

# [Arla foods annual report](https://assignbuster.com/arla-foods-annual-report/)

[](https://assignbuster.com/)[Nutrition](https://assignbuster.com/essay-subjects/nutrition/), [Healthy Food](https://assignbuster.com/essay-subjects/nutrition/healthy-food/)

annual report 2010 FINANCIAL HIGHLIGHTS F I NA NC I A L H I G HLIGHTS Group DKK million Results Net revenue Of which outside DK/SE % outside DK/SE Operating profit Net financials Profit for the year Supplementary payments Consolidation: Reconsolidation according to Articles of Association Change in policy Capital account Delivery-based owner certificates Contributed capital Strategy fund Total assets Fixed assets Investment in property, plant and equipment Current assets Equity Long-term liabilities and provisions Short-term liabilities Cash flow from operating activities Cash flow from investing activities Cash flow from financing activities Free cash flow Financial ratios Net interest bearing debt incl. pension commitment/ EBITDA Interest cover Solvency ratio Inflow of raw milk Total million kg milk weighed in by the group Members in DK Members in SE Other Total members at 31 December In DK In SE Total Arla earnings DKK per kg co-operative member milk SEK per kg co-operative member milk Employees Average number of full-time employees 2010 2009 2008 2007 2006 49, 030 30, 600 62% 1, 684 —294 1, 268 1, 031 — — 466 0 233 —462 30, 097 17, 004 1, 613 13, 093 8, 580 9, 341 12, 060 2, 552 —1, 626 —2, 392 926 46, 230 28, 374 61% 1, 412 —232 971 660 0 — 0 311 — 0 30, 094 16, 782 1, 618 13, 312 8, 281 9, 917 11, 768 3, 402 —2, 392 —526 1, 010 49, 469 29, 766 60% 1, 149 —862 556 137 121 0 0 176 — 122 29, 280 15, 205 1, 447 14, 075 7, 797 9, 857 11, 482 1, 388 —1, 082 733 306 47, 742 29, 339 61% 1, 520 —562 938 503 121 0 0 174 — 140 30, 725 17, 473 1, 895 13, 252 8, 145 10, 369 12, 064 3, 285 —4, 298 2, 835 —1, 013 45, 491 27, 393 60% 1, 161 —409 933 336 122 91 0 184 — 200 26, 611 15, 762 1, 792 10, 849 7, 971 11, 037 7, 541 2, 354 —1, 268 —1, 075 1, 086 2. 7 10. 0 29% 8, 713 4, 345 1, 829 2, 539 3 649 3 529 7, 178 2, 52 3, 49 16, 215 3. 2 9. 0 28% 8, 660 4, 253 1, 894 2, 513 3, 838 3, 787 7, 625 2, 14 2, 91 16, 231 3. 7 3. 4 27% 8, 243 3, 911 1, 943 2, 389 3, 906 4, 090 7, 996 2. 82 3. 61 16, 233 3. 2 6. 3 27% 8, 360 3, 976 1, 957 2, 427 4, 170 4, 352 8, 522 2. 47 3. 07 16, 559 3. 4 7. 4 30% 8, 592 4, 047 2, 067 2, 478 4, 591 4, 817 9, 408 2. 27 2. 81 17, 933 2 coNteNts coNteNts Arla Foods is one of the world’s largest dairy companies. Our products are marketed in more than 100 countries. We employ 16, 215 people. " MANAGEMENT REVIEW 2 key figures 4 the chairman’s report 6 the ceo’s report 10 arla’s identity: Our Vision, Our Mission, Our Strategy, Our Character and Our Resources 16 financial review 19 financial risks STATEMENTS 21 management report 22 independent auditor’s report GROUP AND ANNUAL ACCOUNTS 23 accounting policies 29 income statement 30 Balance sheet 32 statement of changes in equity 33 cash flow statement 34 Notes 42 Group overview OTHER INFORMATION 44 Board of directors 46 executive management Board 47 map of arla’s markets OUR VISION our responsibility ArlA Foods’ corporAte sociAl responsibility OUR VISION "Our vision is to be the leading dairy company in Europe through strong value creation and active market leadership in order to achieve the highest possible milk price. " A global dairy company Arla is owned by 7, 178 Danish and Swedish milk producers, of which 680 are organic farms. report 2010 â–  â–  â– Core markets Growth markets Value markets PRIORITY MARKETS Core markets: The UK, Sweden, Denmark, Finland, the Netherlands and Germany Growth markets: Russia, Poland, USA, China and the Middle East and North Africa (MENA) Value markets: Canada, Spain, Greece, Norway and other export markets VALUE CREATION IN PRACTICE Continual improvements and change are some of the driving forces behind Arla’s vision and strategy. Some examples: â– â–  NEW WORLD-CLASS DAIRY IN THE UK. Arla has decided to invest DKK 1. 5 billion in the world’s most efficient and environmentally-friendly liquid milk dairy. A location just outside London has been identified and it is anticipated that production will begin in 2012. â– â–  SUCCESSFUL PRODUCT DEVELOPMENT. At the beginning of 2011, Arla launched a new blended product with only 43 per cent fat content. The new blended product is the result of six years’ innovation work. The product will be sold as Arla KÃ¦rgÃ¥rden® Fedtreduceret in Denmark, Bregott® Mindre in Sweden and Arla Ingmariini® in Finland. This blended product is produced using state of the art technology at GÃ¶tene dairy in Sweden. â– â–  INVESTMENT IN NEW WHEY TECHNOLOGY. At our facility in Argentina, permeate is extracted from whey in a new spray-drying tower. The investment ran to DKK 200 million and makes it possible for us to convert a residual product into a source of income. THE HIGHEST POSSIBLE MILK PRICE During the year, the milk price to the cooperative members has been raised five times by a total of DKK 0. 475 per litre. There are several reasons for the regularly increasing milk price. Among these, the external factors include Arla benefiting from fluctuating currency exchange rates and growth in the international powdered milk market. 275 250 225 200 175 150 J F M A M J J A S O N D DKK Ã¸re Our three global brands Arla® was established as our overarching brand in 2008 — the brand is used to symbolise the company itself and all our product categories. For our ‘ premium’ products, we use Castello® for cheese and Lurpak® for butter and blended products. During the last year we have invested further in marketing these brands and in product innovation and improvements. Keep track on Arla. We publish company news on our website. There is also an on-line version of the annual report available at www. arla. dk, including video films, in which our CEO and CFO briefly present Arla’s results for 2010. 10 Arla’s identity Work at arla throughout the year can be illustrated in many different ways. on pages 10-15 we provide examples of how we fulfil our Vision, our mission and our strategy. We also report on how we are bringing to life our character and utilising our resources. Video clips — a review of the year an online version of this report is available at www. arla. com/about-us including brief video clips in which our ceo and cfo present arla’s results for 2010. CSR report 2010 We publish a csr report in line with the UN Global compact. this year, our csr report is published concurrently with the annual report. read or download the csr report at www. arla. com/about-us. 3 the chairmaN’s report cooperative members invest more in arla’s growth the cooperative members gave strong backing to arla by retaining their established ownership structure. at the same time, they approved increased consolidation. during the past year, arla has enjoyed consistent positive developments which have made it possible to increase the milk price paid to the cooperative members five times. at the end of the year, a proposed merger with the German dairy hansa-milch was announced. Long-awaited milk price increases i look back on the past year with a sense of relief. i had predicted that 2010 would be a turbulent year with dramatic fluctuations, and i was proved right, and the wisdom of having a growth strategy in all our markets was also clearly demonstrated. leaders and colleagues have devoted a lot of time and effort to explaining arla’s local and global strategy in dialogue with our cooperative members, not least in sweden, where we have introduced a new national strategy. in 2010, arla welcomed 36 new swedish cooperative members, who previously delivered their milk to other dairy companies. By contrast, the total number of milk producers in sweden is falling, as is the total number of arla cooperative members. 