



INVESTOR ANNOUNCEMENT

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Arla Foods Annual Results 2015

Arla delivered a robust performance against difficult conditions in 2015, which was a tough year for the global dairy industry. Increased milk supply in Europe combined with China's slowdown in demand and the Russian embargo have sent world market prices down. Arla navigated through the global crisis by moving even more of its milk into branded dairy products and foodservice, improving market positions and driving down costs.

Arla came out of 2015 with 10.3 billion euro in revenue, a 3.3 per cent decline compared to the year before. This is fully in line with the company's expectations.

The performance price, which measures the value Arla has generated from each kilo of milk supplied by the farmer-owners, was 33.7 eurocent pr. kilo with a total volume of owner milk of 12.5 billion kilos in 2015 (compared to 41.7 eurocent pr. kilo with a total volume of owner milk of 11.7 billion kilos in 2014). Leverage at the end of 2015 was 3.3.

"We knew 2015 would be tough on all markets, and it was. Dairy prices have been under pressure worldwide all year, and every dairy farmer has felt the consequences. It affected Arla's milk price to our owners and our revenue in 2015. Having said that, Arla has achieved what we set out to do within our business in a year when the entire dairy industry has struggled," says CEO of Arla Foods, Peder Tuborgh.

"We have worked intensely to minimise the damage from the negative global trends by reducing costs and by maintaining and improving our market positions in Europe while creating new market positions for our branded products outside the EU."

Lower profit as expected

The net profit of the Arla Group in 2015 accounts for 295 million euro, of which the profit share of Arla Foods amba is 285 million euro, corresponding to 2.8 per cent of Group revenue.

"Normally our profit target is 3 per cent of our revenue, but in August last year the Board of Directors agreed to reduce the profit target from 3 per cent to the range 2.7 to 3.0 per cent of the company's revenue. This reduction was made in favour of the prepaid milk price to support our farmer-owners in their very difficult financial situation, which is caused by the global decline in milk prices," says chairman of Arla Foods, Åke Hantoft.

Arla's Board of Representatives will decide how to appropriate profits at their next meeting on February 23-24.

Mitigating the impact of global price decline

Arla's overall volume of milk grew by approx. 622 million kilos in 2015 to 14.19 billion kilos. Despite the lack of general growth in most of the markets where Arla operates, the company set the target to grow its sales in the more profitable retail and foodservice sector equal to a volume increase of approx. 500 million kg extra milk. This was successfully achieved.

Arla recently announced its new Strategy 2020 setting out to grow its business in eight global dairy categories and six market regions as the company moves towards 2020 as one effective and unified company in a dramatically changing global dairy market.

"We are working fiercely to expand our branded business in growth regions outside the EU but also within our European lead markets. We are launching new innovations and have increased the marketing spend to support this. We have gained market shares in most of our markets although the competition is fierce, with everyone competing for their share of the market while global prices are under pressure. We are confident that Arla has the right strategy to take the company and its owners forward as we focus on organic growth within our existing branded business," says Peder Tuborgh.

Driving down costs to benefit farmer-owners

In 2015, Arla also delivered on its long-term efficiency programmes. Through reduced spending, efficiency improvements and continuous adjustment of the organisation, Arla achieved its annual savings goal of 330 million euro in 2015 compared to 2012 cost-levels.

"Delivering consistently on both agendas – expanding our branded business while reducing costs – has significantly improved the strength of our business. Constantly becoming more cost-efficient is a crucial part of our efforts to create the best value for our farmer-owners in the extremely tough conditions. We have therefore set a new target of delivering additional annual savings of 400 million euro by 2020, starting with the first 100 million euro in 2016," says Peder Tuborgh.

Continued growth outside Europe

Two of the world's biggest importers of dairy products – China and Russia – took in significantly less of Europe's growing milk pool in 2015, leading to declining prices worldwide and in Europe in particular. Consequently, Arla's overall revenue in European core markets declined by approx. 200 million euro (3 per cent) in spite of the fact that the company gained market shares and increased sales volumes.

