



Announcement to stock exchanges

Home consumption drives growth in Arla's brands during pandemic

In a year of volatility and global disruption due to COVID-19, the farmer owned European dairy cooperative Arla quickly reshaped the business to meet the spike in home consumption and high demand for trusted household dairy products while offsetting negative impacts in other sectors.

In 2020 Arla grew global branded sales volumes with 7.7 percent due to the cooperatives global portfolio of popular brands such as Arla® and Lurpak® and strong market positions. Despite revenue losses in Food Service and Global Industry Sales, total group revenue was EUR 10.6 billion (compared to EUR 10.5 billion in 2019.)

Due to the strong financial position, Arla's Board of Directors has proposed to the Board of Representatives to pay out 1.75 eurocent per kg milk for the supplementary payment which is 0.75 eurocent higher than the standard 1.00 eurocent per kg milk.

Arla's pre-paid milk price to farmer owners was kept relatively stable compared to the volatility seen across the dairy industry. However, 2020 was a challenging year for many Arla farmers due to tough cost environments and added complexities on farms.

Arla's performance price - which measures the value Arla creates per kilogram of owner milk - was 36.9 eurocent in 2020 compared to 36.6 eurocent in 2019.

"The Arla pre-paid milk price to our farmer owners has been kept at a competitive and relatively stable level throughout 2020 compared to our peers, and the Board of Directors is very pleased to be able to also propose a higher supplementary payment to the Board of Representatives due to our cooperative's 2020 results. That said, we fully recognise that farmers are facing increasing production costs and additional requirements. This is a challenge across Europe that needs to be met by actions across the dairy industry and its wider stakeholder group," says Arla Foods Chairman Jan Toft Nørgaard.

In-home consumption drove demand

As consumers were forced to stay home for much of the year, the number of family meal occasions increased significantly, and many consumers turned to cooking and baking. This boosted sales of Arla's global brands Lurpak®, Arla® and Puck® that delivered strategic branded volume growth of 14.6 per cent, 3.0 per cent and 11.7 per cent respectively.

"This is without doubt the most challenging crisis Arla has ever operated within. Due to the cooperatives agility, we were able to reshape our business and redirect large milk volumes almost overnight to meet the increased demand for our quality household dairy products, while minimizing the negative impact from other market sectors such as foodservice.

Thanks to our farmer owners and our employees we have been able to play our part in maintaining food supply and I am extremely proud that we have been able to provide safe working conditions for our people, of the service levels we have provided to our customers and of the results we have delivered," says Arla Foods CEO Peder Tuborgh.

The significant increase in retail offset the overall declines in Arla's foodservice and global industry sales business. Foodservice sales saw an initial drop of 45 per cent in the Spring of 2020, then quickly regained momentum over the summertime, weathering the second and third waves of COVID-19 with further shutdowns of workplaces and across the hospitality sector. Arla's branded foodservice business in Europe was overall 12 per cent down from 2019.



Growth in commercial segments

Arla focuses its activities on four commercial segments. Despite global logistics and supply chain challenges due to COVID-19, both the Europe and International segments strengthened the quality of business, gained market positions and grew core brands due to retail demand and e-commerce sales in 2020.

Arla Europe represents 60 per cent of the business and delivered overall branded volume driven growth of 5.9 per cent driven mainly by Lurpak®, Arla® and Starbucks® and with highest branded growth in the UK, Germany and the Netherlands. Overall Europe revenue increased to EUR 6,413 million compared to EUR 6,353 million in 2019.

Arla International represents 19 per cent of the business and delivered branded volume driven growth of 11.6 per cent driven mainly by Lurpak®, Puck® and Starbucks®. Particularly the MENA region delivered branded volume driven growth of 20.1 per cent. Overall revenue increased to EUR 1,975 million compared to EUR 1,802 million last year.

Arla Foods Ingredients (AFI) a 100 per cent owned subsidiary of Arla, increased the value-add ingredient business driven by growth in the Pediatrics and Medical Nutrition segments. The food segment and Child Nutrition Manufacturing business delivered slightly below 2019 levels due to COVID-19 impact and delays. Overall AFI revenue increased to EUR 716 million compared to EUR 710 million in 2019.

As a result of increased sales in retail, Global Industry Sales, (formerly Trading), which is business-to-business commodity sales, experienced weakened prices along with a decrease in the overall share of milk sold by 2.3 percentage points compared to 2019. Revenue therefore decreased to EUR 1,541 million from EUR 1,662 million.

Transforming the business despite crisis

Arla's transformation and efficiencies programme Calcium secured savings of EUR 130 million, primarily from supply chain efficiencies and optimized marketing spend, but also due to reduced expenses as many office employees worked from home. The accumulated Calcium savings are now EUR 354 million since the launch in 2018 with the end goal of EUR +400 million in sustainable savings by the end of 2021.