2010 was a good year for arla on several markets. the company achieved rationalisation gains and benefited from fluctuating exchange rates. furthermore, the company’s result was positively affected by advances in the international milk powder market. By improving utilisation of our production facilities and through sustained focus on cost-saving initiatives, arla has succeeded in maintaining control of our costs. all our colleagues deserve our sincere thanks for their efforts. in view of the positive developments during the past year, we were able to raise arla earnings (payment to cooperative members plus consolidation) by dkk 0. 38 to dkk 2. 52 per kg of milk (corresponding to sek 3. 49). We should not fail to mention, however, that the milk price at the start of the year was particularly low. arla’ s c Urre Nt milk price 275 250 225 200 175 150 J F M A M J J A S O N D DKK Ã¸re Higher milk price. during the year, the milk price to the cooperative members was raised five times. milk price paid By arla 3. 0 2. 5 2. 0 1. 5 1. 0 0. 5 0. 0 2006 2007 2008 2009 2010 DKK Milk price to cooperative members. the graph shows the average price per kg milk, which arla paid to its cooperative members during the year, including supplementary payments. New capital structure possibly the most important event for arla in 2010 was the cooperative members’ strong backing for arla’s Group strategy, via the Board of representatives. members gave their support to retaining the cooperative ownership structure and increasing consolidation in order to partly finance the arla growth strategy, which includes plans for major investments. at the end of 2009, it became clear to us that the financing issue would play a key role in the work of the Board in 2010. strong commitment and lively discussions characterised the work of the Board, the Board of representatives and the regional committees, as all parties sought to find the best possible solution. i was pleased to accept the cooperative members’ support with great humility, as we are aware that members are under considerable financial pressure. each and every cooperative member could have invested their money at home on the farm. fortunately however, the members believe in arla and support the growth strategy. they share the expectations of the arla management group and the elected members; that via the strategy we will have a better chance of achieving a higher milk price in future years. Local presence. We are working to strengthen the positions of swedish milk and swedish farmers, both in the eyes of consumers and among their peers. 4 the chairmaN’s report Under the new capital structure 4. 5 per cent of arla earnings will be invested in arla. this is about double the previous amount. consolidation will increase arla’s equity by approximately dkk 4-4. 5 billion over a six-year period. the extra capital will initially be used in connection with investments related to continued growth but it will also make it easier for arla to raise capital in connection with acquisitions. the new consolidation policy does not entail changes to the established procedures, therefore the Board of representatives will still consider the scope of consolidation every year in march. the journey to the decision to adopt the new capital structure was long, and it was the subject of much healthy debate and dialogue among the cooperative members. the result is not only that we have reached agreement on this important issue, in the process, we addressed the advantages and disadvantages of a number of different potential solutions for arla, and i believe this will be of benefit to the success of arla in the long term. co operati V e mem Bers iN de N mark aNd sW ede N 5, 000 4, 000 3, 000 2, 000 1, 000 0 Denmark Sweden 2006 2007 2008 2009 2010 Closer cooperation with milk producers in other countries several years ago we established that growth has to be our path to success. large-scale production presents financial advantages and several of our competitors have merged. it is important that we have close cooperation and sound relationships with milk producers, including those outside denmark and sweden, to ensure that we have access to raw milk. With this in mind, at the end of 2010 we proposed a merger with the German cooperative dairy, hansa-milch. the cooperative has modern production facilities and well-established sales channels for its hansano® brand fresh products. hansa-milch compliments arla well, as arla in Germany sells branded cheeses and spreadable blended products, such as arla kÃ¦rgÃ¥rden®. the Board sees significant joint potential in a merger, which we expect to contribute to a higher milk price for the cooperative members. the merger will also be another important step towards fulfilling our ambition to become one of the three largest dairy companies in Germany. the Board of representatives and the hansa-milch members will discuss the proposed merger in march 2011. since 2008 British milk producers have owned a 3. 2 per cent stake in arla’s Uk activities via a joint venture with arla foods amba. cooperation has developed positively, and in autumn 2010 we began to discuss increased investment by the British milk producers. a decision is expected in the first half of 2011. We would like the British milk producers to continue to have ownership and to play a role in investments in their own country. in finland we have also intensified our cooperation with the milk producers. We have held several meetings with farmers and cooperating dairies in order to involve them more closely in the ongoing development of the company. Arla ownership. during 2010 the number of cooperative members in arla fell by six per cent. however, danish cooperative members have supplied more milk, while the quantity of milk supplied in sweden fell. Greenhouse gases in focus. in cooperation with British milk producers in the arla foods milk partnership, arla Uk has published an environmental strategy, of which one of the targets is to reduce co2 emissions from milk farms. Expectations of diversity in global market development Where 2011 is concerned, we are receiving positive and negative signals from the global market. many countries outside europe are experiencing positive developments and improved spending power. improved spending power is always a good thing for farmers, but optimism within the eU is less easy to spot. in denmark especially, it is important that consumers regain confidence in the economy. With our presence spread widely across the globe, the arla Group strategy means that we are in a position to exploit the potential in selected markets outside the eU. during the past year, the cooperative members have succeeded in reaching consensus on several crucial issues, and i am convinced that these decisions will bear fruit in the form of a good milk price in the long term. there is no doubt that the milk price to the cooperative members will continue to fluctuate, but i do not believe that it will fluctuate as dramatically as it has in the past. our strategy of processing, growth and focus on selected markets makes us less vulnerable to market fluctuations. Ove MÃ¸berg, Chairman of the Board of Directors 5 the ceo’s report sound basis for continued growth arla’s turnover in 2010 increased by 6. 1 per cent compared with the previous year. the increase is primarily due to rising prices for industrial products, retail price increases in all our markets and beneficial developments in exchange rates. arla has seen positive development on most markets and we have succeeded in keeping tight control of our costs. Growth and profitability go hand in hand arla’s strategy centres on creating value for our customers and owners by means of innovation and processing. during the last few years, the Group has significantly increased investments in its most important brands and strengthened its market position — also in a number of growth markets outside the Nordic region. We reaped the rewards of these investments in 2010 when, in the wake of several years of stagnating growth, organic growth reached three per cent. there are several reasons for success, for example, we created 19 per cent growth on our growth markets. our global brands lurpak® and castello® grew — lurpak® turnover has grown by 14 per cent and castello® turnover is up six per cent. in the industrial sector, there was 22. 