



Announcement to stock exchanges:

ARLA MAKES FIRST EVER HALF YEAR SUPPLEMENTARY PAYMENT TO FARMER OWNERS

The first half of 2022 was dominated by inflation and uncertainty throughout the global dairy supply chain that accelerated late spring and through the summer. The European dairy cooperative was able to make increases to its pre-paid milk price to farmer owners as they face significant production cost increases in feed, fertilizer, and fuel but the continued global volatility has resulted in a declining global milk supply despite a stable demand.

Total Arla Group revenue was EUR 6.38 billion for first half of 2022 (up 17 per cent compared to EUR 5.44 billion in first half of 2021) driven almost exclusively by significant price increases in Arla's retail and food service and commodity trading businesses. Following two years of exceptional branded growth in retail, as expected, branded volume revenue growth slowed down to -0.1 per cent. Arla's performance price – which measures the value created per kilogram of owner milk – was 49.6 eurocent. Profit share was 3 per cent and in line with the cooperative's new retainment policy, Arla will pay out its first ever half year supplementary payment to farmer owners of 1 EUR-cent per kg of milk based on the milk volumes delivered in the first half of 2022.

Much needed increases in pre-paid milk price

Arla average pre-paid milk price to farmer owners increased 30.9 per cent in the first half of 2022 compared to the same period 2021 with further increases over the summer. However, this has yet to secure an increase in milk production due to the continued and significant increase in on-farm costs and uncertainty created by the current global market conditions. As examples, the prices of fertilizer have increased 145%, fuel by 134% and feed by 36% on average while global inflation is forecasted at 7.7 per cent for 2022.

Arla's milk volume decreased to 6.8 billion kg compared to 7.0 billion kg in the same period last year, in line with global trends.

"It is an extraordinary time for both our farmer owners and the company as food and farming industries experience high levels of exposure to inflationary pressure. I am pleased that we have been able to move the pre-paid milk price up for our farmer owners to help them with their increased production costs. We are now also able to deliver on our first ever half year supplementary payment to support future investments in sustainable actions on their farms," says Arla Foods CEO, Peder Tuborgh.

Expected slowdown in brand performance

In the first half of 2022, Arla's strategic brands delivered revenue growth of 12.7 per cent to EUR 2,985 million mainly due to price increases. As expected, branded volume growth declined -0.1 percent in retail as consumers adjust their purchasing. The Arla® brand maintained its performance with -0.1 per cent volume growth, delivering a revenue of EUR 1,775 million. After 2 years of very high performance, Lurpak® delivered increased revenue of EUR 347 million, but volumes were negatively impacted with a -5.9 per cent decline.

Starbucks® outperformed expectations at 19.5 per cent due to growing in-home and on-the-go consumption and new market opportunities.

"The impact of Russia's invasion of Ukraine has, in addition to the humanitarian costs, added substantial pressure on global markets, supply chains and businesses, leading to an intense inflationary environment for our and many other industries. The current supply shortage resulted in the commodity market being



more profitable than retail and put further pressure on our retail margins in the first half of 2022, which we expect will continue the rest of the year,” says CFO of Arla Foods, Torben Dahl Nyholm.

Arla’s Food Service business continued to bounce back from the pandemic in both its Europe and International zones and delivered branded volume growth above pre-Covid levels of 19 per cent mainly driven by the Danish and UK markets and by the Arla® Pro and Lurpak® brands.

In Arla’s European and UK business segment, revenue increased to EUR 3,535 million compared to EUR 3,199 million in the same period last year. Arla continued to maintain its competitiveness despite branded volume driven growth declining -2.1 per cent as result of the current market conditions.

Arla’s International business segment increased revenue to EUR 1,226 compared to EUR 1,037 million in the same period last year, seeing healthy growth of strategic brands of 3,8 per cent driven mainly by markets such as Middle East and North Africa (MENA), Southeast Asia (SEA) and Rest of World (RoW).

AFI experienced a continued high demand for its specialised whey protein and lactose products and delivered a robust first half year performance. Revenue was at EUR 460 million compared to EUR 387 million in the same period last year.

Global Industry Sales division grew strongly fuelled by high commodity prices delivering revenue of EUR 1,161 million compared to EUR 818 million in the first half of 2021.

