



## **Announcement to stock exchanges**

### **Arla Foods growth stays on track despite volatile market conditions**

**The European dairy cooperative delivered a solid performance throughout 2021 despite continued disruptions from the pandemic and renewed market volatility created by high inflation. The company delivered branded growth and returns to its farmer owners at the top end of expectations.**

Total Arla Group revenue increased by 5.6 per cent to EUR 11.2 billion (compared to EUR 10.6 billion in 2020) driven mainly by higher sales prices and strategic branded sales growth of 4.5 per cent.

Arla's performance price – which measures the value Arla Foods creates per kilogram of owner milk – was 39.7 eurocent in 2021 compared to 36.5 eurocent in 2020.

Arla's farmer owners were again challenged throughout 2021 due to rising costs and additional requirements on their farms. Arla maintained a competitive pre-paid milk price that increased by 23% throughout the year.

To support the investment levels that will be required by both Arla and its farmer owners to deliver on the company's new five-year strategy, Future26, in 2021, the Board of Representatives approved a new retainment policy proposed by the Board of Directors. The new policy increases the supplementary payments to farmer owners to 1.5 eurocent per kilo of milk instead of 1.0 eurocent per kilo of milk, provided the company achieves an annual net profit of at least 2.8% of revenue.

"2021 was a tough year on farms as both our members and company were impacted by the continued effects of the pandemic and rapidly rising production costs. As such, I am proud that our company has been able to deliver a performance price that puts Arla among the market leaders in Europe and that supports our farmer owners. Thanks to the dedicated efforts of farmers, employees and management, we successfully navigated this challenging environment and secured a high value for our milk," says Arla Foods Chairman, Jan Toft Nørgaard.

### **Dairy products popular in both physical and virtual shopping baskets**

Retail sales in 2021 again reached the top end of expectations and Arla's strategic brands delivered 4.5 per cent branded volume growth. Arla met the continued high consumer demand for in-home dairy products seeing Arla®, Castello® and Starbucks® exceeding their unprecedented branded growth in 2020 and Lurpak® gaining market shares in both Denmark and UK.

Arla increased investments in its e-commerce business underpinned a 17 per cent growth in online channels.

"Our strategic brands performed exceptionally well in 2021 as consumer appetite for high quality, natural nutritious dairy products remained strong around the world. Month on month, we managed sales and operations firmly to maintain product availability amidst fluctuating demand between in-home consumption, dining out and on-the-go as lockdowns eased and we returned to the workplace," says Arla Foods CEO, Peder Tuborgh.



## **Growth in commercial segments**

Arla divides its business into 4 commercial segments.

Arla Europe increased revenue to EUR 6,621 million compared to EUR 6,413 million in 2020 and continued to gain market shares in the majority of the European markets with a strong branded portfolio, delivering year on year market share improvement of 0,3% across categories and despite fewer in-home meal occasions as lockdowns lifted. Arla Europe delivered an overall branded volume driven growth of 2.3 per cent on top of last year's exceptional growth of 5.9 per cent, with Arla®, Starbucks® and Castello® all delivering robust growth. From a market perspective, the UK and the combined region of The Netherlands, Belgium and France increased their branded volume driven growth by 3.8 per cent and 8.4 percent respectively.

Arla's European Foodservice business captured the opportunities with strong delivery, key account management and agility as the hospitality sector re-opened in many countries and delivered 7.8 per cent branded volume growth.

Arla International delivered branded volume driven growth of 9.1 per cent on top of last year's 11.6 per cent. In addition to pricing, International grew market share in key positions for Puck® in the Middle East and North Africa (MENA) where it became the number one spreadable cheese brand and for Arla® Dano in Bangladesh, which won best milk brand for the 7<sup>th</sup> year in a row.

To support continued growth and expansion plans for the MENA region, Arla invested in its production capabilities for processed cheeses, on-the-go Starbucks® and Puck® cooking cream and sauces in its sites in Bahrain and Saudi Arabia. Overall, International revenue increased to EUR 2,101 million compared to EUR 1,975 million in 2020.