6 per cent growth in our ingredients business, and arla gained further market shares in 2010. furthermore, increasing prices coupled with beneficial developments in exchange rates resulted in a total turnover increase of 6. 1 per cent to dkk 49, 030 million. Where costs are concerned, continued focus on cost-saving measures resulted in these remaining almost static. over the year, arla raised arla earnings (payment to cooperative members plus consolidation) by dkk 0. 38 to dkk 2. 52 per kg of milk (corresponding to sek 3. 49). the net result of dkk 1, 268 million represents an increase of dkk 297 million compared to 2009. the improvement in our net result, corresponding to 2. 6 per cent of Group turnover, is one of the positive results of our work in the last year. By increasing their investment in the Group, the cooperative members have shown that they have great trust in arla. their investment provides a sound basis on which we can embark on our growth strategy and realise our profit targets. furthermore, increased equity improves our opportunities for making leveraged acquisitions. arla succeeded in reducing the Group’s total financial gearing in 2010 and this, along with strong capital reserves, ensures that arla is well-equipped to meet future challenges. Net tUrNoVer 50, 000 40, 000 30, 000 20, 000 10, 000 0 DKK 2006 2007 2008 2009 2010 Turnover increase. during 2010 arla’s turnover increased by 6. 1 per cent to dkk 49, 030 million. Arla in Russia. arla foods artis in russia continues to develop. We now have sales representatives and local distributors in 14 cities. Positive development in our markets in terms of development, one of the most important events during the last year was our decision to build the world’s largest milk dairy, to be located outside london. the Uk is our largest market and, having increased our market share, we are now the country’s second largest dairy company. our investment in the new dairy will run to dkk 1. 4 billion. it is expected to be completed in 2012. the dairy will have the capacity to process one billion litres of milk a year and is expected to create 700 jobs. in sweden there are also plenty of opportunities to develop our business. We Affulent target group. arla’s high-quality cheeses are particularly popular with affluent americans. 70 per cent of the cheese we sell in the Usa is produced at arla’s two american facilities. the remaining 30 per cent is produced in denmark. 6 the ceo’s report have launched a national strategy, which describes how we will achieve an ambitious level of growth within the framework of strategy 2015. We will create growth by increasing sales of value-added products — for example, organic and lactose-free products — and by launching new initiatives related to innovation and culinary inspiration. in the last year, the swedish competition authority, konkurrensverket, decided to discontinue its investigations into arla’s agreements with the swedish retail chains, on the grounds that nothing has been found to suggest that arla has infringed the regulations, which is exactly the position we have maintained from the start. development on our growth markets — Usa, russia, poland, middle east/ North africa and china — has been positive. in the long term, a greater share of our earnings will come from these markets, where there is huge potential for growth. in the middle east, arla has regained sales faster than expected and sales have now returned to the same level as before the consumer boycott. Growth on several core markets despite tough competition, we have increased sales in the Uk, sweden and Germany, where arla brands have increased their market share. if the proposed merger with the German cooperative hansa-milch goes ahead, our growth in Germany will be further strengthened. We achieved growth in the Netherlands too. We launched arla® as a fresh foods brand and a new range of organic products also met with success. on the danish market the after-effects of the recession are still being felt, and to some extent consumers continue to choose lower-priced products. We must also face the fact that profitability in finland has not been satisfactory due to a ‘ price war’ on milk and cheese. however, we have succeeded in achieving our targeted 30 per cent market share. Lurpak® at the top. development of arla’s three global brands has been positive in the last year. lurpak® in particular has been extraordinarily successful. Improved production efficiency in relation to our continuing rationalisation of the company, we have made a number of important decisions during the past year. for example, production and packaging of the British retail chains’ own butter brands will be consolidated at Westbury dairies, of which arla became a co-owner in 2010. the rationalisation measures will affect established production in denmark and sweden, and may also impact production in the Uk. another rationalisation initiative is the amalgamation of sliced cheese production into three facilities in denmark, sweden and poland. this initiative involves investments in new machinery. in the yellow cheese category, arla is hoping to make an international impact with havarti cheese. in 2010, we have therefore expanded production capacity for this type of cheese at Nr. Vium dairy in denmark. While fully exploiting our current production capacity, production of whey, which is a profitable business area for us, will be increased. to create more capacity, we have begun construction of a new spray-drying tower at our danish ingredients facility at VidebÃ¦k. Using lean principles, we have also increased efficiencies by 10-30 per cent at several dairies — without increasing investment. on the basis of these impressive results, we will accelerate the lean roll-out to remaining dairies. Closer to Nature™. during the last year we launched the first commercials featuring our closer to Nature™ message. all our business areas are working to get closer to Nature™ and we are aware of the need to communicate these initiatives even more successfully. Good results. during the past year, we have introduced lean to colleagues at several large dairies in denmark and the Uk. Based on these successes, we are now introducing lean principles at all the remaining arla dairies. 7 the ceo’s report Rapid growth in whey in argentina, we and our joint-venture partner, have celebrated the official opening of a new spray-drying tower, which will pave the way for permeate sales. permeate is deproteinised lactose that can be used, for example, in ice cream, chocolate and biscuits. this investment totalled more than dkk 200 million. Focus on three brands our marketing efforts were stepped up in 2010 and focused on our three global brands: arla®, lurpak® and castello®. this is a milestone for arla. previously we distributed our resources across more brands, and the effects of the new brand strategy have been immediate. the development of castello® and lurpak® has been especially positive. We have continued to work with the closer to Nature™ message in all our markets. during the past year, the first commercial communicating the closer to Nature™ message was screened in a total of 12 markets. New training facility for dairy technologists. Britain’s skills minister, John hayes, visits the new facilities at the fully-equipped training dairy for tomorrow’s British dairy technologists. Minimising environmental and climate impact one example of how we are fulfilling our closer to Nature™ ambition is our concentration of production at fewer and more modern facilities, as this helps to reduce our environmental and climate