

Risks on the radar

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.



Strategic risks

1. Supply security and production capacity
2. Innovation and value creation
3. Economic and political developments
4. Mergers and acquisitions
5. Culture and reputation
6. Talent/Human resources

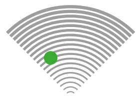
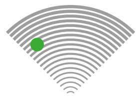
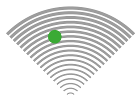
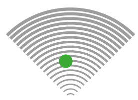
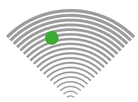
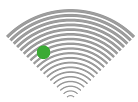
Operational risks

7. Competition and market developments
8. Quality and food safety
9. Legislation and other regulatory requirements, including EU and competition law as well as taxes and fees
10. Information technology

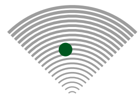
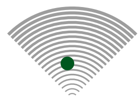
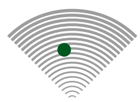
Financial risks

11. Foreign exchange rates, liquidity, pensions, etc.
12. Risks related to the presentation of the accounts

Strategic risks

RISK	*DESCRIPTION*	*PRECAUTIONS AND RELATED OPPORTUNITIES*	*IMPACT/ LIKELIHOOD*
1 **Supply security and production capacity**	Farmers’ financial situation (interest rate levels, feed prices, etc.) affect demands related to milk prices. Arla needs milk to continue growing and is obligated to purchase the output of its members. In 2015, milk quotas are expected to be eliminated in the EU, which means that there will no longer be any restrictions on how much milk producers can produce. A gradual increase in milk weigh-in is therefore expected across all core markets. In order to maintain and increase Arla’s profitability, it is important that we have the capacity to add value to the processing of the increased milk quantity.	Attracting members and milk depends on obtaining a good milk price. Arla’s top goal is to ensure that this happens. For a long time, Arla has streamlined its production system and made investments in production facilities that can handle the expected rise in milk quantity. Additionally, new sales opportunities are being created for the milk in Arla’s emerging markets, which can contribute to value creation and to moving milk outside Europe where the supply of milk is smaller.	
2 **Innovation and value creation**	In growing Arla, it is important that we monitor consumer needs and that we are in the vanguard. If we do not maintain our position in this area, we will be overtaken by other alternatives. Product and production process innovation is important with respect to Arla's strategic goals and vision.	Arla is investing in innovation, in order to find optimal solutions for all markets and to develop the raw milk. In that sense, innovation secures progress in markets and furthers value creation. Arla is working on developing resource-efficient production. For more details, see the description of initiatives regarding efficiency on p. 16 and innovation on p. 46.	
3 **Economic and political development**	The financial crisis in the western world has created low economic growth as opposed to the emerging markets—especially in Africa, Asia and South America—which produces a greater risk of political intervention.	Arla recognises the importance of being present in emerging markets. In 2012, we opened the door to new markets where growth is greater than in the Western world, among other initiatives, through our investment in China. However, our base remains our core markets in Europe.	
4 **Mergers and acquisitions**	Arla has an active merger and acquisition strategy with major mergers in both 2011 and 2012. If merged companies are not integrated effectively and are unable to realise synergies, they will fail to generate earnings for Arla.	Arla is working intensively on integrating companies into Arla and on exploiting synergies. We have developed a Post-Merger Integration (PMI) model, which describes the integration at several levels in a structured manner. The PMI process is monitored closely at quarterly business board meetings.	
5 **Culture and reputation**	There are a number of factors that may affect Arla negatively (e.g. animal welfare, ethics and integrity with respect to, for example, taxes). New markets also entail new risks.	There are a number of potential matters whose development is outside our control, such as e.g. the Muhammad cartoon controversy. However, we have the systems in place to handle similar cases should they arise.	
6 **Talent/HR**	There is a growing need to gain access to skill sets that can drive the company effectively.	We are working with employer branding and performance management, in order to ensure that Arla will have the required organisational and human capacity. Additionally, we are working systematically on making Arla an even better workplace by measuring annually employee attitudes to Arla as a workplace.	

Operating risks

RISK	*DESCRIPTION*	*PRECAUTIONS AND RELATED OPPORTUNITIES*	*IMPACT/ LIKELIHOOD*
7 **Competition and market developments**	The competition within the dairy product segment is tough and customers have increasingly been seeking out less expensive products in recent years. This has increased the share of private label products and put branded products under pressure while the price of energy and other costs have increased. Both factors are putting downward pressure on earnings.	Arla is working on strengthening customer relations—including exploiting opportunities within the private label market—but also on generating consumer demand that goes beyond pure price-thinking. Arla is preparing for the highly competitive environment of the future by streamlining its business, reducing complexity and by consolidating knowledge and competencies, in order to exploit synergies of scale.	
8 **Quality and food safety**	Customers and consumers must be able to trust Arla's products. However, there are several risks involved in the production processes that may result in changes to the quality, e.g. contamination or ingredients that do not conform to the proper quality. This may result in recalls and, in a worst-case scenario, harm Arla's brand and reputation.	Arla's quality programmes for milk production at farms and raw milk (Arlagården). Control measures at dairies document integrity across the supply chain.	
9 **Legislation and other regulatory requirements, including EU and competition law as well as taxes and fees**	Arla is naturally subject to local and national rules in the markets in which we operate, including EU law. Infringement of laws and regulations may entail legal and financial consequences but can also harm Arla's reputation. As Arla enters new markets, this risk is heightened. Changes to laws and regulations are outside Arla's control and they may potentially be of major business significance to the company.	Our constant efforts to meet all the requirements that govern our activities are deeply embedded in Arla's DNA. We train our employees in handling requirements to ensure that we remain in compliance. In order to ensure that they possess knowledge of the rules and regulations to which we are subject, employees are continuously trained in competition law and other compliance areas at the corporate level. Arla monitors the development of regulations in our active markets and we are working to deflect potential impacts from such measures.	
10 **IT**	The enterprise and all our processes are highly dependent on a well-functioning IT system.	A multidisciplinary task force monitors our IT systems, in order to minimise problems. In case of problems, we analyse the cause of such problems to learn from them and to avoid similar challenges in the future.	

Financial risks

RISK	*DESCRIPTION*	*PRECAUTIONS AND RELATED OPPORTUNITIES*	*IMPACT/ LIKELIHOOD*
11 **Foreign exchange rates, liquidity, pensions, etc.**	Arla has operations in many countries and significant investments in activities outside Denmark and the Eurozone. This risk particularly pertains to risks related to foreign exchange and interest rates.	Arla's management of foreign exchange rate and liquidity risks are regulated in the Group's financial policy. This area is treated in detail in Note 5 in the Financial Statements (see p. 85).	
12 **Risks related to the presentation of accounts**	Financial reporting forms the basis for major parts of the decision-making process at Arla. If our reporting does not conform to the requisite levels of quality and consistency, we risk taking the wrong decisions.	Arla has established an internal control function designed to support all the business units and the corporate function in connection with reporting as well as to reduce risks to the control environment. In 2012, 16 visits to subsidiaries and financial service centres were conducted.	

INTERNAL CONTROL CULTURE

Standardised global processes and a sound foundation from which to make decisions are prerequisites for being able to act effectively in a global reality. That is why Arla is constantly working on bolstering its control mechanisms as it grows. Internal controls that start at the top of the organisation and span the various business groups serve to increase transparency and minimise risks.

Arla is growing rapidly, and the increased complexity in and outside the enterprise has increased the need for a shared, internal control culture. Arla is operating in a world in the throes of a global debt crisis, increased fraud and cybercrime and with an increasing external demand for transparency. Together, they create a need for us to act even more professionally; and they are the fundamental reasons we are taking major steps to bolster our internal control culture, increase transparency and thereby reduce our risk exposure. The effort will add value to our business and strengthen our decision-making across all our business groups, including our corporate functions. The objective is what we call ONE Arla.

-2011

Why?

Acting like a listed company

Complex business environment and organisation

Global activities

Volatile world

Debt crisis

Increase in fraud attempts and IT crime

How?

Strengthened effort from the top down

Policies

Recruiting the right people

Internal controls

Process standardisation

Anti-fraud plans

2011

Planning

Risk assessment

Baseline for control environment

Toolbox

Pilot project with control inspections

2012

Implementation

16 control inspections

Reporting to Board of Directors

Improving internal controls

Definition of minimum controls

Status 2012
In recent years, Arla has created the foundation for a strong, internal control culture by means of a toolbox containing policies and standardised processes. We have already taken a number of critical steps in that direction:

- We have established a proper Risk & Compliance function with specialists in internal controls and cybersecurity. In 2012, the function defined a risk catalogue that covers the business across borders, processes and categories, and it is currently being implemented. So far, our experience has been that our internal control efforts have contributed to increase understanding, acceptance and transparency. In 2012, the function conducted 16 inspection visits to subsidiaries and financial service centres.
- We have transitioned to the internationally accepted financial reporting standard set known as IFRS. The transition creates greater certainty that accounting figures are treated and reported identically and consistently across the entire Group. Additionally, we have published a finance manual describing the consolidated accounting process and policies.
- We have introduced a new consolidation system with built-in, automated controls.
- We have updated and refined the Group's finance policies.
- We have implemented Post Merger Integration processes in order to strengthen our integration of new businesses. The implementation is prepared in advance of the actual acquisition date and is monitored intensively throughout the first 12 months after the acquisition. After that point, new units are fully integrated into Arla.

Continued focus in 2013
Our work on strengthening internal controls is not finished. In 2013, we will be accelerating our efforts.

- We will establish a Control & Compliance Committee whose purpose it will be to monitor the internal control environment and ensure the continued progress of implementing finance policies and minimum controls, standardisation of processes and establishment of anti-fraud plans.
- We will implement the minimum controls defined in 2012 and train the organisation in their proper use.
- We will work on a single release of all our finance policies, and on ensuring that they remain accessible to all corporate business units.
- We will adapt our Post Merger Integration processes to the lessons learned from the 2011 and 2012 mergers.
- We will select focus areas—processes or accounting-related areas—to be reviewed carefully to ensure consistent treatment and maintanance of control levels.
  In extension of this, we will prepare training events designed to ensure that, going forward, all our units understand and comply with our internal guidelines.

2013

Raising the bar

Implementing minimum controls

Compliance and Control Committee

Increasing fraud awareness

Adding value to the business

An optimised control environment

Goal

PERFORMANCE CULTURE

Arla is experiencing rapid international growth and is navigating an environment where both competition and categories are becoming global. This places greater demands on our organisation's readiness to transform and our cohesiveness. And this is driven by Arla's performance culture.

Performance management is a precondition for being able to act in a global environment. At Arla, performance culture is about being able to reach one's goals. It is about the capacity to break major, long-term and abstract goals into manageable tasks to which employees can relate. It is about creating cohesion and continuity across boundaries, functions and initiatives and about being able to see oneself, one's place and role in the bigger picture.

As our business grows, so does the task of shaping a shared culture and building relations both internally and externally. Arla has a strong corporate governance culture, which is based on the value set defined in Our Character and underpinned by our leadership skills: Envision, Engage, Deliver. This means that Arla's managers must have personal ambitions, ambitions for their team and for Arla in general and stimulate colleagues and business partners to achieve established obligations and goals.

We focus on change management and on training managers in handling change in connection with both expanding our activities and restructuring the organisation. That is why we, among other things, have replaced budgets with forecasts, so that managers are motivated to set ambitious goals and to expand their team's focus area. The forecasting initiative generates energy and encourages structural business changes. The goal is to become faster at making decisions and adapting to new circumstances. When we set the bar high, we challenge our managers to innovate how we act. This capacity is critical in a world in constant flux and where few things are predictable.

2013 Focus

The integration of new businesses is at the top of our 2013 agenda. ONE Arla is about community, identity and pride. All decisions, tasks and actions at Arla must be connected to our shared goal: Creating one direction across the company so that everyone can contribute to our shared success. This is described in ONE, which sets out Arla's shared mission, character, vision, strategy and resources. We use ONE to integrate new companies and employees. In order to realise synergies from mergers and acquisitions, Arla's goals and values must become part of everyday life and management of the new businesses.

Efficiency will also be a focus area in 2013 as will the goal of creating clarity within the organisation so that everyone understands his or her areas of responsibility. Finally, talent management is always on Arla's agenda. It is our constant task to ensure that we have the organisational and human capacity to meet the tasks that lie ahead. We must have an organisation that can deliver the strategy and the right number of people with the right training and motivation to execute it.

OUR CHARACTER

Everyone at Arla is constantly working on improving our organisation and strengthening our corporate culture. Our value set Our Character is defined by the values Lead, Sense & Create. Arla operates in many different countries and cultural environments; consensus must be reached on our shared goals and measures taken to ensure that they are complied with in all situations.

LEAD

We will strive to assume leadership and realise opportunities. We will assume the lead in everything we do and be the best within our field. We will exhibit energy, drive and courage. We will develop the best methods and tools. And we are proud that we are producing the best dairy products. We are committed, in the technological vanguard, well educated and professional. We are passionate about what we are doing and prepared to identify the maximum potential in our employees, business and partners.

SENSE

We have a sense of the world around us. We are in touch with colleagues, consumers and the markets in which we are active. We will create a sense of belonging and sense for people inside and outside Arla. Through respect and dialogue, we will understand and learn from the outside world. We will respect and value diversity and be open-minded and responsible. Our philosophy will be global in scope but remain local in attitudes and action. We seek out the world with genuine curiosity and are able to see multiple sides of an issue.

CREATE

We have an innovative culture. We will be innovative in how we develop our skills, products and market relationships. We are developing both a business and employees who can deliver excellent and healthy products. We maintain a culture of learning and a creative side that will keep us open to new inspirations. We create and build relationships that are based on trust and respect—both inside and outside Arla. We create opportunities for creative work in a visionary and educational environment.

PRODUCTS & BRANDS

In a world where private label products constitute an increasingly greater share of consumer purchases, it is critical for Arla to be able to offer the right mix of brand products and private label products. That is why Arla's milk is currently being processed into a wide range of products and offered across a broad range of channels. We sell powder to the world market, unique cheeses to restaurants and fresh milk, butter and yoghurt under our own well-known brands. At the same time, Arla's milk is increasingly becoming a component in other businesses' products, such as Starbuck's iced coffee and retailers' own brands.

We strive to be an attractive partner for our customers. And that means that we must track their needs and develop our business in step with theirs. In 2012, Arla was one of the world's biggest dairies measured by the quantity of weighed-in milk. We therefore have the capacity to match the needs of our major customers. We have the capacity, the raw material and the required expertise to make private-label products into a profitable business. Our customers are both the retailers and the consumers of our products. For consumers, we are always seeking to adjust our product offerings so that they represent health and provide inspiration in line with our vision.

Arla has a strong platform for growth based on our three global trademarks Arla®, Lurpak® and Castello®, and we will continue to strengthen these brands as category trailblazers in coming years. But based on our values Lead, Sense & Create, we must also pay attention to where our business is headed—and then move along with it. We also saw growth in retailers' own brands in 2012. Arla's customers want to raise their own profiles and create their own relationships with consumers. Therefore we are working on generating profitable production both under our own brands and under those of our customers.

Arla has a major branded business but will also be active within the private label area in the future. Presently we have the size to assume the leadership within the industry and become a competitive provider of private label goods. In a world in the throes of a financial crisis, we must embrace industrial logic and think in terms of cost optimisation.

The Castello® brand did not meet the forecasted growth in 2012. Some of the explanation may be that consumers see Castello® as a niche product and not as a quality cheese for everyday consumption. Arla has a broad portfolio of quality cheeses with great sales potential. The task in 2013 will be to strengthen these cheeses' profiles and assure consumers that excellent cheese is not just for special occasions and guests.

In 2012, the special Alpine cheeses from Arla Foods Käsereien were adopted into the Castello® family as our new Alp Selection. This was an excellent example of Arla's ability to realise synergies quickly and efficiently from mergers and acquisitions after purchasing Allgäuland in 2011. The Alpine concept will be made part of the development of Arla's export markets and was introduced in Sweden, Denmark, the United States and Canada in record time. We are looking forward to reaping the fruits of this effort in 2013 as the cheeses are launched in even more markets.

In 2012, Arla launched a new marketing campaign in nine countries to strengthen the Arla® brand's position across markets while also introducing a number of new products under the Arla® umbrella.

The Arla brand was also successfully introduced in China in the premium segment with the ambition that it will become the biggest imported dairy brand by 2017. In the first round, UHT milk—by far the biggest category—has been launched and an additional 14 products are scheduled to be rolled out in 2013.

2012 was also a busy year for global categories and brands, especially within the following areas:

Butter and mixed products
The volume of Arla® butter products, e.g. Kærgården® and Bregott®, grew 6 per cent, and we continue to have success with Kærgården® in Germany and Finland, where the campaign has been particularly successful. Consumers have taken the campaign to heart, which has resulted in greater market shares and increased sales of Kærgården®.

Global Categories & Operations
The business area Global Categories & Operations (GCO) is a key component in Arla's organic growth. GCO consolidates the responsibility for products and the three global brands into one unit. In a reality with global competitors and products, product development must be conducted globally. That is why GCO is also operating Arla's global innovation, handling milk planning, logistics, and the production of butter and mixed products, cheese and milk powder. Moreover, GCO is responsible for the sale of milk for trading at the highest possible prices in the world market.
Executive vice president: *Jais Valeur*
Number of employees: *5,036*
Product categories: *Yellow cheese, specialty cheeses, butter and mixed products and milk powder.*
Operating locations: *21 in Denmark, seven in Sweden, four in Germany, one in France and one in Poland.*

LURPAK®

In 2012, Lurpak® was the global brand with the fastest growth at Arla. Revenue rose by five per cent and the value of the brand was strengthened in the United Kingdom, the Middle East, Russia and Denmark. In Denmark Lurpak® also did well despite of the special challenge posed by the Danish fat tax, introduced in October 2011 and eliminated in January 2013.

The success story of the year was our innovative launch of Lurpak Lightest® in the United Kingdom, a new low fat product that competes with margarine. In the year of its launch, Lurpak Lightest® captured five per cent of the British market for butter and mixed products measured by volume. The position of Lurpak® is strengthened by launches in several countries, but also by new, exciting products launched under the brand name.

Arla acquires Lurpak®

In 2012, a majority of our Danish dairies agreed to Arla Foods amba's acquisition of Lurpak® from the Danish Dairy Board (Mejeriforeningen). Lurpak® will continue to be based on Danish butter and produced in Denmark, and other dairies can—on agreed terms—continue to produce Lurpak® butter and mixed products on royalty-free licenses. The transfer is expected to be approved by the Danish Minister for Food, Agriculture and Fisheries in 2013.

INNOVATION

Arla will increase its organic growth by providing customers and consumers with the market's most innovative products and solutions across all categories. Arla's Strategic Innovation Centre (ASIC) is operated in the belief that innovation is about the profitable implementation of new ideas.

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

Arla Strategic Innovation Centre was established in 2012 for the purpose of creating a simple structure where research and product development would be intertwined with the business area. ASIC will build a bridge between marketing and research and take responsibility for delivering new, groundbreaking products with major potential in all of Arla's markets. Marketing will be responsible for transforming ideas into profitable growth.

ASIC streamlines the innovation process by establishing a single global innovation pipeline for each of the most important product categories, a single timeline for each project and a single project manager who will remain responsible throughout the entire process. ASIC is not afraid at failing in the process—experience shows us that, in the food industry, 12 ideas fail before one succeed with one. Failure is an unavoidable part of the process that will lead us to success. The trick is to screen out low-potential projects early so they do not take up unnecessary resources. The most promising projects must be able to reach the market at minimum cost and maximum speed. Consumer insight is a central criterion for selecting projects, where close collaboration with marketing will shorten the distance from idea to consumer. As set out in Arla's strategy, at least 10 per cent of the Arla's earnings must be derived from the development of new products. In 2012, approx. 14 per cent of revenue came from new products.

- **Sustainability**
- **(New) food forms**
- **Production efficiency**
- **Strength of milk**
- **Microbiology**

Design to Value

Innovation is not only about product development. It is also a focal point for Arla's efficiency programme where ASIC, among other things, is working with Design to Value—a concept designed to contribute to earnings. The goal is to re-design products and packaging to make them more competitive and for them to deliver quality for less money without losing focus on the excellent consumer experience.

For Arla's brands to be competitive in a market with an increased appetite for discounted products, they must undergo adaptation. That is why marketing and ASIC are searching for solutions that can reduce costs related to Arla's products—but without compromising quality. In 2012 and 2013, all product categories were or will be reviewed to optimise production processes. We are searching for clever improvements and efficiency improvements that consumers will not experience as a diminishment of quality, e.g. packaging using less plastic for lids. A few fewer grammes of plastic can make an enormous difference in large-scale production. Another example is to print bar codes in green instead of black, if the packaging already contains green: It is less expensive to print three colours than four. We are also working on adapting packaging sizes to hit a price level better suited to consumers.

Consumers inspire

Financial crises change consumer purchasing patterns. They are looking for greater value and more taste at a lower cost. New consumer patterns require innovative thinking; and global trends—such as health, recycling, organics and nanotechnology—are inspiring ASIC to research new packaging and improved products.

We can reduce food waste, save time and warehouse space and increase efficiency through innovation. Examples include cheeses that ripen faster or do not need refrigeration or milk that tastes fresh with the long shelf life of UHT milk.

Additionally, new solutions are also generated through open innovation. In order to increase the speed and strength behind projects and to be able to scale results rapidly—some of our processes are taking place in partnership with universities and suppliers.

Dairy products of the future

At Arla's Innovation Exhibit in November 2012, ASIC presented future dairy products and production processes to colleagues in Aarhus, Denmark:

- A yellow cheese whose ripening period is significantly curtailed to save time and warehouse space;
- Cream cheeses where the salt content is reduced and substituted with other natural ingredients;
- Innovative packaging forms made of whey and materials able to reduce wastage significantly; and
- A milk-based product especially targeting Chinese consumers.

Strength of milk

Nutrition is at the core of everything Arla does. We will strengthen the nutritional benefits of milk and its ingredients and increase the value of dairy products in the form of increased health and better nutrition for consumers.

Production efficiency

Ensuring world-class manufacturing processes through technology, process control and optimisation, Lean, etc.

Microbiology

Maximising the use of bacteria strains and cultures across categories in order to obtain major successes and unique solutions for Arla.

(New) food forms

Development of new foods and concepts to inspire consumers and deliver benefits in an optimal manner.

Sustainability

Research into reducing packaging; use of biodegradable materials; responsible use of energy, water, etc.

MARKET OVERVIEW: A WORLD MOVING AT TWO SPEEDS

The dairy industry is both local and global. Arla wants to lead in both leagues. That is why we are currently locally anchored, European owned and globally active via six well-functioning business groups that feel the pulse of the unique markets and service their specific needs.

ARLA BUSINESS AREAS

Global Categories & Operations, (GCO) is responsible for global innovation, research, logistics, industry sales, production and marketing at Arla. GCO is also responsible for the sale of trading products in the global market. *See also page 44-47.*

Consumer UK (CUK) is responsible for the core market United Kingdom and contributed 23 per cent to Arla's total revenue. *See page 50.*

Consumer Sweden & Finland (CSE) covers the market in Sweden and is in a strong position in this important core market. CSE generated 19 per cent of Arla's revenue. *See page 51.*

Consumer Denmark (CDK) focuses on building a strong position in the Danish core market and contributed 11 per cent to Arla's revenue. *See page 52.*

Consumer Germany & the Netherlands (CGN) exists to release the potential of the rapidly growing German core market and to reap synergies between Germany and the Netherlands. In 2012, 13 per cent of Arla's revenue was derived from CGN. *See page 53.*

Consumer International (CIN) is the growth engine that handles Arla's consumer activities outside the six European core markets. This unit generated 14 per cent of Arla's revenue. *Se page 54.*

Arla Foods Ingredients (AFI) is a subsidiary and global market leader within whey protein technology and is one of Arla's most profitable business units. API contributed with 4 per cent of Arla's revenue in 2012. *See page 55.*

The world around Arla is moving at two speeds: recession and growth. As a global player, we need to supply emerging markets in the fifth gear while servicing core markets in the first gear. It requires Lead, Sense & Create to navigate through such diverse conditions.

