CONSOLIDATED HALF-YEAR REPORT

# 2019

# Taking a lead in sustainability

# Content

## Management Review



## Our Financial Review



## Consolidated Financial Statements



As a leading international dairy cooperative with 9,957 farmer owners, we are creating the blueprint for a more sustainable dairy industry: both with our transformation programme, Calcium, and with our climate ambition to produce carbon net zero dairy by 2050.

# Half-year 2019
# Performance at a glance

### Performance price

36.1
EUR-CENT/KG

| | |
|---|---|
| HY 2019 | 36.1 |
| HY 2018 | 34.7 |
| HY 2017 | 35.8 |

### Revenue

5.2
BILLION EUR

| | |
|---|---|
| HY 2019 | 5.2 |
| HY 2018 | 5.1 |
| HY 2017 | 5.0 |

Target 2019: 10.2-10.6

### Strategic branded volume driven revenue growth

4.6%

| | |
|---|---|
| HY 2019 | 4.6% |
| HY 2018 | 3.0% |
| HY 2017 | 1.0% |

Target 2019: 1.5-3.5%

### Brand share

45.7%

| | |
|---|---|
| HY 2019 | 45.7% |
| HY 2018 | 44.6% |
| HY 2017 | 44.1% |

Target 2019: ≥46.0%

### International share*

21.0%

| | |
|---|---|
| HY 2019 | 21.0% |
| HY 2018 | 19.2% |
| HY 2017 | 20.1% |

Target 2019: ≥20.0%

### Milk volume

7.0
BILLION KG

| | |
|---|---|
| HY 2019 | 7.0 |
| HY 2018 | 7.0 |
| HY 2017 | 7.0 |

### Profit share**

2.3%
OF REVENUE

| | |
|---|---|
| HY 2019 | 2.3% |
| HY 2018 | 2.2% |
| HY 2017 | 2.1% |

Target 2019: 2.8-3.2%

### Calcium

97
MILLION EUR

| | |
|---|---|
| HY 2019 | 97 |
| HY 2018 | 9.5 |

Target 2019: 75-100

### Leverage

3.0

| | |
|---|---|
| HY 2019 | 3.0 |
| HY 2018 | 2.6 |
| HY 2017 | 3.4 |

Target 2019: 2.8-3.4

** International share is based on retail and foodservice revenue, excluding revenue from Arla Foods Ingredients and trading activities. ** Based on profit allocated to owners of Arla Foods amba.*

# Dairy farmers took important steps on the sustainability journey

With the milk price on a steady and competitive level for the first six months of the year and with clear targets set to address the sustainability challenges dairy production is facing, we close the first half of 2019 on a positive note – but aware of the hard work that lies ahead of us in the coming months.

### Steady milk price

With a steady milk price for the first six months of 2019 we have seen a welcome change to the unstable picture of recent years. Although most farmers appreciate a volatile market when prices go up, we all know that as soon as prices peak, a rollercoaster ride downwards is usually soon to follow. Keeping the milk price on a reasonable and competitive level is preferable and much easier for both business and farmers to cope with.

### Farms first

Climate and sustainability have been very much in focus both professionally and in our everyday lives during the first half of 2019, as the environmental footprint of farming and food production were increasingly scrutinised and challenged by our consumers and politicians alike. In March, we announced Arla's climate target to produce carbon neutral milk by 2050. Our medium goal is to reduce $CO_2$ emissions by 30 per cent by 2030. This was very well received by external stakeholders as a strong signal that Arla is determined to lead the transition towards more sustainable dairy production.

The journey towards our climate targets starts on the farm level, therefore it is important that we, dairy farmers, take a lead in this agenda and ensure that consumers maintain their confidence in dairy as part of a healthy and sustainable diet. Pioneering on this journey as farmers is the only way to reach our 2050 ambitions, while developing and keeping our farms profitable.

Meeting future demands on sustainability will not be a walk in the park, but we have come a long way already. We reduced emissions per kilo of milk by 24 per cent since 1990, and Arla farmers are among the most efficient. We perform carbon emissions checks, focus on animal welfare and are continually developing our quality program, Arlagården®. We diligently document our progress on climate and other sustainability-related indicators to make sure that we are on the right path towards our targets.

### A strong democracy

Realising our sustainability ambition is further supported by our strong democratic set-up that is at the core of our cooperative business. In February we finally became ONE Arla with equal rights and obligations for all 9,957 farmer owners. This will make us a stronger business going forward and give us a consistent and transparent structure across all owner organizations. This change already had positive effects, when we elected new members to the Board of Representatives and the Board of Directors in May with new, aligned procedures focused on creating the strongest possible governing bodies for bringing Arla into the future.