impact. We are currently investigating the feasibility of making even greater use of farmyard manure and residual products from dairy processing to produce biogas to replace fossil fuels. the objective is to reduce the carbon footprint of our facilities. during 2010 our target was to reduce energy and water consumption by five per cent compared to the 2005 level. We exceeded the 2010 target and are now continuing our work to achieve our overall climate target, which is by 2020 to reduce direct and indirect emissions of greenhouse gases from production, transportation and packaging by 25 per cent, relative to the 2005 level. read more about environment and climate issues in our latest csr report which is now accessible on our website. Our Responsibility. We see arla’s decision to use only certified soya, cocoa and palm oil as soon as practicalities allow as the biggest step taken this year in terms of achieving greater sustainability. More innovative products in the future during 2010, arla launched many new products, for example, within our lactose-free and organic ranges. another example is arla yoggi® fri, a yogurt with no additives or aroma. in addition, several years’ product development work has resulted in the launch, at the beginning of 2011, of a new spreadable product containing only 43 per cent fat. the new blended product is produced at GÃ¶tene dairy in sweden, using state of the art technology. our strategic target is to continue to double our investment in innovative products until 2015. We still have some way to go to achieve this target. Colleague development in focus at arla we work continuously not only to improve our performance at an overall strategic level, but also to improve the skills of colleagues and departments. By setting clear targets based on our strategic ambitions, we monitor our results and, via the arla bonus programme, encourage our leaders to deliver positive results. the dairy industry has long traditions but is also characterised by rapid technological development. to ensure that arla will continue to attract talented colleagues in the future, and motivated by a general lack of skills in the industry, in Responsible development. at arla we are proud of our work on our code of conduct and corporate social responsibility (csr), which has become far more structured — although we feel there is always room for improvement. during the last year, we have updated our code of conduct and translated the document into several languages. 8 the ceo’s report 2008 arla encouraged a large number of British dairy companies to join forces to set up a new dairy technologist training course. Just over two years later, we have seen the second intake of students start their training, which includes periods of training at a purpose-built training facility. Within arla, in 2010 we launched the arla leadership programme (alp) for middle and line managers in denmark, sweden and the Uk. the objective is to focus on the interaction between managers’ areas of responsibility and the company’s ambitious strategy for growth. among other materials, the training is based on our shared values which we describe as oNe. e NerGy co NsU mptio N 3. 0 2. 5 2. 0 1. 5 1. 0 0. 5 0 Million tonnes CO2-e Oil Gas Renewable sources District heating Electricity This year’s colleague survey the 2010 Barometer colleague survey was completed by 12, 650 colleagues in 26 countries. the survey measures colleagues’ commitment and how they view the company’s targets, focus and leaders. due to cost-savings, the survey was not carried out in 2009. the overall results for 2010 indicate continued positive development in colleagues’ satisfaction with their work and their understanding of arla’s corporate culture. overall colleagues’ commitment to the company scores index 77 out of a possible 100. according to the survey supplier, this is 10 per cent above the average for global corporations. colleagues’ commitment is also reflected in the high response rate, which was 86 per cent. compared to the last survey, which was carried out in 2008, the results show clear improvements in knowledge sharing between different departments and the company’s ability to prevent errors. in addition, the report indicates that arla is a popular workplace with 75 per cent stating that they are willing to recommend arla as a place of work to friends and acquaintances. 2006 2007 2008 2009 2010 Arla dairies’ total energy consumption. during the year, we have introduced a number of energy-saving initiatives, for example, at our milk powder plants. arla’s total energy consumption has been reduced by eight per cent since 2005. Upcoming activities in the coming years we must invest more in marketing and developing new products. our closer to Nature™ message will be communicated even more clearly to the outside world and it will be incorporated into everything we do within the company. in march 2011, the arla Board of representatives and members of hansa-milch will reach a decision on the proposed merger of arla with the German cooperative. the two companies compliment one another well, and the proposal underpins our ambition to become one of the three leading dairy companies in Germany. a merger will require approval from the eU competition authorities. it will be interesting to follow the development of the world’s largest and most environmentally-friendly fresh milk dairy, to be located outside london. this is something everyone at arla can be proud of. there is a new and exciting year ahead. and there’s one thing we can be sure of — that we must continue to be ready to adapt quickly to changing market conditions. With the strong support of our cooperative members, we will be working hard to realise strategy 2015, with focus on organic growth, acquisitions and new partnerships. the overall aim is to continually optimise the company in order to create the best possible conditions for achieving our vision — to give our members the highest possible milk price. New mega dairy. the new liquid milk dairy to be built outside london will be the largest and most technologically advanced dairy in the world. Peder Tuborgh, CEO 9 oUr VisioN oUr VisioN "Our vision is to be the leading dairy company in Europe through strong value creation and active market leadership in order to achieve the highest possible milk price. " A global dairy company arla is owned by 7, 178 danish and swedish milk producers, of which 680 are organic farms. core markets Growth markets â–  Value markets â–  â– PRIORITy MARKETS Core markets: the Uk, sweden, denmark, finland, the Netherlands and Germany Growth markets: russia, poland, Usa, china and the middle east and North africa (meNa) Value markets: canada, spain, Greece, Norway and other export markets VALUE CREATION IN PRACTICE continual improvements and change are some of the driving forces behind arla’s vision and strategy. some examples: â–  NEW WORLD-CLASS DAIRy IN THE UK. arla has decided to invest dkk 1. 5 billion in the world’s most efficient and environmentally-friendly liquid milk dairy. a location just outside london has been identified and it is anticipated that production will begin in 2012. â–  SUCCESSFUL PRODUCT DEVELOPMENT. at the beginning of 2011, arla launched a new blended product with only 43 per cent fat content. the new blended product is the result of six years’ innovation work. the product will be sold as arla kÃ¦rgÃ¥rden® fedtreduceret in denmark, Bregott® mindre in sweden and arla ingmariini® in finland. this blended product is produced using state of the art technology at GÃ¶tene dairy in sweden. â–  INVESTMENT IN NEW WHEy TECHNOLOGy. at our facility in argentina, permeate is extracted from whey in a new spray-drying tower. the investment ran to dkk 200 million and makes it possible for us to convert a residual product into a source of income. THE HIGHEST POSSIBLE MILK PRICE during the year, the milk price to the cooperative members has been raised five times by a total of dkk 0. 