Outside the EU, Arla continues to expand its branded sales. In 2015 Arla grew its sales of consumer products by 20 per cent in the Middle East & North Africa, by 50 per cent in China, and by 14 per cent in the United States.

"Arla has performed in line with expectations in a highly competitive European market, and in our prioritised markets outside the EU we are harvesting double-digit sales growth as planned. We have continued to pave the way for international growth by setting up strong regional sales teams close to the customers and consumers and by entering partnerships with strong local players in Nigeria, Senegal, Egypt and Australia," says Peder Tuborgh.

Expectations for 2016

The global market is expected to remain unpredictable and tough in 2016, but a turn for the better is anticipated towards the end of 2016. Arla expects its revenue to be on par with 2015 level, and the company expects its leverage to be approx. 3.2 and its profit to be within the range 2.8 to 3.2 per cent of the company's revenue.

“The global dairy industry has rarely been as tough and unpredictable, and 2015 has unfortunately been as challenging as we anticipated. We have an extremely difficult task ahead of us in 2016 as global milk supply still exceeds demand. We do expect that the global market will begin to turn for the better towards the end of 2016,” says Peder Tuborgh.

Arla Foods will publish its annual report on February 24th after the company’s Board of Representatives have decided how to appropriate the profits.

Appendix to press release

Arla Foods – Market overview 2015

In Arla’s new Strategy 2020 the company will focus on markets in six strategic regions: Europe (with the four lead markets United Kingdom, Sweden, Denmark and Germany), Middle East & North Africa, China & Southeast Asia, Sub-Saharan Africa, USA and Russia. Here is a brief overview of how Arla’s business developed in those market regions in 2015.

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Europe – UK: Increasing Arla’s branded sales in a competitive market

UK: Arla had a very strong 2015; it improved its performance; grew market share in most of its categories; built the foundation for the Arla brand and significantly stepped up its innovation.

As the largest market in the group by revenue, the UK has a significant role to play and 2015 was a year of change for the business where it delivered an improved performance. This was in line with its ambitions for 2015 and was achieved through strong cost savings as well as growing the business by taking market share in most of its categories.

Arla’s overall UK revenue increased from 2.8 billion euro in 2014 to 2.9 billion euro in 2015 and throughout the year, it grew volumes produced by over 200 million kg.

Arla UK also built the foundation to increase the awareness of the Arla® brand among British consumers with the launch of significant products such as Arla® Big Milk and by entering the yoghurt category with the award winning Arla® Skyr and Arla® Protein. These products have performed extremely well since their launch.

The UK achieved record sales volumes in the butter and spreads category with Lurpak® and Anchor® as well as a strong liquid milk performance with Cravendale® growing in all retail channels. It also recorded increased sales volumes of Castello® and delivered double-digit growth in the Lactofree® product range.

This work has enabled the UK to strengthen its position as a leading dairy company where it is number one in fresh liquid milk, cream, butter and spreads as well as being

the largest cheese producer. It will be building on this success in the coming year as it launches its Champion of British Dairy strategy for 2020 as well as its health strategy.

Europe – Sweden: Arla maintains strong brand share

Arla's overall revenue in Sweden decreased 4 per cent from 1.52 billion euro in 2014 to 1.45 billion euro in 2015.

The purchase of the cheese company Falbygdens Ost was approved by the Swedish Competition Authority effective from April 1st 2015. This acquisition has enhanced Arla's premium cheese category.

Arla's dairy in Falkenberg, recently remodelled into Europe's largest cottage cheese dairy, is now fully operational following the opening in 2014.

In 2015 Arla Sweden successfully launched Arla® Chef's Range (Kockserien), a premium product line for butter and spreads. The product range was launched in collaboration with some of Sweden's leading chefs and was well-received by the consumers.

Europe – Denmark: Innovation boosts branded growth

Arla's revenue from consumer products in Denmark decreased 4 per cent from 957 million euro in 2014 to 917 million euro in 2015, mainly due to an increased focus on discount and private label products from consumers and customers.