Arla Foods Ingredients (AFI), a 100 per cent owned subsidiary of Arla, grew its value-add segment by 14.5 per cent and delivered increased revenue of EUR 794 million compared to EUR 716 million in 2020. Significant increases in raw material and energy prices challenged margins.

Due to strong global demand and price increases, especially in the second half of 2021, Global Industry Sales increased revenue of EUR 1,686 million compared to EUR 1,541 million, despite a lower share of milk due to increased sales through Arla's retail channels.

"2021 was another year defined by Covid-19 and although the global economy recovered much faster than expected, the volatility of the dairy market and high inflation put pressure on us and our farmer owners. With strong operational execution we successfully navigated the global challenges, strengthened our financial position, and grew our brands, while delivering savings across our supply chain," says Arla Foods CFO, Torben Dahl Nyholm.

Arla's transformation and cost savings programme Calcium concluded in 2021 and delivered sustainable operational efficiencies across the organization, such as optimizing supply chain and insourcing marketing activities. Excluding inflation, the programme delivered EUR 634 million in savings. Net savings came under pressure in 2021 due to unprecedented inflation, resulting in overall net savings for the Calcium programme of EUR 287 million.

## **Sustainability actions embedded across the value chain**

In 2021, Arla continued its ambitious sustainability journey and received approval from the Science Based Target Initiative for its new emissions reductions target of 63 per cent by 2030 for scope 1 and 2



as consistent with reductions required to keep global warming to 1.5 degrees. The existing 30 per cent target for scope 3 continues to meet the SBTi's criteria for ambitious value chain goals in line with current best practice.

Arla completed the second round of Climate Checks on farm and stepped up its efforts to utilize farm data, advisory services and ongoing research and pilot farm trials to make more knowledge and solutions available for its farmer owners. Farmer owners that produce green electricity were also given the opportunity to help power their own cooperative by selling their Guarantees of Origins to Arla at a competitive price.

From a 2015 baseline year, Arla has reduced its climate impact for scope 1 and 2 by 25 per cent. Arla's farmer owners continue to be among the most climate efficient dairy farmers in the world, producing milk with an average of 1.15 kg CO<sub>2</sub>e per kilo of milk, keeping scope 3 on par at 7 per cent.

### **Outlook for 2022**

Arla expects inflation and volatility to continue to impact the business and other sectors well into 2022. Commenting on the effects of this, Peder Tuborgh says:

“The impact on consumer behavior of on-going market volatility and high inflation will be multifaceted and difficult to predict. It is likely that we will see a slowdown in our branded growth as the market resettles at a new level. Our cooperative stands on a strong foundation and as we have demonstrated in 2020 and 2021, we will continue our strong operational execution throughout our supply chain to meet any new demands and requirements in this uncertain environment.”

Arla plans to invest EUR 600 million in 2022, mainly in structural investments such as expanding Starbucks production capacity at Esbjerg Dairy in Denmark, finalizing the powder tower in Pronsfeld in Germany and the mozzarella expansion at Branderup dairy in Denmark, along with production expansions in AFI's production sites. Arla also plans to invest in further digitalization solutions in supply chain.

Group revenue outlook for 2022 is expected to be EUR 11.8-12.4 billion, net profit share will be in the range of 2.8 to 3.2 per cent and leverage is expected to be in the target range of 2.5-2.9.

Arla will publish its Annual report, ESG report and CSR report on February 24<sup>th</sup>.

### **Annual Results 2021 key figures:**

#### **Group revenue**

EUR 11.2 billion

#### **Performance price**

39.7 eurocent/kg

#### **Milk volume**

13.6 billion kg

#### **Net profit share**

3.0 per cent



### **Calcium savings**

EUR 155 million excl. inflation

### **Leverage**

2.6

### **Overall strategic branded volume driven revenue growth**

4.5 per cent

Includes Lurpak® Arla ® Puck® Castello® Starbucks®

#### **Arla ®**

Arla® is the largest strategic brand based on revenue and an umbrella brand with diverse and successful sub-brands covering milk, yoghurt, cream, powder and cheese. Arla® delivered volume driven brand growth of 4.4 per cent and increased revenue to EUR 3,359 compared to 3,116 in 2020

#### **Lurpak®**

Lurpak® is the leading butter and spreadable brand in Denmark, the UK and MENA and sold in 95 countries. Lurpak® increased revenue to EUR 646 million compared to EUR 628 million in 2020 and delivered volume driven brand growth of 0.5 per cent

#### **Puck®**

Arla's strong Middle East brand and number one brand in spreadable cheese in MENA. Puck® grew brand share and delivered volume driven brand growth of 2.7 per cent. Revenue decreased slightly to EUR 383 million compared to EUR 403 million in 2020 due to exchange rate effects.

