2015

HALF-YEAR REPORT

A well-driven cooperative **in a difficult market**

Arla

2015
1/2 in short

The global dairy industry has rarely been as unpredictable and 2015 is unfortunately as challenging as we anticipated. **Our long-term view is that the market will turn**, which is why we will stay focused on our strategic agenda.

Peder Tuborgh, CEO

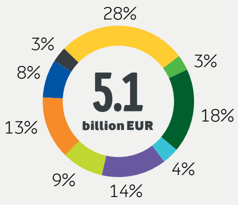
Performance price

33.8
EUR-cent/kg

Revenue development

-3.8%

Revenue



- Consumer United Kingdom
- Consumer Finland
- Consumer Central Europe
- Arla Foods Ingredients
- Consumer Sweden
- Consumer Denmark
- Consumer International
- Global Categories and Operations
- Others

Milk volume

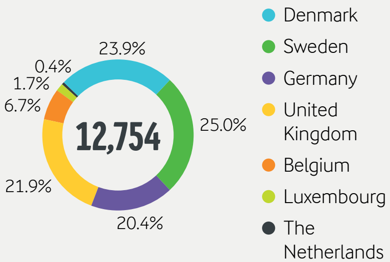
7.0
billion kg

CONTENT

The half-year report has not been audited or reviewed by the Group's auditors.

Project management: Corporate Financial Compliance, Arla. Copy, design and production: We Love People. Translation: Textminded. Photos: Mikkel Bache, Jens Bangsbo, Stephanie Gongdon Barnes and Arla. Printer: Scanprint A/S.

Owners



Profit

116 million EUR

2.3% of revenue

Equity

2.0 billion EUR

Equity ratio 30%

Net interest-bearing debt

2.7 billion EUR

Leverage

4.0

2015 1/2 highlighted events

NEW BUSINESS REGION ESTABLISHED IN ASIA
China and South East Asia were integrated as a new regional market called Business Unit Asia. Synergies in product portfolio, marketing and innovation will strengthen Arla's position in this high potential region.

NEW PRODUCTION FACILITY IN PRONSFELD OPENED
The new powder and butter facility in Pronsfeld, Germany, officially opened. The EUR 110 million investment makes Pronsfeld by far the largest production site in the Arla Group.

NEW SUBSIDIARY IN AUSTRALIA
Arla entered a cooperation with Australia's largest cheese importer, F. Mayer Imports with the ambition to multiply its revenue in Australia fivefold.

ABOLITION OF EU MILK QUOTAS
On April 1, 2015 EU milk quotas were abolished resulting in Arla's raw milk inflow increasing by expectedly 3 - 4 per cent every year.

3-4 %

ACQUISITION OF FALBYGDENS OST APPROVED
The purchase of Falbygdens Ost, Sweden, was approved by the Swedish Competition Authority effective from April 1, 2015. The strategic acquisition enhances Arla's ability to promote and develop the premium cheese market.

ArNoCo IS RUNNING AT FULL SPEED
Arla's joint venture with Deutsches Milchkontor eG (DMK), ArNoCo, Germany, officially launched and the new production facility is up and running at full speed.

NEW SUBSIDIARY IN EGYPT
Arla and Egypt-based dairy company Juhayna entered into a cooperation that enables Arla to sell its products across Egypt.

Standing together in **good and tough times**

Åke Hantoft, Chairman of the Board of Directors

We anticipated 2015 would be a very challenging year for dairy farmers. This has certainly been the case for the first half of the year with unpredictable markets and, consequently, a lower milk price. However, this company never loses sight of its mission.

Dairy farmers across Europe, including Arla farmers, were awaiting the abolition of EU milk quotas on April 1 and as a result Arla's milk volumes began to increase in May. We expect a 3 - 4 per cent increase for the full year. However, owner milk has increased by 7.0 per cent in the first half of 2015 compared to the first half of 2014, mainly due to the merger with Walhorn EGM, Belgium on 1 August 2014 and new AMCo members in the UK. A plan was already in place for this additional milk in line with Strategy 2017. Arla's marketing and sales organisations have focused on increasing volumes in profitable positions in both core markets and markets outside the EU. This makes Arla a safe home for our milk even if times are currently tough due to the imbalance between demand and supply.

BEING FARMER-OWNED IS AN ASSET FOR ARLA

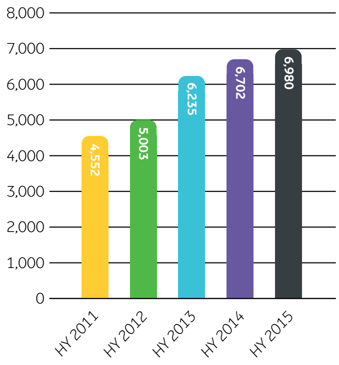
It makes a difference to consumers to know that our products are produced by a farmer-owned cooperative which has control of the entire value chain. Consumers trust us to take good care of our cows and to deliver high quality raw milk and handle it responsibly. And they are right to do so. We work according to our quality assurance programme Arlagården® which will be rolled out in the UK later this year.

WE BELIEVE STRONGLY IN THE COOPERATIVE PRINCIPLE

Being a member of a cooperative means that we share the profit that Arla is able to generate from our milk - from all products and from all markets. It also means that we share the challenges, for example, the challenge of operating in a very volatile market with a low milk price.