The global industry market for dairy products consists of five main products: Whole-milk powder, skim-milk powder, cheese, butter and whey protein. The market for consumer products is primarily local in nature but increasingly global for processed products with longer shelf lives such as, for example, cheese. Research into and the development of products mean that more product types can travel further than before.

Arla handles its markets' complexity through six business groups that bring our business closer to the needs of our customers and consumers. Additionally, Global Categories & Operations (GCO) is responsible for industry sales of dairy products reserved for trading at the highest obtainable prices in the world market. The share of milk designated for industry sales fell in 2012—completely in line with Arla's strategy of selling more milk as value-processed products.

United Kingdom
The British market is undergoing difficult market conditions. It has been pushed back into recession, which lasted for most of 2012. Households are five per cent worse off because of inflationary pressures on food and fuel, and consumer confidenceat a record low. Price is by far the most important parameter for consumers many who compare prices of all goods on the Internet. Branded goods are purchased on offer and stored.

Sweden & Finland
Sweden is characterised by an economic downturn and a focus on inexpensive food products. Competition is tough and the presence of private label products on shelves is growing. The high level of price sensitivity is lowering the demand for organic milk. The dairy market shows marginal growth with a decline in drinking milk but increases in the butter and food preparation categories. Retailers are launching an ever-increasing array of dairy products under private labels. The biggest advances in the 2012 market were made in the private label sector—but the Arla brand is doing well as a result of the geographic growth driven by the Milko merger.

The Finnish market has a distinctly different profile whereby general consumer confidence is strong while the general price level of milk is low, which will affect earnings in Finland negatively.

Denmark
Danish consumer confidence remains low, price sensitivity is high and the market is characterised by a drinking milk price war. Consumers are increasingly focused on lower prices and more private label products are purchased across all categories. This trend puts pressure on both branded and organic products.

Germany & the Netherlands
The general economic situation in Germany is positive. Strong economic development and relatively low unemployment have bolstered consumer confidence, and we are seeing higher growth in quality products than in the discount sector. Farmers are suffering due to low milk prices and rising costs. In the Netherlands, lack of growth and high unemployment have resulted in low consumer confidence. Consumers are demanding private label and discount products; in 2012, Aldi and Lidl had 20 per cent of the discount market and this trend is rising.

Markets outside Europe
The general outlook for global consumption of dairy products is positive, and growth is expected to continue. Across all markets, there is growing demand for high-quality dairy products from Europe. The global growth in discount chains also places demands on increased cost efficiencies. In China, members of the emerging middle class are seeking out quality products with food safety being a major concern. Consumption of dairy products is growing faster than the country's otherwise rapidly growing dairy production. Revenue growth is at approx. 10 per cent per annum, and China is thereby expected to exceed the world's biggest market for dairy products in 2020. Those growth rates are currently driving the country and will for many years to some making it is critical for Arla to have a solid footing in the Chinese market.

High protein prices and fluctuating milk prices
The recent years' success of Arla Foods Ingredients, Arla's ingredients business, has been based on high protein prices. These have maintained their level during the dip in the price of milk in 2012.

In 2012, because of El Niño the supply of milk remained robust across geographic boundaries. This weather phenomenon meant that cows remained on grass in New Zealand two months longer than normal and produced 15 per cent more milk. Farmers in California also produced more milk—six per cent more—than normal for their region, and for the first time the United States exported milk into Europe. At the same time, more milk was weighed in in Europe than normal. In spite of the fact that Arla can sell most of its milk in profitable markets, the price was affected negatively also in these markets by the great supply of milk globally in 2012.

Global outlook for 2013
The global demand for dairy products is expected to grow over the next five years at an estimated 2.4 per cent per year. While the higher consumption in mature markets is expected to remain unchanged, growth will primarily be driven by our emerging markets —especially China, Russia, the Middle East and Africa. From 2011 to 2020, these markets are expected to represent a general increase in consumption of around 30 per cent and the dairy sector will receive its share of this. The economic outlook for the EU and their significance for food consumption and expenses will largely depend on when the economic climate improves again in earnest.

With a rise in global demand and increasing globalisation of the dairy product market, the competitive landscape for dairy companies is steadily narrowing. In 2012, the retail trade strengthened its positions further within the dairy sector as it aggressively marketed its own discount brands. Since dairy products are price sensitive, the success of dairy companies largely depends on their ability to reduce production costs. The present consolidation of the European dairy industry is a reaction to all these factors, and it creates a new environment with fewer but bigger players in the market.

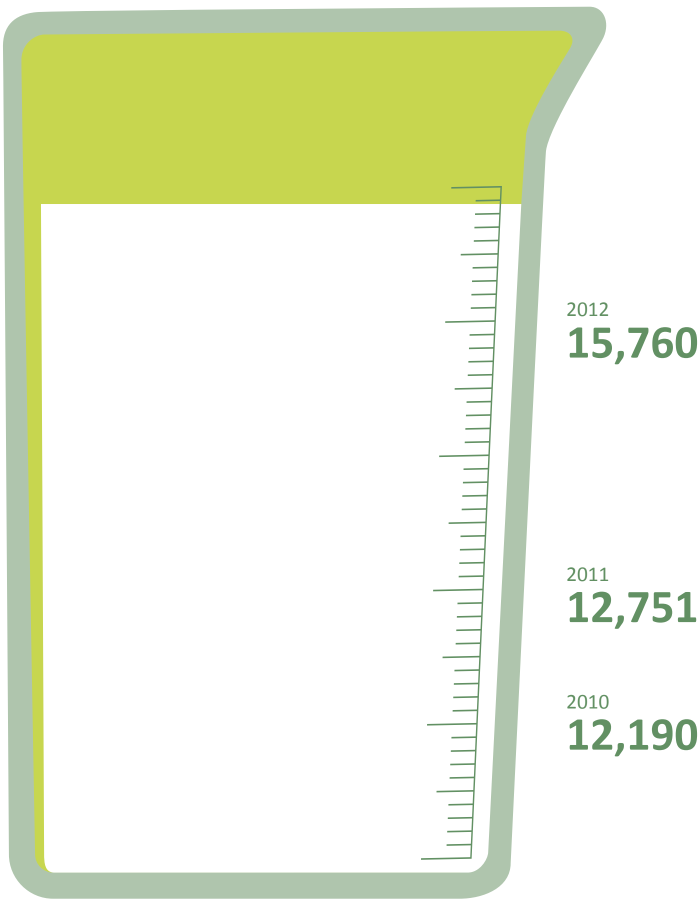
CONSUMER UK

2012 was a pivotal year for Consumer UK (CUK). The merger agreement with Milk Link realised Arla's ambition of becoming one of the U.K.'s biggest dairy companies. By combining the two companies, we now have a comprehensive business with access to cheese production and exports to 19 countries. It was also the year when CUK unveiled its plans to become the most sustainable dairy business in the United Kingdom.

PRODUCT CATEGORIES

Fresh dairy products	59.1%
Cheese	9.6%
Butter and spreads	23.7%
Other	7.6%
Total	100%

Three-year revenue development (mDKK)



After merging with Milk Link, Arla has achieved its desired market position in the top slot in the United Kingdom measured both by revenue and milk volume. The merger provides Arla with a completely new array of opportunities for retailers with products produced locally in Great Britain. It also creates new opportunities for growth, because Arla and Milk Link are mutually complementary with respect to customer mix, brand portfolio and product range. Additionally, with solid investments in high-tech production facilities, CUK is now poised to offer British customers a full selection of high quality dairy products from a single source. And this makes us a very attractive partner. The merger will increase CUK's revenue by nearly DKK 5 billion and many critical steps have aleady been taken to integrate the British business into Arla. Administrative functions have been consolidated in Leeds, and the Lockerbie dairy and creameries are being operated as a single unit. The integration process is expected to take 12 months; during this period we will focus on delivering our products to customers and owners.

On the road to more sustainable production

In 2012, Arla was the first dairy company in the United Kingdom to receive the British CO_2 certification "Carbon Trust Standard." That happens after years of efforts to reduce the company's energy consumption. Over the past three years, CUK has—in actual terms—reduced its consumption relative to increased milk weigh-ins and sales. CUK was required to document reductions in excess of 3.6 million tonnes of CO_2 to obtain certification. The certification is in line with Arla's Closer to Nature™ ambition and brings us one step closer to our goal of being Great Britain's most sustainable dairy company.

Arla is also behind one of the biggest development projects in the United Kingdom with the construction of the big and environmentally highly advanced dairy in Aylesbury outside London. The dairy has a zero carbon ambition and will process 1 billion litres of fresh milk a year. It is expected to become operational in the summer of 2013.

Financial developments

CUK succeeded in increasing both its earnings and volume in 2012, but present levels can only be maintained by being the market's most cost-effective dairy. That is why CUK is focusing on streamlining its supply chain and investing in LEAN programmes.

Compared to 2011, CUK's revenue rose 24 per cent, of which 7 per cent was organic growth. We also succeeded in surpassing our stretched targets for both revenue and profit margin. This was achieved by raising prices primarily in the private label sector, but also by increasing sales of fresh milk and products under Arla's strongest brands in the United Kingdom—Lurpak®, Castello®, Anchor® and Lactofree®. All the brands delivered major growth both in volume and value terms and despite very challenging market conditions, Cravendale maintained its strong foothold. Anchor® showed excellent value growth during the half-year. The value growth was also positive for Lurpak®, even though volume fell slightly because of aggressive marketing from all the suppliers within that category.

2013 Outlook

CUK's objective for 2013 is to ensure the successful opening of the Aylesbury dairy, to realise our planned merger synergies with Milk Link and to maintain our focus on cost levels so we can deliver across stretched targets.

CONSUMER UK

CUK covers production and logistics for milk, butter, cream and an array of fresh dairy products and handles sales and marketing in the United Kingdom.
Executive Vice President: *Peter Lauritzen*
Headquarters: *Leeds, United Kingdom*
Number of employees: *2,967*
Product categories: *Fresh goods, specialty cheeses, butter and mixed products.*
Eight operating locations in the United Kingdom.

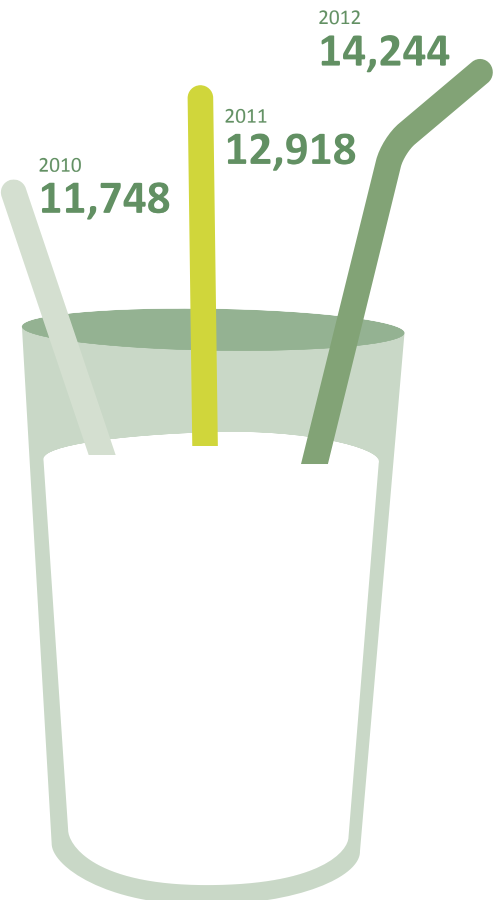
CONSUMER SWEDEN & FINLAND

The integration of Milko was completed successfully, on time, and Consumer Sweden & Finland (CSE) has realised the synergies in the Swedish market as expected. Simultaneously CSE reviewed its production strategy and became an active producer of both branded and private label goods in 2012; this was a strategically important decision with major significance for the Swedish dairy market.

PRODUCT CATEGORIES

Fresh dairy products	58.8%
Cheese	21.7%
Butter and spreads	14.2%
Other	5.3%
Total	100%

Three-year revenue development (mDKK)



Customers all across Arla's core markets show a great desire to raise their own profiles and to build up their own consumer relationships through strong brands. Traditionally, Sweden has had only a small share of the private label market, but in 2012 demand grew rapidly. It is important for Arla to meet this demand. In 2012, CSE therefore announced that Arla was willing to enter into strategic partnerships with all customers for private labels and launched a long-term partnership agreement with the ICA for milk.

Successful integration

After the 2011 merger between Arla and Milko, the phases of integrating Milko and creating a joint Arla identity were completed in May 2012. The new organisation is clearly having an impact on the market and Arla is in a strong position—also in the geographic areas where previously Milko was a market leader. The Sundsvall dairy has been established as a strategically important Arla dairy. A new warehouse management system is in place and a joint IT platform has been established for the distribution hub. After the restructuring, operations are now entering a more stable period with improved customer service. Arla's biggest dairy in Stockholm, Sweden, has expanded its cold storage facilities so that it now has the capacity to store greater quantities of milk for further growth in the regions north of Stockholm. Grådö dairy was sold to Coop for private label production and we have sold the former Milko brands to meet all the competition authorities' terms and conditions. Several cost savings were achieved when two logistics terminals in Linköping and Örebro were closed, while the continued efficiency programmes resulted in employee reductions at the Swedish headquarters and several operating locations.

Financial developments

CSE's performance over the year was robust and boasted approx. 11 per cent growth in revenue primarily driven by the successful integration of Milko. Profitability showed stable improvements due to cost savings and increased scaling capacity in the supply chain. The highest growth rate was in cooking products, butter and spreads.

In Finland, we are seeing a pronounced turn-around in spite of a tough market climate. There was increased growth in both value and volume combined by major cost savings across the organisation. The organic growth of eight per cent, exceedingly impressive in a European context, was sustained by growth across several categories, a high innovation rate and successful product launches from Arla's existing product range. Significant profit improvements were achieved through tight cost control. As part of the efficiency programme, we sold our majority shareholding in the Juusto Kaira cheese business at the end of 2012.

2013 Outlook

CSE has a strong foundation, and our business is strengthened because that foundation extends from Finland to Sweden. CSE will exploit the opportunities that have manifested themselves in the private label category and we will build brands bolstered by innovation and consumer inspiration—not least in close dialogue with our customers across the digital media. Our focus will be on maintaining earnings and achieving further efficiency improvements.

In Finland, CSE is focusing on becoming an even stronger strategic partner for Finnish customers with both a strong, branded position and cost efficient private label products. In 2010, Arla filed a complaint with the Finnish competition authorities regarding its competitor Valio, which has a dominant position in the Finnish market. Arla Ingman claimed that Valio was abusing this dominance in violation of Finnish competition laws. In December 2012, the Finnish competition authorities handed down their decision recommending to the court that Valio be fined EUR 70 million for abusing its position in the milk market. The decision is welcomed, as the Finnish competition authorities acknowledged that the market conditions for fresh milk were unsustainable as a result of the infringement.

CONSUMER SWEDEN & FINLAND

CSE covers nearly half of the consumer market in Sweden and is thereby in a strong position in the Swedish core market. CSE also includes the Finnish subsidiary Arla Ingman and is responsible for marketing, sales, logistics and production of fresh milk and fermented products in Sweden and Finland.
Executive Vice President: *Christer Åberg*
Headquarters: *Stockholm, Sverige*
Number of employees: *2,520*
Product categories: *Fresh dairy products, juice, cheese and butter and spreads.*
Eight operating locations in Sweden and three in Finland.

CONSUMER DENMARK

In 2012, the Danish market was characterised by major changes. The private label and discount product segment grew and increased Arla's market shares while the deregulation of retailers' opening hours altered the dynamics of the retail market and its players. These years, Consumer Denmark (CDK) is focusing on expanding its strong position in the Danish core market by boosting its development of new products and inspiring consumers to use milk products in new, everyday contexts.

PRODUCT CATEGORIES

Fresh dairy products	56.8%
Cheese	24.9%
Butter and spreads	14.2%
Other	4.1%
Total	100%

CDK has undertaken efforts to develop and strengthen various milk brand concepts in the Danish market. Butter, mixed products and yoghurt are good examples of this, where respectively Arla Kærgården®, Lurpak® and Arla Cheasy®, Cultura® and Yoggi® occupy strong positions. In 2012, the established brands within baby foods saw a new competitor enter their ranks. This was Arla Baby&Me Organic, which is a range of eco-labelled products for babies. CDK is the developer of the series, which is also on its way to China. Arla Baby&Me® Organic is a story of innovation based on solid insights into the day-to-day lives of mothers. The team behind the products followed the everyday lives of mothers. The product is therefore based on what mothers think with respect to infant foods. The range offers two powdered products for ages 0–6 months and 7–12 months and two ready-to-drink UHT products for the same age groups. The vision is to offer a total of 20 products. It is ambitious, but there is a great deal of goodwill in the market with respect to the Arla® brand and organic milk produced in the Nordic countries. Moreover, studies have shown that once a brand wins a mother's loyalty, she is unlikely to change to another.

CDK is engaged in efforts to increase sales in new channels. This includes the premium segment where demand is on the rise. For example, CDK has opened a booth at Torvehallerne Market in Copenhagen to sell such products as the UNIKA cheese line, which is under constant development and has received wide recognition among Danish professional chefs. Additionally, there is the development of new, exciting and healthy products for eating "on the go," which is also a growing market.

Financial development

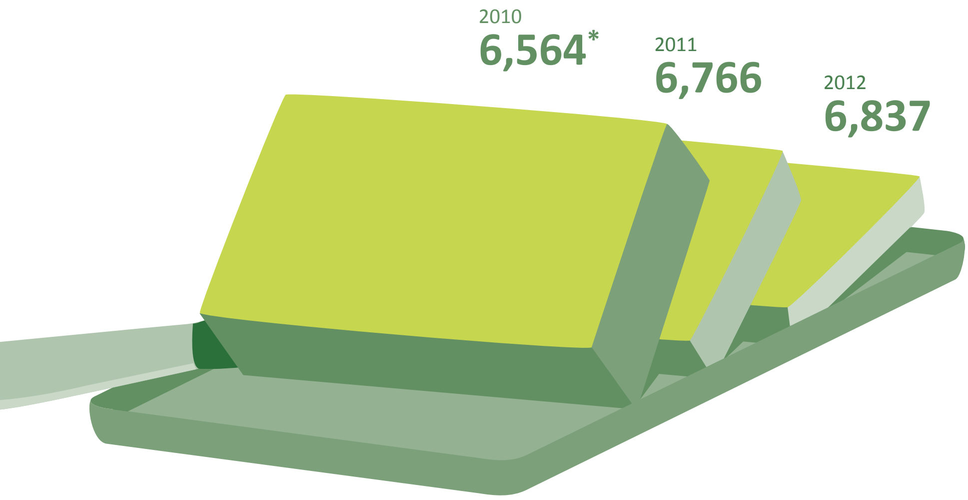
CDK is focused on building a strong position in the Danish core market, where customers see Arla as the best supplier of 2012. Our 2012 revenue rose in a difficult market. There was also a satisfactory increase in sales, especially within the fresh product segment where our strong yoghurt brands showed nice growth rates. Conversely, consumers' general, increased demand for private-label foods affected our revenue negatively since a greater share of sales was derived from products sold at lower prices, especially basic products such as milk and yellow cheese.

CDK's ambition is to elevate Danish food culture on the go, at home and among children and young people. Among other initiatives, CDK has established the Arla Foundation, whose mission is to strengthen the culinary skills among young people. The core of the Arla Foundation's work consists of food camps for Grades 4 to 7, where children are give the opportunity to learn about health, cooking and being active in nature. The most significant external influencing factor of 2012 was the Danish fat tax, which reduced sales of butter, cream and cheese and bolstered consumers' search for less expensive products. However, the fat tax was withdrawn again effective January 2013. In 2012, CDK achieved major cost reductions, which will allow it to remain competitive in a market under heavy price pressure.

2013 Outlook

CDK will continue its implementation of the strategy designed to strengthen its core business, including the market share of its branded products in relation to the growing private label category. The business focus will be to target product development at consumers' needs and purchase requirements, invest in CDK's key brands and reduce costs to maintain a strong position in a Danish market focused on prices.

Three-year revenue development (mDKK)



CONSUMER DENMARK

CDK is responsible for marketing and sales to the Danish retail trade and for the production and development of fresh milk products in Denmark.
Executive Vice President: *Peter Giørtz-Carlsen*
Headquarters: *Aarhus, Denmark*
Number of employees: *1,975*
Product categories: *Fresh goods, cheese and butter.*
Five operating locations in Denmark.

**The revenue has been adjusted for the 2011 loss of the Dansk Supermarked distribution business.*

CONSUMER GERMANY & THE NETHERLANDS

For Consumer Germany & the Netherlands (CGN), 2012 was about creating a strong and motivated organisation in a consolidated German market. It was about driving synergies and settling new employees into the proper professional community and context. The goal is ONE Arla. And that will be achieved by maintaining our focus on cost and leadership. In 2012, CGN successfully integrated Hansa Milch and Allgäuland Käsereien acquired in 2011. Moreover, we have taken the first critical steps towards successfully integrating MilchUnion Hocheifel (MUH)—they are currently being integrated with Arla's systems quickly and efficiently.

PRODUCT CATEGORIES

Fresh dairy products	52.6%
Cheese	32.0%
Butter and spreads	13.1%
Other	2.3%
Total	100%

Three-year revenue development (mDKK)

Historically, Arla in Germany has always been a trading company selling products produced in Denmark. The most recent mergers and acquisitions have transformed Arla into a seamless dairy company with control of the whole value chain, from cow to consumer. Through its merger with MUH, which ranks Arla as Germany's third-largest dairy company, it became clear that Arla is pursuing a leading role in the consolidation of the Germany dairy sector. The merger with MUH placed Arla in a strong position within the category of long-life milk (UHT milk). The dairy in Pronsfeld is the biggest UHT dairy in Europe. And that opens up a whole range of opportunities both in Germany and in our export markets, with major revenue expectations in the Chinese market through our partnership with Mengnui.

The venture in Germany required major restructuring and investments in 2012. The 2011 acquisition of Arla Foods Käsereien provided access to mountain milk and a variety of special cheeses—now under the Castello® brand—which are already part of the growth in our export markets. Since November 2011, CGN together with GCO has been engaged in an extensive process to integrate Arla Foods Käsereien into the rest of Arla, including closing the Riedlingen dairy, certifying the other dairies and reorganising its sales organisation.

In 2012, CGN focused on forging the foundation for a fully integrated German organisation. In the Pronsfeld dairy (formerly MUH), CGN is in the process of building a powder plant and a butter dairy. These investments are designed to increase value creation for Arla's German milk and reduce our dependency on price formation in the highly volatile UHT milk market, a market characterised by surplus capacity.

Financial developments

The merger with MUH nearly doubled sales in Germany and the Netherlands from DKK 6 billion in 2011 to DKK 11 billion in 2012. There was great downward pressure on prices in 2012, but Arla maintained its brand positions in spite of great pressure from private labels. The year showed double-digit revenue growth, with Arla Kærgården® now sold in almost all major grocery chains. In 2012, Arla saw record sales for its brands Arla Buko® and Arla Kærgaarden®. Arla is currently selling more Arla Kærgaarden® in Germany than in Denmark, the product's country of origin, and the growth continues. However, the price pressure did leave a dent in our earnings.

2013 Outlook

CGN will continue to focus on increasing value creation by launching new brand positions and by placing heavier emphasis on organic products, a segment of major growth in Germany. In parallel, CGN will continue its work on integrating MUH and improving efficiencies both in operating locations as well as across our administrative functions and processes in the Netherlands and Germany. The implementation of a new IT system designed to integrate the Germany and Dutch activities with the rest of Arla is crucial in this effort. In the Netherlands, CGN is focusing its efforts on a plan to increase earnings further. There are great expectations for the reintroduction of the brand Melkunie®, which has been off the market for seven years but is still the brand the Dutch associate with milk.