"Over the last three years we have transformed the way we work, spend and invest across Arla. This transformation was put to the test when the COVID-19 crisis impacted the world, but today it is very clear that the work the business has done through Calcium helped us to successfully handle the sudden and very challenging disruptions such as COVID-19. It has shown how far we have come and how the transformation has become a natural part of our DNA and our ways of working," says CFO Torben Dahl Nyholm.

Arla continues sustainability journey

In 2020 Arla took further sustainability action across its value chain, including packaging, moving from fossil to renewable energies in its supply chain and piloting new technologies in its logistics fleet. The most prominent step forward was the implementation of Climate Checks on 93 per cent of all Arla farms across seven European countries. The climate data delivered by farmer owners creates one of the world's biggest externally verified climate datasets on milk production and will help farmers benchmark and inspire each other in their work to lower their emissions even more.

"Arla's farmer owners are already among the most climate efficient in the world and we are committed to creating a sustainable future for dairy farming. The Climate Checks programme creates a solid foundation for us to accelerate our transition and I am very proud that so many of my colleagues are participating in this very important work and together are creating such strong results," says Chairman Jan Toft Nørgaard.



Expectations for 2021

2021 is expected to be another challenging year as COVID-19 continues to impact the global dairy industry, the global economy and people's livelihoods around the world. Arla expects core brands to continue to deliver branded volume growth, but at a more modest rate than in 2020.

2021 will also be the first year with the new Free Trade Agreement between the EU and the UK, which removed significant risk to Arla. The business has a range of plans in place and is well prepared to handle the non-tariff barriers in the new agreement.

Arla plans to invest EUR 700 million in 2021 driven by structural investments, Calcium initiatives and Arla's sustainability agenda. Major projects include the completion of the powder tower in Pronsfeld, Germany, continuing the mozzarella capacity increase project in Branderup, Denmark, and upgrades to the production site in Bahrain, as well a continuation of strategic investments in AFI.

"2021 will be another year of uncertainty and global disruption as the COVID-19 crisis stretches into the year and the first signs of a recession are starting to show. We need to be vigilant in ensuring the health and safety of our people and farmer owners while securing business continuity and growth. But it is also a year where we hopefully will see the world open up again as vaccines are rolled out so I am cautiously optimistic for 2021," says CEO Peder Tuborgh.

Group revenue outlook for 2021 is expected to be EUR 10.3-10.6 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 lower end of target range of 2.8-3.4. Arla will publish its Annual report and CSR report on February 25th.

Annual Results 2020 key figures:

Group revenue

EUR 10.6 billion

Performance price

36.9 eurocent/kg

Milk volume

13.7 billion kg

Net profit share

3.2 per cent

Calcium savings

EUR 130 million

Leverage

2.7

Strategic brands

Overall strategic branded volume driven revenue growth

7.7 per cent

Lurpak®

The main driver of the volume driven branded growth, delivering 14.6 per cent growth. Lurpak® increased revenue to EUR 638 million compared to 588 million in 2019.



Arla®

Strengthened its sustainability trait by introducing carbon compensated milk in Denmark, launching carbon reduced and recyclable packaging solutions across markets and continued to build on its premium organic position in China and the Middle East.

Arla® delivered 3.0 per cent volume driven brand growth and increased revenue to EUR 3,116 million compared to EUR 3,033 million in 2019.

Puck®

Arla's strong Middle East brand. During lock down Puck® quickly adjusted its marketing and communications to successfully focus more on inspiration for in home cooking.

Puck® grew brand share and delivered 11.7 per cent volume driven brand growth and a revenue increase to EUR 427 million compared to EUR 363 million in 2019.

Castello®

Ramped up its digital content focusing on millennials. The brand more than tripled the number of consumer engagements and delivered a branded growth of 2.2 per cent. Due to lower prices revenue decreased slightly to EUR 177 million compared to EUR 179 million in 2019.

Milk Based Beverages (MBB)

Includes strong brands such as Cocio®, Mathilde® and the licensed brand Starbucks®. Despite decline in on-the-go products due to lockdowns, Starbucks® delivered volume driven brand growth of 27.9 per cent. Overall revenue for MBB increased to EUR 232 million compared to EUR 207 million in 2019.