The Board of Directors believes strongly in the cooperative principle. With owners in seven countries – in locations including Scotland, Eifel, BeNeLux, Himmerland and Jämtland – it is sometimes difficult for individual owners to feel truly united or connected to their farmer colleagues. However, we have a solid democratic structure that creates various opportunities to share opinions and to discuss both short-term challenges and the long-term development of the cooperative. It is a true democracy as we participate in meetings and use the opportunity to gain influence. It is a healthy cooperative because we stand together in both good and tough times. Our ability to stand shoulder to shoulder to overcome challenges makes Arla a solid cooperative with a strong future.

INFLOW OF RAW MILK (MIO. KG)



Staying focused in **an unpredictable market**

Peder Tuborgh, CEO

Our focus on delivering market growth and cost control has been strengthened further as we continue to operate in an unpredictable dairy market. Chinese dairy imports have not grown as anticipated and European market players are nervous about the effect of increasing milk volumes following the abolition of EU milk quotas. The industry is being challenged but Arla will remain focused and progress according to the strategic plan.

The dairy market has been unpleasantly volatile during the first half of 2015. Following a short period of optimism, the global dairy market resumed the downward trend we had anticipated. This has placed both the industry and Arla's performance price under pressure. At EUR-cent 33.8, the performance price is at its lowest since 2009.

VOLUME IS KING

Arla has been preparing for the abolition of milk quotas for several years and our volume agenda continues to be absolutely imperative to the business. We remain committed to our plan to move additional 500 million kg milk this year, and a similar amount next year, for the production of profitable branded, retail and foodservice products.

We continue to invest in strong brands and new products while keeping costs under very tight control. Arla's long-standing focus on efficiency and cost control is crucial to our competitiveness and our programmes in these areas are performing according to plan.

BRANDED GROWTH

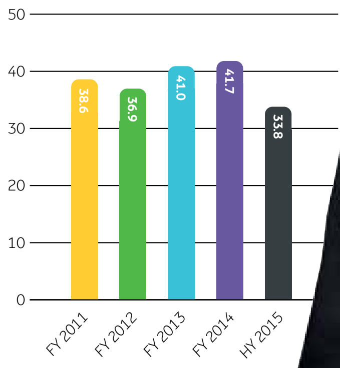
Revenue for the first half of the year totalled EUR 5.1 billion, representing a decrease of 3.8 per cent. Despite the decrease in revenue our global brands have achieved volume growth. It is the outcome of a long-term plan and a 25 per cent increase in marketing spend in 2015 to strengthen and grow our brands. The numbers show that despite the current market situation we have stretched ourselves even further to deliver results and improve competitiveness. Part of the plan and spearheaded by the Arla® brand, is our new health strategy which will be a growth driver in the years to come. As a global dairy company, Arla has a role to play in helping people make healthier choices by offering nutritious products.

MEETING MARKET TRENDS

Global dairy consumption will grow and we have incorporated the increasing raw milk volumes into Strategy 2017. Arla will continue to target consumers who require nutritious and inspiring dairy products of high quality. This drives our focused global investment in brands, innovation and new markets and is the reason for the new subsidiaries in Australia and Egypt, which were established in the first half of the year.

The global dairy industry has rarely been as unpredictable and 2015 is unfortunately as challenging as we anticipated. Our long-term view is that the market will turn, which is why we will stay focused on our strategic agenda.

PERFORMANCE PRICE (EUR-CENT/KG)

