

TALKING POINT

The Arla Foods Ingredients newsletter
Issue 24 · March 2008



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Arla Foods Ingredients
The essence of quality

Performance high on the agenda

Relief for supply pressures

At Arla Foods Ingredients we are dedicated to creating value for our customers. But, over the past year, the global milk shortage and growing demand for our ingredients have presented us with a serious challenge in meeting our goals.

Our new cooperation agreement with Tine in Norway is the initial result of our intensive efforts to resolve the supply situation. When fully operational, this boost to our whey processing capacity will be an important step towards securing our ability to meet customer demand in the years ahead. We anticipate entering additional agreements of this type in the future.

In response to the success of our joint venture operation in Argentina, a multi-million dollar investment there is also expanding our capacity to satisfy the needs of Latin American customers. Our involvement in developing a new light cheese product for the Argentine dairy company La Serenisima illustrates the region's rising confidence in our products' functionality and the application assistance we provide.

Global milk demands continue to grow, bringing a new reality for all players in the dairy market. Through strong partnerships and innovative products, we are committed to meeting today's market conditions head-on.

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Arla Foods Ingredients' new group executive director and chief financial officer take stock of the challenges ahead

A long-term strategy focused on high quality products, specialised application support and processing efficiency is driving Arla Foods Ingredients forward as a leading supplier on the world market for milk powder and ingredients.

Jais Valeur and Mogens Kaspersen are highly positive about the future as they set out as the newly appointed group executive director and chief financial officer, respectively. Both have a long career history within Arla Foods Ingredients.

Previously sales director responsible for milk powder, Jais Valeur moved from his job as chief executive officer of Arla Foods' joint venture company in China – Arla Mengniu (Inner Mongolia) Dairy Products – to take on his new position. Mogens Kaspersen has held a number of managerial positions within the company, most recently business development manager.

The basis for growth

While encouraged by the business' current direction, they know where the challenges lie. Continuing internationalisation, with more local offices such as that established in Vietnam last year, is imperative to secure further growth within the milk powder business. On the milk protein side, ongoing product development is crucial – enabling a fast response to emerging trends and creating new opportunities for food manufacturers to cut their production costs and improve their product quality.

Another highly critical aspect is sourcing addi-

tional raw material supplies to provide the basis for production growth and satisfying customer demand. Jais Valeur expects announcements on this front during 2008.

“Our long-term strategy focuses on performance management and the results so far show we are doing the right thing. Since 2000, we have reduced our production sites from 13 to six and have invested in those remaining,” says Jais Valeur.

“In the future customers can look forward to our increased attention on delivering the goods they need. We cannot do anything about milk prices, but we can produce cost-aware solutions that appeal to consumers – solutions that are either cheaper without compromising on the quality of our customers' products or that help customers win new markets.”

Proactive sparring

Mogens Kaspersen sees the growing need for cost-cutting formulations as a great chance to strengthen customer relations even further.

“Through our broad, international focus, we want to become even better at predicting market developments and serving as a proactive sparring partner for our customers. We are here more to delight our customers than merely to sell them products,” he adds.

In 2007, Arla Foods Ingredients renewed its emphasis on promoting a performance-oriented business culture under the heading “Lead, sense,

create” – a timely response to the tightening employment situation, where the need to attract and retain employees is becoming increasingly acute. Through this, Jais Valeur expects the entire organisation to gain a greater understanding of the value they can create – even before customers demand it.

“In our business we create many products for which a market does not yet exist. That's what we are part of developing. I believe we can become even better,” he says.



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Almost anything is possible within the Arla Foods Ingredients application centre in Denmark. All you need is functional milk proteins, knowledge and a lively imagination

Creativity beyond convention



Shaving foam, marshmallows and a moisturising skin cream are not what you might expect a customer to put on the table at the first meeting to discuss the development of a new low-fat yogurt product. But it does give a fairly clear picture of what the customer is looking for – a light, creamy texture, full-bodied flavour and white, shiny appearance.

Functional milk protein application manager at Arla Foods Ingredients, Carsten Kirkegaard Jensen expects to see more and more of this kind of untraditional approach to dairy product development. Within the application centre in Denmark, the team are ready with plenty of untraditional, creative ideas of their own.

