



PRESS RELEASE

26-08-2016

Delivering strong results in tough times

At a time when dairy companies have struggled with the continued European oversupply of milk, Arla has strengthened the quality and profitability of its business. Arla's strategic branded sales grew 6.1 per cent in the first half of 2016, although decreasing market prices in Europe negatively affected Group revenue.

The outlook for the second half of 2016 is positive, and Arla maintains its full-year expectations regarding profit and expects improvements in its milk price to farmers.

Increasing milk volumes across Europe generated downward pressure on market prices in the first half of 2016, and global milk prices reached the lowest level for many years.

Arla's revenue for the first half of 2016 amounted to EUR 4.9 billion, a decrease of 5.3 per cent compared to the first half of 2015.

Arla's total milk volume in the first half of 2016 increased 1.9 per cent to 7.2 billion kg. Despite taking in more milk, Arla managed to move the extra milk into the most profitable sales channels, retail and foodservice, delivering on its commitments both to process all the milk that its farmer-owners supply and to innovate to maximize the price the company can pay to the farmers.

"In a very difficult market environment, we have continued to improve the quality of our business by relentlessly pursuing our strategic direction. Our dairies have effectively processed 119 million kg extra milk from our owners and our commercial teams in all markets have proactively ensured that this extra volume has been sold into retail and foodservice channels, avoiding it being used for the production of less profitable commodity products. This is crucial at a time when Arla and our farmer-owners continue to be challenged by the global market decline," says CEO in Arla Foods, Peder Tuborgh.

Strong performance in high-margin channels

In the first half of 2016, Arla's strategic branded volume-driven revenue growth was 6.1 per cent compared to 3.1 per cent in the corresponding period last year. This was double the pace of growth of private-label products.

Arla's strategic branded volume-driven revenue growth was generated by the Arla® brand (up 5.0 per cent), Lurpak® (up 7.6 per cent) and supported brands like Puck® (up 10.2 per cent), while Castello® experienced a minor reduction in the first half of the year (down 0.7 per cent).

"Our brands are growing according to plan despite tough market conditions. Our international business has contributed significantly to this development, primarily due to increased sales in Sub-Saharan Africa, China and Southeast Asia. In Europe, where some markets are

dominated by private-label products, our branded business has continued to grow despite tough market conditions. The performance of our strategic brands is crucial, even at a time when global prices have driven down our overall revenue, because it strengthens the quality of our revenue through improved market positions and increased profitability in line with our strategy, Good Growth 2020,” says CFO in Arla Foods, Natalie Knight.

Improved profit

Arla’s profit for the first half year amounted to EUR 124 million corresponding to a profit share of 2.5 per cent of revenue (excluding gain from sale of entities), compared to 2.3 per cent in the same period last year.

To support Arla’s overall cost reduction ambition, the company’s Good Growth 2020 strategy includes an ambitious cost improvement target of EUR 400 million, to be reached by the end of 2019. The efficiency programme was kicked off at the beginning of 2016, and the first EUR 100 million of savings are on track to be delivered by the end of this year.

In the first half of 2016, Arla also restructured the organisation and made 500 white collar employees redundant in order to drive a more common agenda in Arla across functions and zones, which is strengthening collaboration, synergies and efficiency in markets. Arla expects to see the first cost improvements take effect during the second half of 2016 and achieve annual savings of approx. EUR 35 million in 2017 and onwards.

Performance price reflects tough market

The difficulties of the current global dairy market are reflected in Arla’s performance price of EUR-cent 30.0 per kg in the first half of 2016.

“The challenging market situation affected our ability to safeguard the milk price for our farmer-owners, who have suffered the consequences of the oversupply of milk in Europe. Despite these difficult market conditions, we continue to outperform our international peer group. We anticipate to be at the high end of the range of our expectations of 103 to 105 versus our peer group index for the full year,” says Natalie Knight.

“The severe downturn in the market over the last two and a half years has been an eye opener. To me, the difficult market situation makes the strength of being an international dairy cooperative even more obvious. We do not have to stake all our milk in one single market or a narrow product portfolio. In a difficult market, we have paid a milk price above our peers. I am confident that our strategy will continue to deliver positive results for Arla’s owners in the years to come,” says chairman of Arla Foods, Åke Hantoft.

Divestment of subsidiary Rynkeby Foods

In May 2016, Arla concluded an agreement to divest the juice subsidiary Rynkeby Foods A/S with annual revenue of EUR 130 million and 200 employees. Rynkeby represented the last non-core business unit within Arla, thus giving Arla singular focus on the dairy sector. The activities in Rynkeby were deconsolidated with effect from May 2016 and while the sales price is not disclosed, the divestment resulted in a gain of EUR 120 million. This gain is not included in the profit figure for the first half of the year from ordinary activities.

Positive outlook for second half of 2016

Arla expects revenue for the full year to be within the range EUR 9.5 – 9.8 billion and the profit share to be within the target range of 2.8 – 3.2 per cent of revenue by year-end.

Milk volumes are flattening in Europe and as a result market prices are levelling out. A more stable market situation is expected in the second half of 2016.