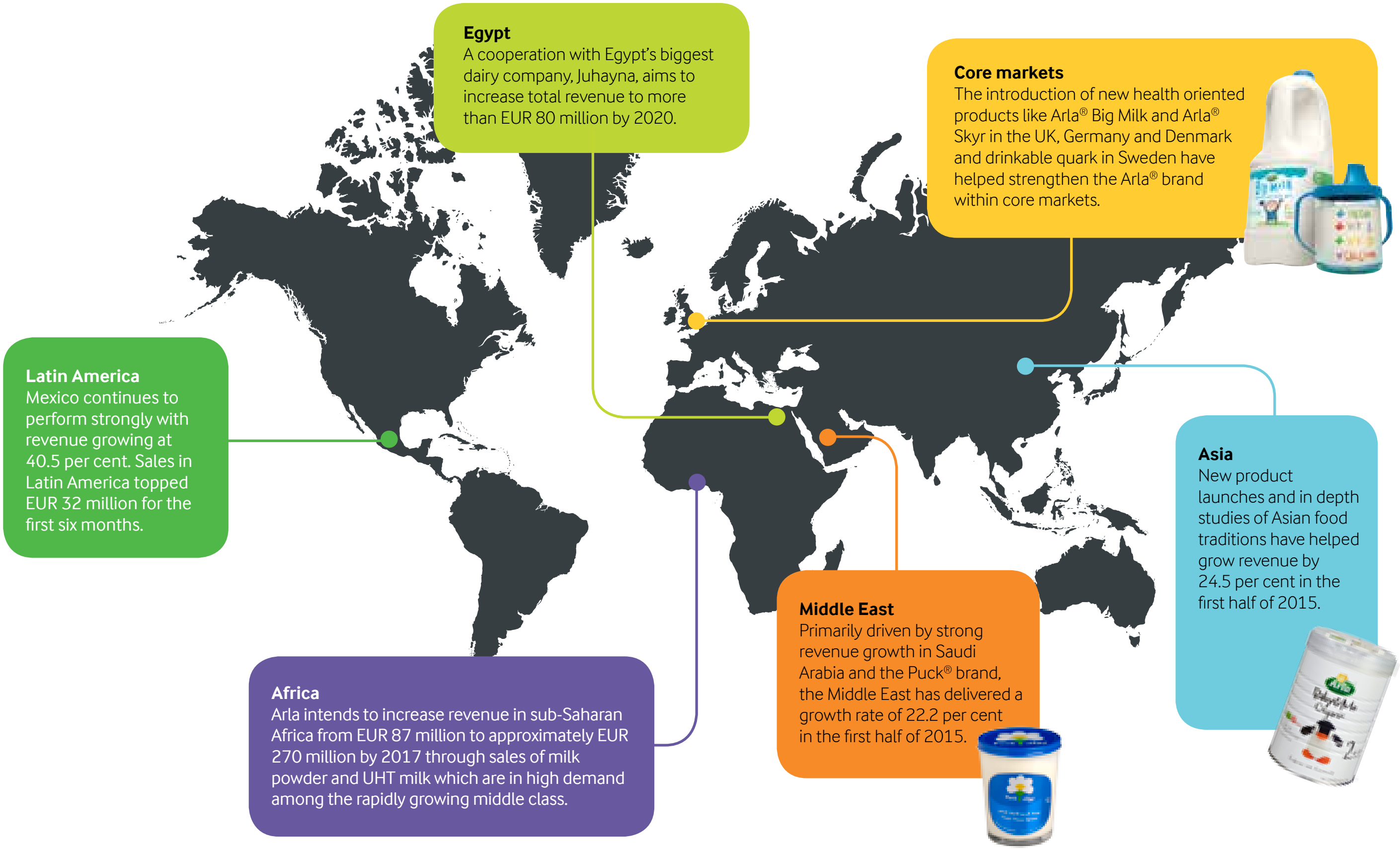


Handling growing **volumes of milk**

The growing volume of milk following the abolition of the EU milk quotas is both a challenge and a driver of new business opportunities. For Arla the new opportunities are further enhanced by rising standards of living in rapidly growing economies. For these reasons, delivering growth outside core markets is a crucial element of Strategy 2017.

Our operation in Mexico is a good example of how we pursue opportunities with the greatest potential. In 2013, Arla opened a head office for Latin America in Mexico City on the basis that the country had one of the world's largest milk deficits, a significantly growing population with rising living standards and a high consumption of dairy products per capita. In 2014, Arla's revenue more than doubled in Mexico and we expect to grow the business in the Latin American region by more than 20 per cent in 2015 and achieve sales of EUR 85 million.

Other opportunities can be found within our core business. By constantly growing our brands and launching products in new markets, Arla can continue its global growth journey and accommodate the increasing milk volumes. The cooperation with F. Mayer in Australia is part of this plan. Lurpak® and Castello® afford us strong positions in Australia and it is our ambition to grow volumes of Castello® by 20 per cent and Lurpak® by 15 per cent in 2015. The aim is to increase total annual revenue in Australia fivefold from EUR 27 million to EUR 134 million by 2020.



Adding value **to the milk**

Adding value to the milk is crucial to secure the best possible milk price for our owners. As our milk volumes increase it is particularly important to grow our sales of branded and retail products to ensure the least possible amount of milk is sold to less profitable segments. During the first half of 2015, the average difference in performance price between commodity and branded products equalled EUR-cent 20.

We will therefore continue to pursue every opportunity to increase sales of our branded, retail and foodservice products. We will develop our core to maintain a stable base while creating branded growth, innovative new products and entering new markets.

We navigate through **a depressed market**

Globally declining milk prices are impacting the entire industry and all of its players. Given these challenging circumstances, Arla has performed relatively well in the first half of the year. Volume growth within retail continues to be king and our sharp focus on cost continues. Our plan of how to handle the 500 million kg additional owner milk in the full year is on track. 2015 sees us navigating through rough waters and while it may be stormy, our team is embracing the challenge.

Arla is navigating through a depressed market. Since the start of 2014 the market commodity price for whole milk powder has dropped by 53.1 per cent and the current price levels were last seen in 2009. The low price level for commodity products has spread to retail in the global dairy market and has negatively affected Arla's ability to safeguard the milk price and deliver value to our owners. The performance price for the first half of the year was EUR-cent 33.8, which is significantly below 2014 levels. It reflects the fact that even though we have a firm grip on our business, the volatility of the market is a tough adversary.

We have two main agendas to manage the performance price: Driving volume through retail and branded products and active cost management.

GROWING BRAND VOLUMES

Our revenue is in line with expectations for the first half of 2015 and has now reached EUR 5.1 billion. We have mitigated the impact of the negative market by directing the increasing milk volumes into retail and branded products, consequently limiting the amount going into less profitable commodity products. Despite the expected 3 - 4 per cent full year growth in Arla's raw milk volumes, we are keeping the trading share under control at 20 - 22 per cent.

The downturn of the global commodity market, increasing milk volumes and a performance price under pressure underline the importance of building strong brands and moving volumes into valuable retail positions. During the first half of the year, the growth in brands shows that our 25 per cent increase in marketing spend is paying off. The volume driven revenue growth of our three global brands is 2.4 per cent. The Lurpak® brand (7.9 per cent) and the Arla® brand (1.8 per cent) show significant progress, while Castello® is struggling currently to keep pace. We need to grow the three global brands significantly and we are targeting volume driven revenue growth of 3 - 5 per cent in 2015.