“Today creativity is a product that we have in our bag when we visit customers,” he says. “Because of our application centre setup, we are able to provide solutions that go beyond standard frameworks.”

Endless opportunities

A cream cheese without cream, pizza topping without milk – almost anything is possible within the dairy area using functional milk proteins and the extensive knowledge gained from the 5,000 trials conducted within the application centre every year. The understanding of global market preferences and legislation, necessary to meet the needs of international customers, is another key source of inspiration.

“The trend is to move away from typical product names such as yogurt or cream cheese to more brand names. For manufacturers willing to work outside recognised product definitions, the opportunities to come up with creative solutions are endless.

“While we will continue to see the same types of product, they will be produced in an unconventional way that makes them more cost-efficient, improves their quality or both,” Carsten Kirkegaard Jensen adds.

As the trend progresses, he welcomes the more frequent appearance of marketing people at customer meetings, alongside the product developers and purchasers who normally attend - an important addition to explore the market potential of product ideas that break with tradition.



Inspiration days

Creativity set the scene for a series of customer inspiration days during 2007. Here, customers were presented with samples of dairy products where some of the traditional ingredients had been taken out. An internal Crazy Day event also held many surprises for the Arla Foods' employees who attended, as Carsten Kirkegaard Jensen explains:

“It was a big eye-opener for most to realise what is possible when we apply our creativity. At our inspiration days, our customers are introduced to opportunities that they then can pluck from and combine as required.”

In 2008 and the years ahead, he anticipates holding many more inspiration days for customers - both proactive and on customer request. Creativity, today, is fast becoming the latest Arla Foods Ingredients' brand.

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Argentina loves a light cheese slice

A functional milk protein specially designed for cheese has enabled the launch of a half-fat semi-hard cheese by La Serenísima, one of Argentina's top dairy companies

Consumers in Argentina are tucking in to a new light cheese slice from one of the region's leading dairy companies, La Serenísima. The company has worked closely with Arla Foods Ingredients to develop a product with half the fat of regular semi-hard cheese and all the texture and satisfyingly creamy flavour.

For Arla Foods Ingredients, the development project marked the first cooperation with the Argentine company. But, after seeing what the functional milk protein NUTRILAC® CH 4560 could do in other cheese types, La Serenísima showed full confidence in the milk protein specialists from Denmark right from the start.

"Arla provided technical staff and, first of all, we ran some successful tests on soft cheese. Then we came up with the idea of a low-fat semi-hard cheese," says Fernando Storni, production manager at La Serenísima.

No more quality issues

The technical issues involved in producing a light semi-hard cheese are well known. A dry, rubbery texture and loss of flavour quality have made a commercial failure of many previous attempts. These are the issues that NUTRILAC® CH 4560 helps manufacturers tackle.

Claus Andersen, Arla Foods Ingredients' dairy application group manager,



held a well-received presentation of the protein at the main La Serenísima plant. After running application tests at the innovation centre in Denmark, a recipe was sent across the Atlantic to the waiting Argentine team.

"Instead of running a pilot test, La Serenísima ran a full-scale production trial with the recipe we suggested," Claus Andersen recalls. "Our solution only required a small process alteration, which we advised on. From the very start, the result was of a very high quality."

Fully tried and tested

A major reason for the immediate success was the extensive knowledge on which the solution is based. Over the past few years, Arla Foods Ingredients has run more than 350 trials on light cheese applications alone.

"NUTRILAC® CH 4560 works in many types of

cheese, where we can adjust its functionality through the dose and processing parameters," says Claus Andersen. "By binding water in the cheese, the protein not only resolves the problem of a rubbery texture, it also increases yield by 5-8%. That means the protein actually pays for itself."

Fernando Storni is particularly pleased with the initial consumer response to the new light cheese, launched in October 2007.

"The consumers' opinion is that it has all the attributes and taste of regular semi-hard cheese despite being a low-fat product. We have lived up to all expectations," he says.

Healthy profile

A major marketing campaign has accompanied the launch, including advertisements in magazines and eye-catching point-of-sale material.