Arla’s transformation and efficiencies programme called Fund our Future delivered net savings of EUR 72 million.

Arla stays committed to lead sustainable dairy production

In the first half of 2022, Arla announced the endorsement from the Science Based Target initiative, confirming that its sustainability targets and plans are consistent with what is required to meet the Paris Agreement target of limiting global warming to below 1.5 degrees. Arla also signed its first major Power Purchase Agreement to build four new solar parks with an expected capacity of 250 GWh.

On-farm, Arla started a large-scale pilot with the methane reducing feed additive Bovaer® with 10,000 dairy cows across more than 50 farms in three countries.

Outlook for 2022

With on-going inflationary pressure and political unrest negatively impacting global growth, Arla expects the second half of 2022 to be even more challenging as the global milk production is expected to decline further and contribute to sustained high dairy prices, which will likely further diminish consumer confidence and consumption.

Arla is adjusting its expectations for full year 2022 with revenue in the range of EUR 13.5-14.0 billion, its branded sales volumes growth to -2.0 - -3.0 per cent. Year-end leverage expectations are 2.7-3.1 and net profit share 2.8-3.0 per cent.

“2022 continues to be characterized by volatility and inflation, exacerbated by Russia’s invasion of Ukraine. Changes in consumer behavior continue to be multifaceted and difficult to predict and we expect our branded growth will slow down further. As a cooperative, we remain committed to be in a position to pay out the second instalment of our planned full year supplementary payment of a total of at least 1.5 EURcent per kilo of milk to our farmer owners ,” says Peder Tuborgh.

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Income statement

(EURm)	Note	H1 2022	H1 2021	Development	2021
Revenue	1.1	6,382	5,441	17%	11,202
Production costs	1.2	-5,090	-4,287	19%	-8,822
Gross profit		1,292	1,154	12%	2,380
Sales and distribution costs	1.2	-848	-734	16%	-1,573
Administration costs	1.2	-206	-207	0%	-427
Other operating income		61	49	24%	110
Other operating costs		-74	-31	139%	-75
Share of results after tax in joint ventures and associates	3.1	27	21	29%	53
Earnings before interest and tax (EBIT)		252	252	0%	468
Specification:					
EBITDA		485	485	0%	948
Depreciation, amortisation and impairment losses	1.2	-233	-233	0%	-480
Earnings before interest and tax (EBIT)		252	252	0%	468
Financial income		10	8	25%	14
Financial costs		-32	-49	-35%	-75
Profit before tax		230	211	9%	407
Tax		-31	-39	-21%	-61
Profit for the period		199	172	16%	346
Allocated as follows:					
Arla Foods amba's share of profit for the year		192	165	16%	332
Non-controlling interests		7	7	0%	14
Total		199	172	16%	346

Comprehensive income

(EURm)	Note	H1 2022	H1 2021	2021
Profit for the period		199	172	346
Other comprehensive income				
Items that will not be reclassified to the income statement:				
Remeasurements of defined benefit schemes		47	12	-3
Tax on remeasurements of defined benefit schemes		-10	-3	10
Items that may be reclassified subsequently to the income statement:				
Value adjustments of hedging instruments		213	13	39
Fair value adjustment of certain financial assets		-	-1	-1
Adjustments related to foreign currency translation		21	87	127
Tax on items that may be reclassified to the income statement		-	-	-1
Other comprehensive income, net of tax		271	108	171
Total comprehensive income		470	280	517
Allocated as follows:				
Owners of Arla Foods amba		463	273	503
Non-controlling interests		7	7	14
Total		470	280	517



Balance sheet

(EURm)	Note	H1 2022	H1 2021	Development	2021
Assets					
Non-current assets					
Intangible assets and goodwill	3.1	942	951	-1%	946
Property, plant, equipment and right of use assets	3.1	3,036	2,960	3%	3,072
Investments in associates and joint ventures	3.1	572	507	13%	530
Deferred tax		23	20	15%	21
Pension assets	4.1	90	59	53%	69
Other non-current assets		29	30	-3%	30
Total non-current assets		4,692	4,527	4%	4,668
Current assets					
Inventory	2.1	1,613	1,203	34%	1,248
Trade receivables	2.1	1,153	947	22%	1,007
Derivatives		271	20	1255%	74
Other receivables		362	279	30%	285
Securities		437	426	3%	434
Cash and cash equivalents		130	124	5%	97
Total current assets		3,966	2,999	32%	3,145
Total assets		8,658	7,526	15%	7,813

