



PRESS RELEASE

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### **Arla delivers turn-around after tough start to 2018**

**After a difficult first quarter, Arla came out of 2018 with improved sales and brand share as the company's performance grew stronger throughout the year. The transformation programme Calcium delivered cost-savings far beyond targets for the year and thanks to a historically strong balance sheet the Board of Directors has proposed to pay out the entire net profit for 2018 to farmer owners.**

Group revenue increased to EUR 10.4 billion (compared to EUR 10.3 billion in 2017 and EUR 9.6 billion in 2016) driven mainly by strong growth in branded sales volumes of 3.1 per cent with a wider range of dairy products to meet consumer needs. Thereby Arla grew its share of branded business to 45,2 per cent, surpassing the long-term target in the Good Growth Strategy 2020 of 45 per cent.

Arla's performance price – which measures the value Arla creates per kilogram of owner milk – rebounded after the first quarter and improved throughout the year, ending at a full-year average of 36.4 for 2018.

### **NET PROFIT TO BE PAID OUT TO FARMER OWNERS**

By the end of 2018 the negative impact of the summer's drought in Europe was registered as expected growth in milk volumes stalled in Europe and Arla's farmer owners faced increasing feed prices. Arla's historically strong balance sheet has allowed the Board of Directors to propose an extraordinary one-time pay-out of the full net profit for 2018 of EUR 290 million to farmer owners. This will be paid out as 2.3 eurocent per kilogram of milk each farmer owner has delivered to the cooperative.

Arla Foods Chairman Jan Toft Nørgaard says, "As a farmer-owned dairy company we care deeply about the livelihood of our farmers and we see how many of our colleagues have been affected by the drought last summer. We have this exceptional opportunity to help them without putting our company Arla at risk and I am proud that we have proposed to do so."

### **CALCIUM DELIVERS BEYOND EXPECTATIONS**

In 2018 Arla regained its competitiveness as the transformation and cost-savings programme Calcium was accelerated as a response to challenging external developments, such as the decline of the British pound and the Swedish krona as well as the historic shift in value between milk fat and protein.

Calcium aims to transform Arla into a leaner and more competitive dairy company by delivering EUR 400+ million of sustainable annual savings by 2021 where EUR 300 million will be invested in a competitive milk price to the farmer owners and EUR 100+ million will be invested back into the company to fund future growth opportunities. In 2018 Calcium delivered significantly above the initial target of EUR 30 million for the year as cost savings of EUR 114 million were achieved.

Commenting on 2018 results, Arla Foods CEO Peder Tuborgh says, “Early in 2018 we took decisive action by ramping up our transformation programme Calcium and I am very happy to be able to say that the whole organization has embraced the journey and therefore we are already substantially changing the way we work, spend and invest in our business. As a result, we improved our performance as a business throughout the year and go into 2019 in a significantly better position than a year ago.”

### **MARKETS DELIVER ON GOOD GROWTH STRATEGY**

To build on its position as a leading global dairy company, Arla focuses its activities on two commercial zones, Europe and International. With a total revenue of EUR 6,507 million and representing 62 per cent of Arla’s total group revenue, core brands in the European Zone performed above expectations and delivered strong branded growth of 2.5 per cent. Especially milk and yoghurts were popular among consumers as Arla® Skyr recorded a 22 per cent sales growth while Arla grew sales of its organic milk line by 2.7 per cent.

While revenue from Arla’s international growth markets outside of Europe were negatively impacted by exchange rates, Arla’s overall international business delivered a 4.6 per cent branded volume driven revenue growth and a total revenue of EUR 1,576 million. The Middle East and North Africa continues to be Arla’s biggest market outside Europe, and Arla’s revenue there grew to a EUR 560 million in 2018 (compared to EUR 549 million in 2017). Arla’s planned acquisition of the Kraft-branded processed cheese business of multinational confectionery, food and beverage company Mondelez is set to significantly strengthen Arla’s position in the Middle East and North Africa region.

“We operate in a global market with fast-changing consumer food trends, political uncertainty and volatility. Despite this, our markets around the world delivered good results that we can build on in 2019. With our Good Growth strategy we are on the right track to strengthen our business in a sustainable way,” says Arla Foods CEO Peder Tuborgh.

### **BRANDED GROWTH AND STRATEGIC MILESTONES**

Arla works to improve its business by continuously moving more farmer owner milk into the company’s own more profitable brands. In 2018 branded sales volumes grew 3.1 per cent and Arla surpassed its long-term 45 per cent brand share goal by reaching 45,2 per cent. The Arla® brand is central to the global business and in 2018 Arla® brand sales grew 0.2 per cent to EUR 3,034 million.