475 per litre. there are several reasons for the regularly increasing milk price. among these, the external factors include arla benefiting from fluctuating currency exchange rates and growth in the international powdered milk market. 275 250 225 200 175 150 J F M A M J J A S O N D DKK Ã¸re Our three global brands arla® was established as our overarching brand in 2008 — the brand is used to symbolise the company itself and all our product categories. for our ‘ premium’ products, we use castello® for cheese and lurpak® for butter and blended products. during the last year we have invested further in marketing these brands and in product innovation and improvements. Keep track on Arla. We publish company news on our website. there is also an on-line version of the annual report available at www. arla. com, including video films, in which our ceo and cfo briefly present arla’s results for 2010. 10 oUr missioN oUr missioN Our mission is to provide modern consumers with natural milk-based products that create inspiration, confidence and well-being. " MORE NATURAL PRODUCTS FROM COW TO CONSUMER At Arla, making products that are as natural as possible has always come naturally to us. At each stage of production, we strive to minimise our carbon footprint and we work consistently towards achieving carbon neutrality. Some current examples: On the farm in the Uk, arla has introduced an environmental strategy which also includes the operations of its Uk milk suppliers. one of the targets is to reduce co2 emissions from farms, over time, by supporting farmers with a series of initiatives to increase on-farm efficiencies. Procurement arla has decided to use only certified cocoa, soya and palm oil, which means that our production is more sustainable. Waste in the Uk the use of recycled plastic in packaging is increasing and plastic milk bottles have become lighter. another example of improved packaging is the arla yoggi® container in denmark and sweden. the container is now produced with an external cardboard layer, reducing the carbon footprint of this packaging by 40 per cent. The consumer We have changed the recipes for a number of our products so that they contain either a minimum amount of additives — or none at all. examples include arla yoggi® fri yogurt, the arla cultura® sour-milk product and arla havarti® cheese. during the past year, the first commercials communicating our closer to Nature™ message were screened in 12 of our markets. At the dairy in denmark, arla is considering building a new, large-scale plant to produce biogas from the farmyard manure from arla farms and residual products from our dairies. the plant will replace the use of fossil fuels by producing energy to supply two dairies. similar plants are already in production in both sweden and denmark. Transport in denmark, sweden and the Uk, our drivers receive training in eco-friendly driving, use biofuel and carefully plan and optimise their routes. Clear guidelines for social responsibility the arla csr guidelines for how we work with issues related to ethical, social and environmental responsibility are now collected in a single publication: our responsibility — arla foods’ code of conduct. the code of conduct is a guide for us in our daily work, when we are required to take a stand on various issues, consider the positives and negatives and make informed decisions. the code of conduct has been revised during the past year. Distinction for culinary inspiration arla was awarded the swedish retail award for the arla kÃ¶ket® iphone application, which was crowned the marketing idea of the year. arla’s culinary inspiration reaches more consumers through the cookbooks and recipes produced for smartphones and other mobile phones. there are now similar applications available for a large number of different smartphone products in both denmark and sweden. Strict milk quality requirements arla’s quality programmes are updated on a regular basis. We strive to make them easier to work with and we adapt them to meet changing market conditions. arlagÃ¥rden, the danish-swedish quality programme, is now available in version 3. 0. Need more information? you can now download the arlagÃ¥rden quality programme and the latest version of our code of conduct from www. arla. com. Arla in the new media. our consumers meet there. so do we! Visit us on facebook and twitter. 11 o U r s t r at e G y oUr strateGy "Our ambition is to be the best dairy company for 250+ million consumers in Northern Europe and the UK. " ARLA STRATEGy 2015 the arla growth strategy was introduced in 2008 and includes a revenue target of dkk 75 billion in 2015. the strategy is built on three cornerstones — innovation, growth and rationalisation — and we will meet our target by means of the following strategic initiatives: : â–  NEW CORE MARKETS. the Netherlands and Germany â–  WHEy PROTEIN INITIATIVE. We will double sales of â–  OUR THREE GLOBAL BRANDS. â– have now become core markets. arla®, lurpak® and castello® are our three global product brands. arla® is also our corporate brand. PRODUCT INNOVATION. We will increase the number of new and exciting products by doubling our development budget. â– whey protein and we aim to become the world’s leading producer in this field. MINIMISE CARBON FOOTPRINT. By 2020 we will have reduced our emissions of greenhouse gases from transportation, production and packaging by 25 per cent. 2008 DEVELOPMENT Arla introduces ambitious new strategy for growth (see above). 2009 Global financial recession means that the strategic targets have to be postponed from 2013 to 2015. The Netherlands becomes a new core market, when arla is given the opportunity to acquire the friesland foods fresh Nijkerk fresh milk dairy. Closer to Nature™ launches. The SÃ¸nderhÃ¸j Application Centre officially opens in denmark. the centre offers innovative product development and close cooperation with food manufacturers who require individually adapted ingredients GROWTH Acquisition of all of arla ingman in finland (the remaining 70 per cent of shares), so that the company becomes a wholly-owned subsidiary. Acquisition of friesland foods fresh Nijkerk in the Netherlands with a 500-strong workforce and annual turnover of approximately dkk 1. 6 billion. friesland foods fresh Nijkerk is the market leader producing fresh dairy products for retailers’ own brands. The property rights to the anchor® butter brand in the Uk are acquired from fonterra. RATIONALISATION Decision to move 140 jobs in accounting to Gdansk in poland. JO Bolaget dissolved. arla and skÃ¥ne dairies split the brands between them. arla takes God morgon® and Jo®, and retains marketing responsibilities for tropicana®. skÃ¥ne dairies takes the Bravo® brand. Cost-savings dkk 1 billion package introduced in response to the global recession. colleagues at head office and national offices across the world will be reduced by a total of 350. Lean intensifies as the method used to improve efficiencies in the company. the aim is to increase capacity by 10-20 per cent without extra investment, to increase productivity by 10-30 per cent, and to increase flexibility at operational facilities. there is an additional target to reduce complexity. 12 okU r U mr atie G y ol st Nt tel 2010: Strategy status. 