(EURm)	Note	H1 2022	H1 2021	Development	2021
Equity and liabilities					
Equity					
Common capital		2,107	1,973	7%	2,062
Individual capital		510	500	2%	542
Other equity accounts		280	-19	1574%	46
Unallocated profit for the period		129	165	-22%	-
Supplementary payment to owners		63	-		207
Equity attributable to the owners of Arla Foods amba		3,089	2,619	18%	2,857
Non-controlling interests		58	48	21%	53
Total equity		3,147	2,667	18%	2,910
Liabilities					
Non-current liabilities					
Pension liabilities	4.1	201	233	-14%	245
Provisions		27	25	8%	24
Deferred tax		80	74	8%	64
Loans		2,140	2,189	-2%	2,113
Total non-current liabilities		2,448	2,521	-3%	2,446
Current liabilities					
Loans		1,097	767	43%	628
Trade and other payables	2.1	1,541	1,184	30%	1,445
Provisions		15	22	-32%	18
Derivatives		80	40	100%	86
Other current liabilities		330	325	2%	280
Total current liabilities		3,063	2,338	31%	2,457
Total liabilities		5,511	4,859	13%	4,903
Total equity and liabilities		8,658	7,526	15%	7,813

Cash flow

(EURm)	Note	H1 2022	H1 2021	2021
EBITDA		485	485	948
Reversal of share of results in joint ventures and associates	3.1	-27	-21	-53
Reversal of other operating items without cash impact		-26	-29	-80
Change in net working capital	2.1	-375	-274	-90
Change in other receivables and other current liabilities		-34	144	103
Dividends received, joint ventures and associates		-	9	24
Interest paid		-25	-24	-45
Interest received		3	3	8
Taxes paid		-30	-19	-35
Cash flow from operating activities		-29	274	780
Investment in intangible fixed assets	3.1	-36	-26	-45
Investment in property, plant and equipment	3.1	-144	-194	-452
Sale of property, plant and equipment		4	13	13
Operating investing activities		-176	-207	-484
Acquisition of financial assets		-9	-8	-26
Sale of financial assets		9	7	14
Sale of enterprises		-	-	14
Financial investing activities		-	-1	2
Cash flow from investing activities		-176	-208	-482
Supplementary payment regarding the previous financial year		-211	-228	-227
Transactions with owners		-22	-18	-18
Transactions with non-controlling interests		-3	-8	-6
New loans obtained		248	256	172
Other changes in loans		267	-17	-147
Payment of lease debt		-34	-35	-73
Payment to pension plans		-11	-19	-31
Cash flow from financing activities		234	-69	-330
Net cash flow		29	-3	-32

(EURm)	Note	H1 2022	H1 2021	2021
Cash and cash equivalents at 1 January		97	126	126
Net cash flow for the period		29	-3	-32
Exchange rate adjustment of cash funds		4	1	3
Cash and cash equivalents at 30 June		130	124	97
Free operating cash flow				
Cash flow from operating activities		-29	274	780
Operating investing activities		-176	-207	-484
Free operating cash flow		-205	67	296
Free cash flow				
Cash flow from operating activities		-29	274	780
Cash flow from investing activities		-176	-208	-482
Free cash flow		-205	66	298

Operating cash flow impacted by higher milk prices

Cash flow from operating activities decreased by EUR 303 million to EUR -29 million compared to EUR 274 million in the first half of last year. While EBITDA was on the same level as first half of last year, more cash was tied up in the net working capital positions, driven by higher milk prices and inflation.

Cash flow from investing activities amounted to EUR -176 million compared to EUR -208 million in the same period last year.

Free cash flow for the half-year totalled EUR -205 million re-presenting a decrease of EUR 271 million compared to same period last year.

Cash flow from financing activities amounted to EUR 234 million compared to EUR -69 million last year. The increase was driven by new loans and higher usage of credit facilities to facilitate the decrease in free cash flow and the supplementary payment for 2021.

Cash and cash equivalents amounted to EUR 130 million, compared to EUR 124 million at the end of the same period last year.