"For four television spots, we hired a well-known model and personality with a profile that matches the target consumer group: young adults over the age of 25 who take care of their health," Fernando Storni adds.

As healthy options are the growing choice of many Argentine consumers, the light cheese is a great opportunity to cut the fat without sacrificing taste. Completely in tune with modern consumer needs.

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About La Serenísima

La Serenísima (Mastellone Hnos. S.A) has existed in the Argentine market for more than 75 years. Today, the company has over 3,500 employees, six plants and an annual turnover of 2.2 billion pesos.

Every day La Serenísima processes some 4.8 million litres of milk for a wide range of dairy products. It is a leading producer of most of the products it manufactures, having a 65% share of Argentina's liquid milk market and more than 35% of the butter and dairy dessert market.

Securing the high quality of its products, La Serenísima is one of the few dairy companies worldwide to have achieved the optimum level of bacteriological purity recognised by international standards.

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Easy break from eggs

Improved egg replacement solutions cut costs in the bakery – fast

Expensive eggs in bakery recipes can be exchanged with a new generation of cost-saving alternatives from the Arla Foods Ingredients bakery lab – achieving a high quality bake at a lower than ever dose.

The improved solutions ensure at least 50% of the egg can be safely and smoothly replaced in a wide variety of bakery applications. In addition, the skilled bakery team offers strong application support to bakers wishing to substitute a much higher percentage of the eggs – right up to 100% in, for example, cakes, cookies and meringues.

With extensive bakery knowledge and a test bakery at hand, the team is able to prepare recipe suggestions for the very first visit to the customer's plant.

"Because our customers typically run a very tight production programme, they are pressed for time to incorporate new solutions that cut costs while maintaining or improving their product quality," says bakery technical manager Kim Jensen. "Our new generation systems are designed to overcome these time pressures. Today they are easier than ever to incorporate in existing recipes and processing lines, often providing the required final product quality without any adjustments."

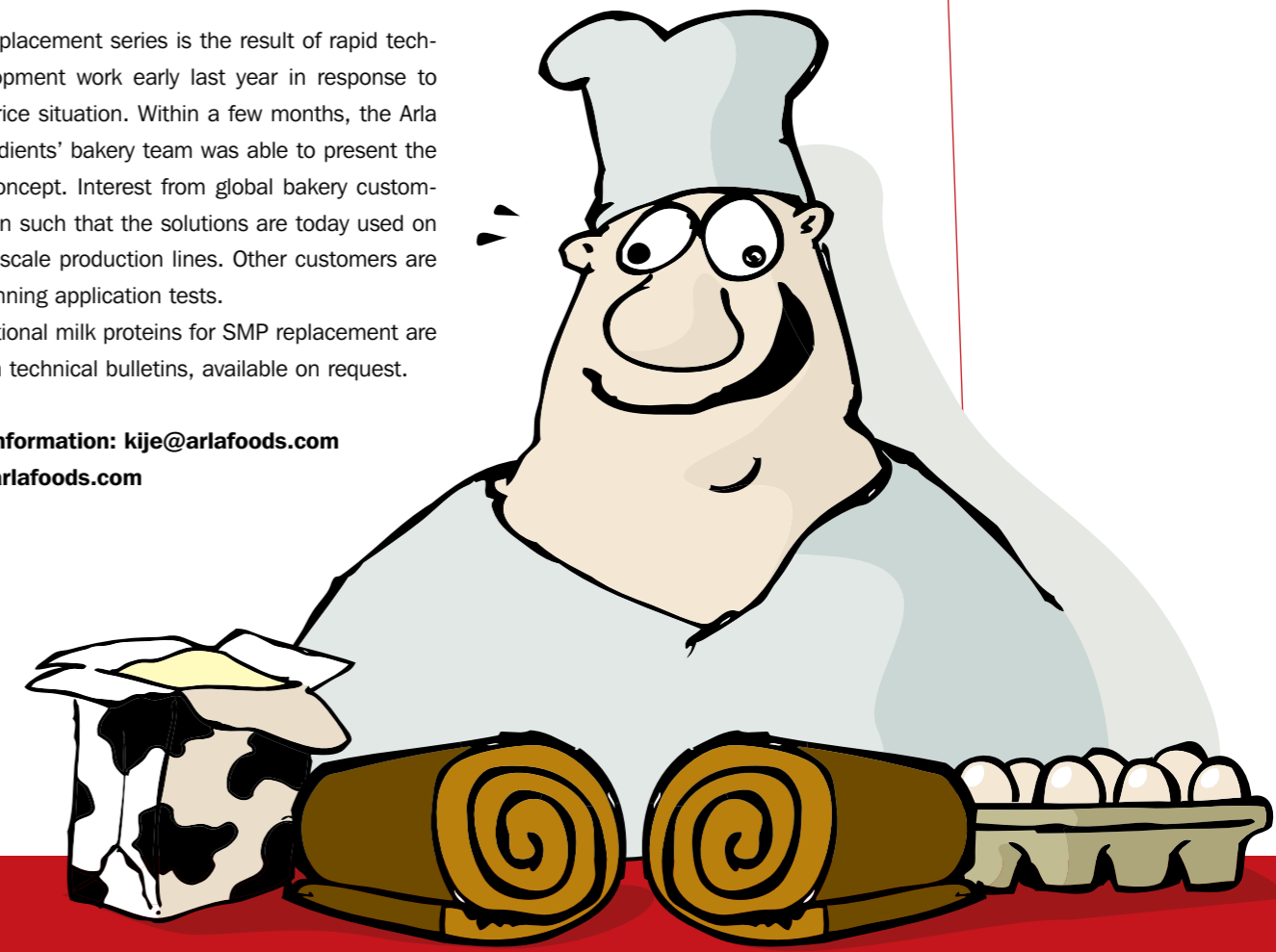
In addition to cutting raw material costs, the functional milk proteins are easy to handle, have a long microbiological shelf life and can be stored at room temperature - important advantages over liquid and powder egg.