80 70 60 50 40 30 20 10 0 Revenue DKK billion 2008 2009 2010 Ambition 2015 Growth initiatives in 2009 arla acquired the dutch dairy, friesland foods fresh Nijkerk, and in 2010 the Board proposed a merger between arla and the German dairy, hansa-milch. Organic growth 2009-2010, % 12 9 6 3 0 —3 Arla® Castello® Lurpak® 2010 Intensive work started on arla’s equity structure. the objective is to create suitable preconditions for future investments. The Middle East and North Africa a organisational change affects the consumer international and Global ingredients business groups and has resulted in the formation of the new Global categories & operations business group and the now independent whey business unit. Global marketing introduced. phase two of our closer to Nature™ communication includes advertisements, brochures and promotional films. The Arla Board proposes a merger with German co-operative hansamilch. the two companies’ product portfolios complement each other, and the companies are confident that by joining forces they will grow in the German market. the proposed Arla acquires a share in the British Westbury dairies, which will make it possible to balance excess raw milk. this also means that production and packaging of the British retail chains’ own brands of butter are gathered at Westbury dairies. this rationalisation will affect established production in denmark and sweden and may also have some effect on production in the Uk. production at stourton dairy in the Uk increases with, for example, the introduction Arla’s Sweden strategy introduced. arla aims to become sweden’s primary source of culinary inspiration. our ambition is to make more people like — and buy — arla products. In Argentina, arla and its joint-venture partner celebrate the official opening of a new powder tower — an investment in excess of dkk 200 million. Arla decides to invest dkk 1. 4 billion in the world’s largest and most eco-friendly liquid milk dairy. located just outside london, the dairy will supply milk to more than 11 million people. merger will be the subject of discussions between the arla Board of representatives and hansa-milch members at a meeting on 2 march 2011. a merger will require approval from the eU competition authorities. Organic growth castello®and lurpak® have developed positively whereas arla® has declined, partly due to the fact that many consumers are choosing low-price products in preference to branded goods. Product innovation 2010 the images show examples from denmark, the Uk, sweden, Germany, finland, poland and the Netherlands. 50, 000 40, 000 30, 000 20, 000 10, 000 0 2008 2010 Ambition 2015 Million tonnes According to plan We are well on the way to reaching our sales targets for whey protein for the food industry. Million tonnes CO2-e 1. 5 1. 2 0. 9 of 7, 000 tonnes of cottage cheese, while the dairy at Northallerton is closed. Arla invests in new slicing machinery for yellow cheeses and gathers activities into three locations in denmark, sweden and poland. rationalisation will affect at least 60 positions. 0. 6 0. 3 0 2005 2010 Ambition 2020 Climate strategy emissions from our dairies, transportation and packaging will be reduced by 25 percent by 2020, compared to the 2005 level. Need more information? We publish all our news on www. arla. com. 13 oUr character oUr character Arla’s corporate culture — Our Character — centres on the words Lead, Sense and Create; we seek to take leadership, we sense our environment and we have a creative culture. We challenge current and future colleagues to be ’a Force of Nature’. ONE at Arla arla aims to unite the organisation across the world as ‘ oNe’. our aim is to embed our joint strategy, mission, vision, corporate culture and resources so that all colleagues know exactly how they can contribute to our combined success. F15 The Arla leaders of the future Employer branding award the corporate architecture at the new arla head office in Viby, denmark is designed to foster knowledge sharing and creativity. COLLEAGUE SURVEy 2010 a total of 12, 650 colleagues in 26 countries, and in 16 languages, responded to this year’s Barometer colleague survey. the overall results indicate continuing positive development in colleagues’ satisfaction with their work and their understanding of arla’s corporate culture. some examples: â–  STRONG COMMITMENT. overall colleague commitment to the company scored index 77 out of a possible 100. according to the survey supplier, this is 10 per cent above the average for global corporations. colleague commitment is also reflected in the high response rate, which was 86 per cent. â–  OBVIOUS IMPROVEMENT. compared to the last survey, carried out in 2008, the results show clear improvements in knowledge sharing between different departments and the company’s ability to prevent errors. â–  POPULAR WORKPLACE. 75 per cent of colleagues state that they are willing to recommend arla as a place of work to friends and acquaintances. in 2008 arla introduced the future fifteen Graduate programme® (f15). in autumn 2010 we recruited the third intake of 11 participants from seven different countries. When danish top class students were asked to rate trainee programmes, f15 was voted the third most attractive training programme in denmark. Dairy technologist — the job of the future We keep a watchful eye on the competencies needed at arla. for example, in sweden we have launched a dairy technologist training programme and are heavily involved in a similar initiative in the Uk, where no similar training was previously offered. in the Uk, a new industry training centre has been built to support the edeN training programme. students receive holistic dairy training, including in the production processes used for milk, cheese and butter. We consistently strive to attract and retain talented colleagues. our recruitment campaign includes challenging potential new colleagues to become ‘ a force of Nature’. in sweden, arla received the employer of the year award for our long-term recruitment work and our clear corporate profile. A job at Arla? search for vacancies at arla on our website: www. arla. com. 14 oUr resoUrces oUr resoUrces At Arla we strive consistently to use our resources as efficiently as possible. Furthermore, Arla aims to conduct its business operations in a responsible and sustainable way. " Cooperative members contribute to Arla’s expansion during the past year, arla’s cooperative members decided to increase their investment in the company. part of the milk payment to cooperative members (4. 5 per cent of the arla earnings) is retained by arla. this is twice the previous amount. the decision means that arla’s equity will be increased by dkk 4-4. 5 billion over the next six years. the cooperative members’ extra consolidation makes a significant contribution to financing arla’s strategy and also provides a firm basis for future loan financing. our responsibility ArlA Foods’ corporAte sociAl responsibility report 2010 25% Lean improves efficiency since introducing lean principles, holstebro butter dairy in denmark has increased production capacity by 25 per cent without additional investment. in addition, the dairy has succeeded in reducing production downtime and switching production runs more quickly. arla has used lean principles in corporate development since 2009. the objective of lean is to create continuous improvement by involving all colleagues and optimising processes. New CSR report our work on corporate social responsibility (csr), including ethical, social and environmental responsibility, is collectively termed ‘ our responsibility’ and is carried out in line with the UN Global compact. this year’s csr report has been published at the same time as this annual report. MILK AND DAIRy DEVELOPMENT We do our utmost to safeguard our key competencies within dairy production in order to achieve competitive advantages. the areas we concentrate on include the following: â–  TECHNOLOGICAL VISION. We have technological visions for the development of all areas of production over the next 10 years. Both product development and cost-saving initiatives are focus areas. â–  SKILLS DEVELOPMENT. We will ensure that there is interaction between research, technological developments and product innovation. furthermore, we will focus on entering into intellectual property (ip) agreements. â–  NETWORKING WITH DAIRIES. in several countries and at different locations, we make use of one another’s experience via wide-ranging internal networking. â–  MAxIMISED PRODUCTION. We focus on increasing the yield from existing production resources without making further investments. â–  ACCESS TO RAW MILK. arla weighed in 8, 713 million kg of milk in 2010, which is 0. 