In 2015, Arla Denmark launched more product innovations than ever before across categories including yoghurt, cheese and milk while also entering new categories such as ice cream. The value from these innovations is a strong growth driver for Arla Denmark. On top of this, Arla Denmark has also entered new sales channels, including the opening of an Arla Unika® speciality cheese store in Aarhus.

Arla's health strategy was successfully implemented in Denmark in 2015, which included the launch of products rich in protein for both the health industry and sports purposes.

Europe – Germany: Steering through a hard-pressed market

Arla's revenue from consumer products in Germany decreased by 14 per cent from 1.35 billion euro in 2014 to 1.17 billion euro in 2015, mainly due to continued pressure on prices in the German market.

The new milk powder and butter facility in Pronsfeld officially opened in January 2015, making Arla's Pronsfeld dairy the largest production site in the Arla Group.

In late 2014 Arla Germany launched its first branded organic range of dairy products under the Arla® Bio brand, and in 2015 that organic range continued to grow to

include categories like liquid milk, yoghurt and cream. In 2015 the Arla® Bio became the number one brand in the organic liquid milk category in Germany.

The biggest product launch for Arla in Germany in 2015 was the introduction of Arla® Skyr, which has been very well received by German consumers. Other popular products for Arla in Germany are Arla Kærgården® spreads and Arla Buko® cream cheese.

Arla holds a top three position in the German dairy industry.

Middle East & North Africa: Continued double-digit growth

Arla's revenue from consumer products in the region Middle East & North Africa increased by 19 per cent from 444 million euro in 2014 to 530 million euro in 2015.

The growth was driven by Arla's established brands in that region such as Puck® cheese, Lurpak® butter and spreads and Arla Dano® milk powder. Through new product launches and promotional campaigns, Arla further strengthened the positioning of the Puck® brand across the region in 2015.

Arla established a new joint venture company in Egypt, which is now fully operational and expected to increase Arla's sales in the Egyptian market.

In Arla's new Strategy 2020 the company aims to double its consumer sales in the Middle East & North Africa by 2020.

China & Southeast Asia: Arla doubles up in China

Arla's revenue from consumer products in the company's Asia region increased by 41 per cent from 85 million euro in 2014 to 120 million euro in 2015. Of this, the highest growth rates were recorded in China, where Arla's consumer sales doubled from 26 million euro in 2014 to 52 million euro in 2015.

When including other business for Arla (such as third-party manufacturing and commodity trading), Arla's overall revenue in the region China & Southeast Asia reached 300 million euro in 2015 – of which 144 million euro were recorded in China.

Among the fastest growing Arla products in the region are UHT milk for the Chinese market as well as mozzarella cheese both in China and Southeast Asia.

In Arla's new Strategy 2020 the company aims to triple its revenue from consumer sales in the region China & Southeast Asia.

Sub-Saharan Africa: Arla aims to triple sales by 2020

Arla's revenue from consumer products in the company's Sub-Saharan Africa region went from 88 million euro in 2014 to 75 million euro in 2015.

Nigeria is the biggest market in the region, and Arla changed its business model there from one based on various distribution agreements to a partnership with a single leading distributor, Tolaram Group. Due to practical issues in the transition process, Arla did not achieve the expected volume growth rate in Nigeria. However, volumes look promising in 2016.

In Arla's new Strategy 2020 the company expects to triple its revenue from consumer sales in Sub-Saharan Africa by 2020 (most of which is expected to come in Nigeria and West Africa).

In 2015, a new subsidiary was agreed in Senegal, further strengthening its long-term commitment to the dairy market in the entire region.

The most popular product for Arla in the region is Arla Dano® milk powder and UHT milk, but Arla's ambition is to introduce other products in time as the demand for nutritious dairy products continue to rise among consumers.

USA: Arla achieves double-digit growth

Arla's revenue in the USA increased by 14 per cent from 108 million euro in 2014 to 123 million euro in 2015.

The USA is the world's largest cheese market, and Arla's future growth ambitions for the US are twofold. The first is establishing Castello® as one of the leading speciality cheese brands as its position is developed and the product range expanded with new cheeses from Arla's broad portfolio. Simultaneously, Arla will look to build a strong number two position in the huge cream cheese category, currently dominated by domestic brands. Arla® branded products brings a truly unique selling point to the category – a great-tasting, clean label product made from natural ingredients.