CONSUMER GERMANY & THE NETHERLANDS

CGN must release the potential of a rapidly growing core market and reap synergies between Germany and the Netherlands. CGN handles production, logistics, marketing and sales to the retail trade.
Executive Vice President: *Tim Ørting Jørgensen*
Headquarters: *Düsseldorf, Germany*
Number of employees: *1,484*
Product categories: *Fresh products, cheese and butter in Germany and the Netherlands.*
Seven operating locations in Germany and one in the Netherlands.

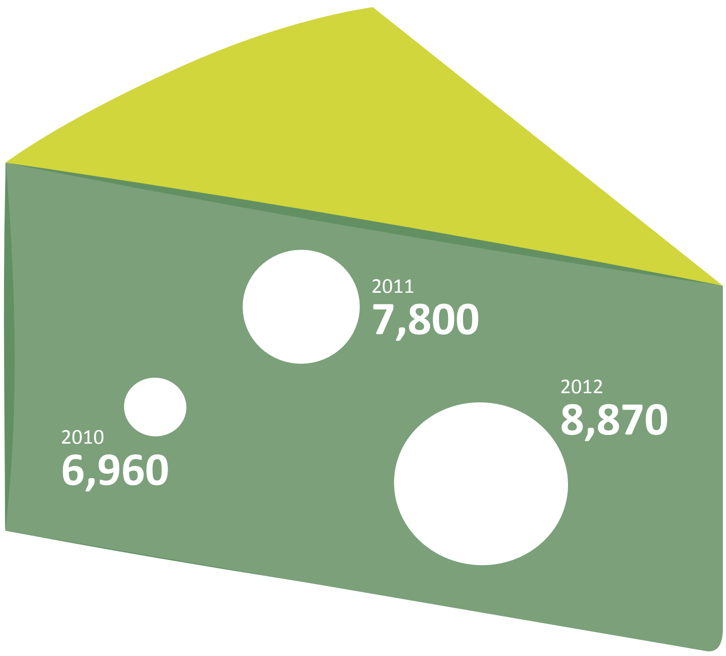
CONSUMER INTERNATIONAL

Consumer International (CIN) and Arla Food Ingredients (AFI) are Arla's growth engines. The business area handles consumer products outside its European core markets and has, for the third year in a row, achieved combined double-digit revenue growth—and earnings are not far behind. That is because Arla now has an established position in the markets in Russia, the Middle East and Africa (MEA). Additionally, Arla is on China's retail shelves. The year's growth points us toward a bright future in the emerging markets.

PRODUCT CATEGORIES

Fresh dairy products	6.0%
Cheese	60.5%
Butter and spreads	10.5%
Powder	21.4%
Other	1.6%
Total	100%

Three-year revenue development (mDKK)



In 2012, largely all of CIN's markets showed growth in revenue and earnings. Arla's position in the Middle East—already strong—was expanded further over the course of the year by focusing on distribution and customer relations and through inspiration and by engaging with consumers in dialogue in the social media. CIN currently has DKK 2.3 billion in revenue in the Middle East. Business is also growing in the African markets and CIN therefore intends to expand its presence on that vast continent. A broad selection of Arla's value markets has also been particularly profitable, and CIN's contract production for other food business operators—our so-called Third Party Manufacturer (TPM) activities—has also grown. Growth was fuelled by a rise in demand and generally strengthened sales across all markets.

The Russian market is a special growth story: It is a market where many consumers are willing to pay more for good quality and safe, natural products from Scandinavia. Five year after establishing a subsidiary in Russia, volume and revenue have grown in excess of 20 per cent annually on average—from net sales of DKK 200 million to more than DKK 600 million. In the categories where Arla is represented, business has grown significantly and has captured market shares from our competitors. The strategy is to create strong market positions with high-quality brands within cheese and butter as well as to seek out opportunities for local production through partnerships or acquisitions. In 2012, Arla signed a production contract with the country's third-largest dairy company Molvest Group for local cheese production to be brought online in 2013. With its experience and expertise from Scandinavian dairy operations, Arla will be responsible for distributing and selling finished cheeses under the brand Arla® Natura. The venture is an important part of our plan to meet CIN's long-term ambitions for growth in Russia, where consumers will be offered even more products from the Group's product range. Our plan is for sales to continue at existing levels over the next five years.

China, poised

2012 was dominated by our strategically important agreement with COFCO, China's biggest food business operator, for joint ownership of the country's biggest dairy, China Mengnui Dairy Company Limited. The agreement will ensure Arla's access to China's growing market for high-quality dairy products. Among other things, Arla will deliver brand products from Europe to China under the Arla® brand, which will be put on Chinese store shelves via Mengniu's distribution network. The task will also be to ensure that both Mengniu's' product range and the Arla® brand will be developed in a way that maintains Mengniu's position. In doing so, we expect sales of Arla's products to increase fivefold.

Financial developments

CIN delivered strong results across almost all emerging markets in 2012. In MEA, we saw organic growth in excess of 22 per cent while Russian growth surpassed the 28 per cent mark. Overall, organic growth for CIN was at 10 per cent in 2012. Simultaneously, the profitability in our markets increased markedly. Volume increased from three to 15 per cent, depending on the category. Arla's three global brands all experienced revenue growth.

2013 Outlook

The general outlook for the global consumption of dairy products remains positive, and CIN's growth is expected to continue in line with the increase in the markets' general prosperity. The goal for 2013 is to increase growth by more than 10 per cent, primarily driven by MEA, Russia, China and TPM. In China, we will be focusing on ensuring success by establishing an organisation that can fulfil our ambitious and promising agreements and support Mengniu. There, among other things, we will be marketing our newly launched infant formula Arla Baby&Me® Organic in 2013.

CONSUMER INTERNATIONAL

CIN will strengthen Arla's position in the world's emerging markets focusing on the Middle East and Africa (MEA), Russia and China. CIN has logistics, sales and market responsibilities for consumer products as well as their production in markets outside Arla's core markets.

Executive Vice President: *Finn S. Hansen*
Headquarters: *Aarhus, Denmark*
Number of employees: *1,902*
Product categories: *Cheese, butter and long-life milk products as well as milk powder.*
Three operating locations in North America and one in the Middle East.

ARLA FOODS INGREDIENTS

Whey is a by-product of the manufacture of cheese. Innovative thinking and high-tech expertise allow this by-product to be processed into groundbreaking products that can be used as, for example, egg substitutes and to help regenerate muscles. In just a few years, whey-based food ingredients have become a major component in Arla’s general strategy and long-term growth.

Innovation is a core competency at Arla Foods Ingredients (AFI), which is delivering innovative thinking to, among other things, the nutrition, dairy, bakery and ice cream industries. In 2012, AFI developed a whey-based protein product that can serve as an ingredient in products for elderly people and patients recovering from illness. Up to 60 per cent of elderly hospital patients suffer from malnutrition and protein deficiencies. Currently AFI is helping address those issues. Some benefits of whey protein are that it passes through the stomach quicker than other proteins (e.g. casein and soy) and is therefore absorbed faster. Whey protein also contributes to reconstituting muscles faster. We have named this new protein product Lacprodan® DI-7017. It is unique in that it is the first time anyone has succeeded in developing a protein product that remains stable during the ultra-high temperature (UHT) processing that extends the end product's shelf life.

Another example is our functional whey protein Nutrilac®BK-7781, which is an effective egg substitute. This became a particularly relevant product in 2012 for the bakery industry, as commodity prices on eggs rose considerably because of a new EU directive on animal welfare. Nutrilac® is less expensive than eggs; it contains fewer calories and has less saturated fat and cholesterol. The substitute also has a longer shelf life—up to 18 months—and a completely neutral taste. In 2012, the industry has substituted 40,000 tonnes of liquid eggs with Nutrilac®. The market price of eggs has not shown signs of declining and the trend is therefore expected to continue in 2013. AFI offers a broad range of whey protein products and the potential for innovation is good.

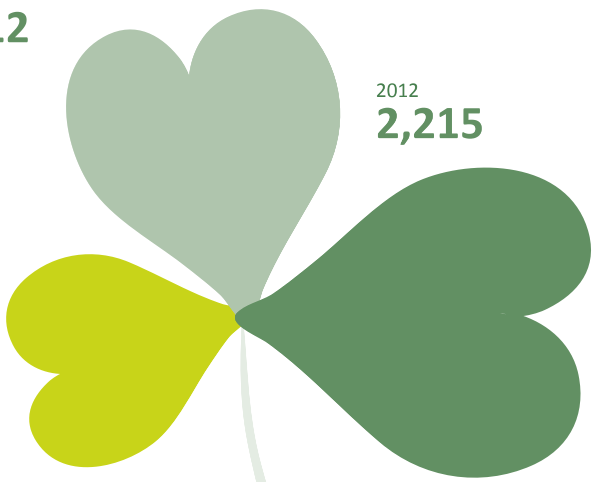
Financial development

AFI’s revenue rose by 10 per cent in 2012. The rise was primarily fuelled by improved market conditions for AFI’s protein and lactose products and an improved product mix. The year also produced moderate growth in volume driven by the lactose business and AFI’s joint venture in Argentina. In 2012, AFI moved closer to its 2015 goal of doubling net revenue compared with 2008. We see major improvements in the quality of commodities and this, in turn, has created the potential for even better end products. Moreover, the company has taken major steps towards having end products conform to kosher and Halal standards. The goal of Arla’s new consolidated strategy is to double AFI’s revenue by 2017. AFI has started formulating a specific action plan to be able to achieve this ambitious goal. Earnings have also risen.

2013 Outlook

AFI headed some of Arla’s biggest investments in 2012. One such venture was the construction of a modern lactose production facility in Northern Germany, the object of Arla’s and German DMK’s whey processing joint venture ArNoCo. The new plant is expected to go online in the fourth quarter 2013 and will be designed to process 700 million kg of whey into whey protein concentrate and lactose each year. We expect that this initiative will strengthen the business considerably.

In 2013, AFI will increase its volume by partnering with DMK (ArNoCo) and by increasing the quantities derived from our partner TINE in Norge. Additionally, AFI will continue to focus on minimising costs and improve efficiencies. Also, 2013 will be the year AFI will launch its strategy Quality 20/20, which will position AFI as the global market leader within highly refined whey protein and lactose products—also in the areas of product quality and customer service.



Revenue growth (mDKK)
The figures show net revenue for Arla's whey business without activities in joint ventures. In 2012, net revenue for Arla’ total whey business, incl. activities in joint ventures not consolidated in the Group, stood at DKK 3,149 million.

ARLA FOODS INGREDIENTS
Arla Foods Ingredients (AFI) is a global market leader within whey protein technology and one of Arla’s most profitable business units.
Chief Executive Officer: *Henrik Andersen*
Headquarters: *Aarhus, Denmark*
Number of employees: *451*
Product categories: *Products within the whey segment,including highly refined whey protein. One Arla facility in Denmark as well as five partnerships and joint ventures in Europe and South America.*

Mejericenter Slagelse, Denmark


Arla

CONSOLIDATED INCOME STATEMENT 1 JANUARY – 31 DECEMBER

(mDKK)	NOTE	2012	2011
Net revenue	2.1	63,114	54,893
Production costs	2.2	-48,413	-42,819
Gross profit		**14,701**	**12,074**
Research and development costs	2.2	-202	-173
Sales and distribution costs	2.2	-9,496	-7,819
Administration costs	2.2	-2,791	-2,436
Other operating income	2.3	402	164
Other operating costs	2.3	-185	-87
Results after tax in joint ventures	4.5	29	17
Results after tax in associates	4.5	44	15
Earnings before interest and tax (EBIT)		**2,502**	**1,755**
Specification:			
Earnings before interest, tax, depreciation and amortisation (EBITDA)		4,445	3,541
Depreciation, amortisation and impairment		-1,943	-1,786
Earnings before interest and tax (EBIT)		**2,502**	**1,755**
Financial income	5.1	101	143
Financial costs	5.1	-619	-448
Profit before tax		**1,984**	**1,450**
Tax	6.1	-89	-51
Profit for the year		**1,895**	**1,399**
Minority interests		-31	-29
Shareholders in Arla Foods amba		**1,864**	**1,370**

For the profit appropriation see page 63.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 1 JANUARY - 31 DECEMBER

(mDKK)	NOTE	2012	2011
Profit for the year		**1,895**	**1,399**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Actuarial gains/(losses) on defined-benefit plans etc.	5.7	-654	-452
Income tax on actuarial gains/(losses) on defined benefit plans		126	116
Items that may be reclassified subsequently to profit or loss:			
Deferred gains/(losses) on cash flow hedges arising during the year	5.4	68	-625
Value adjustment of hedging instruments reclassified to other operating income	5.4	-46	1
Value adjustment of hedging instruments reclassified to financial items	5.4	-39	52
Value adjustment of hedging instruments reclassified to production costs		11	-9
Value adjustments of financial assets for the year classified as held for sale		-4	-15
Foreign exchange adjustments of foreign entities		-59	68
Other adjustments		-71	-14
Income tax on items that may be reclassified to profit or loss		1	78
Other comprehensive income, net of tax		**-667**	**-800**
Total comprehensive income		**1,228**	**599**
Minority interests		1	9
Shareholders in Arla Foods amba		**1,227**	**590**

Comprehensive income is a new concept introduced with the transition to IFRS. Comprehensive income shows the value creation/impairment during the year. It covers income and changes in equity for the year that are not transactions with owners—e.g. the development in pension liabilities and hedging instruments. The milk price is only affected by the profit for the year and not by the changes in other comprehensive income.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(mDKK)	NOTE	31 DECEMBER 2012	31 DECEMBER 2011	1 JANUARY 2011
ASSETS				
Non-current assets				
Intangible assets				
Goodwill		4,622	3,904	3,744
Licenses and trademarks etc.		389	448	328
IT development		431	401	380
Total intangible assets	4.1	**5,442**	**4,753**	**4,452**
Property, plant and equipment				
Land and buildings		5,339	4,851	4,728
Plant and machinery		6,537	5,688	5,189
Fixtures and fittings, tools and equipment		780	667	649
Assets in course of construction		2,988	1,270	652
Total property, plant and equipment	4.3	**15,644**	**12,476**	**11,218**
Other non-current assets				
Investments in joint ventures	4.5	444	421	-
Investments in associates	4.5	1,906	264	634
Other securities and investments, etc.		544	560	550
Deferred tax assets	6.1	435	267	232
Total other non-current assets		**3,329**	**1,512**	**1,416**
Total non-current assets		**24,415**	**18,741**	**17,086**
Current assets				
Total inventories	3.2	6,034	5,321	4,350
Trade receivables	3.3	6,723	5,736	4,781
Amounts owed by join ventures		83	20	-
Amounts owed by associates		25	50	65
Derivatives	5.5	251	67	36
Current tax		82	81	11
Other receivables		600	313	293
Prepayments		153	180	186
Securities		4,021	4,088	2,888
Cash at bank and at hand		735	504	448
Total current assets excl. assets held for sale		**18,707**	**16,360**	**13,058**
Assets held for sale	4.6	356	45	-
Total current assets incl. assets held for sale		**19,063**	**16,405**	**13,058**
TOTAL ASSETS		**43,478**	**35,146**	**30,144**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(mDKK)	NOTE	31 DECEMBER 2012	31 DECEMBER 2011	1 JANUARY 2011
EQUITY AND LIABILITIES				
EQUITY				
Capital account		6,894	7,465	6,996
Delivery-based owner certificates		835	840	892
Contributed capital		1,628	682	233
Reserve for special purposes		969	-	-
Reserve fund B		-	500	500
Other reserves		-683	-614	-172
Equity before proposed supplementary payments to members		**9,643**	**8,873**	**8,449**
Proposed supplementary payments to members		1,112	491	1,031
Equity attributable to the parent company's members		**10,755**	**9,364**	**9,480**
Minority interests		163	162	153
Total equity		**10,918**	**9,526**	**9,633**
Non-current liabilities				
Pension liabilities	5.7	3,129	2,223	1,889
Other provisions	4.7	77	72	82
Deferred tax	6.1	93	120	194
Subordinate bond loan		-	-	1,000
Issued bonds		1,309	1,251	-
Mortgage credit institutions		5,943	5,970	4,943
Credit institutions etc.		4,626	1,828	1,427
Total non-current liabilities		**15,177**	**11,464**	**9,535**
Current liabilities				
Current portion of non-current liabilities		1,378	118	104
Bank loans and overdrafts		5,921	5,830	4,587
Trade payables	3.1	6,866	4,910	4,475
Amounts owed to joint ventures		-	3	-
Amounts owed to associates		15	14	1
Provisions	4.7	188	251	122
Derivatives	5.5	864	920	138
Current tax		27	29	51
Other payables		1,940	1,962	1,317
Deferred income		135	119	181
Total current liabilities excl. liabilities reg. assets held for sale		**17,334**	**14,156**	**10,976**
Liabilities regarding assets held for sale		49	-	-
Total current liabilities incl. liabilities reg. assets held for sale		**17,383**	**14,156**	**10,976**
Total liabilities		**32,560**	**25,620**	**20,511**
TOTAL EQUITY AND LIABILITIES		**43,478**	**35,146**	**30,144**

GROUP STATEMENT OF CHANGES IN EQUITY

(mDKK)

	CAPITAL ACCOUNT	DELIVERY-BASED OWNER CERTIFICATES	CONTRIBUTED CAPITAL	RESERVE FOR SPECIAL PURPOSES	RESERVE FUND B	RESERVE FOR VALUE ADJUSTMENT OF HEDGING INSTRUMENTS	RESERVE FOR FOREIGN EXCHANGE ADJUSTMENTS	PROPOSED SUPPLEMENTARY PAYMENTS TO MEMBERS	TOTAL	MINORITY INTERESTS	TOTAL EQUITY
Equity at 1 January 2012	**7,465**	**840**	**682**	**-**	**500**	**-667**	**53**	**491**	**9,364**	**162**	**9,526**
Profit for the year			283	469				1,112	1,864	31	1,895
Other comprehensive income	-568					-6	-63		-637	-30	-667
Total comprehensive income	**-568**	**-**	**283**	**469**		**-6**	**-63**	**1,112**	**1,227**	**1**	**1,228**
Issued capital to new members	14		678						692		692
Payments to members		-18	-19						-37		-37
Supplementary payments to members								-491	-491		-491
Transfer				500	-500						0
Exchange rate adjustments	-17	13	4						-		-
Total transactions with members	**-3**	**-5**	**663**	**-**		**-**	**-**	**-491**	**164**	**-**	**164**
Equity at 31 December 2012	**6,894**	**835**	**1,628**	**969**	**-**	**-673**	**-10**	**1,112**	**10,755**	**163**	**10,918**
Equity at 1 January 2011	**6,996**	**892**	**233**	**-**	**500**	**-172**	**-**	**1,031**	**9,480**	**153**	**9,633**
Profit for the year	606		273					491	1,370	29	1,399
Other comprehensive income	-338					-495	53		-780	-20	-800
Total comprehensive income	**268**	**-**	**273**	**-**		**-495**	**53**	**491**	**590**	**9**	**599**
Issued capital to new members	214		167						381		381
Payments to members		-54	-2						-56		-56
Supplementary payments to members								-1,031	-1,031		-1,031
Exchange rate adjustments	-13	2	11						-		-
Total transactions with members	**201**	**-52**	**176**	**-**		**-**	**-**	**-1,031**	**-706**	**-**	**-706**
Equity at 31 December 2011	**7,465**	**840**	**682**	**-**	**500**	**-667**	**53**	**491**	**9,364**	**162**	**9,526**

Equity

Equity consists of:

- Capital account, which comprises the enterprise's unallocated equity.
- Delivery-based owner certificates established in accordance with art. 19(1)(ii) of the Articles of Association and a related regulation. Individual members' balances on owner's certificate can, if relevant, be paid out upon cessation of membership of Arla Foods amba in accordance with the provisions set out in the regulation, including that the board of representatives approves the payment. The account is maintained in DKK and SEK.
- Contributed capital established in 2010 in accordance with art. 19(1)(iii) of the Articles of Association and an accompanying regulation. Individual members' contributed capital can, if relevant, be paid out upon cessation of membership of Arla Foods amba in accordance with the provisions set out in the regulation, including that the board of representatives approves the payment. The account is maintained in DKK, SEK, EUR and GBP. Amounts to the reserve via the yearly profit appropriation yield an interest of CIBOR + 1.5%. Amounts added to the reserve in connection with business combinations yield no interest.
- Reserve for special items: In 2011, the Board of Representatives decided to transfer the balance in Reserve Fund B of DKK 500 million to a new reserve 'Reserve for special items.' The enterprises' reserve for special items may, upon the Board of Director's proposal, only be applied by the Board of Representatives for the full or partial offsetting of material, extraordinary losses or impairments, cf. art. 19(3) of the Articles of Association.
- Reserve for hedge accounting comprise the fair value of derivative financial instruments classified as and meeting the conditions for hedging future cash flows and where the hedged transaction has not yet been realised.
- Reserve for exchange adjustments comprise rate differences arisen in the translation of accounts for foreign enterprises at a functional currency other than the presentation currency of the Group, value adjustments relating to assets and liabilities that constitute part of the Group's net investment in such enterprises and value adjustments relating to hedging transactions that hedge the Group's net investment in such enterprises. As at the transition date to IFRS, the Group—in accordance with IFRS 1—has decided to set this reserve at zero, which means that only foreign exchange rate adjustments after 1 January 2011 will be separated as a special reserve under equity.
- Supplementary payments to members are recognised at a payable from the time the board of representatives approved payment to the members.

Non-impairment clause

Under the Article of Associations, no payments may take place to Arla Foods amba that impair the sum of the enterprise's capital account and equity accounts prescribed by law, including equity accounts 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 reserves, reserve for special purposes and proposed supplementary payments to members are not covered by the non-impairment clause.

Minority interests
Items from subsidiary enterprises are fully recognised in the consolidated financial statements. Minority interests' shares of the results for the year and of the equity in the subsidiaries not wholly owned are recognised as part of the consolidated results, respectively, equity, but are listed separately.

On initial recognition, minority interests are measured at either the fair value of the ownership share or the proportional share of the fair value of the acquired enterprises' identified assets, liabilities and contingent liabilities. The measurement of minority interest is selected on a transactional basis and disclosure is made in the note pertaining to business combinations.

Financial review
At 31 December 2012, equity stood at DKK 10,918 million, a rise of DKK 1,392 million over 31 December 2011. Solvency measured as equity in relation to the balance sheet total declined by 25% as at 31 December 2012 compared to 27% last year.

In accordance with Arla's consolidation policy, 4.5% of the year's Arla performance price was consolidated by one-third to individual member accounts (paid-in capital) and two-thirds to the collective capital equity (capital account). Previous consolidated profits from paid-in capital entitle members to an annual interest rate of CIBOR + 1.5%. Interest is paid out along with additional payments. If a member resigns or retires, the deposit into his or her account (delivery-based owner certificates and paid-in capital) will be paid out subject to the approval of the Board of Representatives.

Balances on individual accounts are denominated in the currency relevant to the country in which the member is registered. Thus, Danish and Swedish members have balances in denominations of, respectively, DKK and SEK. Balances on paid-in capital belonging to corporate members (Hansa Milch, MUH and Milk Link) are denominated in, respectively, EUR and GBP. Exchange rate adjustments are calculated annually, the amount of which are then transferred to the capital account.

Year's results
In 2012, Arla performance price stood at DKK 2.71 compared to DKK 2.81 in 2011. Profits for consolidation were DKK 917 million, with DKK 306 million consolidated to reserve for special purposes and DKK 611 million to the capital account (2011: DKK 273 million to paid-in capital and DKK 606 million to the capital account). In respect of the MUH and Milk Link mergers at 1 October 2012, it was decided to pay out DKK 165 million in connection with the 2012 income distribution to members who were members before the merger. It was furthermore decided that the amounts which the members in MUH and Milk Link should have consolidated on individual accounts up to 1 January 2016 will be transferred to the capital account. As for 2012, the amount represents DKK 23 million. Accordingly, a net amount of DKK 283 million will be transferred to the contributed capital and DKK 469 million to a special-purposes reserves account, whereas proposed supplementary payment amounts to DKK 1,112 million, of which interest on the contributed capital amounts to DKK 16 million.