6 per cent more than the previous year. our cooperative members in denmark and sweden supplied 71 per cent of the milk we used, which is unchanged since 2009. “ The Arla environmental target is to reduce the Group’s direct and indirect CO2 emissions from production, transportation and packaging by 25 per cent, compared with the 2005 level. " Arla across the world Other countries 8 % Other Europe 3% Netherlands 2 % Finland 3 % UK 17 % Sweden 20 % Denmark 47 % 16, 215 colleagues make up arla’s workforce, of whom 67 per cent are employed in denmark and sweden. We are working to increase the diversity of our workforce by, for example, increasing the number of nationalities represented in the workforce in denmark and sweden. 15 Financial Review F i na nc i a l R e v i ew General developments The 2010 financial year was characterised by an economic upturn compared to 2009. The positive outlook is reinforced by the fact that the on account price for co-operative members was increased five times over the course of 2010 — by 7. 5 Danish Ã¸re in May, 15. 0 Ã¸re in June, 7. 5 Danish Ã¸re in July, 7. 5 Danish Ã¸re in October and a further 10 Danish Ã¸re in november. This was made possible due to an improved balance between supply and demand in global markets, which consequently resulted in positive price trends primarily in respect of commodity products. contributory factors included a positive development in foreign exchange rates for the Group’s primary export currencies and the company’s extensive savings programme, which was implemented in early summer 2009 and impacted fully in 2010. weighed in milk volumes for the year totalled 8, 713 million kg (8, 660 million kg in 2009) of which co-operative member milk accounts for 6, 174 million kg (6, 147 million kg in 2009). The majority of non-co-operative member milk relates to the UK, Finland and the netherlands. Raw mateRial supplies per country (million kg) Denmark 4 345 Finland 287 Supplementary payments amount to DKK 569 million against 660 DKK million the previous year. in addition, a proposal has been made with regard to appropriation from the strategy fund of DKK 462 million so that the overall supplementary payment for 2010 amounts to DKK 1, 031 million. consolidation based on the year’s profits is DKK 699 million, which is allocated to the capital account by 7. 5 Danish Ã¸re/10. 24 Swedish Ã¶re per kg weighed in co-operative member milk and 3. 8 Danish Ã¸re/5. 2 Swedish Ã¶re per kg weighed in co-operative member milk that is allocated as contributed capital. The year’s overall net consolidation is DKK 237 million when account is taken of the strategy fund payment. Revenue Revenue in 2010 totalled DKK 49, 030 million against DKK 46, 230 million in 2009 equating to a rise of 6. 1 per cent. Of this, organic growth accounts for 3. 0 per cent while the rest can be attributed to the change in foreign exchange rates (primarily SeK, GBP and USD). Revenue distribution according to product groups and markets is shown in the following diagrams. ReveNue per product group Fresh milk products 40, 2 % Cheese 24, 5 % Sweden 1 829 Netherlands 209 UK 1 829 Other 214 New consolidation policy as previously mentioned, in 2010 the Board of Representatives adopted a new consolidation policy under which 4. 5 per cent of the arla earnings for the year via profit appropriation will be consolidated on the equity. Of this, twothirds will be allocated to the collective equity and one-third to the new equity capital instrument, called the ’contributed capital’. it has been decided that there should be a ceiling on individual consolidation. Moreover, it has been decided that the balance shall accrue interest and that there shall be a payment period with a three year termination period. The rate of return assumes approval by the authorities, which has not yet been obtained. Butter and spreads 13, 5 % Powder products 12, 8 % Other 9, 0 % ReveNue per market UK 25, 3 % Germany 6, 2 % Finland 4, 4 % Sweden 20, 8 % Netherlands 4, 0 % Value markets 11, 9 % Denmark 16, 8 % Growth markets 10, 6 % income statement Profits for the year, supplementary payment and consolidation Profit for the year came in at DKK 1, 268 million against DKK 971 million in 2009. arla Foods’ amba earnings per kg milk weighed in by co-operative members reached 252 Danish Ã¸re/291 Swedish Ã¶re against DKK 214 Danish Ã¸re/291 Swedish Ã¶re in 2009. Operating profit and EBITDA Operating profit totalled DKK 1, 684 million in 2010 against DKK 1, 412 million in 2009. Operating profit was significantly positively affected by higher prices for dairy products, which are deemed to have impacted positively on the results by approximately DKK 1. 8 billion. Production costs include an on-account payment to co-operative members of DKK 14. 9 billion against DKK 12. 2 billion the previous year. 16 Financial Review Other operating income and expenses relate to items of a secondary nature, including revenue and costs in connection with the sale of surplus electricity from the condensation plant. in addition, there are non-recurring items in connection with the closure and divestment of plants. The Group’s eBiTDa, defined as earnings before interest, taxes, depreciation and amortisation, amounted to DKK 3, 743 million in 2010 against DKK 3, 223 in 2009. investments reached DKK 1, 334 million, which is on par with last year. Current assets inventories total DKK 4, 385 million at 31 December 2010 against DKK 3, 614 million last year. The increase can largely be attributed to increased activity and significantly increased inventories compared to 31 December 2009 when inventories were extraordinarily low. in addition, the stock has a higher value as a result of the higher milk price at the end of 2010 compared to 31 December 2009. Receivables total DKK 5, 372 million against DKK 4, 981 million the previous year. The increase can primarily be attributed to the increasing revenue. Securities and cash at bank and in hand together amount to DKK 3, 336 million against DKK 4, 717 million the previous year. This includes bonds pledged from purchase and resale transactions (repo) at DKK 2, 765 million against DKK 3, 139 million in 2009. Depreciation/amortisation and impairment Depreciation/amortisation and impairment amount to DKK 2, 059 million, which represents a rise of DKK 248 million. This can be attributed to a higher investment level in 2009 and 2010 coupled with significant writedowns on property, plant and equipment in 2010. Net financials net financials amount to an expense of DKK 294 million against DKK 232 million in 2009. net financials include the Group’s net interest expenses, excluding interest relating to pensions at DKK 333 million against DKK 330 million in 2009. The rise in the Group’s financial expenses can primarily be attributed to lower gains on securities and foreign currency. Equity equity at 31 December 2010 was DKK 8, 580 million, representing a rise of DKK 299 million compared to 31 December 2009. The share of the profits used for consolidation totals DKK 699 million. conditional upon the approval of the Board of Representatives, it is proposed that the balance in the strategy fund of DKK 462 million will be paid out from the equity. The year’s value adjustments of hedging instruments amount to DKK 62 million and relate primarily to the value adjustment of interest rate hedging instruments. in addition, exchange rate adjustments etc. have increased the equity by DKK 142 million. The equity ratio measured as equity in proportion to the balance sheet total rose to 29 per cent as at 31 December 2010 against 28 per cent last year. Tax expensed tax declined during the year which is primarily attributable to an adjustment to the previous year’s tax. Balance sheet Balance sheet total The balance sheet total amounted to DKK 30, 097 million at 31 December 2010, which is largely unchanged on the year. The effect of the higher exchange rates for, in the main GBP and SeK, compared to 2009 contributes to an increase in the balance sheet total of DKK 1. 