“Looking at the second half of 2016, we see a positive trend taking hold as the milk production is declining again in Europe and prices are starting to go up. This will be a much welcomed development for Arla and for our farmer-owners. We have already announced our first increase in the on-account milk price to our farmers with effect from September, and we do expect an improving market situation as we move towards the end of the year. Our success in the second half of 2016 is reliant on our ability to continue to deliver our Good Growth 2020 strategy, and thereby improve the milk price to our hard-pressed farmers,” says Peder Tuborgh.

You can download the entire consolidated Half Year Report 2016 on www.arla.com

Arla expects to announce its full-year results for 2016 on February 22nd 2017.

Income statement

(EURm)	Half-year 2016	Half-year 2015	Full year 2015
Revenue	4,853	5,127	10,262
Production costs	-3,700	-3,948	-7,833
Gross profit	1,153	1,179	2,429
Sales and distribution costs	-804	-801	-1,597
Administration and joint costs	-211	-213	-417
Other operating income	52	36	37
Other operating cost	-16	-51	-74
Gain from sale of enterprise	120	0	0
Share of results after tax in joint ventures and associates	14	16	22
Earnings before interest and tax (EBIT)	308	166	400
<i>Specification:</i>			
<i>EBITDA excluding gain from sale of enterprise</i>	363	341	754
<i>Gain from sale of enterprise</i>	120	0	0
<i>Depreciations</i>	-175	-175	-354
Earnings before interest and tax (EBIT)	308	166	400
Financial income	2	13	14
Financial costs	-49	-40	-77
Profit before tax	261	139	337
Tax	-17	-17	-42
Profit for the period	244	122	295
<i>Specification:</i>			
Profit for the period from ordinary activities	124	122	295
Gain from sale of enterprise	120	0	0
Profit for the period including gain from sale of enterprise	244	122	295
Minority interests	-5	-6	-10
Owners of Arta Foods amba	239	116	285

Balance sheet

(EURm)	Half-year 2016	Half-year 2015	Full year 2015
Assets			
Non-current assets:			
Intangible assets	824	854	873
Property, plant and equipment	2,338	2,474	2,457
Investments in associates	439	468	434
Investments in joint ventures	48	55	50
Deferred tax	61	65	64
Other non-current assets	23	27	25
Total non-current assets	3,733	3,943	3,903
Current assets:			
Inventories	977	1,093	1,007
Trade receivables	882	884	910
Derivatives	90	36	75
Current tax	1	7	1
Other receivables	192	214	202
Securities	505	514	509
Cash and cash equivalents	110	79	70
Total current assets excluding assets held for sale	2,757	2,827	2,774
Assets held for sale	-	9	59
Total current assets	2,757	2,836	2,833
Total assets	6,490	6,779	6,736
Equity and liabilities			
Equity:			
Equity excluding proposed supplementary payment to owners	2,090	1,991	2,000
Proposed supplementary payment to owners	-	-	113
Arla Foods amba's share of equity	2,090	1,991	2,113
Minority interests	41	28	35
Total equity	2,131	2,019	2,148
Liabilities			
Non-current liabilities:			
Pension liabilities	346	310	294
Provisions	14	16	8
Deferred tax	51	53	65
Loans	1,661	1,464	1,714
Other non-current liabilities	5	6	3
Total non-current liabilities	2,077	1,849	2,084
Current liabilities:			
Loans	911	1,514	1,076
Trade payables	807	924	918
Provisions	20	10	19
Derivatives	171	163	158
Current tax	14	11	5
Other current liabilities	359	289	298
Total current liabilities excluding liabilities regarding assets held for sale	2,282	2,911	2,474
Liabilities regarding assets held for sale	-	-	30
Total current liabilities	2,282	2,911	2,504
Total liabilities	4,359	4,760	4,588
Total equity and liabilities	6,490	6,779	6,736

Cash flow statement

(EURm)	Half-year 2016	Half-year 2015	Full year 2015
Cash flows from operating activities			
EBITDA excluding gain from sale of enterprise	363	341	754
Share of results in joint ventures and associates	-14	-16	-22
Change in primary working capital	-88	-62	-23
Change in other working capital	86	52	10
Other operating items without cash impact	23	5	11
Dividends received, joint ventures and associates	4	2	8
Interest paid	-34	-23	-56
Interest received	4	3	6
Tax paid	-4	-10	-19
Total cash flow from operating activities	340	292	669
Investing activities			
Investment in intangible fixed assets	-21	-23	-70
Investment in property, plant and equipment	-136	-150	-348
Sale of property, plant and equipment	11	3	8
Total operating investing activities	-146	-170	-410
Free operating cash flow	194	122	259
Net financial investments			
Total free cash flow	139	-22	8
Cash flows from financing activities			
Supplementary payment related to the previous financial year	-113	-105	-105
Paid in funds from new owners	-	1	5
Paid out from equity in relation to terminated membership contracts	-19	-18	-18
Loans obtained, net	-52	-122	-173
Change in current liabilities	-107	90	-33
Net change in marketable securities	-2	50	50
Total cash flow from financing activities	-293	-104	-274
Net cash flow	40	-4	-7
Cash and cash equivalents at period end			
Cash and cash equivalents at 1 January	70	81	81
Exchange rate adjustments of cash funds	-7	2	3
Transferred to/from assets held for sale	7	-	-7
Cash and cash equivalents at period end	110	79	70