#### **Castello®**

Ramped up its digital content focusing on millennials and cooking with cheese. Castello® delivered a volume driven branded growth of 6.1 per cent and increased revenue to EUR 192 million compared to EUR 172 million in 2020.

#### **Starbucks®**

The licensed brand Starbucks® ready-to-drink coffee assortment reached 250 million units sold. Starbucks® delivered volume driven brand growth of 33.8 per cent compared to 27.3 per cent in 2020.

# INCOME STATEMENT

(EURm)	Note	2021	2020	Develop- ment, %
Revenue	1.1	11,202	10,644	5
Production costs	1.2	-8,822	-8,301	6
<b>Gross profit</b>		<b>2,380</b>	<b>2,343</b>	<b>2</b>
Sales and distribution costs	1.2	-1,573	-1,483	6
Administration costs	1.2	-427	-439	-3
Other operating income	1.3	110	61	80
Other operating costs	1.3	-75	-52	44
Share of results after tax in joint ventures and associates	3.3	53	28	89
<b>Earnings before interest and tax (EBIT)</b>		<b>468</b>	<b>458</b>	<b>2</b>
<i>Specification:</i>				
<i>EBITDA</i>		948	909	4
<i>Depreciation, amortisation and impairment</i>	1.2	-480	-451	6
<b>Earnings before interest and tax (EBIT)</b>		<b>468</b>	<b>458</b>	<b>2</b>
Financial income	4.2	14	7	100
Financial costs	4.2	-75	-79	-5
<b>Profit before tax</b>		<b>407</b>	<b>386</b>	<b>5</b>
Tax	5.1	-61	-34	79
<b>Profit for the year</b>		<b>346</b>	<b>352</b>	<b>-2</b>
<b>Allocated as follows:</b>				
Owners of Arla Foods amba		332	345	-4
Non-controlling interests		14	7	100
<b>Total</b>		<b>346</b>	<b>352</b>	<b>-2</b>

# COMPREHENSIVE INCOME

(EURm)	Note	2021	2020
<b>Profit for the year</b>		<b>346</b>	<b>352</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to the income statement:</b>			
Remeasurements of defined benefit schemes	4.7	-3	5
Tax on remeasurements of defined benefit schemes		10	4
<b>Items that may be reclassified subsequently to the income statement:</b>			
Value adjustments of hedging instruments	4.4	39	41
Fair value adjustments of certain financial assets		-1	-3
Adjustments related to foreign currency translation		127	-84
Tax on items that may be reclassified to the income statement		-1	-
<b>Other comprehensive income, net of tax</b>		<b>171</b>	<b>-37</b>
<b>Total comprehensive income</b>		<b>517</b>	<b>315</b>
<b>Allocated as follows:</b>			
Owners of Arla Foods amba		503	308
Non-controlling interests		14	7
<b>Total</b>		<b>517</b>	<b>315</b>