3 billion. conversely, the securities and liquid assets portfolio was reduced by DKK 1. 4 billion. The primary working capital defined as the sum of inventories and trade receivables less payables stood at DKK 4, 691 million at 31 December 2010. Provisions net pension commitments in the UK and Sweden are recognised at DKK 1, 584 million against DKK 1, 670 million the previous year. Other provisions total DKK 204 million at 31 December 2010, and are at the same level as last year. Other provisions primarily relate to insurance-related provisions, for example, for industrial injuries. Fixed assets intangible assets came in at DKK 4, 452 million against DKK 4, 728 million last year and consist, for the most part, of goodwill arising from the acquisition of arla Foods UK, Tholstrup cheese and arla ingman as well as iT development projects. additions for the year on intangible fixed assets can be attributed to iT development projects. Tangible fixed assets amount to DKK 11, 218 million compared to DKK 10, 743 million last year. The year’s additions of DKK 1, 613 million primarily comprise investments in existing dairy plants in the UK, Denmark and Sweden. Liabilities Most of the Group’s long-term liabilities are based on Danish mortgage loans with terms of up to 20 years with security in the Group’s plants in Denmark, Sweden and the UK. in addition, the Group has loans from other credit institutions as well as a subordinate bond loan of DKK 1 billion that expires in 2014. arla Foods has an option to redeem the loan in 2011. 17 Financial Review Cash flow Free cash flow totalled DKK 926 million in 2010. The free cash flow is calculated as the cash flow from operating activities less cash flow for investing activities. Cash flow 4, 000 3, 000 2, 000 1, 000 0 —1, 000 —2, 000 —3, 000 Cash ï¬‚ ow from operating activities Cash ï¬‚ ow from investing activities Free cash ï¬‚ ow DKK million 2010 2009 acquire a dairy in Sundsvall in Sweden from the Milko company. The acquisition will be subject to approval from the Swedish competition authorities. The accounting consequences of the above-mentioned transactions will be included in the annual Report for 2011. expected developments in January 2011, arla Foods’ Board of Directors approved the Group’s budget for 2011, which forecasts organic growth in revenue of 5-6 per cent. an increased arla earnings has also been included in the budget for 2011. with a view to achieving the arla Foods Group’s growth targets up to 2015, the Group’s investment budget for 2011 contains expected investments of DKK 2 billion, equating to almost 4 per cent of the budgeted revenue. arla Foods intends to strengthen its focus on increasing cash flow from operating activities in 2011. This is expected to have a positive effect on capital tie-up in working capital. cash flow from operating activities totalled DKK 2, 552 million in 2010 against DKK 3, 402 million in 2009. The reduction in the cash flow from operating activities of DKK 850 million can primarily be attributed to increased capital tie-up in the Group’s net working capital through 2010 where capital tieup in 2009 was significantly reduced. cash flow for investing activities totalled DKK — 1, 626 million against DKK — 2, 392 million in 2009. The year’s investments in property, plant and equipment amounts to DKK 1, 508 million. There was no acquisition of enterprises in 2010. Developments in the parent company Developments in the parent company in 2010 were characterised by an economic upturn compared to the previous year. contributory factors have been increased sales prices and a positive development in foreign exchange rates for the parent company’s main export currencies. the co-operative structure The parent company arla Foods amba has a branch in Sweden, which is solely responsible for the weighing in of deliveries from arla Foods amba’s Swedish co-operative members whereafter the milk is sold to arla Foods aB. This construction ensures that Danish and Swedish co-operative members are paid in accordance with common guidelines and that they exercise influence in the co-operative system, including elections to the parent company’s supreme body, the Board of Representatives and the Board of Directors, in accordance with the provisions of the articles of association for arla Foods amba. arla Foods’ dairy activities in Denmark and the related fixed assets and employees etc. are predominantly placed in arla Foods amba while all dairy activities in Sweden, apart from weigh-in from the Swedish members, are placed in the subsidiary arla Foods aB. events after the balance sheet date On 17 December 2010 arla Foods announced a possible merger with the German co-operative dairy Hansa-Milch eG. The final decision on the proposed merger must be made by both arla Foods and Hansa-Milch’s owners. it is expected that, if the merger goes ahead, arla Foods will acquire Hansa Milch’s eG’s operating activities in return for Hansa Milch eG becoming a co-operative member of arla Foods amba. a decision is expected in March 2011 and must be approved by the competition authorities. in February 2011, arla Foods acquired Boxholm Mejeri aB in Sweden. Furthermore on 1 July 2011, arla Foods expects to 18 Financial RiSKS Fi na nc i a l R i S KS The Group’s general policy for managing financial risks The overall objectives and policies of arla Foods’ financial risk management are laid down in the Group’s finance policy, which is approved by the Board of Directors. The Group’s financial risks are monitored and managed centrally by corporate Treasury in accordance with the finance policy which lays down the framework for the Group’s foreign exchange, financing, interest, liquidity and credit risks and which financial instruments and counterparts the Group can use. Financing and interest rate risks The finance policy underpins the Group’s objectives and strategies and one of the targets is to reduce the risk of refinancing. The Group’s policy is to hold long-term debt with diversified maturity. long-term, fixed-interest rate loans represent the Group’s most important source of financing. new loans are raised as floating-rate loans, and interest swaps and interest options are used for managing the interest rate risk, ensuring efficient interest rate management and a higher degree of flexibility. as a consequence of the adjustment to international standards, financial covenants have been accepted in committed loan facilities. The current financial covenants are measured on solvency and minimum equity as well as on eBiTDa in relation to net interest and net interest bearing debt. at 31 December 2010, all financial covenants were complied with. To reduce interest expenses and achieve greater flexibility in liquidity management, the Group’s bond portfolio is actively used as a financing source through sales and repurchase transactions (repo). at 31 December 2010, the total interest-bearing liabilities, excluding the Group’s pension commitments, amounted to DKK 12, 050 million (DKK 13, 565 million at 31 December 2009). The average term to maturity of long-term interest-bearing liabilities is approx. 5. 3 years against approx. 5. 4 years at 31 December 2009. The Group’s net interestbearing liabilities, including pension commitments, totalled DKK 10, 041 million at 31 December 2010 (DKK 10, 257 million at 31 December 2009). The following chart shows the Group’s net interest bearing debt excluding pension commitments according to due dates. Foreign exchange risks Foreign exchange risks are a significant factor for arla Foods and have a major impact on earnings and the balance sheet. Foreign exchange risks are, to a wide extent, hedged. The majority of the Group’s revenue as well as production and other operating expenses are incurred