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Announcement to stock exchanges

Building momentum during rare market stability

The first half of 2019 saw a rare stability in the otherwise volatile global dairy market resulting in stable prepaid milk prices to farmer owners across Europe. Arla delivered the cooperative's highest performance price in 3 years, improved profitability and continued to deliver growth for strategic brands in both the European and International zones. Across the business the focused execution of the transformation and cost savings programme Calcium delivered above expectations.

Total Arla Group revenue grew 2.0 per cent to EUR 5.2 billion compared to EUR 5.1 billion in first half year of 2018, driven by higher strategic branded sales volumes of 4.6 per cent and an increase in sales prices. Especially Arla's International zone delivered an impressive branded volume growth of 10.2 per cent.

In the first half year of 2019, Arla delivered a net profit share of 2.3 per cent, up from last half year's profit share of 2.2 per cent. The company expects its full year net profit share to be within the 2.8 to 3.2 per cent target range.

Arla's performance price – which measures the value Arla creates per kilogram of owner milk – is the highest in 3 years at 36.1 EUR-cent compared to 34.7 EUR-cent in the first half of 2018, mainly due to our transformation and cost savings programme Calcium delivering ahead of expectations

“The rare stability in the global dairy market has allowed Arla to build on the momentum we created in 2018. We have strengthened our competitiveness relative to our peers and improved our profitability while launching our ambitious climate goal to become carbon net zero by 2050. We are focused on delivering on our ambitious targets for 2019 while remaining alert and prepared for the continued uncertainties around Brexit,” says Arla Foods CEO Peder Tuborgh.

Positive sales development across all commercial segments

Arla divides its business into two commercial zones, Europe and International.

Retail and food service sales in Europe declined 1.5 per cent to EUR 3,149 million in the first half of 2019, compared to EUR 3,197 million in the first half of 2018. This was mainly due to the strategic decision to step out of selected loss-making private label contracts and the negative currency development of the Swedish krone.

However, the European zone successfully continued to focus on fast scaling successes across Europe and delivered a branded volume growth of 2.3 per cent, driven by product categories such as Lactofree, Skyr, cheese and milk based beverages under the Arla® brand and Starbucks®. Arla's international zone realized double digit in sales and branded growth. Sales increased by 11.9 per cent to EUR 839 million in the first half of 2019 compared to EUR 750 million in the same period last year, with strong development across regions while strategic branded sales volumes grew 10.6 per cent.

In Arla's biggest international market, the Middle East and North Africa (MENA) Arla increased market share in all key product categories. The formal takeover of the Kraft® branded cheese business from Mondelez International with a 12 year license agreement in May will have a great strategic importance for the international zone going forward.

Another key international market China, delivered more than 50 per cent growth in both volume and revenue in the organic early life nutrition (ELN) business and liquid milk, due to the recent approval of Arla's ELN products.

In the first half of 2019, Arla Foods Ingredients (AFI) grew revenue 13.1 per cent to EUR 352 million from EUR 311 million in the same period last year by successfully moving more volumes into value-added protein segments.

Trading, which is business to business commodities sales, increased by 8.3 per cent to EUR 892 million in the first half of 2019 from 796 million in the same period of 2018, as the value of protein continued to rise, supporting the value of both skim milk powder and caseinate products for manufacturing.

Innovative brands meet consumer demands

Across the business Arla continued to increase its branded volume share and delivered growth for the company's strategic brands of 4.6 per cent in the first half of 2019 compared to 3.0 percent in the same period last year.

The Arla® brand is at the heart of the company's growth and had a 5.3 per cent branded volume growth in the first half of 2019 supported by the Lactofree brand which grew 13.5 per cent. Milk-based beverages category grew 11.9 per cent with Starbucks® leading the way with new innovations.

In the Middle East Arla launched Puck® Squares in the beginning of the year, and the successful brand saw a 4.2 per cent growth in the first half of 2019.

Branded volume growth for the butter brand Lurpak® was up 1.6 per cent, driven mostly high sales of the innovative spreadable Lurpak® softest, despite its high prices.