Additions
At 1 October 2012, Arla Foods amba merged with MUH, which made MUH a member of Arla Foods amba. As part of the transaction, Arla Foods amba issued DKK 277 million on its paid-in capital account and DKK 14 million on its capital account.

At 1 October 2012, Arla Foods amba merged with Milk Link, which made Milk Link a member of Arla Foods amba. As part of the transaction, Arla Foods amba issued DKK 396 million on the paid-in capital.

In addition, an amount of DKK 5 million was corrected relating to the merger with Hansa Milch in 2011.

Payments to members
After the transition to IFRS, additional payments will no longer be deducted from equity until they are approved by the Board of Representatives. In March 2012, a resolution was passed to pay out DKK 491 million in additional payments and interest on paid-in capital in connection with the 2011 income distribution. Additionally, in 2012 DKK 37 million was paid out to members who had decided to leave the company in 2011. Additional payments and interest on paid-in capital for 2012 stood at DKK 1,112 million, which - subject to adoption by the Board of Representatives - will be paid out in March 2013.

It is expected that DKK 27 million will be paid out in 2013 regarding left members. The payment is subject to approval by the Board of Representatives.

Other adjustments
Other adjustments for the year are primarily attributable to adjustments of hedging instruments regarding foreign currencies and interest rate risks as well as foreign exchange adjustments rela-ted to the translation of net assets in foreign reporting entities, including subordinated loans, which is considered to form part of the investment. To this should be added foreign exchange ad-justment of balances on individual accounts relating to SEK, EUR and GBP, respectively, see above.

Please see Note 5 Financial matters for a more detailed discussion of financial matters.

PROFIT APPROPRIATION

(mDKK)	2012	2011
Profit for the year	1,895	1,399
Minority interests	-31	-29
Arla Foods ambas share of profit for the year	1,864	1,370
Proposed profit appropriation:		
Supplementary payment for milk	1,096	483
Interest on contributed capital	16	8
Supplementary payment, total	**1,112**	**491**
Transferred to equity:		
Capital account	0	606
Reserve for special purposes	469	-
Contributed capital	283	273
Transferred to equity, total	**752**	**879**
Apportioned profit, total	**1,864**	**1,370**

GROUP CASH FLOW STATEMENT 1 JANUARY – 31 DECEMBER

(mDKK)	NOTE	2012	2011
Cash flows from operating activities:			
Profit for the year		1,895	1,399
Depreciation and impairment	2.2	1,943	1,892
Share of results in joint ventures and associates	4.5	-73	-32
Profit/loss from disposal of enterprises and properties, etc.		-59	3
Change in deferred taxes		21	-78
Change in inventories		573	-378
Change in trade and other receivables		-433	-160
Change in provisions		-300	-389
Change in trade and other payables etc.		146	381
Other operating items without cash impact		18	-236
Financial income	5.1	-101	-79
Financial costs	5.1	619	393
Tax paid		-88	-78
Total Cash flow from primary activities		**4,161**	**2,638**
Interest paid		-431	-396
Interest received		69	59
Total Cash flow from operating activities		**3,799**	**2,301**
Cash flows from investing activities:			
Investment in intangible fixed assets	4.1	-136	-144
Sale of intangible fixed assets	4.1	19	-
Investment in property, plant and equipment	4.3	-3,303	-2,165
Sale of property, plant and equipment	4.3	37	6
Investment in financial assets		-1,701	-30
Acquisition of enterprises	4.4	-289	-149
Sale of enterprises		53	-
Total Cash flow from investing activities		**-5,320**	**-2,482**
Cash flows from financing activities:			
Supplementary payment regarding the previous financial year		-491	-1,031
Paid out from equity regarding terminated member contracts		-37	-56
Loans obtained, net		1,674	1,492
Change in current liabilities		680	1,015
Net change in marketable securities		-78	-1,175
Total Cash flow from financing activities		**1,748**	**245**
Change in cash funds		**227**	**64**
Cash funds at 1 January		504	448
Exchange rate adjustments of cash funds		3	-8
Cash funds at 31 December		**734**	**504**

Cash flow statement
The consolidated cash flow statement is presented according to the indirect method based on the consolidated income statement. The cash flow statement shows the cash flows by operating, investing and financing activities as well as how these cash flows have affected cash and cash equivalents.

- Cash flows from operating activities are measured as the Group's portion of the results for the year adjusted for operating items with no effect on the cash flows.
- Cash flows from investing activities comprise payments made in connection with the acquisition and divestment of intangible and property, plant and equipment, enterprises and activities as well as other non-current assets. The effect on the cash flow from the acquisition and divestment of enterprises are shown separately under cash flows from investment activities. Acquired enterprises' cash flows are recognised as at the date of acquisition, and divested enterprises' cash flows are recognised up until the date of divestment.
- Cash flows from financing activities comprise the raising and repayment of current and non-current liabilities to credit institutions, mortgage banks, payments to members relating to the previous fiscal year and payments from equity.

Cash flows in foreign currencies other than the functional currency are translated at average exchange rates to the extent these do not deviate significantly from the transaction date rates.

Cash and cash equivalents
Cash and cash equivalents consist of readily available cash and deposits in banks. Cash and cash equivalents are stated in the foreign currency translated to the foreign exchange rate at the reporting date.

Cash and cash equivalents comprise cash and cash equivalents as well as exchange listed debt securities for which there are only insignificant risk of changes in value and that can readily be converted to cash and cash equivalents. Additionally, the remaining life from the date of acquisition will be less than three months.

Financial review
Cash flows from operating activities were DKK 3,799 million in 2012 compared with DKK 2,301 million in 2011. The reduction in cash flows from operating activities represented a decline of DKK 1,498 million.

Working capital—the sum of inventories and trade receivables less trade payables—stood at DKK 5,891 million at 31 December 2012 compared with DKK 6,147 million in 2011. Arla sharpened its focus on increasing cash flows from operating activities (Programme Zero). The positive effect of this was offset by mergers and acquisitions as well as the effect of rising revenue.

Cash flows from investment activities were DKK -5.320 million compared with DKK 2,482 million in 2011. The year's investments in property, plant and equipment stood at DKK -3,303 million.

Free cash flows totalled DKK -1,521 million in 2012 compared with DKK –181 million in 2011. These are calculated as cash flows from operating activities less cash flows from investment activities.

This development was primarily related to investments in capital stock. Cash flows from financing activities were DKK 1,748 million. Cash and cash equivalents combined represented DKK 734 million, compared with DKK 504 million in the previous year.

OVERVIEW OF NOTES AND ACCOUNTING POLICY

Beginning in 2012, Arla began presenting its consolidated financial statements and annual financial statements in accordance with the International Financial Reporting Standards (IFRS) as approved by the EU, supplemented by the Danish financial reporting standards.

The transition date to IFRS was 1 January 2011 for application of the standards that apply to 2012. In accordance with IFRS, comparative figures are restated so that the half-year financial statements are in compliance with the IFRS.

The notes and accounting policy sections are divided into areas that describe the various aspects of the accounts. The notes also include the accounting policy, estimates and uncertainties, figures and a brief review with comments on the figures.

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

Consolidated financial statements
The consolidated financial statements include Arla Foods amba (parent company) and the subsidiary enterprises in which the parent company, directly or indirectly, holds more than 50% of the voting rights or otherwise maintains control. Enterprises with joint control are considered joint ventures. Enterprises in which the Group exercises significant but not controlling influence are considered associated enterprises. Significant influence is typically attained by holding or having at one's disposal, directly or indirectly, in excess of 20 per cent but less than 50 per cent of the voting rights in an enterprise. For acquisitions of enterprises and when signing new partnership agreements, an assessment is made whether to classify the acquired enterprise as a subsidiary, joint venture or associated enterprise. This assessment is made on the basis of executed agreements for acquiring ownership or voting rights in the enterprise and on the basis of executed shareholder agreements, etc., which will establish the actual control of the enterprise. In determining the scope of the influence, the assessment takes into account potential voting rights as they exist on the reporting date.

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 policy. Intragroup income and costs are eliminated from the financial statements as are shareholdings, etc., internal balances and dividends. Realised and unrealised profits and losses from transactions between joint ventures and associated enterprises are eliminated in proportion to the Group's ownership interest in the enterprise. Unrealised losses are eliminated to the extent that there is no evidence of impairment.

Translation of transactions and monetary items in foreign currencies
For each of the reporting enterprises in the Group, a functional currency is established, which is the currency that is used in the primary financial environment in which the individual reporting enterprise operates. Transactions in currencies other than the functional currency are transactions in foreign currencies.

On initial recognition, transactions in foreign currencies are translated into the functional currency at the transaction date rate. Foreign exchange rate differences arising between the exchange rates at the transaction date and the payment date are recognised in the income statement under financial items.

Receivables, liabilities and other monetary items in foreign currencies are translated into the functional currency at the exchange rate on the reporting date. The difference between the rate of exchange at the reporting date and the date the receivable or liability was incurred, or the rate specified in the last annual report, is recognised in the income statement under financial items.

Future standards
The IASB have published the following new accounting standards (IAS and IFRS) and interpretations (IFRIC), which were not mandatory for Arla when the 2012 Annual Report was prepared: IFRIC 20, IFRS 9-13, various amendments to IFRS 10,11 and 12, IAS 19 (2011), 27 (2011), 28 (2011), amendments to IFRS 1 and 7, amendments to IAS 1, 27 and 32 as well as improvements to IFRSs (2009–2011).

The EU has not yet approved IFRS 9, amendments to IFRS 1, 10, 11, 12 and IAS 27 nor Improvements to IFRSs (2009–2011).

Standards and interpretations that have been approved but have not yet entered into force are implemented as they become mandatory for Arla. The new standards and interpretations are not expected to affect the financial statements in any material manner.

NOTE 1. EFFECT OF TRANSITION TO IFRS

The opening financial position at 1 January 2011 was prepared as if these policies and interpretations had always been applied, with the exception of special provisions relating to the transition and entry into force described in the following. Comparative figures have been adjusted.

IAS 1 Presentation of the Statement of Comprehensive Income was implemented early.

The consolidated effects in the statements of income, financial position and cash flows are shown in the overview below with explanatory notes:

		1 JANUARY 2011			31 DECEMBER 2011			
(mDKK)		ASSETS	LIABILITIES	EQUITY	RESULT 2011	ASSETS	LIABILITIES	EQUITY
In accordance with the Danish Financial Statements Act		30,097	21,517	8,580	1,332	34,903	25,575	9,328
Goodwill	1				252	252		252
Pension obligations	2		305	-305	11		758	-758
Minority interest	3		-153	153			-168	168
Supplementary payments	4		-1,031	1,031			-491	491
Members leaving	5		-56	56			-20	20
Restructuring costs	6				-57	-57		-57
Negative goodwill	7		-117	117	-108		-11	11
Inventories	8	-35		-35	-2	-37		-37
Put options for the purchase of non-controlling items	9		35	-35			35	-35
Other adjustments	10		11	-11	-42	-34	41	-75
Tax effect of the above items	11	82		82	13	119	-99	218
Total adjustments		**47**	**-1,006**	**1,053**	**67**	**243**	**45**	**198**
In accordance with IFRS		**30,144**	**20,511**	**9,633**	**1,399**	**35,146**	**25,620**	**9,526**
Other comprehensive income					-800			
Total comprehensive income					**599**			

1. Goodwill is no longer amortised in the income statement. Instead, the Group performs annual impairment tests and tests when there are indications of a need for impairments. Goodwill is also tested at the transition to IFRS. Until this point in time, goodwill has been amortised on a straight-line basis over its economic life, but no longer than 20 years. At the transition to IFRS, the Group has exercised the exemption provision of IFRS 1, which provides the opportunity to use the carrying value of goodwill as the new cost price in the opening balance sheet as at 1 January 2011.
2. Previously, pension liabilities were recognised by applying the corridor approach. In its transition to IFRS, Arla has decided to recognise the pension liability fully in the balance sheet with all future actuarial gains and losses directly under comprehensive income. Pension liabilities remain recognised under IAS 19 but, unlike previously, include taxes related to the pension plan.
3. Under IAS 1, minority interests must be included as part of the equity and as part of the results for the year. Under the Danish Financial Statements Act, minority interests placed as separated items not included in equity and the results for the year.
4. Expected supplementary payments, which previously were classified as debt, are regarded as dividends, which in accordance with IAS 1 are classified under equity until approved by the board of representatives.
5. Expected payments to retired members are presented under equity until approved by the Board of Representatives.
6. Restructuring costs, previously recognised as part of the purchase price allocation in connection with business combinations, are recognised in the income statement under IFRS as they are incurred, which reduced the previously recognised goodwill.
7. Negative goodwill in no longer recognised in the balance sheet, but is recognised as income immediately in the income statement. The recognised negative goodwill is reversed over the equity as at 1 January 2011.
8. Expected supplementary payments are regarded as dividends and are therefore not included in the cost price in the inventory.
9. Put options for purchases of minority items are recognised under IFRS as a liability in the balance sheet. The liability is measured on an ongoing basis to fair value with value adjustments in the income statement.
10. Other adjustments contain, among other things, transaction costs that have been recognised previously as part of the purchase price for business combinations as well as value adjustments of financial assets available for sale.
    Under the Danish Financial Statements Act, the bond portfolio is measured at fair value with changes made directly in the income statement. Under IFRS, the bond portfolio is classified as financial assets available for sale that are measured at fair value with value adjustments over other comprehensive income. The bond portfolio was used as hedge instrument to changes in the fair value of the related mortgage debt. The fair value of these totalled DKK 3,951 million as at 31 December 2011.
11. Deferred tax relating to changes made to the accounting policies is recognised and can largely be attributed pension liabilities.

In the transition to IFRS, Arla has re-estimated the useful life and residual life for the Group's assets in connection with the breakdown of property, plants and equipment. The changed estimates will only have a minimal effect on depreciations over the coming years. This has not affected the 2011 results.

Reclassifications
In addition to the change in accounting policy, the following reclassifications and changes in the presentation form have been implemented with adapted 2011 comparative figures.

- The assets are presented as either non-current or current assets whereas previously they had been classified as property, plant and equipment or current assets.
- Provisions are no longer presented as a separate principal group in the statement of financial position but under non-current and current liabilities.
- Costs related to research and development are reclassified and presented in a separate line in the income statement.
- Under IFRS, investments in financial assets including bonds are classified only as cash and cash equivalents in the cash flow statement if the maturity at the time of acquisition does not exceed three months.

Applied mitigation measures
In connection with the transition to IFRS, the Group has applied the following mitigation measures in IFRS 1:

Borrowing costs
In accordance with IFRS 1, Arla has omitted recognising borrowing costs for qualified assets, if construction was commenced before 1 January 2011.

Cumulative foreign exchange rate differences relating to investments in foreign enterprises
Exchange rate adjustments in the translation of income statement and balance sheet for foreign entities are recognised as previously under other comprehensive income under a special reserve for exchange rate adjustments in the equity. As at 1 January 2011, in accordance with IFRS 1, the Group has decided to set this reserve at zero, so that only foreign exchange rate adjustments after 1 January 2011 will be separated under a special reserve under equity.

Business combinations
In accordance with the mitigation options specified in IFRS 1, Arla Foods has decided to implement IFRS 3 prospectively for business combinations executed after the transition date. The carrying value of goodwill as at 1 January 2011 under the Group's previous accounting policy is considered the new cost price for good will in the opening financial position. Value impairment testing of goodwill at the time of transition has not given rise to impairment of the recognised goodwill, since the recoverable amount exceeds the carrying amount of the goodwill.

NOTE 2. PRIMARY ACTIVITIES

This note section focuses on the Group's performance. The specifications include disclosures about the distribution of revenue across business areas and product categories. Organic growth from which the impact of mergers, acquisitions as well as foreign currencies have been eliminated. The note also contains additional information about total costs, with milk being Arla's biggest cost item by far.

The note states the weighing-in figures from owners as well as contract suppliers. The total cost is presented as the paid on-account price for the milk. Additional payments are generated as part of the Group's distribution of income and are therefore not included under costs. Additionally, there are disclosures related to payroll costs as well as depreciations and impairment costs.

NOTE 2.1. REVENUE

Accounting policies
Revenue is recognised in the income statement when delivery and risk have been transferred to the buyer and if the income can be measured reliably and is expected to be received. Revenue comprises invoiced sales for the year, less sales rebates, cash discounts, and VAT and duties.

Revenue per business group split by geographic markets and product categories is based on the Group's internal financial management.

NOTE 2.1.a REVENUE SPLIT BY BUSINESS GROUP/MARKET	2012		2011
(mDKK)	ORGANIC GROWTH	REVENUE	REVENUE
Consumer:			
United Kingdom	6.8%	15,760	12,751
Sweden	-1.4%	11,823	10,668
Finland	7.7%	2,421	2,250
Denmark	1.0%	6,837	6,766
Germany	N/A[1]	6,891	4,443
Netherlands	-4.9%	1,495	1,574
Core markets total	0.3%	45,227	38,452
Russia	27.6%	634	484
Middle East and Africa	22.2%	3,045	2,371
China	57.2%	78[2]	49
Other growth markets	-4.0%	883	882
Growth markets total	**17.3%**	**4,640**	**3,786**
Value markets	3.3%	4,230	4,014
Others	-	9,017	8,641
Total revenue	2.1%	**63,114**	**54,893**

[1] Not measured due to acquisitions and mergers as well as restructuring
[2] Arla's total revenue to China is approx. DKK 750 million, of which DKK 78 million concerns direct sales to consumers in Consumer International.

NOTE 2.1.b REVENUE SPLIT BY PRODUCT CATEGORY	2012		2011	
(mDKK)	REVENUE	REVENUE SHARE	REVENUE	REVENUE SHARE
Fresh dairy products	26,730	42.4%	22,370	41.3%
Cheese	15,727	24.9%	13,206	24.1%
Butter and spreads	8,865	14.0%	7,614	13.9%
Other	11,792	18.7%	11,703	20.7%
Total revenue	**63,114**	**100%**	**54,893**	**100%**

Financial review
Net revenue in 2012 totalled DKK 63.1 billion compared to DKK 54.9 billion in 2011, a rise of 15.0 per cent. Organic growth for 2012 represented 2.1 per cent of this amount. The mergers of 2011 and 2012 affected net revenue by DKK 5.4 billion, of which new mergers in 2012 increased revenue by, respectively, DKK 1.3 billion from MUH and DKK 1.2 billion from Milk Link. Sales prices increased net revenue by DKK 0.7 billion over 2011, which was primarily a result of an increase in market prices.
Additionally, net revenue rose by DKK 0.1 billion because of greater volumes and a change in product mix.
With regard to net revenue, DKK 45.2 billion was realised in Arla's core markets, or 71.7 per cent of total revenue.
The markets were stagnant which resulted in organic growth of 0.3 per cent. Emerging markets net revenue of DKK 4.6 billion rose by 22.6 per cent in 2012, or 7.4 per cent of total net revenue. Russia and the Middle East showed particularly high growth rates. In 2012, net revenue in the value markets stood at DKK 4.2 billion, or 6.7 per cent of total net revenue.
Other revenue was primarily related to whey activities in Arla Foods Ingredients (AFI) as well as trading. The trading share fell slightly compared to last year because of higher sales of value-processed products, which generate higher earnings.

Growth in 2012 net revenue was realised across all product categories. Volumes for fresh products, cheese as well as butter and mixed products all exhibited high growth rates. However, this should be seen in the context of executed mergers and acquisitions in both 2011 and 2012 in Germany, the United Kingdom and Sweden, which added to the volume across all three product categories. The highest growth in revenue was within fresh products and cheese; both product categories rose by 19 per cent in 2012. The fresh product category is Arla's biggest. It mainly includes drinking milk, cream and yoghurt—with especially drinking milk exhibiting very high growth in revenue in 2012. The sale of cheese is primarily distributed across yellow cheese and cheese spread, but white cheese volumes are especially on the rise.

NOTE 2.2. COSTS

Accounting policies

Production costs
Production costs comprises the purchase of goods (including the purchase of milk from members) and direct and indirect costs (including depreciations and impairments of manufacturing plants, etc. as well as payroll costs) related to the revenues for the year. The purchase of milk from members is recognised at the on-account prices for the accounting period and therefore does not constitute supplementary payments.

Research and development costs
Research and development comprise direct costs, payroll costs and depreciations and impairments that, directly or indirectly, can be attributed to the Group's development activities.

Capitalisation of product development costs will only take place if the criteria are met. Development projects that are clearly defined and identified and where the technical utilisation, sufficient resources and a potential market or development opportunities can be documented, and where the Group intends to manufacture, market or use the product commercially, are recognised under intangible assets. Normally, these criteria are met late in the development phase.

Product development costs that meet the criterion for recognition in the balance sheet are measured at cost, incl. indirectly incurred costs. Borrowing costs from specific and general borrowings that concern the development of development projects and where the project is commenced after the transition to IFRS are also recognised under the cost.

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

Sales and distribution costs
Costs incurred for the sale and distribution of goods sold over 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, impairments of amounts receivables, costs relating to sponsorships, advertising and exhibits and depreciation and impairments are also recognised as sales and distribution costs.

Administrative and joint costs
Administration comprise costs incurred over the course of the year relating to management and administration, including costs relating to administrative personnel, office premises and office costs as well as depreciations and impairments.

NOTE 2.2.a COSTS	2012	2011
(mDKK)		
Production costs	-48,413	-42,819
Research and development costs	-202	-173
Sales and distribution costs	-9,496	-7,819
Administration costs	-2,791	-2,436
Total	**-60,902**	**-53,247**
of this:		
Cost of raw milk	-26,625	-24,290
Staff costs	-7,753	-7,025
Depreciation, amortisation and impairment	-1,943	-1,786
Other costs	-24,581	-20,146
Total	**-60,902**	**-53,247**

NOTE 2.2.b COST OF RAW MILK	2012	2011
(mDKK)		
Cost of raw milk from owners	-19,127	-17,634
Cost of other milk	-7,498	-6,656
Total cost of raw milk	**-26,625**	**-24,290**
Inflow of raw milk:		
Inflow owners	7,529	6,508
Inflow other	2,881	2,733
Total million kg milk weighed in	**10,410**	**9,241**

NOTE 2.2.c STAFF COSTS	2012	2011
(mDKK)		
Wages, salaries and remuneration	-6,543	-5,861
Pensions - defined benefit plans	-26	-13
Pensions - defined contribution plans	-416	-489
Other social security costs	-768	-662
Total staff costs	**-7,753**	**-7,025**
Staff costs relate to:		
Production costs	-4,295	-3,935
Research and development	-77	-61
Sales and distribution costs	-2,372	-2,232
Administration and joint costs	-1,009	-797
Total staff costs	**-7,753**	**-7,025**
Average number of full time employees	18,112	17,417

NOTE 2.2.d DEPRECIATION, AMORTISATION AND IMPAIRMENT	2012	2011
(mDKK)		
Intangible assets, amortisation	-177	-186
Property, plant and equipment, depreciation	-1,698	-1,522
Property, plant and equipment, impairment writedowns	-68	-78
Total depreciation, amortisation and impairment	**-1,943**	**-1,786**
Depreciation/amortisation and impairment relate to:		
Production costs	-1,499	-1,383
Research and development	-8	-6
Sales and distrícution costs	-144	-152
Administration and joint costs	-292	-245
Total depreciation, amortisation and impairment	**-1,943**	**-1,786**

Financial review
Total production, research and development costs, sales and distribution costs and administration and shared costs have risen 14 per cent, which are in step with the rise in revenue. Mergers and acquisitions account for DKK 5.6 billion, or 10.5 per cent, of this increase. Average exchange rates for SEK and GBP rose in 2012, with the foreign exchange rate increasing the costs by DKK 1.6 billion.