The butter and spreads brand Lurpak® grew revenue 6.3 per cent to EUR 561 million, while Arla’s leading cheese brand in the Middle East and North Africa, Puck®, grew revenue 3.8 per cent to EUR 352 million. Sales of Arla’s speciality cheese Castello® declined 0.6 per cent to EUR 180 million, mainly due to exchange rates. The hot summer in Europe had a positive effect on milk-based beverages sales which grew 10.1 per cent to EUR 248 million.

Arla Foods CFO Natalie Knight says, “Our brands are at the heart of our business and therefore it is of utmost importance that we continue to deliver products that meet consumers demands and

changing eating habits. We are committed to delivering popular brands and innovation, such as nutritious on-the-go products, so consumers continue to be attracted to the Arla brands.”

### **INVESTMENTS AND EXPECTATIONS FOR 2019**

2019 is expected to be another big investment year as a strong balance sheet allows Arla to invest in new technologies and supply chain to succeed in the future with a focus on energy efficiencies and optimizations. Arla plans to invest EUR 458 million in 2019 and main projects include a new powder tower in Pronsfeld, Germany, the expansion and modernization of production sites in northern Europe as well as large investments in Arla Foods Ingredients.

Brexit remains a variable factor in setting the company’s expectations for 2019 as negotiations between the UK and EU progress. Arla continuously monitors and assesses the situation to prepare the business for the various scenarios. Arla continues to make its position clear as a company in favor of free movement of goods and people.

Arla expects to continue to deliver branded growth in both the European and International zones. Group revenue outlook for 2019 is expected to be EUR 10.2-10.6 billion, net profit share is expected in the range 2.8-3.2 per cent of Group revenue and leverage in 2019 is expected to be within target range of 2.8-3.4 despite full 2018 net profit pay-out to farmer owners.

Arla will publish its annual report on February 28th after the company’s Board of Representatives has decided how to appropriate the profits.

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## Income statement

(EURm)	2018	2017	Develop- ment
Revenue	10,425	10,338	1%
Production costs	-8,163	-8,063	1%
<b>Gross profit</b>	<b>2,262</b>	<b>2,275</b>	<b>-1%</b>
Sales and distribution costs	-1,540	-1,584	-3%
Administration costs	-422	-419	1%
Other operating income	118	71	75%
Other operating costs	-43	-39	10%
Gain from sale of enterprise	-	44	-100%
Share of results after tax in associates and joint ventures	29	37	-22%
<b>Earnings before interest and tax (EBIT)</b>	<b>404</b>	<b>385</b>	<b>6%</b>
Specification:			
<i>EBITDA excluding gain from sale of enterprise</i>	767	694	11%
<i>Gain from sale of enterprise</i>	-	44	-100%
<i>Depreciation, amortisation and impairment losses</i>	-363	-353	3%
<b>Earnings before interest and tax (EBIT)</b>	<b>404</b>	<b>385</b>	<b>6%</b>
Financial income	2	13	-85%
Financial costs	-64	-77	-17%
<b>Profit before tax</b>	<b>342</b>	<b>321</b>	<b>8%</b>
Tax	-41	-22	82%
<b>Profit for the year</b>	<b>301</b>	<b>299</b>	<b>3%</b>
Minority interests	-11	-14	21%
<b>Arla Foods amba's share of profit for the year</b>	<b>290</b>	<b>285</b>	<b>2%</b>

## Comprehensive income

(EURm)	2018	2017
<b>Profit for the year</b>	<b>301</b>	<b>299</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to the income statement:</b>		
Re-measurements of defined benefit schemes	25	58
Income tax on actuarial gains and losses on defined benefit plans	-6	-10
<b>Items that may be reclassified subsequently to the income statement:</b>		
Value adjustments of hedging instruments	3	48
Fair value adjustment of certain financial assets	-3	14
Foreign currency translation	-10	-77
Income tax on items that may be reclassified to profit or loss	-1	-1
<b>Other comprehensive income, net of tax</b>	<b>8</b>	<b>32</b>
<b>Total comprehensive income</b>	<b>309</b>	<b>331</b>
Allocated as follows:		
Owners of Arla Foods amba	297	321
Minority interests	12	10
<b>Total</b>	<b>309</b>	<b>331</b>