Arla's branded business is delivering significant value in both core and growth markets. In the first half of 2015, we have seen volume driven revenue growth for our strategic brands in the core markets, for example, Denmark (4.2 per cent) and UK (7.8 per cent) and to some extent in Sweden (2.0 per cent). We have seen a turnaround in volume in Sweden driven by a strong marketing and sales agenda and we are now growing brands in the Swedish market for the first time in a long period.

An important part of Arla's strategy is to accelerate growth outside our European core markets – and we are progressing according to plan. For example, our volume driven revenue growth in the Middle East & Africa of 14.9 per cent is strong and contributes to Consumer International being a profitable business group in Arla. Despite the year-long Russian embargo and the fact that Chinese import remains stagnant the growth in several other international markets illustrates the strength of Arla's business model and signals that our global strategic focus is right and working effectively. Geographical expansion is a key activity in Arla and remains so going forward.

CONTROLLING COSTS

Active cost management is a prerequisite for our competitive performance. When times are challenging for our owners, times are challenging across Arla. For this reason we are continuing to streamline the organisation vigorously and control costs. Our ambition is to achieve total savings from cost programmes of EUR 330 million before the end of 2015 compared to 2012 – and we are on track to do so.

We focus constantly on the scalability of our business, making sure that our fixed costs are increasing at a lower rate than our revenue. In addition to our high performing efficiency and cost programmes, two other factors are important; the accelerating growth in our non-European growth markets and the additional raw milk volumes which are allowing us to generate economies of scale.

Increasing milk volumes and a performance price under pressure underline the importance of building strong brands and moving volumes into valuable retail positions.

BRANDED GROWTH IN THE FIRST HALF OF 2015

FOCUSED INVESTMENTS

We need to prioritise our activities and investments to maintain our economic flexibility going forward. This is why we have reduced capital expenditure in 2015. We are focusing on investments that support our strategic growth markets outside the EU which enable us to channel additional owner milk into branded positions. As a result, we are currently deferring several growth activities and plans for the organisation, some of which, although important, will be postponed until milk price performance is back on track.

We proactively made the decision to maintain our investments in marketing and innovation with the objective to push more milk into retail and foodservice and reduce industry commodity sales. Furthermore, our working capital is developing very strongly as Programme Zero, our working capital project, is on track to deliver a EUR 135 million reduction in 2015. Since 2011, Programme Zero has focused on releasing cash and has created a cash-orientated mindset in Arla.

At 4.0 leverage is higher than at year-end 2014. Our target range for leverage is 2.8 - 3.4 and we have implemented initiatives to reduce leverage to this level. We expect the leverage to be within the range 3.3 - 3.6 by year-end.

In a market where there is much nervousness and in which our owners are having a difficult time, it remains crucial that we deliver a better milk price than our competitors. To ensure this, we continue to strengthen our retail business and brands. We maintain focus on reducing the amount of milk going into commodity products and demonstrate that we can constantly reduce our costs and continue to operate the business more efficiently.

My parents want to give me the best start in life

Awa lives on the Ivory Coast with her parents and her sister. She likes a glass of milk in the morning and her parents believe that it gives her a good start to her day – and to her life.

Milk is a nutrient-rich food source that provides Awa with protein, vitamins and other minerals that are an important part of a healthy diet. Drinking a big glass of milk provides Awa with 50 per cent of the daily recommendation of calcium. This is essential for children's growth and the development of their bones throughout life.

Due to poor nutrition, children in developing countries are increasingly at risk of suffering from either obesity or malnutrition. As one of the world's largest producers of dairy products we will help address these global health challenges and make it easier for people to make healthy choices.

Central to Arla's health strategy, which launched in the first half of the year, is the commitment to focus increasingly on health as both a growth driver for Arla and a positive contribution to the global health agenda.

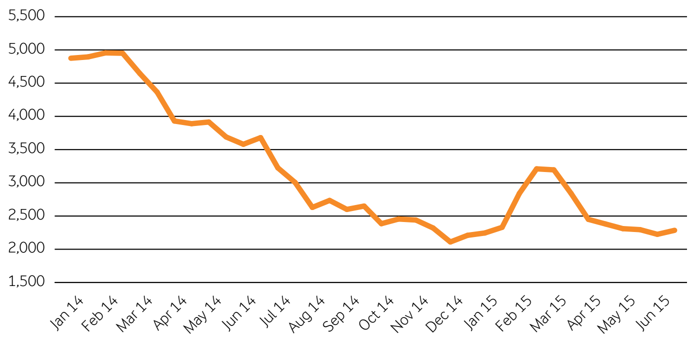
Awa Comara Konate
Abidjan, Ivory Coast

Performance price and **global market prices**

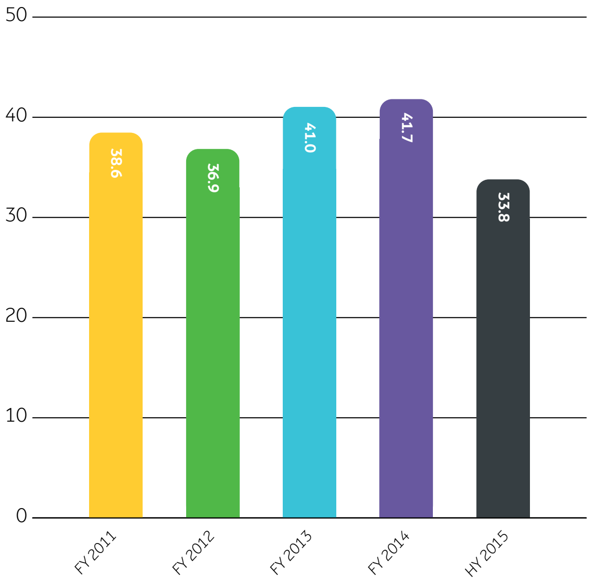
Since the start of 2014 the market commodity price for whole milk powder has dropped by 53.1 per cent and the current price levels were last seen in 2009.