Total milk costs cover both the on-account price of milk weighed-in from owners and the cost of milk from other suppliers. Total milk costs have risen by 6.4%, while revenue has increased slightly more. The current price for the Arla listing for milk (on-account price) declined in the first six months of 2012 and then rose again in the second half-year 2012. In 2012, the average current price stood at DKK 2,43 compared with DKK 2,59 for 2011.
The weighing-in of milk in Sweden, Germany and the United Kingdom increased as a result of the 2011 and 2012 mergers. The weighing-in in each country is controlled by milk quotas and therefore generally rises or falls within the general quota range unless structural changes occur, such as the 2011 and 2012 mergers. Weighing-in from other suppliers is primarily derived from the United Kingdom.

Regarding business combinations a total of DKK 39 million in transaction costs is recognised in 2012 compared to DKK 56 million in 2011.

Amortisation of intangible assets stood at DKK 177 million compared with DKK 186 million in 2011. Depreciation of property, plant and equipment totalled DKK 1,721 million, a rise of DKK 199 million compared with 2011.

NOTE 2.3 OTHER OPERATING INCOME AND OTHER OPERATING COSTS

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

NOTE 2.3.a OTHER OPERATING INCOME	2012	2011
(mDKK)		
Gain on disposal of intangible assets and property, plant and equipment	64	13
Gain on divestment of enterprises	78	0
Sale of electricity	59	64
Rental and other secondary income	34	7
Other items	167	80
Total other operating income	**402**	**164**

NOTE 2.3.b OTHER OPERATING COSTS	2012	2011
(mDKK)		
Loss on disposal of intangible assets and property, plant and equipment	-30	-10
Costs related to sale of electricity	-42	-37
Financial instruments	-46	-
Other items	-67	-40
Total other operating costs	**-185**	**-87**

Financial review
The item other operating income and expenses pertains to financial items of a secondary nature. These include income and expense items related to the sale of surplus power from condensation plants. In 2012, total net results related to this were DKK 17 million, compared with DKK 27 million in 2011. Profits related to disposals of fixed assets have been recognised under operating income with DKK 34 million compared with DKK 13 million in 2011. In 2011, losses of DKK 10 million were recognised under operating costs. However, there was no recognition of losses relating to fixed assets disposals in 2012.

In 2012, there were profits from the disposal of enterprises of DKK 78 million, primarily attributable to the sale of the subsidiary Arla Foods S.p.Z.o.o. in Poland and the ownership interest in Mengniu Arla Dairy Products Co, with the latter sale taking place in connection with the new investment in COFCO Dairy Holding Limited, China. The item other operating income includes distribution of DKK 58 million made by the Danish Dairy Employers' Association (Mejeribrugets Arbejdsgiverforening). Other operating income for 2011 include negative goodwill of DKK 24 million from Allgäuland.

NOTE 3: WORKING CAPITAL

This note shows the outflows of assets used to generate the enterprise's business performance.

At Arla, we are focusing on reducing funds tied up in the primary working capital: inventories and trade receivables, less trade payables.

NOTE 3.1. NET WORKING CAPITAL

Accounting policies

Net working capital

Inventories
Inventories are measured at cost according to the FIFO method. Where the cost exceeds the net recoverable amount, the amount is written down to this lower amount. The net realisable value is established taking into account the inventories' negotiability, marketability and estimate of the sales price, less completion costs and costs incurred to execute the sale.

The cost of raw materials and consumables as well as commercial goods includes the purchase price plus delivery costs. The on-account price for Arla Goods amba's members is used as the purchase price for member-delivered milk that is recognised in the inventories.

The cost of goods in progress and manufactured goods consist of raw materials and consumables' purchase price plus processing costs and other costs that are, directly or indirectly, attributable to the individual goods. Indirect production costs include costs relating to indirect materials and wages as well as depreciation of production plants, etc.

Trade receivables
Trade receivables are recognised at amortised cost, less impairments as provision for losses measured on the basis of an individual assessment or impairment in groups at portfolio level. Major receivables are assessed on an individual basis.

If there are no objective signs of value impairment, an assessment is made at portfolio level of receivables in equivalent markets on the basis of the receivables' age and maturity profile as well as historical record of losses. Impairments are measured as the difference between the carrying amount and the present value of anticipated cash flows. Amortised cost substantially corresponds to nominal values.

Trade payables
Trade payables are measured at amortised cost, which usually corresponds to the nominal 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 net realisable value for inventories is measured as the sales price less completion costs necessary to execute the sale and it is established by taking into account their negotiability, obsolescence and anticipated sales price developments. The computation of the net realisable value is particularly relevant to discounted products and bulk products to be sold in the world market.

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

NOTE 3.1 PRIMARY NET WORKING CAPITAL	31.12.2012	31.12.2011
(mDKK)		
Inventories	6,034	5,321
Trade receivables	6,723	5,736
Trade payables	-6,866	-4,910
Total primary net working capital	**5,891**	**6,147**
Payables for member milk	-1,677	-1,120
Total primary net working capital excl. member milk	**4,214**	**5,027**

NOTE 3.2 INVENTORY	31.12.2012	31.12.2011
(mDKK)		
Inventory, gross	6,115	5,390
Provision for writedowns	-81	-69
Total inventory	**6,034**	**5,321**
Raw materials and consumables	1,464	1,601
Work in progress	534	570
Finished goods and goods for resale	4,036	3,150
Total inventory	**6,034**	**5,321**

NOTE 3.3 TRADE RECEIVABLES	31.12.2012	31.12.2011
(mDKK)		
Trade receivables		
Trade receivables before provision for bad debt	6,805	5,818
Write down to bad debt	-82	-82
Total trade receivables, net	**6,723**	**5,736**
Write down to bad debt 1. January	82	80
Exchange rate adjustments	-	1
Additions regarding M&A	1	7
Used write downs	-1	-6
Write down to bad debt 31. December	**82**	**82**

Financial review
In order to release money for growth, systematic efforts have been made in recent years to reduce money tied up in working capital. Processes across the cooperative have been optimised, and terms of payment to both customers and suppliers have been focused on. Measures have also been taken to reduce money tied up in inventories. The result of these efforts is not yet fully reflected in the consolidated financial statements, primarily due to business combinations and the development in foreign exchange rates. The mergers carried out with Milk Link and MUH solely resulted in an increase in working capital of DKK 1.7 billion at October 2012 broken down on DKK 1 billion on trade receivables, DKK 1.3 billion on inventories and DKK 0.5 billion from trade payables.

Write down to bad debt losses remains unchanged at DKK 82 million, and the Group only realised insignificant bad debt losses in 2012.

NOTE 4: OTHER OPERATING ASSETS AND OTHER OPERATING LIABILITIES

In this note, both the Group's intangible assets and property, plant and equipment are specified and their development and any depreciation. Intangible assets and property, plant and equipment represent the majority of the Group's fixed assets.

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

An important area for Arla is business combinations, which in 2012 comprised acquisitions of Milk Link in the United Kingdom and Milch-Union Hocheifel eG (MUH) in Germany. This note outlines the effect of these acquisitions.

The note furthermore contains information about assets held for sale as well as general provisions.

NOTE 4.1. INTANGIBLE ASSETS

Accounting policies
Goodwill
On initial recognition, goodwill is recognised at cost as described under 'Business combinations.' At the transition to IFRS, the carrying amount for goodwill on 1 January 2011 is considered the new cost for goodwill under IFRS. Goodwill is subsequently measured at cost less any accumulated impairment losses. The carrying amount of goodwill is allocated to the Group's cash flow generating entities that follow the management structure and internal financial management.

Licenses and trademarks, etc.
A license is an authorisation used the material for which a license is granted. A trademark is a characteristic or mark used by an enterprise to indicate that the products or services with which the trademark is shown originate from a unique source, and it is used to differentiate the enterprise's products or services from those of other enterprises. Licenses and trademarks, etc. are amortised applying the straight-line approach, however with a maximum of 20 years.

IT development
IT development is the use of studies or other knowledge to plan or design the development of new or significantly improved IT processes, systems or services before they are used commercially. For IT development, primarily external costs are recognised that are incurred for the establishment of the Group's IT systems. IT development is depreciated on a straight-line basis over five to eight years.

NOTE 4.1.a INTANGIBLE ASSETS 2012 (mDKK)	GOODWILL	LICENCES AND TRADEMARKS ETC.	IT DEVELOPMENT
Cost at 1 january 2012	3,904	770	1,260
Exchange rate adjustments	62	7	1
Additions	-	18	118
Mergers and acquisitions	656	4	22
Reclassification	-	5	11
Disposals	-	-23	-15
Cost at 31 December 2012	**4,622**	**781**	**1,397**
Amortisation and impairments at 1 January 2012	-	-322	-859
Exchange rate adjustments	-	-4	-1
Amortisation for the year	-	-63	-113
Reclassification	-	-5	-5
Amortisation on disposals	-	2	12
Amortisation and impairment at 31 December 2012	**-**	**-392**	**-966**
Carrying amount at 31 December 2012	**4,622**	**389**	**431**

NOTE 4.1.a INTANGIBLE ASSETS *(continued)*

2011 (mDKK)	GOODWILL	LICENCES AND TRADEMARKS ETC.	PRODUCT DEVELOPMENT	IT DEVELOPMENT
Cost at 1 january 2011	3,744	587	86	1,038
Exchange rate adjustments	40	3	-	7
Additions	-	-	-	144
Mergers and acquisitions	120	200	-	1
Reclassification	-	-19	-	87
Disposals	-	-1	-86	-17
Cost at 31 December 2011	**3,904**	**770**	**-**	**1,260**
Amortisation and impairments at 1 January 2011	-	-259	-86	-658
Exchange rate adjustments	-	-1	-	-
Amortisation for the year	-	-63	-	-121
Reclassification	-	-	-	-87
Amortisation on disposals	-	1	86	7
Amortisation and impairment at 31 December 2011	**-**	**-322**	**-**	**-859**
Carrying amount at 31 December 2011	**3,904**	**448**	**-**	**401**

Financial review
Intangible assets were DKK 5,442 million compared with DKK 4,753 million last year. Amortisations were DKK 176 million. There were no impairments in 2012. Additions were DKK 818 million of which DKK 682 million was related to mergers and acquisitions. Please see Note 4.4 for more details.

Goodwill
Opening balances for goodwill consisted primarily of goodwill related to Arla Foods UK, AFF, Tholstrup, Arla Ingman and Milko. Goodwill of DKK 629 million has been recognised from the merger with Milk Link.

Impairment testing did not indicate a need for impairment of goodwill in 2012. For goodwill in Consumer Ingman, there were indications of a loss in value because of the challenging competitive situation. Value impairment testing showed that no need for impairments in 2012 but a major risk related to this investment. Total goodwill related to Finland was DKK 298 million.

Licenses and trademarks, etc.
The opening balances for licenses and trade-marks, etc. primarily included Cocio®, Anchor®, Canada® and God Morgon®. Additions from mergers and acquisitions in 2011 of DKK 183 million mainly covered the brand Hansano®.

IT development
Arla continues to invest in the development of IT; recognised additions are part of normal business operations with no special developments occurring in 2012.

NOTE 4.2. IMPAIRMENT TESTS

Accounting policies

Impairment
Goodwill, intangible assets with an indefinable useful life and current development projects are impairment tested at least once annually, initially before the end of the acquisition year. The carrying value of goodwill is impairment tested together with the other non-current assets in the cash flow generating entity to which the goodwill is allocated. The carrying value of other non-current assets is valued annually for signs of impairment. An impairment test is carried out for individual assets or groups of assets when there are signs that their value may be impaired. The assets are depreciated to the lower value of the recoverable value and the carrying value. The recoverable amount for goodwill is recognised as the present value of the expected future net cash flows from the enterprises or activities to which the goodwill is linked.

The recoverable amount for other non-current assets is the highest value of the asset's value in use and the market value (fair value), less expected disposal costs. The value in use is established as the present value of the expected future net cash flows from the use of the asset or the cash flow generating entity of which the asset is part. Impairment of goodwill is recognised on a separate line in the income statement and is not reversed. An impairment loss of other non-current assets is recognised in the income statement under, respectively, production, sales and distribution as well as administrative and joint costs. Impairments made are 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
Estimated useful lives of intangible assets and property, plant and equipment, which are depreciated continuously are reviewed regularly. Impairment tests for goodwill are performed every year and for other intangible assets when there are signs of value impairment. An estimate is performed as to whether the parts of the enterprise to which the asset belongs (cash flow generating entity) will have the capacity to generate sufficiently positive net cash flows in the future (value in use) to support the carrying amount of the asset and other net assets for the relevant part of the business. Because of the nature of the enterprise, an estimate of anticipated cash flows for the next many years must be generated as well as a reasonable discount rate, which naturally results in a certain degree of uncertainty.

NOTE 4.2.a IMPAIRMENT TESTS *(continued)*
(mDKK)

2012	CARRYING AMOUNT GOODWILL	APPLIED KEY ASSUMPTIONS DISCOUNT RATE, NET OF TAX	DISCOUNT RATE, PRE TAX
Finland	298	7.6%	8.1%
UK	3,744	7.8%	8.3%
Other	580	7.6%	7.8%
Total carrying amount at 31 December	**4,622**		
2011			
Finland	298	8.3%	8.9%
UK	3,026	8.3%	8.8%
Other	580	8.5%	8.8%
Total carrying amount at 31 December	**3,904**		

Financial review

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

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

Applied estimates
The recoverable amount for each cash-generating unit is determined based on its value in use. Calculations are based on forecasts that cover the following fiscal year. Additionally, the accounts incorporate expectations for growth in the following years.
In the applied forecasts, the milk is the most significant cost. The milk is recognised at a milk price that corresponds to the expected price at the time the test is performed.
A discount rate (WACC) is applied for the specific business areas based on assumptions about interest rates, tax and risk premiums.

Test results
No impairments were performed of intangible assets in 2012. For goodwill in Consumer Finland, there was indication of an impairment loss because of the challenging competitive situation. Value impairment testing showed that there was no need for impairments in 2012 but that there was a major risk related to this investment. In that regard, sensitivities to changes in milk prices and discount rates have been calculated. The discount rate may rise by 3.5 percentage points before the need for impairment arises. In 2012, underlying earnings improved over 2011.

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

NOTE 4.3. PROPERTY, PLANT AND EQUIPMENT

Accounting policies

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairments. Plants under construction, land and decommissioned plants are not depreciated.

Cost price
The cost price comprises the acquisition price as well as costs directed associated with the acquisition price until such time as the asset in entered into use. The cost price also includes added costs for dismantling and disposal of the asset as well as re-establishment to the extent the related expected costs are recognised as a provision. For self-constructed assets, the cost price 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 whose construction is commenced after the transition to IFRS. Subsequent costs are recognised under the carrying amount of the asset when it is likely that incurring the cost will result in financial benefits for the Group. The parts that are replaced are eliminated from the statement of financial position and the carrying amount is transferred to the statement of income. Other costs for, e.g. general repair and maintenance, are recognised in the statement of income when incurred. The cost price of a combined asset is divided into separate components, which are depreciated individually if the useful life of the asset of the individual components are different.

Depreciation
Property, plant and equipment are depreciated on a straight-line basis from the time of acquisition or entry into use based on an assessment of the anticipated useful life.
The estimated useful lives are as follows:
- Office buildings – 50 years
- Production buildings – 20-30 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 and reduced by the impairments made. The residual value is determined at the date of acquisition and is revalued annually. Depreciation ceases when the carrying amount is lower than the residual value. Changes during the depreciation period or residual value are treated as changes to the accounting estimates. Depreciations, to the extent they do not form part of the cost price for self-constructed assets, are recognised in the statement of income as cost of production, sale and distribution costs as well as administrative and joint costs. Gains and losses are defined as the difference between the sales price, less costs to sell and the carrying value at the time of sale.

NOTE 4.3.a PROPERTY, PLANT AND EQUIPMENT 2012

(mDKK)	LAND AND BUILDINGS	PLANT AND MACHINERY	FIXTURE AND FITTING, TOOLS AND EQUIPMENT	ASSETS IN COURSE OF CONTRUCTION
Cost at 1 january 2012	7,448	12,537	2,799	1,270
Exchange rate adjustments	123	191	74	36
Additions	30	170	100	3,019
Mergers and acquisitions	632	602	70	233
Transferred from assets in course of construction	244	1,168	142	-1,570
Disposals	-243	-503	-133	0
Cost at 31 December 2012	**8,234**	**14,165**	**3,052**	**2,988**
Depreciation and impairments at 1 January 2012	-2,597	-6,849	-2,132	-
Exchange rate adjustments	-34	-104	-59	-
Depreciation for the year	-331	-1,126	-197	-
Impairment for the year	-64	-4	-	-
Depreciation on disposals	131	455	116	-
Depreciation and impairment at 31 December 2012	**-2,895**	**-7,628**	**-2,272**	**-**
Carrying amount at 31 December 2012	**5,339**	**6,537**	**780**	**2,988**
Of which assets held under finance lease	**41**	**319**	**33**	**-**

NOTE 4.3.a PROPERTY, PLANT AND EQUIPMENT *(continued)*
2011

(mDKK)	LAND AND BUILDINGS	PLANT AND MACHINERY	FIXTURE AND FITTING, TOOLS AND EQUIPMENT	ASSETS IN COURSE OF CONTRUCTION
Cost at 1 january 2011	7,046	11,262	2,652	652
Exchange rate adjustments	52	59	32	17
Additions	49	220	41	1,855
Mergers and acquisitions	322	343	48	17
Transferred from assets in course of construction	101	1,037	107	-1,245
Reclassification	-26	0	0	0
Disposals	-96	-384	-81	-26
Cost at 31 December 2011	**7,448**	**12,537**	**2,799**	**1,270**
Depreciation and impairments at 1 January 2011	-2,318	-6,073	-2,003	-
Exchange rate adjustments	-14	-26	-23	-
Depreciation for the year	-330	-1,019	-173	-
Impairment for the year	-14	-87	-	-
Impairment reversal	17	-	6	-
Depreciation on disposals	62	356	61	-
Depreciation and impairment at 31 December 2011	**-2,597**	**-6,849**	**-2,132**	**-**
Carrying amount at 31 December 2011	**4,851**	**5,688**	**667**	**1,270**
Of which assets held under finance lease	**42**	**145**	**-**	**-**

Financial review
The item property, plant and equipment totalled DKK 15,644 million compared with DKK 12,476 million last year. Most of Arla's plants are located in its core markets in Denmark, Sweden, Germany and the United Kingdom.

In 2012, Arla executed the biggest investment plan in its history. Investments were primarily made in dairy structure and increased capacity. The year's investments add a total of DKK 3,303 million to property, plant and equipment, mainly from investments in Arla's core markets.

The construction of the new dairy in Aylesbury on the outskirts of London was commenced in February 2012. Construction costs are expected to be GBP 150 million, of which DKK 920 million was invested in 2012. The dairy will employ 700 staff when completed in the autumn of 2013.

Since construction has not yet been completed, it has been recognised under plants under construction.

The production of the butter brand Anchor® was moved from New Zealand to the Westbury dairy in the United Kingdom. In 2012 Arla has invested DKK 116 million in the expansion and the development of the customised butter facilities.

The restructuring of yellow cheese, which involves moving production from Klovborg and Hjørring, has resulted in a capacity expansion investment at the Danish Taulov dairy of DKK 228 million.

Arla has executed an agreement with a Chinese food business operator to produce Danish milk powder for the baby foods segment. That order will involve expanding Arla's milk powder facilities Arinco in Videbæk.

At Arla Foods Ingredients' plant Danmark Protein in Nr. Vium, an investment of DKK 246 million was made in, among other things, a new drying tower, which will be used in the joint venture partnership with German DMK. The plants have not yet been completed and have been recognised under plants under construction.

Additions from mergers and acquisitions of Milk Link and MUH totalled DKK 1,537 million.

NOTE 4.4. BUSINESS COMBINATIONS

Accounting policies

Recognition date and considerations
Newly acquired enterprises are recognised in the consolidated financial statements as at the date of acquisition. The acquisition date is the point in time when Arla obtains actual control of the acquired enterprise. The purchase consideration for an enterprise consists of the fair value of the agreed-upon consideration of transferred assets, liabilities incurred and equity instruments issued. Costs directly attributable to the acquisition are recognised in the statement of income as they are incurred. 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, this portion of the purchase consideration is recognised at fair value as at the date of acquisition. Changes in estimates relating to conditional purchase considerations are recognised in the results for the year.

Purchase method
In connection with purchases of enterprises in which Arla Foods amba gain control of the acquired enterprise, the purchase method is applied according to which assets, liabilities and contingent liabilities of the newly acquired enterprises are measured at their fair value at the date of acquisition. Identifiable intangible assets are recognised if they are separable or arise from a contractual right. The tax effect of the performed fair value adjustments of assets and liabilities are taken into account. Positive balances between the purchase remuneration of the acquired interest, the value of minority interests in the acquired enterprise and the fair value of previously acquired capital interests, on the one hand, and the fair value of the acquired assets, liabilities and contingent liabilities on the other, are recognised under intangible assets as goodwill. Goodwill is not amortised but is tested at least annually for impairment. The initial test is performed before the end of the acquisition year. In connection with the acquisition, goodwill is attributed to the cash flow generating entities that will subsequently for the basis for impairment tests. Negative balances (negative goodwill) are recognised in the results for the year at the time of acquisition. If, at the time of acquisition, there is uncertainty relating to the identification or measurement of acquired assets, liabilities or contingent liabilities or the determination of the purchase consideration, initial recognition takes place on the basis of their preliminarily determined value. If, subsequently, it is found that identification or measurement of the purchase consideration, acquired assets, liabilities or contingent liabilities was incorrect upon initial recognition, the statement is adjusted retrospectively, including goodwill, until 12 months after the acquisition and the comparative figures are adjusted. After this point in time, goodwill is not adjusted.

Especially for mergers: The purchase method is applied for mergers with other cooperatives, where members in the acquired enterprise become members of Arla Foods amba: The fair value of identified assets and liabilities is calculated as described above. The purchase consideration is calculated as the sum of cash payments and individual equity (paid-in capital). Positive differences between consideration and fair value are recognised as goodwill, while negative differences in the Group capital account are recognised as collective capital.

Divestment
Profits or losses related to the divestment or winding down of subsidiary or associated enterprises are measured as the difference between the divestment sum or the winding down sum and the carrying amount of the net assets at the time of divestment, including any foreign exchange adjustments accumulated on equity and goodwill and costs relating to divestment or winding down. Profits and losses are recognised in the Statement of Income under other operating income and expenses.

Uncertainties and estimates
For mergers and acquisitions where Arla acquires control of the enterprise in question, the purchase method is applied. There is some uncertainty associated with the identification of assets, liabilities and contingent liability and with measuring the fair value at the time of acquisition.

NOTE 4.4.a BUSINESS COMBINATIONS
(mDKK)

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

	MILK LINK	MUH	OTHER	TOTAL
Intangible assets (excl. goodwill)	0	22	4	26
Property, plant and equipment	579	958	-	1,537
Other assets	1,552	1,022	5	2,579
Liabilities	-1,902	-1,679	-9	-3,590
Total acquired net assets	**229**	**323**	**-**	**552**
Goodwill	629	-	27	656
Purchase price	**858**	**323**	**27**	**1,208**
Cash in acquired company	-101	-39	-	-140
Issued capital	-396	-291	-	-687
Other payment	-53	-32	-7	-92
Cash payments in the year	**308**	**-39**	**20**	**289**

NOTE 4.4.a BUSINESS COMBINATIONS
(continued)

Mergers and acquisitions in 2011		INCOME STATEMENT CONSOLIDATED FROM	HOLDING ACQUIRED	REVENUE PER YEAR
Company				
Hansa-Milch, Germany		1 april	100%	2,700
Allgäuland, Germany		1 november	100%	1,600
Milko, Sweden		1 november	100%	1,200
Others	-	-	100%	130

	HANSA-MILCH	ALLGÄULAND	MILKO	OTHER	TOTAL
Intangible assets (excl. goodwill)	130	4	20	47	201
Property, plant and equipment	415	137	138	39	729
Other assets	325	380	230	63	998
Provisions	-33	-80	-160	-1	-274
Liabilities	-444	-383	-211	-40	-1,078
Total acquired net assets	**393**	**58**	**17**	**108**	**576**
Goodwill	-	-24	83	38	97
Purchase price	**393**	**34**	**100**	**146**	**673**
Cash in acquired company	-	-28	-	-	-28
Issued capital	-330	-	-51	-	-381
Other payment	-28	-34	-49	-4	-115
Cash payments in the year	**35**	**-28**	**-**	**142**	**149**

Financial review

Mergers and acquisitions in 2012:

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

The competition authorities have stipulated that Arla is required divest itself of its UHT business in connection with the Crediton dairy as a condition for the executed merger. This part of the business has been classified as assets disposable for sale.

