



Announcement to stock exchanges

ARLA DELIVERS STRONG RESULTS AS COOPERATIVE STEERS THROUGH GLOBAL PANDEMIC

The Covid-19 pandemic defined the first half of 2020 and it showed the need for reliable food systems as countries had to shut down. Arla moved quickly to safeguard its people, operations and finances around the world and being well positioned both geographically and across categories, Arla utilized the company's agility to successfully keep the business running despite global logistics and supply chain challenges. In the first half year Arla's global branded sales volumes grew an unprecedented 10.4 per cent and the cooperative delivered a strong and competitive performance price.

Total Arla Group revenue grew 2.8 per cent to EUR 5.4 billion compared to EUR 5.2 billion in first half of 2019, driven mainly by higher branded sales volumes in retail across markets. Arla grew profitability and achieved a net profit share of 3 per cent of revenue up from 2.3 per cent in the first half of 2019.

Despite the challenging global market circumstances, throughout the first half of 2020 the milk price to farmer owners remained stable at a competitive level. The cooperative's performance price – which measures the value Arla creates per kilogram of owner milk – was at 37.0 EUR-cent compared to 36.1 EUR-cent first half year of 2019.

"It has truly been abnormal times this year and I am very proud of our people and our results. The Covid-19 pandemic is one of the most severe crisis situations I have experienced as CEO of Arla, and we – as many other food companies - saw a very quick change in consumers eating habits as countries shut down around the world. We quickly channeled milk from our Foodservice business into retail and successfully maintained a steady flow of products in demand while our Foodservice business found creative solutions to support their customers. This shows just how robust and agile our cooperative really is for our dairy farmers," says CEO of Arla Peder Tuborgh.

Arla's transformation and efficiencies programme Calcium delivered savings above expectations at EUR 69 million despite the pandemic. Cost savings were mainly from efficiencies in indirect spends and optimization of supply chain operations.

"We have had to navigate very high levels of volatility in the global dairy industry, seeing commodity prices drop significantly and currencies being severely impacted globally. Due to our position both geographically and across categories, we have delivered very strong financial results, increased our profitability and secured continued savings through Calcium. But the situation remains very volatile and we need to continue to be vigilant in securing our business continuity," says CFO of Arla Torben Dahl Nyholm.

Consumers turned to trusted brands during pandemic

As restaurants, coffee shops and canteens had to close due to the pandemic, Arla's food service business declined rapidly. Consumers instead turned to trusted household dairy products as in-home cooking and consumption increased and this more than offset lost foodservice sales and lower commodity prices. Overall strategic branded sales volume increased an unprecedented 10.4 per cent. Global brands Lurpak® and Puck® grew impressive 17.7 per cent and 16.7 per cent respectively. Arla® was affected by the decline in Foodservice, but still delivered 3.3 per cent volume growth. Arla's Milk Based Beverages (MBB) delivered 13.1 per cent volume growth, mainly driven by Starbucks®.



“As consumers around the world were forced to stay home, we expected our household brands to do well and they certainly have. During the lockdown people have loved to cook with our Lurpak® butter and dairy has seen a boost in relevance in households across markets as consumers have valued our products. As countries are opening again we are looking at how we best continue to deliver our trusted brands to customers and consumers,” says CEO Peder Tuborgh.

Commercial zones perform above expectations

Arla divides its business into two commercial zones, Europe and International. Although both zones were highly affected by the pandemic as first China and then most of Europe and the US restricted movement and travel creating logistics and supply chain challenges, both delivered strong financial results and branded volume growth.

Arla’s European foodservice business saw a steep reduction, but this was more than compensated by the strong performance of retail and a significant increase in e-commerce. The Europe zone delivered an exceptional branded sales volume growth reaching 6.3 per cent driven mostly by Lurpak®, Arla® and Starbucks®. Arla’s Europe zone grew revenue 0.9 per cent to EUR 3,178 million compared to EUR 3,149 million in the same period last year.

Arla’s International zone delivered the highest revenue growth in the past five years of 22.1 per cent seeing an increase to EUR 1,024 million compared to EUR 839 million in first half of 2019. Middle East and North Africa (MENA) was the main driver for the significant growth as home cooking and overall dairy consumption rose steeply due to lockdowns and curfews. All other international markets also contributed positively to the revenue growth. Overall branded sales volume growth reached 19.5 per cent.