The low price level for commodity products has spread to retail in the global dairy market and has negatively affected Arla's ability to safeguard the milk price and deliver value to our owners.

MARKET PRICES / GDT DEVELOPMENT WMP, USD MT



PERFORMANCE PRICE (EUR-CENT/KG)



The average performance price for the first half of the year was EUR-cent 33.8, which is significantly below 2014 level. The performance price is translated into the currency of countries in which our owners are based using the Arla currency model. The local performance prices are based on the quality of the milk and the volume of conventional milk and organic milk in the different countries.

Performance price half-year 2015

33.8 EUR-cent/kg

Performance price full year 2014

41.7 EUR-cent/kg

Income **statement**

INCOME STATEMENT (EURm)	HALF-YEAR 2015	HALF-YEAR 2014	FULL YEAR 2014
Revenue	**5,127**	**5,330**	**10,614**
Production costs	-3,948	-4,239	-8,395
Gross profit	**1,179**	**1,091**	**2,219**
Sales and distribution costs	-779	-689	-1,454
Administration costs	-234	-259	-468
Other operating income and costs and financial items	-27	12	41
Tax	-17	-5	-18
Profit for the period	**122**	**150**	**320**
Minority interests	-6	-3	-6
Owners of Arla Foods amba	**116**	**147**	**314**

Profit accounts for 2.3 per cent of revenue. The expectation for the full year is within the range 2.7 - 3.0 per cent as a result of the market volatility.

2.3%

Total revenue half-year 2015

5,127 EURm

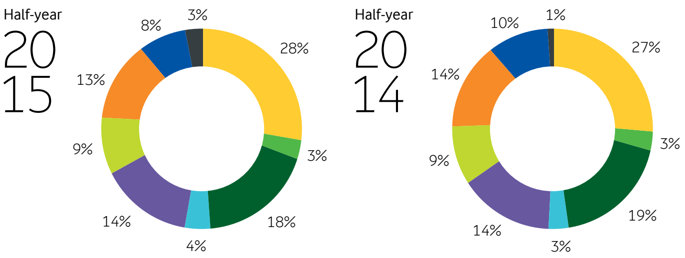
Total revenue half-year 2014

5,330 EURm

Revenue

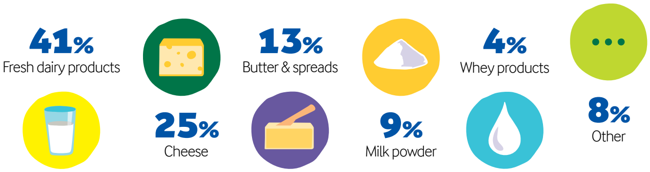
Revenue for the first half of the year totalled EUR 5,127 million, a decrease of 3.8 per cent. The decrease in revenue is a result of a negative price development of 14.2 per cent due to the decline in the world market prices. However, the negative price development is partly offset by a favourable change in foreign exchange rates, namely the GBP and USD, as well as increased milk volumes. Revenue expectation for the full year is EUR 10.2 - 10.3 billion.

REVENUE SPLIT BY BUSINESS GROUPS



- Consumer United Kingdom
- Consumer Finland
- Consumer Central Europe
- Arla Foods Ingredients
- Consumer Sweden
- Consumer Denmark
- Consumer International
- Global Categories and Operations
- Others

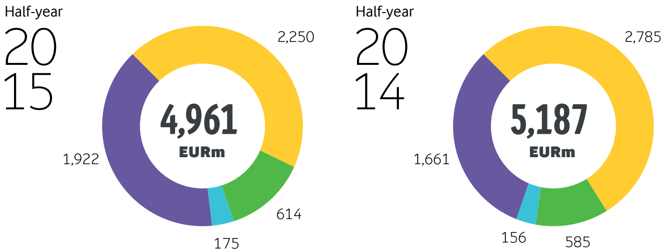
REVENUE SPLIT BY PRODUCT CATEGORY HALF-YEAR 2015



Costs

Costs have decreased by 4.4 per cent compared to the first half of 2014. Non-raw milk costs excluding effects from currency, acquisitions and divestments have increased by 2.3 per cent, mainly as a result of increasing marketing costs to drive the branded retail agenda.

COST SPLIT BY AREA

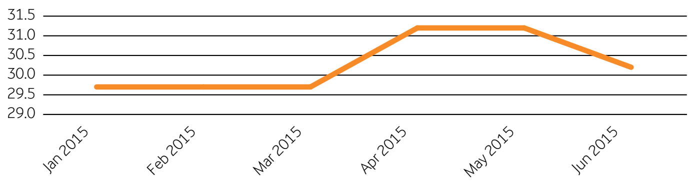


- Cost of raw milk
- Staff costs
- Depreciation, amortisation and impairment
- Other costs

COST OF RAW MILK

	HALF-YEAR 2015		HALF-YEAR 2014	
	Weighed in mio. kg	EURm	Weighed in mio. kg	EURm
Owner milk	6,251	1,995	5,842	2,416
Other milk	729	255	860	369
Total	**6,980**	**2,250**	**6,702**	**2,785**
Average cost per kg milk (EUR-cent)		32.23		41.55

PREPAID MILK PRICE (EUR-CENT/KG)



Based on an annually supply of 1 million kg; 4,2 % fat; 3,4 % protein; conventional highest quality.