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

Mergers and acquisitions in 2011:

Hansa-Milch (Merger)
On 1 April 2011, Arla merged with the German enterprise Hansa Milch in Northern Germany, which has an annual milk-weigh-in of approx. 500 million kg. Hansa Milch produces fresh milk products both under its own brands and under retailer brands. Arla purchased Hansa Milch's dairy activities for DKK 35 million. Furthermore, Arla issued DKK 116 million in new paid-in capital and DKK 214 million in non-distributed collective capital to Hansa Milch.

Allgäuland (Acquisition)
On 1 November, Arla acquired the Allgäuland Group in the Southern German Alps, which has an annual weighed-in milk volume of approx. 230 million kg. Allgäuland produces specialty cheeses. The total purchase sum was DKK 34 million. Based on the determined fair values of identified net assets, negative goodwill was generated in the amount of DKK 24 million. This amount has been recognised in the Statement of Income in 2011 as other operating income in 2011.

Milko (Merger)
On 1 November, Arla merged with Sweden's third-largest cooperative dairy, Milko, situated in the southern-most part of Northern Sweden, which has a weighed-in milk quantity of approx. 230 million kg. The competition authorities have stipulated that Arla must divest itself of the Grådö dairy as well as a number of brands as a condition for the purchase. Arla acquired the dairy from Milko for a total transferred purchase sum of DKK 119 million and Arla issued DKK 51 million in new paid-in capital to Milko. Based on established fair values of identified net assets, goodwill stood at DKK 83 million. The recognised goodwill is expected to be income tax deductible.

Others
Other acquisitions comprise Boxholm Mejeri AB, Sundsvall Dairy and Faurholt & Thrane I/S. For these acquisitions, goodwill has been recognised for DKK 38 million.

NOTE 4.5. JOINT VENTURES AND ASSOCIATES

Accounting policies

Interests in joint ventures and associated enterprises
Interests in joint ventures and associated enterprises are recognised in the statement of financial position according to the equity method with the proportional share of the enterprises' net assets calculated in accordance with the Group's accounting policy. Goodwill relating to joint ventures and associated enterprises is recognised under, respectively, "Investments in joint ventures" and "Investments in associates." Joint ventures and associates with a negative equity value are measured at zero and any receivable from these enterprises are depreciated at the Group's portion of the negative equity value to the extent it is deemed to be uncollectible. If the negative equity value exceeds the receivable, the remaining amount is recognised under provisions to the extent the Group has a legal or constructive obligation to cover the negative balance. The proportional share of the results after tax for joint ventures and associated enterprises are recognised in the Group's income statement.

Translation of investments in joint ventures and associated enterprises in foreign currencies
On recognition of associated enterprises or joint ventures using a functional currency other than Danish kroner (DKK) in the consolidated financial statements and to the extent that this method does not provide a materially different view of the foreign exchange rate on the transaction date, the share of the results for the year is translated at the average exchange rate for the individual months, and the share of equity incl. goodwill is translated at the foreign exchange rates at the reporting date. When translating the share of foreign enterprises' equity at 1 January into foreign exchange rates at the reporting date and in connection with translation of the share of the results for the year from average rates to the foreign exchange rates at the reporting date, exchange rates differences are recognised under comprehensive income in a special reserve for foreign exchange rate adjustments under equity. On partial divestment of associated enterprises and joint ventures, the proportional portion of the cumulative exchange rate adjustment reserve recognised under other comprehensive income 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 partial divestment of the subsidiary enterprise.

NOTE 4.5.a JOINT VENTURES
(mDKK)

	ARNOCO GMBH, GERMANY	ARLA FOODS INGREDIENTS SA, ARGENTINA	ARLA FOODS UK FARMERS, UK	BIOLAC GMBH, GERMANY	DAN VIGOR LTDA., BRAZIL	OTHERS	TOTAL INVESTMENTS IN JOINT VENTURES
2012							
Revenue	-	449	-	555	242	-	1,246
Results after tax	-1	40	-	75	23	-	137
Total assets	97	559	270	315	131	-	1,372
Total liabilities	-	310	-	66	30	-	406
Ownership share							
Group share	50%	50%	50%	50%	50%	40-50%	
Results after tax	1	20	0	37	16	-45	29
Recognised value, total	**45**	**121**	**88**	**125**	**65**	**-**	**444**

	ARLA FOODS INGREDIENTS SA, ARGENTINA	ARLA FOODS UK FARMERS, UK	BIOLAC GMBH, GERMANY	DAN VIGOR LTDA., BRAZIL	OTHERS	TOTAL INVESTMENTS IN JOINT VENTURES
2011						
Revenue	398	-	438	238	-	1,074
Results after tax	25	-	41	35	-	101
Total assets	458	263	252	194	-	1,167
Total liabilities	244	-	49	49	-	342
Ownership share						
Group share	50%	50%	50%	50%	40-50%	
Results after tax	13	-	20	12	-28	17
Recognised value, total	**103**	**86**	**102**	**56**	**74**	**421**

NOTE 4.5.b ASSOCIATES
(mDKK)

	CHINA COFCO DAIRY HOLDING LIMITED	SVENSK MJÖLK, SWEDEN	OTHERS	TOTAL INVESTMENTS IN ASSOCIATES
2012				
Revenue	0	147	75	222
Results after tax	661	3	3	667
Total assets	4,468	236	996	5,700
Total liabilities	0	50	743	793
Ownership share				
Group share	5,9%	51%	30-50%	
Results after tax	39	5	0	44
Recognised value, total	**1,732**	**90**	**84**	**1,906**

	SVENSK MJÖLK, SWEDEN	AGRI NORCOLD, DENMARK	OTHERS	TOTAL INVESTMENTS IN ASSOCIATES
2011				
Revenue	152	0	75	227
Results after tax	3	17	3	23
Total assets	247	452	996	1,695
Total liabilities	52	356	743	1,151
Ownership share				
Group share	53%	50%	30-50%	
Results after tax	2	7	6	15
Recognised value, total	**84**	**48**	**132**	**264**

Financial review

Interests in joint ventures and associated enterprises

In 2012, Arla sold a 50% ownership interest in Mengniu Arla Dairy Products Co., Ltd. The company was previously recognised as a joint venture. An accounting profit of DKK 58 million was recognised as other operating income in connection with the sale.

In 2012, Arla invested DKK 1,751 million in an equity interest in COFCO Dairy Holding Limited, which makes Arla an indirect co-owner of the largest Chinese dairy business, China Mengniu Dairy Company Limited which is registered at The Stock Exchange of Hong Kong Limited. As agreed with the state-owned Chinese company COFCO, Arla thus obtained significant influence in Mengniu in connection with the purchase. The investment is recognised as an associate. Net assets taken over at the balance sheet date have been recognised at fair value.

Mengniu publishes its annual report in March 2013. The computation of share of profit 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.

NOTE 4.6. ASSETS HELD FOR SALE

Accounting policies
Assets held for sale comprise non-current assets and divestment groups held for sale. Divestment groups are groups of assets that must be divested together in case of a divestment or similar action in a single transaction. Liabilities related to assets held for sale are liabilities directly linked to these assets that will be transferred as part of the transaction. Assets are classified as "held for sale" when their carrying value will be recovered primarily through a divestment within 12 months in accordance with a formal plan instead of through continued use. Assets and divestment groups held for sale are measured at the lower of the carrying value at the classification date as "held for sale" of the fair value, less costs to sell. Assets are not depreciated or amortised as at the time they are classified as "held for sale." Impairments that arise at the initial classification as "held for sale" and any profit or loss in connection with subsequent measurement at the lower value of the carrying value or fair value, less costs to sell, are recognised in the statement of income under the items to which they pertain. Gains and losses are disclosed in the notes. Assets and related liabilities are shown on separate lines in the statement of financial position, and the principal items are specified in the notes. Comparative figures in the statement of financial position are not adjusted.

NOTE 4.6.a ASSETS	31.12.2012	31.12.2011
(mDKK)		
Intangible assets	-	20
Fixed assets	262	25
Current assets	94	-
Carrying amount assets	**356**	**45**

NOTE 4.6.b LIABILITIES		
(mDKK)		
Current liabilities	49	-
Carrying amount liabilities	**49**	**-**

Financial review

Assets classified as held for sale primarily relate to the UHT business relating to the dairy in Crediton, the UK. In connection with the merger with Milk Link, the competition authorities required that this part of the business be sold off. Assets and liabilities classified as held for sale moreover relate to land and buildings, which are expected to be sold off within the next 12 months.

NOTE 4.7. PROVISIONS

Accounting policies

Provisions
Provisions comprise, among other things, insurance-related provisions, liabilities related to restructurings and onerous contracts, etc. Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event and it is likely that economic benefits will be required to settle the obligation. Provisions are measured at their net realisable value or their fair value on the basis of a best estimate of the expenses necessary at the reporting date to settle the obligation. In measuring provisions, discounting of the costs necessary to settle the obligations is performed, if this has a material effect on the measurement of the obligation. A pre-tax discounting factor is used that reflects the community's general interest level and the specific risks related to the obligation. The fiscal year's change in the discount component is recognised under financial costs. Costs relating to restructurings are recognised as liabilities when a detailed, formal plan for the restructuring is published no later than the reporting date for the persons affected by the plan. For acquisitions of enterprises, provisions for restructurings are recognised in the acquired enterprise only in the computation of goodwill when, at the acquisition date, an obligation exists for the acquired enterprise. 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 are recognised on the basis of the risk relating to future payments 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 restructurings and insurance provisions. In connection with restructurings, Management will revaluate the useful lives and residual values of non-current assets used in the enterprise during restructuring. 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, number of insurance events and related costs.

NOTE 4.7.a PROVISIONS
(mDKK)

	INSURANCE PROVISIONS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS
2012			
Other provisions at 1 January	128	117	78
Exchange rate adjustments	-	3	1
New provisions during the year	33	59	33
Reversals	-13	-	-8
Used during the year	-18	-98	-50
Other provisions at 31 December	**130**	**81**	**54**
Current	53	81	54
Other non-current provisions	77	-	-
Total other provisions	**130**	**81**	**54**
2011			
Other provisions at 1 January	117	3	84
Exchange rate adjustments	-	1	1
Additions regarding mergers and acquisitions	-	-	29
New provisions during the year	48	117	33
Used during the year	-37	-4	-69
Other provisions at 31 December	**128**	**117**	**78**
Current	56	117	78
Other non-current provisions	72	-	-
Total other provisions	**128**	**117**	**78**

Financial review
The item other provisions totalled DKK 265 million at 31 December 2012, which represents a decline compared with last year. Other provisions primarily pertain to insurance provisions (occurred but not reported) and restructuring provisions.

Insurance provisions primarily concerns occupational injuries in Denmark. Payments related to these totalled DKK 18 million in 2012 (2011: DKK 31 million). New provisions of DKK 33 million were recognised.

Restructuring provisions pertained to the decommissioning of facilities related to Arla's yellow cheese restructurings; Falkenberg in Sweden and Klovborg and Hjørring in Denmark will be closed. Additionally, provisions have been made relating to the restructurings resulting from the Milko merger in Sweden and the Allgäuland acquisition in Germany in 2011. Minor new provisions were made for departures in connection with the efficiency programmes. Restructuring provisions were reduced over the course of the year in step with disbursements of termination benefits, etc.

Other provisions include such charges as onerous contracts.

With the exception of occupational injuries, it is expected that all provisions will be exercised within one year.

NOTE 5: FINANCIAL MATTERS

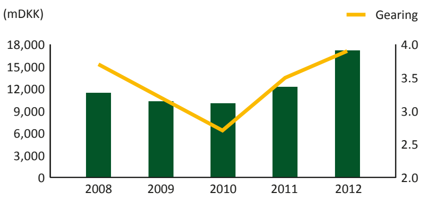
This note describes the Group's capital structure described–financing and liquidity as well as related items. Arla's investments are financed with both equity capital and with loan capital. The balance between the two is expressed in the equity ratio.

The Group's net interest-bearing debt consists of current and non-current liabilities to banks and credit institutions, etc., less interest-bearing assets, e.g. bonds. Net interest-bearing liabilities incl. pensions are part of how the ratio is calculated for gearing, which matches the net interest-bearing debt with earnings (EBITDA) and shows the Group's capacity to service its debt. Arla's long-term objective for gearing is 2.8–3.4. The Group's policy is to retain a credible balance between debt, equity and earnings so that creditors will consistently rate Arla as having creditworthiness at investment grade level.

Arla's ambition is to reduce its refinancing risk by ensuring a reasonable spread in its repayment profile for its consolidated debts. The minimum requirements are regulated by the Group's fiscal policy. Additionally, risks related to interest and foreign exchanges rates are managed by means of financial instruments.

Over the past five years, net interest-bearing debt incl. pension obligations and the key figure gearing have developed as follows:

NET INTEREST-BEARING DEBT



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 fiscal year. Additionally, financial items comprise realised and unrealised value adjustments of securities and foreign currencies, amortisation of financial assets and liabilities as well as the interest portion of financial lease payments. Additionally, realised and unrealised gains and losses on derivative financial instruments are included that are not classified as hedging contracts. 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, when the acquisition, construction or the development of the asset is commenced after the transition to IFRS.

NOTE 5.1.a FINANCIAL INCOME:	2012	2011
(mDKK)		
Financial expenses related to financial liabilities measured at amortised cost	10	7
Interest, securities	48	72
Exchange rate gains (net)	0	61
Exchange adjustments etc.	43	3
Total financial income	**101**	**143**

NOTE 5.1.b FINANSIELLE OMKOSTNINGER		
(mDKK)		
Financial expenses related to financial liabilities measured at amortised cost	-440	-410
Exchange rate losses (net)	-131	0
Exchange rate adjustments, charges etc.	-12	-11
Interests, pension obligations	-47	-32
Interests, recognised under non-current assets	11	5
Total financial costs	**-619**	**-448**

Financial review
Finance income and costs totalled a net DKK 518 million in 2012 against DKK 305 million in 2011. The increase primarily relates to foreign exchange adjustments and increasing interest expense.

As a result of increasing borrowing activities, the Group's finance costs increased compared with last year. A lower average interest level did, however, reduce the increase. Average interest, excluding pensions, totalled 2.9% compared with 3.1% in 2011.

NOTE 5.2 NET INTEREST-BEARING DEBT

Accounting policies

Financial instruments
Arla recognises derivative and other financial instruments 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 all major risks and benefits related to ownership are also transferred to the purchaser.

Financial assets and liabilities are offset in the statement of financial position once Arla obtains a legal right of set-off and either intends to offset or settle the financial asset and the liability simultaneously.

Available-for-sale financial assets
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. Interest income, dividends, impairments as well as foreign exchange rate adjustments of debt instruments are recognised in the Statement of Income on a continuous basis under financials.

For sales of financial assets classified as available-for-sale, realised gains or losses are recognised under financials. Financial assets classified as available-for-sale consist of mortgage credit bonds, which correspond in part to raised mortgage debt.

Financial assets measured at fair value in the Statement of Income
Securities classified at fair value in the Statement of Income consist primarily of listed securities, which are monitored, measured and reported continuously in accordance with the Group's investment policy. Changes in the fair value are recognised in the Statement of Income under financials.

Liabilities
Debts to mortgage banks 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 Statement of Income over the expected life of the loan.

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

Other financial liabilities are measured at amortised cost.

Cash and cash equivalents
Cash and cash equivalents comprise readily availble cash and deposits.

NOTE 5.2.a NET INTEREST-BEARING DEBT

(mDKK)	31.12.2012	31.12.2011
Securities and cash funds	-5,093	-4,916
Other interest-bearing assets	-146	-62
Current liabilities	7,318	5,948
Net current liabilities	**2,079**	**970**
Non-current liabilities	11,937	9,050
Net interest-bearing debt excl. pension liabilities	**14,016**	**10,020**
Pension liabilities	3,129	2,223
Net interest-bearing debt incl. pension liabilities	**17,145**	**12,243**

NOTE 5.2.b NET INTEREST-BEARING DEBT EXCL. PENSION OBLIGATIONS, MATURITY

(mDKK)

31 December 2012	**Total**	**0-1**	**1-2**	**2-3**	**3-5**	**5-7**	**7-10**	**10+**
DKK	7,850	1,644	5	249	446	751	551	4,204
EUR	1,943	375	587	303	312	365	1	-
GBP	2,797	500	1,349	575	366	-	-	7
SEK	893	-423	9	-	1,307	-	-	-
Other	533	217	314	-	-	-	-	2
Total	**14,016**	**2,313**	**2,264**	**1,127**	**2,431**	**1,116**	**552**	**4,213**

31 December 2011	**Total**	**0-1**	**1-2**	**2-3**	**3-5**	**5-7**	**7-10**	**10+**
DKK	5,756	-227	87	87	232	299	1,465	3,813
EUR	887	-63	8	574	15	353	-	-
GBP	554	54	14	486	-	-	-	-
SEK	2,439	1,126	20	-	1,281	-	-	12
Other	384	69	1	312	-	1	1	-
Total	**10,020**	**959**	**130**	**1,459**	**1,528**	**653**	**1,466**	**3,825**

Financial review
The Group's net interest-bearing debt, including pensions, increased from DKK 12,243 million at 31 December 2011 to DKK 17,145 million at 31 December 2012.

Net interest-bearing debt, excluding pension obligations, increased by DKK 3,996 million to DKK 14,016 million at 31 December 2012, primarily relating to the investment in China (DKK 1.8 billion), mergers carried out with MUH (DKK 0.8 billion) and Milk Link (DKK 1.4 billion) as well as a generally high investment level (DKK 3.1 billion). The other way round, the reduction in money tied up in working capital released DKK 1.2 billion, whereas depreciation for the year totalled DKK 1.7 billion.

The pension debt also increased by DKK 906 million, primarily relating to the merger with Milk Link (DKK 0.4 billion), lower discounting rates, etc. (DKK 0.8 billion) as against payments made to pension schemes (a negative DKK 0.3 billion). The Group's debt-equity ratio consequently increased and totalled 3.9 at 31 December 2012 (31 December 2011: 3.5).

This is beyond the Group's long-term objective of 2.8-3.4, and the Group constantly focuses on reaching its objective.

The solvency ratio represented 25.1% at 31 December 2012 compared with 27.1% at 31 December 2011.

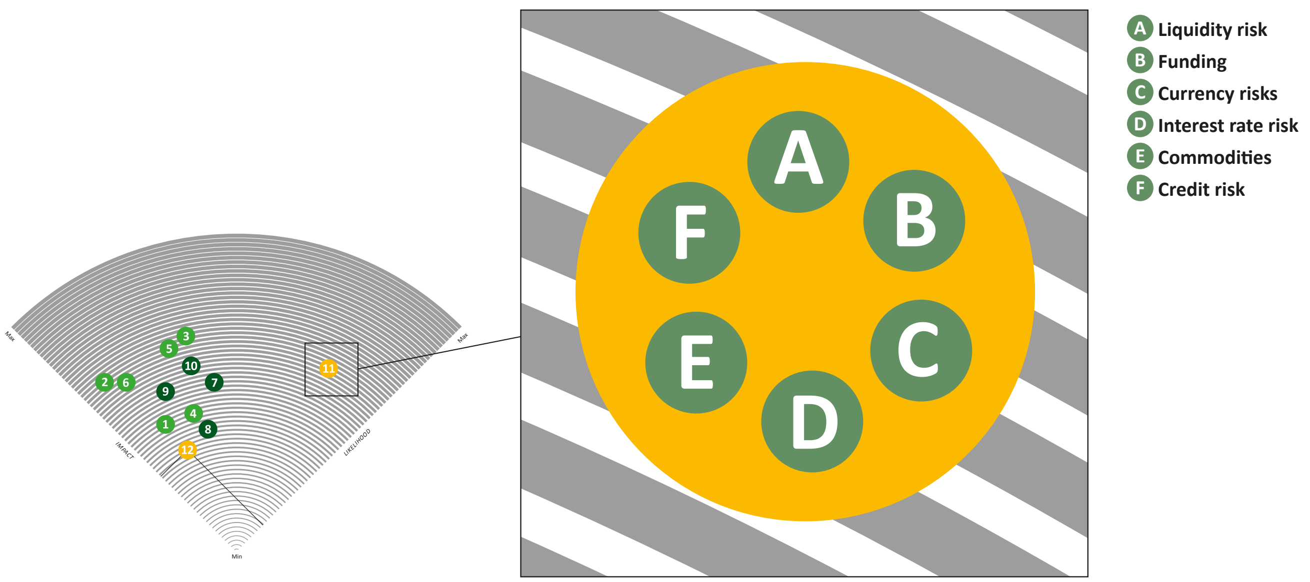
NOTE 5.3. FINANCIAL RISKS

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 Policy) is approved by the Board of Directors and managed by the Corporate Treasury & Finance department. The Treasury Policy states risk limits for each type of financial risk, permitted financial instruments and counter-parties.

The volatility in milk prices are not a part of the financial risk management but an inherent component in the Arla business model.
The Board of Directors receive each month a report on Arla's financial risks exposures from the Corporate Treasury & Finance department who manage the financial risks on a continuous basis.
The following risk map illustrates the key financial risks to which Arla is exposed:

Risk map of financial risks



NOTE 5.3.a LIQUIDITY RISK

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

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

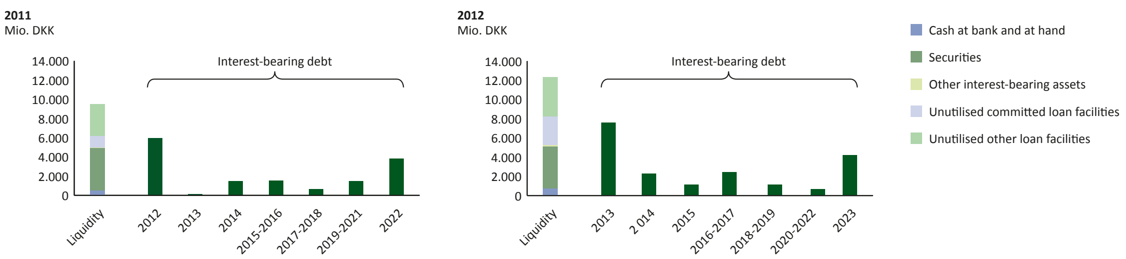
Mitigation process
Arla seeks to have diversified funding with a balanced mix in maturity and counterparties. Arla has centralized it's cash management in order to optimise the cash position within the Group.

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

Policies and systems
The Treasury Policy states the threshold for minimum average maturity for gross debt and limitations on debt maturing within the next 12 and 24 months. More than 90 pct of the Group's cash flow are handled in the centralized cash management setup.

Progress in 2012
In connection with the mergers and acquisitions Arla has obtained significant amount of committed facilities with maturities up to 5 years. Credit facilities and free cash has during 2012 been on a comfortable level.

INTEREST-BEARING DEBT (EXCL. PENSIONS) AND LIQUIDITY



Liquidity reserves	31.12.2012	31.12.2011
(mDKK)		
Cash refunds	734	504
Securities (free cash flow)	123	138
Unutilised committed loan facilities	2,777	1,177
Unutilised other loan facilities	3,939	3,359
Total	**7,573**	**5,178**

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

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

Within Arla, the companies with excess liquidity finance the companies with liquidity deficits. As a result, the Group achieves a cost-efficient utilising of credit facilities.
The credit facilities contains relaxed financial covenants on Equity/Total Assets and minimum Equity as well as standard non-financial covenants. Arla did not in 2012 nor in 2011 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 cash resources increased from DKK 5,178 million at 31 December 2011 to DKK 7,573 million at 31 December 2012. The increase primarily arose in connection with the investment in China and the mergers with MUH and Milk Link for which the Group raised committed facilities with a term of one, three and five years, respectively. Cash resources are expected to be reduced in 2013 in order to adapt the size of the facilities to a comfortable level, but also taking into account the banks' strengthened capital requirements to unused credit facilities and attributable increasing costs for the cooperative.