## Balance sheet

(EURm)	2018	2017	Develop- ment	(EURm)	2018	2017	Develop- ment
<b>Assets</b>				<b>Equity and liabilities</b>			
<b>Non-current assets</b>				<b>Equity</b>			
Intangible assets	887	811	9%	Common capital	1814	1,781	1%
Property, plant and equipment	2,308	2,212	4%	Individual capital	456	502	-9%
Investments in associates and joint ventures	439	454	-3%	Other equity accounts	-89	-77	3%
Deferred tax	30	43	-30%	Proposed supplementary payment to owners	290	127	128%
Pension assets	4	-	100%	<b>Equity attributable to the owners of Arla Foods amba</b>	<b>2,471</b>	<b>2,333</b>	<b>6%</b>
Other non-current assets	29	31	-6%	Minority interests	48	36	33%
<b>Total non-current assets</b>	<b>3,697</b>	<b>3,551</b>	<b>4%</b>	<b>Total equity</b>	<b>2,519</b>	<b>2,369</b>	<b>6%</b>
<b>Current assets</b>				<b>Liabilities</b>			
Inventory	1,074	1,126	-5%	<b>Non-current liabilities</b>			
Trade receivables	989	942	5%	Pension liabilities	224	277	-19%
Derivatives	37	19	95%	Provisions	17	12	42%
Other receivables	254	182	40%	Deferred tax	84	59	42%
Securities	465	511	-9%	Loans	1,369	1,206	14%
Cash and cash equivalents	119	91	31%	<b>Total non-current liabilities</b>	<b>1,694</b>	<b>1,554</b>	<b>9%</b>
<b>Total current assets</b>	<b>2,938</b>	<b>2,871</b>	<b>2%</b>	<b>Current liabilities</b>			
<b>Total assets</b>	<b>6,635</b>	<b>6,422</b>	<b>3%</b>	Loans	860	1,013	-15%
				Trade and other payables	1,169	1,098	6%
				Provisions	11	11	0%
				Derivatives	85	87	-2%
				Current tax	5	11	-55%
				Other current liabilities	292	279	5%
				<b>Total current liabilities</b>	<b>2,422</b>	<b>2,499</b>	<b>-3%</b>
				<b>Total liabilities</b>	<b>4,116</b>	<b>4,053</b>	<b>2%</b>
				<b>Total equity and liabilities</b>	<b>6,635</b>	<b>6,422</b>	<b>3%</b>

## Cash flow

(EURm)	2018	2017	(EURm)	2018	2017
EBITDA	767	738	<b>Financing</b>		
Reversal of gain from sale of enterprise	-	-44	Supplementary payment regarding the previous financial year	-121	-120
EBITDA excluding gain from sale of enterprise	767	694	Paid out from equity regarding terminated membership contracts	-38	-28
Reversal of share of results in joint ventures and associates	-29	-37	Loans obtained, net	5	32
Change in net working capital	90	-200	Payment to pension liabilities	-37	-39
Change in other receivables and other current liabilities	-73	8	<b>Cash flow from financing activities</b>	<b>-191</b>	<b>-155</b>
Reversal of other operating items without cash impact	-43	-10	<b>Net cash flow</b>	<b>26</b>	<b>12</b>
Dividends received, joint ventures and associates	11	7	Cash and cash equivalents at 1 January	91	84
Interest paid	-46	-52	Exchange rate adjustment of cash funds	2	-5
Interest received	1	5	<b>Cash and cash equivalents at 31 December</b>	<b>119</b>	<b>91</b>
Taxes paid	-29	-29	<b>Free operating cash flow</b>	<b>2018</b>	<b>2017</b>
<b>Cash flow from operating activities</b>	<b>649</b>	<b>386</b>	<i>Specification</i>		
Investment in intangible fixed assets	-55	-50	Cash flow from operating activities	649	386
Investment in property, plant and equipment	-383	-248	Operating investing activities	-425	-286
Sale of property, plant and equipment	13	12	<b>Free operating cash flow</b>	<b>224</b>	<b>100</b>
Operating investing activities	-425	-286	<b>Free cash flow</b>	<b>2018</b>	<b>2017</b>
<b>Free operating cash flow</b>	<b>224</b>	<b>100</b>	Cash flow from operating activities	649	386
Sale of financial assets	44	-	Cash flow from investing activities	-432	-219
Acquisition of enterprises	-51	-7	<b>Free cash flow</b>	<b>217</b>	<b>167</b>
Sale of enterprises	-	74			
Financial investing activities	-7	67			
<b>Cash flow from investing activities</b>	<b>-432</b>	<b>-219</b>			
<b>Free cash flow</b>	<b>217</b>	<b>167</b>			