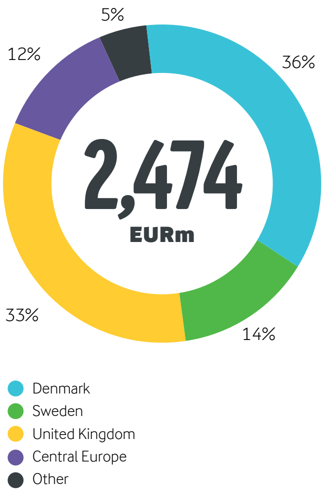
Balance **sheet**

BALANCE SHEET (EURm)	HALF-YEAR 2015	HALF-YEAR 2014	FULL YEAR 2014
ASSETS			
Non-current assets			
Intangible assets	854	767	791
Property, plant and equipment	2,474	2,315	2,399
Other non-current assets	615	438	584
Total non-current assets	**3,943**	**3,520**	**3,774**
Current assets			
Inventories	1,093	1,130	988
Trade receivables	884	999	917
Other current assets	266	229	293
Securities, cash and cash equivalents	593	644	641
Total current assets	**2,836**	**3,002**	**2,839**
TOTAL ASSETS	**6,779**	**6,522**	**6,613**
EQUITY			
Equity attributable to the parent company's owners	1,991	1,680	1,851
Minority interests	28	24	23
Total equity	**2,019**	**1,704**	**1,874**
LIABILITIES			
Non-current liabilities			
Pension liabilities	310	344	376
Loans	1,464	1,869	1,702
Other payables	90	46	59
Total non-current liabilities	**1,864**	**2,259**	**2,137**
Current liabilities			
Loans	1,514	1,129	1,130
Trade payables	924	975	977
Other current liabilities	458	455	495
Total current liabilities	**2,896**	**2,559**	**2,602**
TOTAL LIABILITIES	4,760	4,818	4,739
TOTAL EQUITY AND LIABILITIES	**6,779**	**6,522**	**6,613**

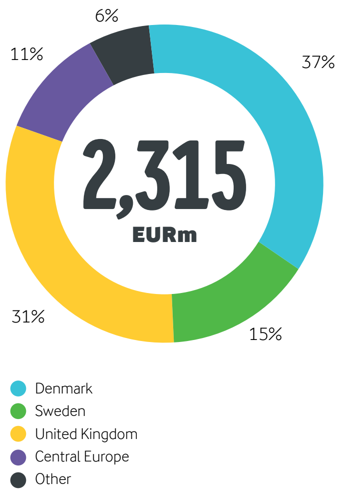
Non-current **assets**

Investments in property, plant and equipment have decreased by EUR 24 million to EUR 150 million. The biggest investments are in Videbæk, Upahl, Pronsfeld and Ayelsbury.
The book value of China Mengniu Dairy Company Limited equals EUR 328 million and is recognised in non-current assets. Fair value of shares based on the listed stock price at 30 June is EUR 465 million.

PROPERTY, PLANT AND EQUIPMENT BY COUNTRY HALF-YEAR 2015



PROPERTY, PLANT AND EQUIPMENT BY COUNTRY HALF-YEAR 2014



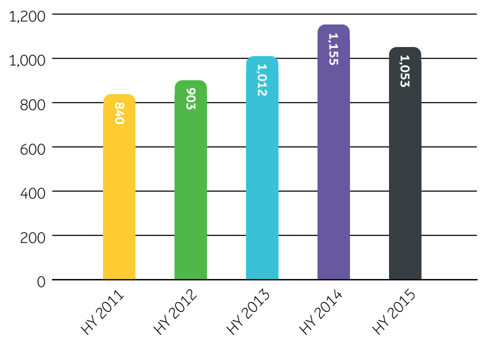
NON-CURRENT ASSETS (EURm)

Net working **capital**

Net working capital has decreased by EUR 102 million compared to the first half of 2014. This is mainly driven by initiatives to reduce net working capital and the lower milk price. We work continuously to reduce net working capital to release funds.

-9% Net working capital development

NET WORKING CAPITAL (EURm)



Equity

Equity has increased by EUR 145 million since 31 December 2014. The profit for the period before minority interest was EUR 122 million. Supplementary payment of EUR 106 million after currency adjustments were made, relating to the 2014 profit allocation and further amounts of EUR 16 million in individual capital have been paid out to owners resigning or retiring. Value adjustments following changes in interest and foreign exchange rates have increased equity by EUR 145 million. At 30 June 2015, total equity was EUR 2,019 million.