NOTE 5.3.b FUNDING

Related business activity	Risks impact	Mitigation process
Funding is vital for Arla to be able to execute its strategy and ambitions.	Insufficient funding will hinder Arla in achieving its strategic ambitions.	Arla seeks to have a diversified funding platform comprising of bilateral bank financing, mortgage loans, supra nationals, capital market bond issues and commercial papers etc. 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	**Policies and systems**	**Progress in 2012**
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.	The Treasury Policy states the threshold for minimum average maturity for gross debt as well as a financing strategy approved by the Board of Directors. It is Arla's objective to maintain a credit quality on an investment grade level	During 2012 Arla has strengthen its funding platform by extending the core banking group with new international banks providing Arla with the required credit facilities.

Gross Financial liabilities

(mDKK)	Carrying amount	Non-discounted contractual cash flows				
31.12.2012		TOTAL	0-1 YEAR	1-5 YEARS	5-10 YEARS	>10 YEARS
Issued bonds	1,309	1,575	68	1,507	0	0
Mortgage credit institutions	5,999	6,773	125	765	2,287	3,596
Credit institutions	11,869	12,403	7,318	5,036	49	0
Trade payables etc.	6,881	6,881	6,881	0	0	0
Derivative instruments	864	1,282	215	570	266	231
Issued loan commitments	0	41	41	0	0	0
Total	**26,922**	**28,955**	**14,648**	**7,878**	**2,602**	**3,827**
31.12.2011						
Issued bonds	1,251	1,610	74	1,536	0	0
Mortgage credit institutions	6,088	7,121	108	709	2,065	4,239
Credit institutions	7,658	7,967	5,970	1,880	75	42
Trade payables etc.	4,927	4,927	4,927	0	0	0
Derivative instruments	920	1,131	401	316	243	171
Issued loan commitments	0	0	0	0	0	0
Total	**20,844**	**22,756**	**11,480**	**4,441**	**2,383**	**4,452**

Assumptions

The contractual cash flows are based on the following assumptions:

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

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

During 2012 and 2011 Arla has raised following kind of funding:

- Credit institutions: Arla uses bank loans as part of the daily liquidity management. In connection with the mergers and acquisitions Arla has obtained new committed facilities and closed the majority of existing facilities in the acquired companies.
- Mortgage credit intitutions: Arla raises long-term funding by obtaining mortgage loans under the Danish Mortgage Act with mandatory security in land and buildings.
- Issued bonds: Arla made one issue in 2011. The issue was split between a five year SEK 1,150 million bond with a fixed coupon of 5% and a SEK 350 million bond with a floating interest coupon of Stibor 3 months + 1.8%.
- 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 2012 has been in the level of 0.9 bin. SEK.
- Repo: Arla raises short-term funding by entering into sale and repurchase arrangement of its investment in listed Danish Mortgage Bonds. This sale and repurchase agreement has been described in further details in note 5.7.

In 2012 Arla has entered into bilateral commited facilities totalling of DKK 5.2 billion with durations of one, three and five years, respectively, with seven of the Group's banks for the financing of China and the mergers with MUH and Milk Link as well as ongoing investments.

The increase in the nominal amount of net interest-bearing debt is primarily caused by the increase in trade payables etc. of DKK 2.0 billion due to the mergers with MUH and Milk Link as well as debt to credit institutions, which increases by DKK 4.2 billion.

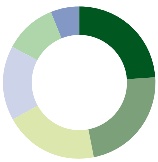
The reduction of the non-discounted contractual cash flows for debt to mortgage credit institutions is primarily caused by a decrease in the used interests for calculation of cash flows of about 0.75 %-point compared to previous year. The is also the explanation of the opposite movement in derived financial instruments which increase from DKK 1.1 billion to DKK 1.9 billion.

NOTE 5.3.c CURRENCY RISKS

Related business activity Currency risks arise from Arla's export activities, investments and financing activities	**Risk impact on profit** Volatility in currency rates impact Arla's revenue, cost of sales and financial items with a potential adverse effect on milk prices and liquidity.	**Mitigation process** The currency exposure is continuously managed by the Corporate Treasury & Finance department. The individual currency exposures are hedged in accordance with the Treasury Policy.
	Risk impact on balance Changes in currency rates could cause volatility in balance, equity and cash flow.	**Mitigation process** 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 Policy and profound understanding of the business of Arla combined with deep knowledge of the financial markets.	**Progress in 2012** During 2012 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 2011

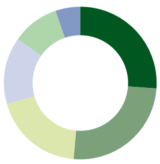
Mio. DKK



GBP	13,386
EUR	12,546
SEK	10,850
DKK	8,645
USD	6,037
OTHER	3,429

REVENUE BY CURRENCY 2012

Mio. DKK



GBP	16,559
EUR	16,083
SEK	11,810
DKK	8,977
USD	6,525
OTHER	3,160

Currency exposures
(mDKK)

31 December 2012	EUR/DKK	USD/DKK	GBP/DKK	SEK/DKK
Financial liabilities	-2,099	-62	-265	0
Financial assets	2,014	634	1,242	437
Hedging instruments	-1,350	-1,500	-1,397	340
Net external exposures	-1,435	-928	-420	777
The external net exposure is hedging:				
Hedged cash flow from operating activities	0	583	502	261
Net internal exposure from financial activities and commitments	440	-96	-82	-754
Total	**-995**	**-441**	**0**	**284**
Applied sensitivity	1%	5%	5%	5%
Profit or loss	-14	-17	4	52
Equity	0	-34	-25	-13

31 December 2011	EUR/DKK	USD/DKK	GBP/DKK	SEK/DKK
Financial liabilities	-914	-57	-151	0
Financial assets	1,680	638	463	186
Hedging instruments	-2,126	-1,155	-2,074	542
Net external exposures	-1,360	-574	-1,762	728
The external net exposure is hedging:				
Hedged cash flow from operating activities	743	178	801	167
Net internal exposure from financial activities and commitments	669	86	534	-611
Total	**52**	**-310**	**-427**	**284**
Applied sensitivity	1%	5%	5%	5%
Profit or loss	-6	-20	-48	35
Equity	-31	-48	-49	-4

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

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

The currency risks primarily arise from transaction risks in the form of future commercial and financial 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 DKK the Group's consolidated risk is largest in EUR, followed by USD, GBP and SEK.

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

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

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

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

This aggregate group level currency exposure is composed of all assets and liabilities denominated in foreign currencies, and economic hedged projected cash flows for unrecognized firm commitments, and anticipated transactions. This analysis excludes net 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	Risk impact	Mitigation process
Interest rate risks arise from Arla's funding activities.	Increase in interest rates impact Arla's financial items with an adverse effect on milk prices.	The interest rate exposures are continuously managed by the Corporate Treasury & Finance department. The exposures are hedged in accordance with the Treasury Policy.
Performance indicator	**Policies and systems**	**Activities in 2012**
Predictability in realised funding costs.	The Treasury Policy and profound understanding of the business of Arla combined with deep knowledge of the financial markets.	Interest rate risk from increased lending was partly hedged by entering into interest rate swap, keeping the overall duration on the same level as previous year end.

Sensitivity	**2012**		**2011**	
(mDKK)				
Fair value	PROFIT OR LOSS	OTHER COMPREHENSIVE INCOME	PROFIT OR LOSS	OTHER COMPREHENSIVE INCOME
Financial assets	0	-11	0	-11
Derivatives	6	375	0	298
Cash flow				
One year cash flow impact	-60		-30	

Financial review
Arla is exposed to interest-rate risks on interest bearing borrowings, pension liabilities, interest bearing assets and the impairment test of fixed 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 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.

Financial assets comprise of investments in Danish mortgage bonds which are held as part of a repurchase agreement to obtain a cost efficient short term funding based on a long-term mortgage loan – please refer to note 5.7.

The sensitivity is based on a 1%-point increase in interest rates. A decrease in the interest rate would have the reverse effect.

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 un-hedged floating rate instruments recognised as at 31 December. A decrease in the interest rate would have the reverse effect.

The average duration of the Group's net interest-bearing debt, excluding pensions, was reduced from 4.0 at 31 December 2011 to 3.5 at 31 December 2012 as a result of the raising of new variable loans. Part of the new variable-rate loans has been converted into fixed interest rate loans by means of interest swaps.

NOTE 5.3.e COMMODITIES

Related business activity	Risks impact	Mitigation process
Commodity risks arise from Arla's operating activities of buying energy but also to a minor extent the commodities used in production.	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.	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	**Policies and systems**	**Status in 2012**
Realised commodity prises.	The commodity price risks are managed by Arla's procurement department. Where financial contracts are used, in close collaboration with the Corporate Treasury and Finance department.	The level of hedging activities has been on the same level as previous years. The financial impact from derivative hedging contracts has been insignificant in 2012.

NOTE 5.3.f CREDIT RISK

Related business activity	Risk impact	Mitigation process
Credit risks arise from Arla's operating activities and engagement with financial counterparties	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 jeopardizing the Group's fulfilment of the strategy.	Arla has an extensive policy on credit risks and uses credit insurance and other trade finance products extensively on export. If a customer payment is late internal procedures are followed to mitigate losses. Arla uses a limited number of financial counterparties.
Performance indicator	**Policies and systems**	**Progress in 2012**
Expected and realised credit losses on customers.	Financial counterparties must be approved by EMG 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 on-going monitoring of their credit quality.	Arla has, like in previous years, experienced a very low level of losses from customers. The situation in Southern Europe has been monitored closely and receivables has been actively reduced by improved payment terms and lower credit limits.

Financial review
Credit risk arises from the possibility that counterparties to transactions may default on their obligations 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 2012 or a dispensation approved from the Board of Directors.

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

Further information on trade receivables is provided in note 3.1.d

The maximum exposure to credit risk is approximately equal to the carrying amount as at 31 December 2012 and 2011.

NOTE 5.4 DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policies

Derivative financial instruments are recognised from the trade date and measured in the statement of financial position at fair value. Positive and negative fair values of derivative financial instruments are recognised at separate lines in the Statement of Financial Position 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 classified as and meeting the criteria for hedging the fair value of recognised assets and liabilities, are recognised along 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 portion of the fair value of derivative financial instruments classified as and meeting the conditions for hedging 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 Statement of Income. At the current time, gains or losses from such hedging transactions are reclassified from other comprehensive income and recognised under the same item as the hedged item (basis 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 Statement of Income once the hedged cash flows affect the Statement of Income or are no longer likely.

If the hedged cash flows are no longer expected to be realised, the cumulative value change is immediately reclassified to the Statement of Income.

Hedging of net investments
Changes to the fair value of derivative financial instruments used to hedge net investments in foreign subsidiary enterprises and that effectively hedge against foreign exchange rate changes in these enterprises, are recognised in the Consolidated Financial Statements in other comprehensive income under a special reserve for foreign exchange rate adjustments.

Fair value of hedge instruments not qualifying for hedge accounting (economic hedge)
For derivative financial instruments that do not meet the conditions for treatment as hedging instruments, changes in fair value ate recognised on a continuous basis in the Statement of Income under financials.

NOTE 5.4.a HEDGING OF FUTURE CASH FLOWS FROM HIGHLY PROBABLE FORECAST TRANSACTIONS

(mDKK)			Expected recognition				
2012	BOOK VALUE	FAIR VALUE RECOGNISED IN OCI	2013	2014	2015	2016	LATER THAN 2016
Currency contracts	25	25	25	0	0	0	0
Interest rate contracts	-709	-709	-123	-119	-109	-75	-282

2011	BOOK VALUE	FAIR VALUE RECOGNISED IN OCI	2012	2013	2014	2015	LATER THAN 2015
Currency contracts	-110	-110	-110	0	0	0	0
Interest rate contracts	-565	-565	-93	-81	-71	-63	-257

NOTE 5.4.b NET INVESTMENT HEDGES

(mDKK)	**2012**	**2011**
Other comprehensive income	16	5
Profit or loss	0	0

Financial review

Fair value hedge
At 31 December 2012, 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 2012 (2011) 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 (economic hedge)
As at 31 December 2012 and 2011 Arla has entered into:

- 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 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 INSTRUMENT DISCLOSURES

NOTE 5.5.a CATEGORIES OF FINANCIAL INSTRUMENTS	2012	2011
(mDKK)		
Available for sale financial assets	4,021	4,088
Loans and receivables	6,946	5,904
Financial assets measured at fair value through profit or loss	685	529
Financial liabilities measured at fair value through profit or loss	864	920
Financial liabilities measured at amortised cost	26,058	19,924

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

(mDKK)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
31.12.2012				
Financial assets				
Bonds	4,322	0	0	4,322
Shares	90	0	0	90
Derivatives	0	251	0	251
Total	**4,412**	**251**	**0**	**4,663**
Financial liabilities				
Derivatives	0	864	0	864
Total liabilities	**0**	**864**	**0**	**864**
31.12.2011				
Financial assets				
Bonds	4,395	0	0	4,395
Shares	130	0	0	130
Derivatives	0	67	0	67
Total	**4,525**	**67**	**0**	**4,592**
Financial liabilities				
Derivatives	0	920	0	920
Total liabilities	**0**	**920**	**0**	**920**

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 hence, 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 hence, the value is not adjusted for credit risks.

- 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 a significant non-observable market data.

NOTE 5.6 TRANSFER OF FINANCIAL ASSETS

(mDKK)	CARRYING VALUE	NOTIONAL AMOUNT	FAIR VALUE
31.12.2012			
Mortgage bonds	3,904	4,102	3,904
Repurchase liability	-3,882	-4,102	-3,882
Net position	22	0	22
31.12.2011			
Mortgage bonds	3,950	4,159	3,950
Repurchase liability	-3,965	-4,159	-3,965
Net position	-15	0	-15

Financial review
As at 31 December 2012 Arla has invested in the mortgage bonds underlying its mortgage debt. The reason for investing in the mortgage bonds is that Arla is able to achieve a lower interest rate than the current market interest rate on mortgage debt by entering into a sale and repurchase agreement on the listed Danish mortgage bonds. The net interest rate payable by Arla, by raising financing through this kind of sale and repurchase, is the interest rate inherent in the sale and repurchase agreement and the contribution to the mortgage institute.

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

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

NOTE 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 also cover the defined contribution plan agreements.

Defined contribution plans
For defined contribution plans, the Group pays fixed contributions to independent pension enterprises. The Group has no obligation to make additional payments.

Defined benefit plans
Defined benefit plans are characterised by the Group's obligation to pay a specific payment as at the date the employee is pensioned, dependent on for example the employee's seniority and final salary. The liability relating to defined benefit plans is measured annually by actuarial computation on the basis of assumptions regarding future developments in interest, inflation and average useful life, etc. Costs for the year relating to defined benefit plans are based on actuarial computations. The actuarially computed present values less the fair value of any plan assets are recognised in the statement of financial position under provisions for pension liabilities. If the actuarial assumptions change, gains and losses are recognised as a result of this in other comprehensive income. When benefits relating to employees' previous employment in the enterprise change, a change is made to the actuarial computation of the present value (historical cost). Historical costs are charged immediately to the extent the employees have already earned the right to the changed benefit. Otherwise, it is recognised on an ongoing basis in the statement of income over the period the employees earn the right to the changed benefit. The provision covers defined benefit plans primarily in the United Kingdom, Germany and Sweden.

Uncertainties and estimates
An assessment of the value of defined benefit pension plans is based on a number of actuarial assumptions, including discount rates, anticipated returns on the plan's assets as well as the anticipated rate of increase in salaries and pensions. The value of Arla's defined benefit plans is based on assessments made by external actuaries.

NOTE 5.7.a. PENSION OBLIGATIONS RECOGNISED IN THE BALANCE SHEET

(mDKK)	**2012**	**2011**
Present value of funded obligations	8,173	6,354
Fair value of plan assets	-6,915	-5,636
Deficit of funded plans	1,258	718
Present value of unfunded obligations	1,871	1,505
Net pension liabilities recognised in the balance sheet	3,129	2,223

NOTE 5.8.b DEVELOPMENTS IN DEFINED BENEFIT PENSION OBLIGATIONS

(mDKK)	2012	2011
Present value of obligations at 1 January	7,859	7,119
Additions from mergers and acquisitions	1,131	118
Current service costs	27	33
Interest costs	385	356
Acturial (gains)/losses	781	361
Past service costs	-	-3
Paid out benefits to employees	-364	-307
Curtailments	-1	-1
Exchange rate adjustments	226	183
Present value of pension liability at 31 December	**10,044**	**7,859**

NOTE 5.8.c DEVELOPMENT IN FAIR VALUE OF PLAN ASSETS

Fair value of plan assets at 1 January	5,635	5,218
Additions from mergers and acquisitions	719	-
Expected return on plan assets	338	324
Acturial (gains)/losses	127	-76
Employer contributions	264	281
Benefits paid to employees	-309	-263
Exchange rate adjustments	141	151
Fair value of plan assets at 31 December	**6,915**	**5,635**

NOTE 5.7.d RECOGNISED IN THE INCOME STATEMENT FOR THE YEAR

(mDKK)	2012	2011
Current service costs	27	33
Past service costs	-	-3
Curtailments	-1	-1
Recognised as staff costs	**26**	**29**
Interest costs	384	356
Expected return on plan assets	-338	-324
Recognised as financial (gains)/losses	**46**	**32**
Total amount recognised in the Income Statement	**72**	**61**

NOTE 5.7.E RECOGNISED IN OTHER COMPREHENSIVE INCOME

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

NOTE 5.7.f HISTORICAL INFORMATION	2012	2011
(mDKK)		
Experience changes to the obligations, gains/(losses)	+102	+7
Experience changes to the pension assets	+17	-

NOTE 5.7.g ASSETS INVESTED IN PENSION FUNDS	%	2012	%	2011
(mDKK)				
Shares	21%	1,472	36%	2,018
Bonds	53%	3,682	45%	2,553
Properties	11%	739	12%	678
Other assets	15%	1,023	7%	387
Total assets	**100%**	**6,916**	**100%**	**5,636**

NOTE 5.7.h ASSUMPTIONS FOR THE ACTUARIAL CALCULATIONS AT THE BALANCE SHEET DATE ARE:	2012	2011
(mDKK)		
Discounting rate, Sweden	3.5%	3.8%
Discounting rate, UK	4.5%	5.0%
Expected payroll increase, Sweden	3.0%	3.0%
Expected payroll increase, UK	4.2%	4.4%
Expected average return on plan assets, UK	5.7%	6.3%

Financial review
Net pension liabilities in the United Kingdom and Sweden have been recognised at DKK 3,129 million compared with DKK 2,224 million from the previous year. The present value of defined benefit plans declined because of the Group's payments to these plans and increased because of the acquisition of Milk Link and MUH. The provision consists primarily of defined benefit plans in the United Kingdom and Sweden. The defined benefit plans secure pension disbursements to participating employees based on seniority and final salary.

United Kingdom:
The defined benefit plans in the United Kingdom are administered of independent pension funds that invest deposited amounts to cover pension obligations. The actuarial present value of the obligations totalled DKK 8,173 million at 31 December 2012 compared with DKK 6,355 million at 31 December 2011. Recognised net liabilities—less the fair value of the assets of DKK 6,915 million at 31 December 2012 compared with DKK 5,635 million at 31 December 2011—stood at DKK 1,257 million (2011: DKK 718 million). The increase is primarily owing to additions from the Milk Link plan of DKK 948 million at 1 October 2012 as well as an actuarial loss DKK 691 million for the year of primarily due to a declining discount rate.

Sweden:
The defined benefit plan in Sweden is not covered by ongoing deposits paid into the fund. The recognised liability stood at DKK 1,687 million compared with DKK 1,505 million in 2011. The increase is primarily due to actuarial losses of DKK 90 million resulting from a declining discounting rate as well as a foreign exchange rate adjustment of DKK 69 million. In January 2013, Arla established a fund with a deposit of SEK 100 million as collateral for the existing liability.

Implementation of IAS 19:
IAS 19 on personal benefits was amended effective 1 January 2013. The most significant change pertains to calculating the return component based on net liability. Thus, expected returns are calculated neither on pension assets nor on pension liabilities. It is estimated that the implementation will result in an impact on the result of DKK -60 million as well for the 2013 financial year.

NOTE 6: MISCELLANEOUS

This note specifies taxes, which are divided into tax in the statement of income and the deferred tax on the statement of financial position. The effective tax rate is calculated and deferred tax liabilities not included in the statement of financial position are listed.

It also contains other statutory disclosures, such as the consideration paid to members of the Supervisory Board and the Executive Board as well as auditors elected by the Board of Representatives. The note furthermore contains disclosures about contractual obligations, related parties and cooperative members' liability.

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 enterprises. Tax is assessed on the basis of cooperation or corporate taxation. Cooperation taxation is based on capital while corporate taxation is based on the enterprise's income for the year. Tax for the year consists of the current tax for the year and changes in deferred tax for the year. The tax charged that relates to earnings for the year is recognised in the statement of income. The tax charged that relates to earnings and costs recognised in the equity is recognised directly in equity.

Current and deferred taxes
Current tax payables and receivables are recognised in the statement of financial position as tax, calculated on the taxable income for the year, adjusted for any tax from previous years' taxable income as well as for paid on-account taxes. Deferred tax and related adjustments for 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 assets, including the tax base 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 offsets in deferred tax payables in enterprises 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 related to future taxable income, future statutory changes for income taxation or the outcome of the tax authorities' final review of the Group's tax returns. Recognition of deferred tax also depends on an assessment of the future use of the asset.

NOTE 6.1.a TAXES IN THE INCOME STATEMENT

(mDKK)	2012	2011
Corporation tax		
Current tax	-39	-35
Deferred tax	-34	-11
Change in deferred tax resulting from a change in the tax rate	15	-18
Regulation regarding previous years, actual tax	-11	35
Regulation regarding previous years, deferred tax	26	13
Total corporation tax	**-43**	**-16**
Cooperative tax	-46	-35
Total tax in the income statement	**-89**	**-51**

NOTE 6.1.b COMPUTATION OF EFFECTIVE TAX RATE

(mDKK)		
Statutory corporate income tax rate in Denmark	25%	25%
Deviation in foreign subsidiaries' tax rates compared with the Danish tax rate (net)	0%	0%
Cooperative tax	-22%	-23%
Non-taxable income less non-tax-deductible costs (net)	5%	6%
Change in tax percentage	-1%	1%
Regulation regarding previous years	-2%	-3%
Other	-1%	-2%
Effective tax rate	**4%**	**4%**

NOTE 6.1.c DEFERRED TAX

(mDKK)	INTANGIBLE ASSETS	PPE	FINANCIAL ASSETS	CURRENT ASSETS	PROVISIONS	OTHER LIABILITIES	TAX LOSS CARRY-FORWARDS	OTHER CATEGORY	TOTAL
2012									
Net deferred tax asset/(liability) at 1 January	-7	-173	53	-18	269	-5	111	-83	147
Income/(charge) to the income statement	-11	-30	14	1	-5	10	-	13	-8
Income/(charge) to other comprehensive income	-	-1	-	-	101	27	-	-	127
Change in tax rate	3	22	-1	4	-1	-1	-11	-	15
Merger and acquisitions	-	49	12	20	-16	-28	-8	26	55
Exchange rate adjustment	-	-3	1	-2	10	1	2	-2	7
Other adjustments	-	-	1	-	-1	-1		-	-1
Net deferred tax asset/(liability) at 31 december	**-15**	**-136**	**80**	**5**	**357**	**3**	**94**	**-46**	**342**
Specified as follows:									
Deferred tax asset at 31 December	-15	-105	115	5	368	-1	94	-26	435
Deferred tax liability at 31 December	-	-31	-35	-	-11	4	-	-20	-93
2011									
Net deferred tax asset/(liability) at 1 January	-	-193	-1	-21	288	-36	-	1	38
Income/(charge) to the income statement	-	15	-	-	-111	-	98	-	2
Income/(charge) to other comprehensive income	-	-	55	-	116	23	-	-	194
Change in tax rate	-	1	-3	-3	-13	-	-	-	-18
Merger and acquisitions	-	2	-	-	-	-	-	-35	-33
Exchange rate adjustment	-	2	-	-1	7	-1	-	-	7
Other adjustments	-7	-	2	7	-18	9	13	-49	-43
Net deferred tax asset/(liability) at 31 december	**-7**	**-173**	**53**	**-18**	**269**	**-5**	**111**	**-83**	**147**
Specified as follows:									
Deferred tax asset at 31 December	-7	-168	88	-18	274	-13	111	-	267
Deferred tax liability at 31 December	-	-5	-35	-	-5	8	-	-83	-120

Financial review

Tax income in income statement
Expensed tax has increased during the year, primarily due to a higher taxable income for the year. The tax rate in UK was reduced from 25% to 23% by 1 April 2012. The tax rate in Sweden was lowered on 1 January 2013 from 26,3% to 22%. The deferred tax for these countries has been reduced accordingly.