In the first half of 2020 Arla Foods Ingredients (AFI) delivered a strong performance supported by stable operations and increased demand for AFI’s value-added products within pediatric, health & performance and food segments. AFI grew revenue 2.4 per cent to EUR 360 million, up from EUR 352 million in the same period last year.

Trading, which is business to business commodity sales, continued its strong position from 2019, but as Covid-19 impacted the global market commodity prices fell significantly and volumes were reduced as they were channeled into retail. Trading revenue decreased by 8.3 per cent in the first half of 2020, from EUR 861 million to EUR 790 million.

Arla farmers continue sustainability journey despite pandemic

Throughout the pandemic Arla’s farmer owners have continued to deliver milk while safeguarding the health and safety of their employees. At the same time, they have also continued their sustainability journey and in June, 90 per cent of farmer owners across Europe voluntarily submitted their climate data creating one of the world’s biggest dairy production climate datasets. External advisors and Arla expect to have the first results from the data ready by early 2021.

Financial expectations for full year 2020

The uncertainty around the duration and intensity of the economic and market impacts caused by the Covid-19 pandemic is expected to continue throughout the second half of 2020. Arla will focus on continuing to steer successfully through the coming deadline for Brexit negotiations and the looming global recession.

“On the short term, we are looking at two very severe and unpredictable risks for the second half of 2020. One being the covid-19 pandemic that continues to require us to be in crisis mode along with the potential



Arla Foods
Aarhus, Denmark
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adverse consequences surrounding Brexit negotiations. On the longer term we need the business to be ready to navigate successfully through the expected global recession. So we must continue to be resilient and agile to ensure that Arla continues to be as robust and competitive as it is today," says CEO Peder Tuborgh.

Despite the very uncertain external factors in mind, Arla still expects to meet its expectations for full year with revenue outlook 2020 at EUR 10.4 billion – EUR 10.8 billion, a net profit of 2.8 to 3.2 per cent of revenue and a year-end leverage at the bottom or below target range of 2.8 - 3.4.

ENDS

INCOME STATEMENT

(EURm)	Half-year 2020	Half-year 2019	Develop- ment	Full-year 2019
Revenue	5,377	5,232	3%	10,527
Production costs	-4,203	-4,167	1%	-8,325
Gross profit	1,174	1,065	10%	2,202
Sales and distribution costs	-745	-701	6%	-1,416
Administration costs	-203	-187	9%	-389
Other operating income	17	23	-26%	-64
Other operating costs	-31	-39	-21%	39
Share of results after tax in joint ventures and associates	6	14	-57%	34
Earnings before interest and tax (EBIT)	218	175	25%	406
<i>Specification:</i>				
<i>EBITDA</i>	443	382	16%	837
<i>Depreciation, amortisation and impairment losses</i>	-225	-207	9%	-431
Earnings before interest and tax (EBIT)	218	175	25%	406
Financial income	3	13	-77%	10
Financial costs	-38	-44	-14%	-69
Profit before tax	183	144	27%	347
Tax	-17	-15	13%	-24
Profit for the period	166	129	29%	323
Non-controlling interests	-3	-7	-57%	-12
Arla Foods amba's share of profit for the period	163	122	34%	311

COMPREHENSIVE INCOME

(EURm)	Half-year 2020	Half-year 2019	Full-year 2019
Profit for the period	166	129	323
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Remeasurements of defined benefit schemes	23	-41	-50
Tax on remeasurements of defined benefit schemes	-3	9	11
Items that may be reclassified subsequently to the income statement:			
Value adjustments of hedging instruments	25	-22	-22
Fair value adjustment of certain financial assets	-1	-1	-2
Adjustments related to foreign currency translation	-56	1	42
Tax on items that may be reclassified to the income statement	-	-	-1
Other comprehensive income, net of tax	-12	-54	-22
Total comprehensive income	154	75	301
Allocated as follows:			
Owners of Arla Foods amba	151	68	289
Non-controlling interests	3	7	12
Total	154	75	301