INCOME STATEMENT

(EURm)	Note	2020	2019	Development, %
Revenue	1.1	10,644	10,527	1
Production costs	1.2	-8,301	-8,325	0
Gross profit		2,343	2,202	6
Sales and distribution costs	1.2	-1,483	-1,416	5
Administration costs	1.2	-439	-389	13
Other operating costs	1.3	-52	-64	-19
Other operating income	1.3	61	39	56
Share of results after tax in joint ventures and associates	3.4	28	34	-18
Earnings before interest and tax (EBIT)		458	406	13
<i>Specification:</i>				
<i>EBITDA</i>		909	837	9
<i>Depreciation, amortisation and impairment losses</i>	1.2	-451	-431	5
Earnings before interest and tax (EBIT)		458	406	13
Financial income	4.2	7	10	-30
Financial costs	4.2	-79	-69	14
Profit before tax		386	347	11
Tax	5.1	-34	-24	42
Profit for the year		352	323	9
Non-controlling interests		-7	-12	-42
Arta Foods amba's share of profit for the year		345	311	11

COMPREHENSIVE INCOME

(EURm)	Note	2020	2019
Profit for the year		352	323
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Re-measurements of defined benefit schemes	4.7	5	-50
Tax on remeasurements of defined benefit schemes		4	11
Items that may be reclassified subsequently to the income statement:			
Value adjustments of hedging instruments	4.4	41	-22
Fair value adjustments of certain financial assets		-3	-2
Adjustments related to foreign currency translation		-84	42
Tax on items that may be reclassified to the income statement		0	-1
Other comprehensive income, net of tax		-37	-22
Total comprehensive income		315	301
Allocated as follows:			
Owners of Arta Foods amba		308	289
Non-controlling interests		7	12
Total		315	301

BALANCE SHEET

(EURm)	Note	2020	2019	Development, %
Assets				
Non-current assets				
Intangible assets and goodwill	3.1	931	982	-5
Property, plant, equipment and right of use assets	3.2	2,915	2,710	8
Investments in associates and joint ventures	3.3	470	468	0
Deferred tax	5.1	29	43	-33
Pension assets	4.7	40	16	150
Other non-current assets		28	24	17
Total non-current assets		4,413	4,243	4
Current assets				
Inventory	2.1	1,080	1,092	-1
Trade receivables	2.1	811	889	-9
Derivatives	4.5	57	20	185
Other receivables	2.1	424	240	77
Securities	4.6	420	435	-3
Cash and cash equivalents		126	187	-33
Total current assets		2,918	2,863	2
Total assets		7,331	7,106	3

(EURm)	Note	2020	2019	Development, %
Equity and liabilities				
Equity				
Common capital		1,968	1,894	4
Individual capital		513	498	3
Other equity accounts		-118	-72	64
Proposed supplementary payment to owners		223	127	76
Equity attributable to the owners of Arla Foods amba		2,586	2,447	6
Non-controlling interests		53	47	13
Total equity		2,639	2,494	6
Liabilities				
Non-current liabilities				
Pension liabilities	4.7	247	249	-1
Provisions	3.4	21	23	-9
Deferred tax	5.1	64	81	-16
Loans	4.3	1,964	1,951	1
Total non-current liabilities		2,296	2,304	0
Current liabilities				
Loans	4.3	695	776	-10
Trade and other payables	2.1	1,212	1,158	5
Provisions	3.4	25	9	178
Derivatives	4.5	66	86	-23
Current tax		11	5	120
Other current liabilities		387	274	41
Total current liabilities		2,396	2,308	4
Total liabilities		4,692	4,612	2
Total equity and liabilities		7,331	7,106	3

CASH FLOW

(EURm)	Note	2020	2019
EBITDA		909	837
Reversal of share of results in joint ventures and associates	3.3	-28	-34
Reversal of other operating items without cash impact		75	16
Change in net working capital	2.1	4	79
Change in other receivables and other current liabilities		-159	-37
Dividends received, joint ventures and associates		8	8
Interest paid		-53	-69
Interest received		3	3
Taxes paid	5.1	-28	-30
Cash flow from operating activities		731	773
Investment in intangible fixed assets	3.1	-53	-52
Investment in property, plant and equipment	3.2	-478	-425
Sale of property, plant and equipment	3.2	19	21
Operating investing activities		-512	-456
Sale of financial assets		17	37
Acquisition of enterprises	3.5	0	-168
Sale of enterprises	3.5	7	16
Financial investing activities		24	-115
Cash flow from investing activities		-488	-571

(EURm)	Note	2020	2019
Supplementary payment regarding the previous financial year		-127	-289
Paid in and out from equity regarding individual capital instruments		-22	-24
Paid out to non-controlling interests		-18	-15
Loans obtained, net	4.3.c	-24	295
Payment of lease debt	4.3.c	-66	-66
Payment to pension plans	4.3.c	-36	-37
Cash flow from financing activities		-293	-136
Net cash flow		-50	66
Cash and cash equivalents at 1 January		187	119
Exchange rate adjustment of cash funds		-11	2
Cash and cash equivalents at 31 December		126	187

	2020	2019
<i>Free operating cash flow</i>		
<i>Cash flow from operating activities</i>	731	773
<i>Operating investing activities</i>	-512	-456
<i>Free operating cash flow</i>	219	317
<i>Free cash flow</i>		
<i>Cash flow from operating activities</i>	731	773
<i>Cash flow from investing activities</i>	-488	-571
<i>Free cash flow</i>	243	202