Arla Foods Ingredients has worked intensively with egg replacement in cakes and cookies over a number of years. The improved solutions are just the latest breakthrough in the ongoing development programme. ■

The SMP replacement series is the result of rapid technical development work early last year in response to the rising price situation. Within a few months, the Arla Foods Ingredients' bakery team was able to present the complete concept. Interest from global bakery customers has been such that the solutions are today used on many large-scale production lines. Other customers are currently running application tests.

All the functional milk proteins for SMP replacement are described in technical bulletins, available on request.

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Milk protein solves high price crisis

Bakers can skirt rising raw material prices by replacing skim milk powder (SMP) in cake, cookie and bread recipes – with milk proteins

High milk prices are a minor issue for bakers who choose Arla Foods Ingredients' alternatives to skim milk powder. Efficient and high-performing, the functional milk proteins in the cost-cutting series enable 100% SMP replacement.

A significant cost advantage can still be obtained even following the slight downturn in prices, seen towards the end of 2007 and at the beginning of 2008.

No process alterations are necessary to incorporate the functional milk proteins on existing bakery lines - whether bread, cookies, cakes or bakers' custard fillings. The flavour profile and other sensory characteristics are similarly unchanged.

"Because we are actually using milk proteins to replace SMP, the final product is of the same high quality as before," says bakery technical manager, Kim Jensen. "Here, customers benefit not only from our functional milk protein know-how, but also from our application knowledge and understanding of how all the ingredients in a bakery recipe interact." ➔



Application of know-how

Sponge cakes, pound cakes, muffins, cookies, pancakes, yeast-raised cakes, bakers' custard, meringues... these are just some of the applications where innovative functional milk proteins from the Arla Foods Ingredients' bakery team are today put to effective use on markets around the globe.

Two professionally equipped bakery application centres – in Denmark and Mexico – work on continuous proactive development of new application opportunities. The many customers who visit the centres enjoy the major benefits to their own product development projects in the form of formulation optimisation and realistic application trials. The main focus areas are egg and skimmed milk powder replacement to cut bakery costs at no expense to final product quality.