The speciality cheese brand Castello® decreased branded volume growth with 4.1 per cent. This is primarily a result of a challenging competitive environment across Europe and some international markets.

"We have continued to build engagement and relevance of our brands through innovative products, brand activation and digital content. Consumers are pushing for more nourishing and sustainable food choices, which is why our intensified climate agenda will help increase both the credibility of Arla farmers and our competitive advantage," says CFO in Arla Foods Natalie Knight.

Calcium delivers ahead of expectations

Arla's transformation and cost savings programme Calcium performed strongly in the first half of 2019. The programme has already delivered EUR 97 million of the EUR 75-100 million full year target for 2019. Due to the strong performance of Calcium year to date, Arla expects the programme to deliver at least EUR 100 million in 2019 although the expected savings will be significantly lower in the second half of the year compared to the first half.

Calcium aims to reduce cost by EUR 400+ million, where EUR 300 million will go to improving the milk price to farmer owners and EUR 100+ million being reinvested in the company's growth.

"We are now well into the second year of our transformation, and throughout the organization we have made sustainable changes to the way we work, spend and invest in our business. The hard work across all areas of the Arla is paying off and we have regained our competitiveness and improved our performance as a business," says CEO Peder Tuborgh.

Full year expectations

Arla delivered strong results in the first half of 2019 and the second half of the year will focus on delivering on full year targets while continuing to outperform our peers. There are however,

external factors that could negatively impact Arla's full year expectations. The potential adverse consequences of a hard Brexit continues to be our biggest risk, along with the inherent volatility of the global milk markets.

With this in mind, Arla's revenue outlook for full year 2019 is expected to be EUR 10.2-10.6 billion. Net profit share for 2019 is expected to be in the target range of 2.8-3.2 per cent of revenue. A potential no-deal Brexit could however negatively impact the outlook.

The outlook for branded volume growth is increased to 3.5 per cent or above, up from previously communicated target of 1.5-3.5 per cent. Focus on sustainability and product innovation drive the higher expectations.

Income statement

(EURm)	Half-year 2019	Half-year 2018*	Develop- ment	Full-year 2018*
Revenue	5,232	5,127	2%	10,425
Production costs	-4,167	-4,083	2%	-8,341
Gross profit	1,065	1,044	2%	2,084
Sales and distribution costs	-701	-698	0%	-1,362
Administration costs	-187	-216	-13%	-422
Other operating income	23	45	-49%	118
Other operating costs	-39	-24	63%	-43
Share of results after tax in joint ventures and associates	14	13	8%	29
Earnings before interest and tax (EBIT)	175	164	7%	404
<i>Specification:</i>				
<i>EBITDA</i>	382	338	13%	767
<i>Depreciation, amortisation and impairment losses</i>	-207	-174	19%	-363
Earnings before interest and tax (EBIT)	175	164	7%	404
Financial income	13	12	8%	2
Financial costs	-44	-44	0%	-64
Profit before tax	144	132	9%	342
Tax	-15	-12	25%	-41
Profit for the period	129	120	8%	301
Non-controlling interests	-7	-5	40%	-11
Arla Foods amba's share of profit for the period	122	115	6%	290

Comprehensive income

(EURm)	Half-year 2019	Half-year 2018*	Full-year 2018*
Profit for the period	129	120	301
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Remeasurements of defined benefit schemes	-41	28	25
Tax on remeasurements of defined benefit schemes	9	-5	-6
Items that may be reclassified subsequently to the income statement:			
Value adjustments of hedging instruments	-22	-7	3
Fair value adjustment of certain financial assets	-1	-2	-3
Adjustments related to foreign currency translation	1	2	-10
Tax on items that may be reclassified to the income statement	-	1	-1
Other comprehensive income, net of tax	-54	17	8
Total comprehensive income	75	137	309
Allocated as follows:			
Owners of Arla Foods amba	68	131	297
Non-controlling interests	7	6	12
Total	75	137	309