# BALANCE SHEET

(EURm)	Note	2021	2020	Development, %	(EURm)	Note	2021	2020	Development, %
<b>Assets</b>					<b>Equity and liabilities</b>				
<b>Non-current assets</b>					<b>Equity</b>				
Intangible assets and goodwill	3.1	946	931	2	Common capital		2,062	1,968	5
Property, plant, equipment and right of use assets	3.2	3,072	2,915	5	Individual capital		542	513	6
Investments in associates and joint ventures	3.3	530	470	13	Other equity accounts		46	-118	-139
Deferred tax	5.1	21	29	-28	Proposed supplementary payment to owners		207	223	-7
Pension assets	4.7	69	40	73	<b>Equity attributable to the owners of Arla Foods amba</b>		<b>2,857</b>	<b>2,586</b>	<b>10</b>
Other non-current assets		30	28	7	Non-controlling interests		53	53	0
<b>Total non-current assets</b>		<b>4,668</b>	<b>4,413</b>	<b>6</b>	<b>Total equity</b>		<b>2,910</b>	<b>2,639</b>	<b>10</b>
<b>Current assets</b>					<b>Liabilities</b>				
Inventory	2.1	1,248	1,080	16	<b>Non-current liabilities</b>				
Trade receivables	2.1	1,007	811	24	Pension liabilities	4.7	245	247	-1
Derivatives	4.5	74	57	30	Provisions	5.2	24	21	14
Other receivables	2.1	285	424	-33	Deferred tax	5.1	64	64	0
Securities	4.5	434	420	3	Loans	4.3	2,113	1,964	8
Cash and cash equivalents		97	126	-23	<b>Total non-current liabilities</b>		<b>2,446</b>	<b>2,296</b>	<b>7</b>
<b>Total current assets</b>		<b>3,145</b>	<b>2,918</b>	<b>8</b>	<b>Current liabilities</b>				
<b>Total assets</b>		<b>7,813</b>	<b>7,331</b>	<b>7</b>	Loans	4.3	628	695	-10
					Trade and other payables	2.1	1,445	1,212	19
					Provisions	5.2	18	25	-28
					Derivatives	4.5	86	66	30
					Other current liabilities		280	398	-30
					<b>Total current liabilities</b>		<b>2,457</b>	<b>2,396</b>	<b>3</b>
					<b>Total liabilities</b>		<b>4,903</b>	<b>4,692</b>	<b>4</b>
					<b>Total equity and liabilities</b>		<b>7,813</b>	<b>7,331</b>	<b>7</b>

# CASH FLOW

(EURm)	Note	2021	2020	(EURm)	Note	2021	2020
EBITDA		948	909	Supplementary payment regarding the previous financial year		-227	-127
Reversal of share of results in joint ventures and associates	3.3	-53	-28	Transactions with owners		-18	-22
Reversal of other operating items without cash impact		-80	53	Transactions with non-controlling interests		-6	-18
Change in net working capital	2.1	-90	4	New loans obtained	4.3.c	172	149
Change in other receivables and other current liabilities		103	-137	Other changes in loans	4.3.c	-147	-173
Dividends received, joint ventures and associates		24	8	Payment of lease debt	4.3.c	-73	-66
Interest paid		-45	-53	Payment to pension plans	4.3.c	-31	-36
Interest received		8	3	<b>Cash flow from financing activities</b>		<b>-330</b>	<b>-293</b>
Taxes paid	5.1	-35	-28	<b>Net cash flow</b>		<b>-32</b>	<b>-50</b>
<b>Cash flow from operating activities</b>		<b>780</b>	<b>731</b>	Cash and cash equivalents at 1 January		126	187
Investment in intangible fixed assets	3.1	-45	-53	Exchange rate adjustment of cash funds		3	-11
Investment in property, plant and equipment	3.2	-452	-478	<b>Cash and cash equivalents at 31 December</b>		<b>97</b>	<b>126</b>
Sale of property, plant and equipment	3.2	13	19				
Operating investing activities		-484	-512				
Acquisition of financial assets		-26	-5				
Sale of financial assets		14	22				
Sale of enterprises		14	7				
Financial investing activities		2	24				
<b>Cash flow from investing activities</b>		<b>-482</b>	<b>-488</b>				
						<b>2021</b>	<b>2020</b>
				<i>Free operating cash flow</i>			
				<i>Cash flow from operating activities</i>		780	731
				<i>Operating investing activities</i>		-484	-512
				<b>Free operating cash flow</b>		<b>296</b>	<b>219</b>
				<i>Free cash flow</i>			
				<i>Cash flow from operating activities</i>		780	731
				<i>Cash flow from investing activities</i>		-482	-488
				<b>Free cash flow</b>		<b>298</b>	<b>243</b>