Deferred tax
Deferred tax assets are primarily based on pensions liabilities. Deferred tax liabilities predominantly relates to property, plant and equipment. A deferred tax asset of DKK 232 million (2011: DKK 91 million) has not been recognised as it is not expected to be used.

NOTE 6.2. FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES	2012	2011
(mDKK)		
Statutory audit	11	13
Other assurance engagements	2	1
Tax assistance	8	7
Other services	17	9
Total fees to auditors	**38**	**30**

KPMG has been appointed as auditors by the Board of Representatives. Fees are specified according to the demands.
Other services comprise fees related to due diligence in connection with mergers and acquisitions of companies.

NOTE 6.3. MANAGEMENT PAYMENT (mDKK)	BOARD OF DIRECTORS	EXECUTIVE BOARD
2012		
Wages, salaries and remuneration etc.	-6	-16
Pensions	-	-1
Total	**-6**	**-17**
2011		
Wages, salaries and remuneration etc.	-5	-19
Pensions	-	-1
Total	**-5**	**-20**

During 2011 Andreas Lundby has withdrawn from the Executive Board. His payment is therefore only included proportionally in 2011.

NOTE 6.4. CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIES

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

CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIE (mDKK)	2012	2011
Surety and guarantee commitments:	99	111
Operational rent commitments	508	491
0-1 year	115	111
1-5 years	214	207
Over 5 years	178	172
Operational leasing commitments:	1,045	640
0-1 year	225	138
1-5 years	746	457
Over 5 years	73	45
Commitments in relation to agreements on the purchase of intangible assets	115	-
Commitments in relation to agreements on the purchase of property, plant and equipment	954	724

NOTE 6.5. RELATED PARTIES

Arla Foods amba is the parent company in the group. The company has no related parties exercising control. Related parties exercising significant influence comprise the Board of Directors and the Executive Management Board. In addition, subsidiaries, joint ventures and associates are related parties (see Group Chart in note 7). Members of the Board of Directors are paid for milk supplies to Arla Foods amba on equal terms with other members of the company.

NOTE 6.5.a BOARD OF DIRECTORS

(mDKK)	2012	2011
Purchase of milk	84,935	70,994
Supplementary payment	2,122	2,873
Trade payables	7,408	5,138
Member accounts	8,409	4,607

NOTE 6.5.b JOINT VENTURES

Sale of goods	112	35
Trade receivables	83	20
Trade payables	0	3

NOTE 6.5.c ASSOCIEREDE VIRKSOMHEDER

Sale of goods	247	336
Purchase of goods	165	250
Trade receivables	25	50
Trade payables	15	14

GROUP CHART

COMPANY NAME	COUNTRY	CURRENCY	DIRECT GROUP HOLDING (PCT.)
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	97
Aktieselskabet J. Hansen	Denmark	DKK	100
J.P. Hansen inc	USA	USD	100
Mejeriforeningen	Denmark	DKK	91
Arla Foods Holding A/S	Denmark	DKK	100
Medlemsartikler ApS	Denmark	DKK	100
Arla Foods Distribution A/S	Denmark	DKK	100
Økomælk A/S	Denmark	DKK	100
Danmark Protein A/S	Denmark	DKK	100
Cocio Chokolademælk A/S	Denmark	DKK	50
Arla Foods International A/S	Denmark	DKK	100
Arla Foods UK Holding Ltd	UK	GBP	67
Arla Foods UK Farmers JV Company Limited	UK	GBP	50
Arla Foods UK plc	UK	GBP	100
Arla Foods Finance Ltd	UK	GBP	100
Arla Foods Holding Co. Ltd	UK	GBP	100
Arla Foods UK Investments Limited	UK	GBP	100
Arla Foods UK Services Ltd	UK	GBP	100
Arla Foods Naim Limited	UK	GBP	100
Healds Foods Limited	UK	GBP	100
Arla Foods Limited	UK	GBP	100
Milk Link Holdings Ltd.	UK	GBP	100
Milk Link Processing Ltd.	UK	GBP	100
Milk Link (Credition No 2) Limited	UK	GBP	100
Milk Link Trading Inc.	USA	USD	100
Milk Link Investments Ltd.	UK	GBP	100
The Cheese Company Holdings Ltd.	UK	GBP	100
The Cheese Company Ltd.	UK	GBP	100
MV Ingredients Ltd.	UK	GBP	50
Cornish Country Larder Ltd.	UK	GBP	100
The Company Investments Ltd.	UK	GBP	100
Westbury Dairies Ltd	UK	GBP	11
Arla Foods (Westbury) Ltd	UK	GBP	100
Arla Creamery Ltd.	UK	GBP	100
Arla Foods UK Property Co. Ltd	UK	GBP	100
Arla Foods Holding NL B.V.	Netherlands	EURO	100
Arla Foods B.V.	Netherlands	EURO	100
Arla Foods Ltda	Brazil	BRL	100
Dan-Vigor Ltda*	Brazil	BRL	50
Denmark Dairy Dev. Corporation	Denmark	DKK	100
Danya Foods Ltd	Saudi Arabia	SAR	75
AF A/S	Denmark	DKK	100
Thisted Dairy Foods ApS	Denmark	DKK	100
Arla Foods Finance A/S	Denmark	DKK	100
Danske Immobilien ApS**	Denmark	DKK	35
K/S Danske Immobilien**	Denmark	DKK	35
Ravnsbjerg Finans ApS	Denmark	DKK	100
A/S af 05.06.92	Denmark	DKK	100
Kingdom Food Products ApS	Denmark	DKK	100
Ejendomsanpartsselskabet St. Ravnsbjerg	Denmark	DKK	100
Arla Insurance Company Ltd	Guernsey	DKK	100
Rynkeby Foods A/S	Denmark	DKK	50
Krogab Sverige AB	Sweden	SEK	100
Kinmaco ApS	Denmark	DKK	100
Arla Foods Energy A/S	Denmark	DKK	100
Rynkeby Foods A/S	Denmark	DKK	50
Arla Foods Trading A/S	Denmark	DKK	100
Mejerianpartsselskabet	Denmark	DKK	100
Danapak Holding A/S	Denmark	DKK	100
Danapak A/S	Denmark	DKK	100
Danapak Flexibles A/S	Denmark	DKK	100
Danapak Plast A/S	Denmark	DKK	100
Tolkki Oy	Finland	EURO	100
Danapak (UK) Limited	UK	GBP	100
Danapak WP A/S	Denmark	DKK	100
Fidan A/S	Denmark	DKK	100
Dairy Fruit A/S	Denmark	DKK	100

COMPANY NAME	COUNTRY	CURRENCY	DIRECT GROUP HOLDING (PCT.)
Tholstrup International B.V.	Netherlands	EURO	100
Tholstrup Cheese Holding A/S	Denmark	DKK	100
Tholstrup Cheese A/S,	Denmark	DKK	100
Tholstrup Cheese TC Sverige AB,	Sweden	SEK	100
Arla Foods GmbH,	Germany	EURO	100
Tholstrup Cheese USA Inc.,	USA	USD	100
Tholstrup Taulov A/S,	Denmark	DKK	100
Arla Foods Ingredients GmbH,	Germany	EURO	100
Arla Tagatose Holding GmbH,	Germany	EURO	100
Sweetgredients GmbH & Co. KG*	Germany	EURO	50
Arla CoAr holding GmbH	Germany	EURO	100
ArNoCo GmbH & Co. KG*	Germany	EURO	50
Arla Biolac Holding GmbH	Germany	EURO	100
Biolac GmbH & Co. KG*	Germany	EURO	50
Arla Foods Kuwait Company LLC	Kuwait	KWD	49
Arla Kallassi Foods Lebanon S.A.L.	Lebanon	USD	50
Arla Foods Qatar WLL	Qatar	QAR	40
AFIQ, WLL	Bahrain	BHD	25
Arla Foods AB	Sweden	SEK	100
Boxholm Mejeri AB	Sweden	SEK	100
HB Grådö Produktion	Sweden	SEK	100
Rynkeby Foods Förvaltning AB	Sweden	SEK	100
Rynkeby Foods HB	Sweden	SEK	100
Arla Ingman Oy Ab	Finland	EURO	100
Ranuan Meijeri Oy	Finland	EURO	99
Kiteen Meijeri Oy	Finland	EURO	99
Halkivahan Meijeri Oy	Finland	EURO	97
Massby Facility & Services Oy	Finland	EURO	60
Arla Foods UK Holding Ltd	UK	GBP	33
Restaurang akademien Aktiebolag**	Sweden	SEK	50
Arla Foods Russia Holding AB	Russia	RUB	75
Arla Foods Artis Ltd	Sweden	SEK	100
L&L International Bolag AB	Sweden	SEK	100
Arla Foods Specialost AB	Sweden	SEK	100
Silvadden AB	Sweden	SEK	100
Milko Sverige AB	Sweden	SEK	100
AFF Partner A/S	Denmark	DKK	100
Danish Food Consultants A/S	Denmark	DKK	100
Videbæk Biogas A/S	Denmark	DKK	50
Arla Foods Holding AB	Sweden	SEK	100
Arla Foods Inc	USA	USD	100
Arla Foods Production LLC	USA	USD	100
Arla Foods Transport LLC	USA	USD	100
Arla Foods SA	Poland	PLN	100
COFCO Dairy Holdings Limited	Hong Kong	HKD	30
Arla Foods Inc.	Canada	CAD	100
Arla Global Financial Services Centre Sp. Z.o.o.	Poland	PLN	100
Arla National Foods Products LLC	UAE	AED	40
Arla Foods Deutschland GmbH	Germany	EURO	100
Hansano GmbH	Germany	EURO	100
Gastoline GmbH	Germany	EURO	100
Molkerei Karstädt GmbH	Germany	EURO	100
Hahnheider Milch GmbH	Germany	EURO	100
Arla Foods Käsereinen GmbH	Germany	EURO	100
Allgäuland Frische GmbH	Germany	EURO	100
Bergland Naturkäse GmbH**	Germany	EURO	50
Molkerei-Zentrale Südwest eG	Germany	EURO	99
Sengale SAS	Germany	EURO	100
MZ Südwest Alsace SAS	Germany	EURO	99
Team-Pack GmbH	Germany	EURO	100
MVH France, S.a.r.l	France	EURO	100
Milch-Union Hocheifel, Luxemburg GmbH	Luxemburg	EURO	100
Milch-Union Hocheifel, Belgium AG	Belgium	EURO	100
Hansa Verwaltungs und Vertriebs GmbH	Germany	EURO	100
Hansa Logistik eG	Germany	EURO	100
Arla Foods Srl	Italy	EURO	100
Arla Foods S.a.r.l.	France	EURO	100
Arla Foods AS	Norway	NOK	100
Arla Foods S.A.	Spain	EURO	100
Arla Foods Hellas S.A.	Greece	EURO	100
Svensk Mjölk Ekonomisk förening	Sweden	SEK	51

* Joint Ventures ** Associated Companies
The Group also owns a number of companies without material commercial activities.

Slagelse Mejericenter, Denmark

INDEPENDENT AUDITOR'S STATEMENT

To the Members of Arla Foods amba:

Endorsement of the Consolidated Financial Statements and the Financial Statements
We have audited the Consolidated Financial Statements and the Financial Statements for Arla Foods amba for the financial year 1 January–31 December 2012. The Consolidated Financial Statements comprise a statement of income, a statement of comprehensive income, a statement of financial position, a statement of changes in equity, a consolidated statement of cash flows and notes, including accounting policies for the group as well as for the enterprise. The consolidated financial statements and the financial statements have been prepared applying the International Financial Reporting Standards as approved by the EU and supplemental disclosure requirements as set out in the Danish Financial Statements Act.

Management's responsibility for the consolidated financial statements and the financial statements
Management is responsible for preparing consolidated financial statements and financial statements that provide a true and fair view in accordance with the International Financial Reporting Standards as approved by the EU and supplemental disclosure requirements as set out in the Danish Financial Statements Act. Management is also responsible for implementing internal controls considered necessary by Management to ensure that the consolidated financial statements and annual financial statements are free of material misstatement, whether or not such misstatement is due to fraud or errors.

Auditor's responsibility
It is our responsibility to express an opinion on the consolidated financial statements and the annual financial statements based on our audit. We have planned and conducted our audit in accordance with international auditing standards and additional requirements as set out under the Danish laws governing statutory audits. This requires that we comply with ethics requirements and plan and execute our audit to attain a high degree of certainty that the consolidated financial statements and the annual financial statements are free of material misstatements.

An audit includes following audit procedures to obtain audit documentation for amounts and disclosures in the consolidated financial statements and in the financial statements. The audit procedure chosen will depend on the auditor's assessment, including an assessment of the risk of material misstatement in the consolidated financial statements and the financial statements and whether or not such misstatement is a result of fraud or error. In assessing risk, the auditor takes into consideration internal controls relevant to the company's preparation of consolidated financial statements and annual financial statements that provide a true and fair view. The objective of this is to design audit procedures suitable under the circumstances but not to express a conclusion about the effectiveness of the company's internal controls. An audit also includes an assessment of whether Management's choice of accounting policies is appropriate, if the Management's accounting estimates are reasonable, and of the overall presentation of the consolidated financial statements and the annual financial statements.

We believe that the audit evidence we have obtained is adequate and appropriate as the basis for our conclusion.

Our audit did not give rise to any qualifications.

Conclusion
In our opinion, the consolidated financial statements and the financial statements provide a true and fair view of the Group's and the enterprise's assets, liabilities and financial position as at 31 December 2012 as well as the results of its activities and consolidated cash flows for the fiscal year 1 January–31 December 2012 in accordance with the International Financial Reporting Standards as approved by the EU and supplemental disclosure requirements as set out in the Danish Financial Statements Act.

Statement on Management's Review
In accordance with the Danish Financial Statements Act, we have read the Management's Review. We have not taken any action beyond auditing the consolidated financial statements and annual financial statements. It is on that basis that we believe the information provided in the Management's Review is consistent with the consolidated financial statements and the financial statements.

Aarhus, Denmark on 19 February 2013

KPMG
Statsautoriseret Revisionspartnerselskab

Finn L. Meyer
State-authorised public accountant

Morten Friis
State-authorised public accountant

Consolidated Annual Report: Under section 149 of the Danish Financial Statements Act, the present consolidated annual report represents an extract of the Company's complete annual report. In order to make this report more manageable and user-friendly, the Arla Foods Group has decided to publish a consolidated annual report without the financial statements for the parent company, Arla Foods amba. The annual report for the parent company is an integrated part of the full annual report and is available in Danish at www. arlafoods.dk. Profit sharing and additional payments from the parent company are set out in the income distribution section of the consolidated annual report.

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

MANAGEMENT'S STATEMENT

Today the Executive and Supervisory Boards considered and approved the 2012 Annual Report for Arla Foods amba. The Annual Report was prepared applying the International Financial Reporting Standards as approved by the EU and supplemental disclosure requirements as set out in the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Financial Statements provide a true and fair view of the Group's and the Company's assets, liabilities and financial position as at 31 December 2012 and of the results of its activities and the consolidated cash flows for the financial year 1 January–31 December 2012.

In our opinion, the Management's Review provides a true and fair view of the developments of the Group's and the Enterprise's financial position, activities and financial matters, results for the year and the consolidated cash flows as well as a description of the most significant risks and uncertainties that may affect the Group and the Enterprise.

We herebt recommend the Annual Report for adoption by the Board of Representatives.

Aarhus, 19 February 2013

SUPERVISORY BOARD

Åke Hantoft [22]
Chairman

Jan Toft Nørgaard [10]
Deputy Chairman

Viggo Ø. Bloch [2]

Palle Borgström [6]

Jonas Carlgren [13]

Leif Eriksson [4]

Manfred Graff [8]

Heléne Gunnarson [25]

Søren Salling Jensen [5]

Bjørn Jepsen [14]

Thomas Johansen [11]

Uwe Krause [3]

Klaus Land [16]

Steen Nørgaard Madsen [20]

Torben Myrup [15]

Anne-Lie Nielsen [18]

Steen Nielsen [19]

Gunnar Pleijert [17]

Anders Ramström [21]

Johnnie Russell [7]

Ingela Svensson [12]

Pejter Søndergaard [26]

Bent Juul Sørensen [24]

Peter Winstone [1]

EXECUTIVE BOARD

Peder Tuborgh [23]
Chief Executive Officer

Povl Krogsgaard [9]
Deputy Chief Executive Officer

CORPORATE MANAGEMENT

EXECUTIVE BOARD

Peder Tuborgh
Chief Executive Officer

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

Povl Krogsgaard
Deputy Chief Executive Officer

2004: Vice CEO Arla Foods
2000: Executive Group Director, Arla Foods
1998: Executive Group Director, MD Foods
1994: CEO of Mejeriernes Produktionsselskab as well as Director for the Home Market Division
1991: Director for the Home Market Division, MD Foods
1989: Production Manager for yellow cheese, MD Foods
1988: Head of Department, Home Market Div., MD Foods
1987: Head of Department, Mejeriselskabet Denmark, company secretariat
1979: Joined Danske Mejeriers Fællesorganisation, appointed Head of Department in 1983

OTHER EXECUTIVE MANGEMENT GROUP

Frederik Lotz
Executive Vice President, Corporate Finance

2010: Chief Finance Officer, 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
Executive Vice President, Corporate Human Resources

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

Jais Valeur
Executive Vice President, Global Categories & Operations

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

Peter Lauritzen
Executive Vice President,
Consumer UK

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

Christer Åberg
Executive Vice President,
Consumer Sweden & Finland

2011: Executive Vice President, Arla Foods, responsible for Consumer Sweden
2009: Managing director, Arla Foods Sweden
2006: Managing director, Atria Scandinavia
2004: Managing director, Unilever Home & Personal Care Nordic
1992: Unilever in Nordics, Europe and Middle East (Several positions mainly in marketing & sales)

Peter Giørtz-Carlsen
Executive Vice President,
Consumer Denmark

2011: Executive Vice President, Arla Foods, responsible for Consumer Denmark
2010: Vice-CEO Bestseller Fashion Group China
2008: Managing Director, Cocio Chokolademælk A/S2003: VP Corporate Strategy Arla Foods
2002: Business Development Director, Semco/Bravida Danmark
1999: Managment Consultant, Accenture Strategy Practice

Tim Ørting Jørgensen
Executive Vice President
Consumer Germany & Netherlands

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

Finn S. Hansen
Executive Vice President,
Consumer International

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

FINANCIAL HIGHLIGHTS

(mDKK)	2012	2011	2010	2009	2008
			Not adjusted for IFRS		
Performance price					
DKK per kg cooperative owner milk	2.71	2.81	2.52	2.14	2.82
SEK per kg cooperative owner milk	3.37	3.75	3.49	2.91	3.61
EUR-cent per kg cooperative owner milk	35.80	37.4	-	-	-
GBP-cent per kg cooperative owner milk	30.21	-	-	-	-
Income statement					
Revenue	63,114	54,893	49,030	46,230	49,469
EBIT (Earnings before interest and tax)	2,502	1,755	1,684	1,412	1,149
EBITDA (Earnings before interest, tax, depreciations and amortisations)	4,445	3,541	3,743	3,223	2,964
Net financials	-518	-305	-294	-232	-862
Net profit for the year	**1,895**	**1,399**	**1,268**	**971**	**556**
Balance sheet					
Total assets	43,478	35,146	30,097	30,094	29,280
Non-current assets	24,415	18,741	17,004	16,782	15,205
Investments in property, plant and equipment	-3,303	-2,165	-1,508	-1,618	-1,447
Current assets	19,063	16,405	13,093	13,312	14,075
Equity	10,918	9,526	8,580	8,281	7,797
Consolidation:					
Recon. according to Articles of Association	-	-	-	-	121
Capital account	0	606	466	-	-
Delivery based owner certificates	-	-	-	311	176
Contributed capital	283	273	233	-	-
Reserve for special purposes	469	-	-	-	-
Strategy fund	-	-	-462	-	122
Supplementary payment	1,112	491	1,031	660	137
Total non-current liabilities	15,177	11,464	7,359	7,816	7,793
Total current liabilities	17,383	14,156	12,060	11,768	11,482
Net interest bearing debt incl. pensions	17,145	12,243	10,041	10,257	11,441
Net working capital	5,891	6,147	4,691	4,546	5,626
Cash flows					
Cash flow from operating activities	3,799	2,301	2,552	3,402	1,388
Cash flow from investing activities	-5,320	-2,482	-1,626	-2,392	-1,082
Purchase of enterprises	-289	-149	-	-729	-181
Cash flows from financing activities	1,748	245	-2,392	-526	733
Financials ratios					
Leverage	3.9	3.5	2.7	3.2	3.7
Interest cover	11.5	9.7	10.0	9.0	3.4
Solvency ratio	25%	27%	29%	28%	27%

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FINANCIAL HIGHLIGHTS

(Continued)

	2012	2011	2010	2009	2008
Inflow of raw milk:					
Owners in Denmark	4,419	4,320	4,345	4,253	3,911
Owners in Sweden	2,059	1,819	1,829	1,894	1,943
Owners in Germany	685	369	-	-	-
Owners in United Kingdom	286	-	-	-	-
Owners in Belgium	53	-	-	-	-
Owners in Luxembourg	27	-	-	-	-
Others	2,881	2,733	2,539	2,513	2,389
Total million kg milk weighed in by the group	**10,410**	**9,241**	**8,713**	**8,660**	**8,243**
Total number of owners:					
In Denmark	3,354	3,514	3,649	3,838	3,906
In Sweden	3,661	3,865	3,529	3,787	4,090
In Germany	2,911	645	-	-	-
In United Kingdom	1,584	-	-	-	-
In Belgium	501	-	-	-	-
In Luxembourg	245	-	-	-	-
Total number of owners	**12,256**	**8,024**	**7,178**	**7,625**	**7,996**
Other highlights					
Employees, average full time	18,112	17,417	16,215	16,231	16,233
Employees by gender, men/women	73/27	73/27	72/28	73/27	-
Energy consumption, GWh	3,045	2,625	2,653	2,559	2,636
Carbon footprint, kt. Co_2-e	1,600	1,635	1,665	1,668	1,674

* The figures stated for 2012 and 2011 as well as the balance sheet items for 2010 have been preprared in accordance with IFRS. All other figures have been prepared in accordance with the Danish Financial Statements Act.

See also the 2012 CSR Report for more non-financial highlights.

Accounting policy

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 statement of financial position.

Net working capital:
Inventories
+ Trade receivables
– Trade payables

Gearing:

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

Interest cover:

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

Solvency:

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

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

Arla earnings:
Average on-account price paid out (standardised at 4.2% fat/3.4% protein) + results for the year translated to DKK per kg. member milk

EBITDA = Earnings before interest, taxes, depreciation, and amortization.

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