In Arla's new Strategy 2020 the company aims to double its revenue from consumer sales in the USA by 2020.

Russia: A full year with embargo

Arla's revenue from consumer products in Russia decreased by 64 per cent from 107 million euro in 2014 to 39 million euro in 2015, which was expected as a result of the Russian embargo against dairy products from the EU.

With a population of more than 140 million people, who share European dairy habits, Russia will continue to be a key market for Arla in the future. However, due to the current embargo Arla's growth targets have been postponed. Currently, Arla's strategic focus is on preparing for the upturn in order to maintain our position as one of the leading international players in the Russian dairy market once the embargo is lifted.

During 2015 Arla has therefore increased its local production of branded yellow cheese in a partnership with the Russian dairy company Molvest. In 2015 a new

production line for local processed cream cheese was established to add such products to Arla's Russian portfolio.

Consolidated cash flow statement 1 January - 31 December

(EURm)	2015	2014
Cash flows from operating activities		
EBITDA	754	681
Share of results in joint ventures and associates	-22	-57
Change in primary working capital	-23	-16
Change in other working capital	10	-75
Other operating items without cash impact	11	42
Dividends received, joint ventures and associates	8	7
Interest paid	-56	-72
Interest received	6	3
Tax paid	-19	-2
Total cash flow from operating activities	669	511
Investment in intangible fixed assets	-70	-33
Investment in property, plant and equipment	-348	-429
Sale of property, plant and equipment	8	-
Total operating investing activities	-410	-462
Free operating cash flow	259	49
Sale of financial assets	-	14
Acquisition of enterprises	-29	15
Sale of enterprises	37	17
Total financial investing activities	8	46
Total cash flow from investing activities	-402	-416
Total free cash flow	267	95
Cash flows from financing activities		
Supplementary payment regarding the previous financial year	-105	-122
Paid in funds from new owners	5	12
Paid out from equity regarding terminated membership contracts	-18	-10
Loans obtained, net	-173	44
Change in current liabilities	-33	-35
Net change in marketable securities	50	18
Total cash flow from financing activities	-274	-93
Net cash flow	-7	2
Cash and cash equivalents at 1 January	81	76
Exchange rate adjustments of cash funds	3	3
Transferred to assets held for sale	-7	-
Cash and cash equivalents at 31 December	70	81

Consolidated **balance sheet** **31 December**

(EURm)	2015	2014
Assets		
Non-current assets:		
Intangible assets	873	791
Property, plant and equipment	2,457	2,399
Investments in associates	434	432
Investments in joint ventures	50	55
Deferred tax	64	72
Other non-current assets	25	25
Total non-current assets	3,903	3,774
Current assets:		
Inventories	1,007	988
Trade receivables	910	917
Derivatives	75	30
Current tax	1	5
Other receivables	202	250
Securities	509	560
Cash and cash equivalents	70	81
Total current assets excluding assets held for sale	2,774	2,831
Assets held for sale	59	8
Total current assets	2,833	2,839
Total assets	6,736	6,613
Equity and liabilities		
Equity:		
Equity excluding proposed supplementary payment to owners	2,000	1,747
Proposed supplementary payment to owners	113	104
Arla Foods amba's share of equity	2,113	1,851
Minority interests	35	23
Total equity	2,148	1,874
Liabilities		
Non-current liabilities:		
Pension liabilities	294	376
Provisions	8	8
Deferred tax	65	46
Loans	1,714	1,702
Other non-current liabilities	3	5
Total non-current liabilities	2,084	2,137
Current liabilities:		
Loans	1,076	1,130
Trade payables	918	977
Provisions	19	19
Derivatives	158	206
Current tax	5	9
Other current liabilities	298	261
Total current liabilities excluding liabilities regarding assets held for sale	2,474	2,602
Liabilities regarding assets held for sale	30	-
Total current liabilities	2,504	2,602
Total liabilities	4,588	4,739
Total equity and liabilities	6,736	6,613