Equity ratio
30%

2.0
billion EUR

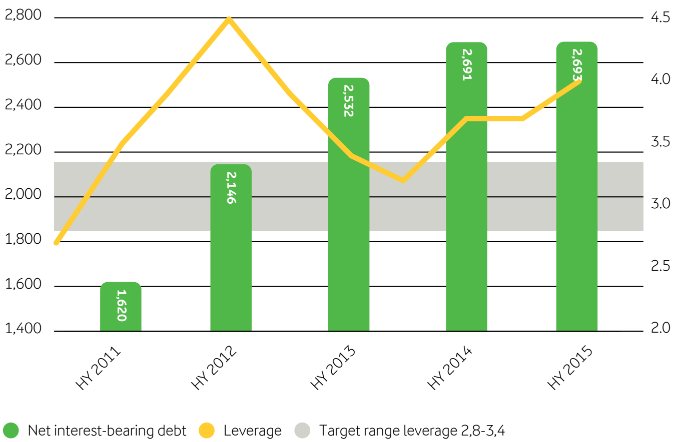
EQUITY (EURm)	HALF-YEAR 2015	HALF-YEAR 2014	FULL YEAR 2014
Common capital	1,484	1,323	1,333
Individual capital	487	423	486
Other reserves	20	-66	-72
Proposed supplementary payment to owners	-	-	104
Equity before minority interest	1,991	1,680	1,851
Minority interest	28	24	23
Equity incl. minority interest	**2,019**	**1,704**	**1,874**

Net interest-bearing **debt**

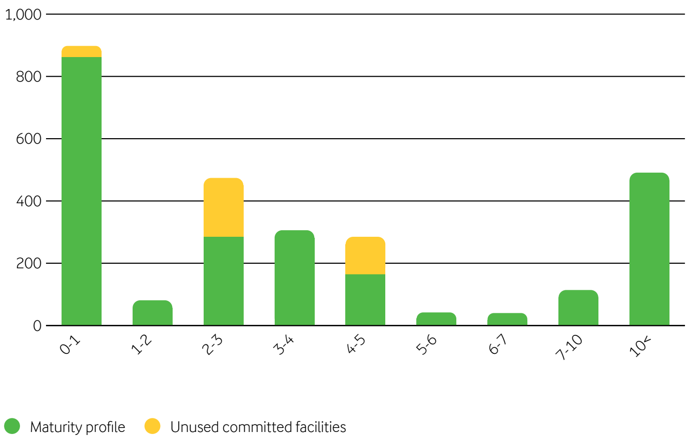
Leverage
4.0

The leverage is 4.0 which is outside the Group's long-term objective of 2.8 - 3.4. Initiatives are implemented to reduce leverage to within the target range. The leverage is expected to be within 3.3 - 3.6 by year-end. Average interest cost, excluding pensions, totalled 2.6 per cent compared to 2.9 per cent in the first half of 2014. Arla has refinanced EUR 1 billion of its banking facilities, resulting in reduced margins and extended maturity. Approximately EUR 480 million is closed after 30 June 2015.

NET INTEREST-BEARING DEBT (EURm)



MATURITY OF NET INTEREST-BEARING DEBT (EURm) HALF-YEAR 2015



Cash **flows**

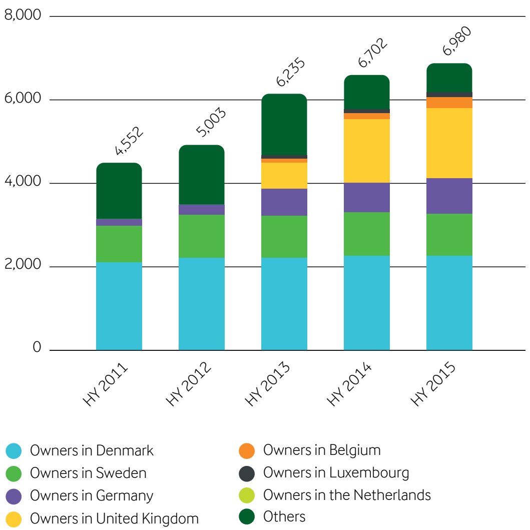
Cash flows from operating activities are attributable to profit for the first half of the year and improvements in net working capital. Our effort to reduce net working capital continues to contribute to release cash. Investments of EUR 193 million consisted primarily of investments in tangible fixed assets of EUR 150 million, as well as investments in financial investments. Cash flows from financing activities are affected by EUR 122 million from supplementary payment and repayment of individual capital to owners resigning or retiring. Furthermore, loans amounting to EUR 123 million have been repaid. Cash and cash equivalents combined represented EUR 593 million at 30 June 2015, of which securities related to repo-arrangements amounts to EUR 514 million.

CASH FLOWS (EURm)	HALF-YEAR 2015	HALF-YEAR 2014	FULL YEAR 2014
Cash flow from operating activities	180	9	467
Cash flow from investing activities	-193	-162	-416
Free cash flow	-13	-153	51
Cash flows from financing activities	-248	184	-49
Net cash flow	**-261**	**31**	**2**

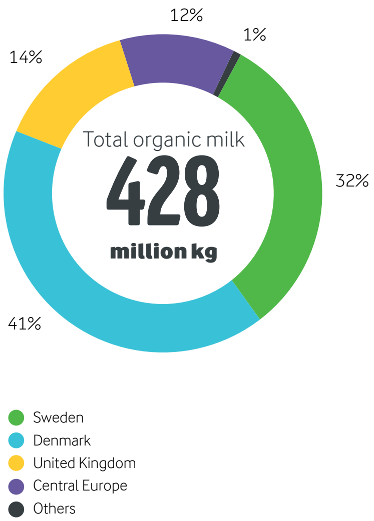
Milk **volume**

Total milk volumes increased by 4.1 per cent in the first half of 2015. The merger with Walhorn EGM, Belgium on 1 August 2014 and new AMCo members in the UK have increased milk volumes. In the same period, milk volumes in Sweden and milk from contract farmers have declined. As the EU quota system for milk was abolished on 1 April 2015, an increase in milk volume is expected for the remaining part of the year.