Tine cooperation boosts WPC supplies

Arla Foods Ingredients has entered a cooperation agreement with the Norwegian dairy company Tine.

Working together, the partners will utilise the whey stream from Tine's production of famous Jarlsberg cheese. Arla will be responsible for marketing the resulting whey protein concentrate (WPC) and lactose-based products.

The agreement enables Tine's high quality whey to be marketed as part of Arla's global supply. Employing Arla's high quality standards, the products manufactured at the whey processing facilities will meet all market demands.

"Tine and Arla have a great potential for working together, and we are proud to make Tine's high quality whey products an integral part of our business," says executive director at Arla Foods Ingredients, Henrik Andersen.

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Jais Valeur signing the agreement.

Fresh challenges abroad

Experienced hands take on new challenges as Arla Foods Ingredients' reinforces its focus on international markets and key application areas.

Following an organisational reshuffle, former regional manager in the Middle East, Søren Ustrup has gone west – taking on the role as sales manager for Arla Foods Ingredients South America, based in Argentina. In view of the pending expansion of the joint venture with the region's leading dairy company Sancor, he joins

the South American team at an exciting time.

Søren Ustrup fills the position left by Carsten Valentin, who has returned to Denmark to become new manager of the bakery team, which is experiencing growing success with its solutions for cost reduction.

Morten Kaas Hansen, previously employed within Ingredients Trading in Denmark, has taken over Søren Ustrup's position at the Dubai office in the Middle East – a fast-

growing market for Arla Foods Ingredients' speciality milk proteins.

Peter Guldager, manager of the international network, coordinated the moves.

"It is positive that we can make the room to give our people new challenges. Here we have three very satisfied members of staff and, at the same, have ensured that we continue to give our customers the best local service," he comments.



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5th International Whey Conference

Join the WheyVolution

Whey-based food ingredients will be on everybody's lips at the 5th International Whey Conference – WheyVolution – to be held in Paris from 7 to 9 September.

Arla Foods Ingredients will contribute to the event with a presentation on osteopontin – a key whey protein present in human breast milk. Visitors will also be able to catch up with other important developments at the internet café.

Registration is possible at www.iwc-2008.org. A special early bird discount rate is available to those who register before 7 April.

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Capacity expands in Argentina

Big demand and great potential for continuing sales growth have prompted a plan to invest up to USD20 million in expanding capacity at Arla Foods Ingredients' joint venture plant in Argentina.

Since the joint venture with the large Argentine dairy company SanCor began in 2001, annual turnover has reached USD60 million. Functional milk proteins produced at the plant have gained high acceptance among Latin American food manufacturers, particularly for use in fresh dairy, bakery, ice cream, meat and cheese applications.

The investment includes the building of a second spray tower with the latest processing technology.

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DANO® aims for the moon



New marketing campaign shows Lebanon the way to the stars



Lebanese children look to the stars and think of DANO® following a dynamic marketing campaign that enters its second phase this spring.

Featuring children dressed in astronaut suits, the campaign builds on Arla Foods Ingredients' position as the official supplier of dairy products to international space programmes – and aims to strengthen the brand as the milk powder for families in Lebanon.

DANO® senior brand manager, Michael Lundtoft describes the campaign, which was first launched in autumn 2007, as the initial step in a long-term plan to reposition the milk powder in Lebanon.

"We want DANO® to be seen as a brand for all the family and, most importantly, children. It is with children in mind that we will introduce new innovative milk powder products. Ultimately, our aim is to move more into the milk-based child nutrition category," he says.

Radio spots, television commercials and billboard advertising in Beirut all show the space-travelling kids – appealing strongly to the youngest consumers and their parents. At special marketing events, children can dress up as astronauts, make themselves weightless on big trampolines and taste milk bites, the protein and calcium-rich snacks developed by Arla Foods Ingredients for space travel.

"Our products for astronauts are a fantastic story that make us stand out from the competition," Michael Lundtoft says.

Originally introduced to Lebanon in the early 1980s, DANO® today is the second strongest brand on the market after Nestlé. The brand's success through thick and thin during those years is largely due to the untiring efforts of the Kallassi family, the distributors who put DANO® on store shelves.

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