Balance sheet

(EURm)	Half-year 2019	Half-year 2018*	Develop- ment	Full-year 2018*
Assets				
Non-current assets				
Intangible assets	958	819	17%	887
Property, plant, equipment and right of use assets	2,583	2,246	15%	2,308
Investments in associates and joint ventures	453	451	0%	439
Deferred tax	55	39	41%	30
Pension assets	-	-	-	4
Other non-current assets	22	25	-12%	29
Total non-current assets	4,071	3,580	14%	3,697
Current assets				
Inventory	1,133	1,126	1%	1,074
Trade receivables	979	899	9%	989
Derivatives	37	29	28%	37
Other receivables	257	190	35%	254
Securities	454	477	-5%	465
Cash and cash equivalents	115	152	-24%	119
Total current assets	2,975	2,873	4%	2,938
Total assets	7,046	6,453	9%	6,635

(EURm)	Half-year 2019	Half-year 2018*	Develop- ment	Full-year 2018*
Equity and liabilities				
Equity				
Common capital	1,784	1,815	-1%	1,814
Individual capital	432	464	-7%	456
Other equity accounts	-111	-84	32%	-89
Profit for the period	122	115	2%	-
Proposed supplementary payment to owners	-	-	-	290
Equity attributable to the owners of Arla Foods amba	2,227	2,310	-4%	2,471
Non-controlling interests	53	41	29%	48
Total equity	2,280	2,351	-3%	2,519
Liabilities				
Non-current liabilities				
Pension liabilities	244	227	7%	224
Provisions	21	14	50%	17
Deferred tax	103	57	81%	84
Loans	1,743	1,298	34%	1,369
Total non-current liabilities	2,111	1,596	32%	1,694
Current liabilities				
Loans	1,123	986	14%	860
Trade and other payables	1,130	1,097	3%	1,169
Provisions	10	9	11%	11
Derivatives	105	123	-15%	85
Current tax	5	16	-69%	5
Other current liabilities	282	275	3%	292
Total current liabilities	2,655	2,506	6%	2,422
Total liabilities	4,766	4,102	16%	4,116
Total equity and liabilities	7,046	6,453	9%	6,635

Cash flow

(EURm)	Half-year 2019	Half-year 2018*	Full-year 2018*
EBITDA	382	338	767
Reversal of share of results in joint ventures and associates	-14	-13	-29
Change in net working capital	-76	70	90
Change in other receivables and other current liabilities	8	-12	-73
Reversal of other operating items without cash impact	-51	-18	-43
Dividends received, joint ventures and associates	-	1	11
Interest paid	-33	-23	-46
Interest received	2	3	1
Taxes paid	-14	-15	-29
Cash flow from operating activities	204	331	649
Investment in intangible fixed assets	-22	-25	-55
Investment in property, plant and equipment	-195	-159	-383
Sale of property, plant and equipment	16	12	13
Operating investing activities	-201	-172	-425
<i>Free operating cash flow</i>	<i>3</i>	<i>159</i>	<i>224</i>
Sale of financial assets	20	-	44
Acquisition of enterprises	-163	-29	-51
Sale of enterprises	6	-	-
Financial investing activities	-137	-29	-7
Cash flow from investing activities	-338	-201	-432
<i>Free cash flow</i>	<i>-134</i>	<i>130</i>	<i>217</i>

(EURm)	Half-year 2019	Half-year 2018*	Full-year 2018*
Financing			
Supplementary payment regarding the previous financial year	-289	-121	-121
Paid in and out from equity regarding individual capital instruments	-23	-33	-38
Loans obtained, net	483	98	5
Repayment of leases debt	-32	-	-
Payment to pension liabilities	-9	-15	-37
Cash flow from financing activities	130	-71	-191
Net cash flow	-4	59	26
Cash and cash equivalents at 1 January	119	91	91
Exchange rate adjustment of cash funds	-	2	2
Cash and cash equivalents at 30 June	115	152	119