INFLOW OF RAW MILK (MIO. KG)



ORGANIC MILK PER COUNTRY



Total milk inflow

6,980 **million kg**

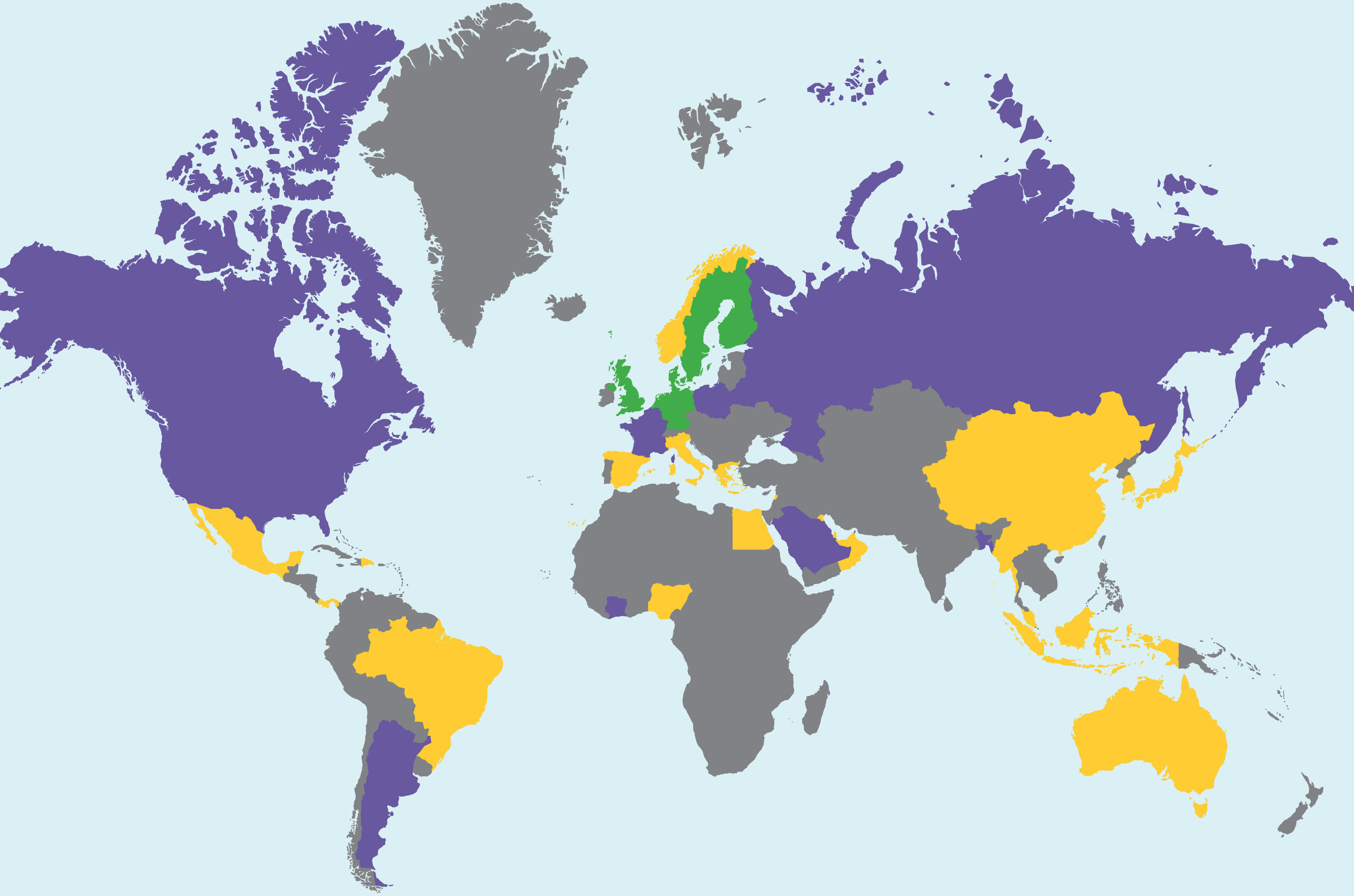
Growth in milk volume 2011-2015

53%

Total owner milk

6,251 **million kg**


Arla
Closer to Nature™
Arla® has over 130 years of professional dairy experience, developed a unique quality programme, Arla Gaarden, to ensure consistently high quality milk. Pursuing a concept of "Closer to Nature™", Arla® is one of the leading dairy companies in Europe. This organic milk is sourced from a selected group of farms, ensuring that every drop of organic milk is pure and natural.
Country of Production: Denmark
Produced by: Arla Foods amba



Arla worldwide

Production and packing facilities in **15** countries

Sales offices in **30** countries

12,754 farmer owners from **7** countries

The world's **7th** largest dairy company based on revenue

19,118 colleagues

3 global brands

Arla

LURPAK

CASTELLO

Products sold in **100+** countries

NORDIC ENVIRONMENTAL LABEL
541 006

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C009911

Arla Foods amba
Sønderhøj 14
DK-8260 Viby J.
Denmark
CVR no.: 25 31 37 63

Phone +45 89 38 10 00
E-mail arla@arlafoods.com

www.arla.com

Arla Foods UK plc
4 Savannah Way
Leeds Valley Park
Leeds, LS10 1 AB
England

Phone +44 113 382 7000
E-mail arla@arlafoods.com

www.arlafoods.co.uk