BALANCE SHEET

(EURm)	Half-year 2020	Half-year 2019	Develop- ment	Full-year 2019
Assets				
Non-current assets				
Intangible assets and goodwill	941	958	-2%	982
Property, plant, equipment and right of use assets	2,721	2,583	5%	2,710
Investments in associates and joint ventures	460	453	2%	468
Deferred tax	30	55	-45%	43
Pension assets	37	-	-	16
Other non-current assets	21	22	-5%	24
Total non-current assets	4,210	4,071	3%	4,243
Current assets				
Inventory	1,154	1,133	2%	1,092
Trade receivables	771	979	-21%	889
Derivatives	75	37	103%	20
Other receivables	252	257	-2%	240
Securities	425	454	-6%	435
Cash and cash equivalents	150	115	30%	187
Total current assets	2,827	2,975	-5%	2,863
Total assets	7,037	7,046	0%	7,106

(EURm)	Half-year 2020	Half-year 2019	Develop- ment	Full-year 2019
Equity and liabilities				
Equity				
Common capital	1,927	1,784	8%	1,894
Individual capital	464	432	7%	498
Other equity accounts	-104	-111	-6%	-72
Profit for the period	163	122	34%	-
Proposed supplementary payment to owners	-	-	-	127
Equity attributable to the owners of Arla Foods amba	2,450	2,227	10%	2,447
Non-controlling interests	46	53	-13%	47
Total equity	2,496	2,280	9%	2,494
Liabilities				
Non-current liabilities				
Pension liabilities	235	244	-4%	249
Provisions	25	21	19%	23
Deferred tax	75	103	-27%	81
Loans	1,887	1,743	8%	1,951
Total non-current liabilities	2,222	2,111	5%	2,304
Current liabilities				
Loans	740	1,123	-34%	776
Trade and other payables	1,123	1,130	-1%	1,158
Provisions	9	10	-10%	9
Derivatives	83	105	-21%	86
Current tax	9	5	80%	5
Other current liabilities	355	282	26%	274
Total current liabilities	2,319	2,655	-13%	2,308
Total liabilities	4,541	4,766	-5%	4,612
Total equity and liabilities	7,037	7,046	0%	7,106

CASH FLOW

(EURm)	Half-year 2020	Half-year 2019	Full-year 2019
EBITDA	443	382	837
Reversal of share of results in joint ventures and associates	-6	-14	-34
Change in net working capital	-14	-76	79
Change in other receivables and other current liabilities	69	8	-37
Reversal of other operating items without cash impact	18	-51	16
Dividends received from joint ventures and associates	6	-	8
Interest paid	-28	-33	-69
Interest received	1	2	3
Taxes paid	-12	-14	-30
Cash flow from operating activities	477	204	773
Investment in intangible fixed assets	-29	-22	-52
Investment in property, plant and equipment	-193	-195	-425
Sale of property, plant and equipment	17	16	21
Operating investing activities	-205	-201	-456
Sale of financial assets	11	20	37
Acquisition of enterprises	0	-163	-168
Sale of enterprises	-	6	16
Financial investing activities	11	-137	-115
Cash flow from investing activities	-194	-338	-571
Supplementary payment regarding the previous financial year	-127	-289	-289
Paid in and out from equity regarding individual capital instruments	-21	-23	-24
Paid out to non-controlling interests	-4	-	-15
Loans obtained, net	-117	483	295
Repayment of lease debt	-33	-32	-66
Payment to pension liabilities	-17	-9	-37
Cash flow from financing activities	-319	130	-136
Net cash flow	-36	-4	66

(EURm)	Half-year 2020	Half-year 2019	Full-year 2019
Cash and cash equivalents at 1 January	187	119	119
Net cash flow for the year	-36	-4	66
Exchange rate adjustment of cash funds	-1	-	2
Cash and cash equivalents at 30 June	150	115	187
<i>Free operating cash flow</i>			
<i>Cash flow from operating activities</i>	477	204	773
<i>Operating investing activities</i>	-205	-201	-456
Free operating cash flow	272	3	317
<i>Free cash flow</i>			
<i>Cash flow from operating activities</i>	477	204	773
<i>Cash flow from investing activities</i>	-194	-338	-571
Free cash flow	283	-134	202