**Jan Toft Nørgaard**
Chairman of the Board of Directors

**Performance price**
Eur-cent/ Kg

36.1

# A strong and stable half year with intensified focus on sustainability

During the first half of 2019, we continued to build on the momentum we started to create in the second half of 2018. We delivered strong branded volume growth, particularly in our international commercial segment, delivered sustainable savings and invested in our future. Sustainability was on top of the agenda across our cooperative.

During all six months we delivered a stable and competitive performance price at 36.1 EUR-cent/kg. Mainly due to improved market circumstances and deliveries from our Calcium transformation programme, which exceeded expectations. The global dairy market was characterised by unusual stability.

## Continued improvements in quality of sales

We continued to increase the brand share and deliver growth for our strategic brands at 4.6 per cent. The international segment in particular excelled in the first half with 10.2 per cent branded volume growth, leading to an increased international share of Arla's total retail and foodservice business.

We solidified our presence in the Middle East and North Africa with the formal takeover of the operations of the Kraft® branded cheese business from Mondeléz International. That investment and our license agreement to use Kraft® for the next 12 years will have great strategic importance for the international segment going forward.

## Investing in the future

Our transformation programme, Calcium delivered significantly ahead of plans throughout the organisation, which has contributed to a healthy net profit level. Well into the second year of our transformation, we have made sustainable changes to the way we work, spend and invest.

We also invested a record-high EUR 384 million in both M&A and CAPEX investments in the first six months of 2019, e.g. in technologies, process optimisation, energy efficiencies and expansions to our supply chain. Despite heavy investments and the extraordinary payout of the 2018 profits to our owners, our leverage is still well within the target range.

## Focus on sustainability and climate intensified

An overall theme across the business and the farmer cooperative is sustainability. We continued to show leadership by announcing 2030 and 2050 climate targets and plans to decrease $CO_2$ emissions across all parts of our value chain.

To govern our sustainability strategy, we established a Sustainability Board with members of the Executive Management Team. We strengthened the dialogue with our farmer owners to ensure their commitment and involvement as we develop models to drive progress on farm.

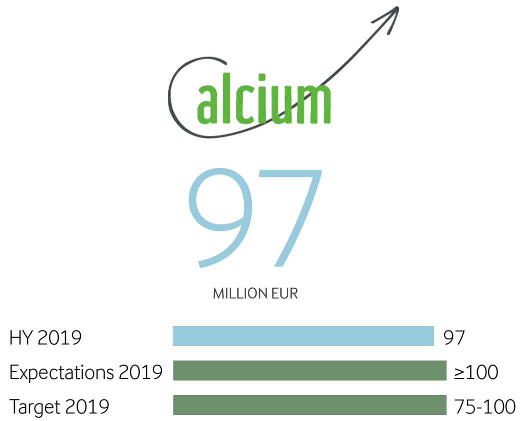
We made a big move in the market by converting over one billion pieces of packaging across Europe to more renewable and recyclable solutions. This initiative alone is close to delivering the 8,000 tons of $CO_2$ that we aim to reduce from packaging every year until 2030.

## Expectations for the full year

In the second half of 2019 we will focus on remaining on track and building additional momentum to deliver our full year targets and strengthen our competitiveness.

As global economic and political uncertainties grow, we remain alert and prepared, particularly for the damage Brexit may cause, while also closely watching the results of trade wars. However, our outlook is positive and on several KPIs we are even increasing the expectations.

**Peder Tuborgh**
CEO



# Highlights

The first half of 2019 was all about sustainability at Arla, embracing the concept from multiple angles on our way to fulfil our Good Growth 2020 strategy. We launched our ambitious environmental strategy, introduced an industry-leading move in recyclable packaging, helped our cooperative governing bodies renewing themselves, while our transformation programme, Calcium ensured that we are changing for the better – sustainably.


**Carbon net zero dairy 2050**

Together with our 9,957 farmer owners Arla launched our most ambitious climate targets to date in March: to reduce greenhouse gas emissions by 30 per cent per kilo of milk over the next decade and to work on becoming carbon net zero by 2050. "Imagine being able to drink a glass of milk knowing that it has not contributed to warming the climate. That's truly the future of dairy", says our CEO Peder Tuborgh.

CARBON NET ZERO 2050 Arla

alcium

**Calcium savings: Above expectations**

Our transformation programme, Calcium, delivered EUR 97 million savings in the first half of 2019. This is significantly ahead of our expectations, and close to the high-end of our full year target. The savings were delivered approximately equally between marketing, indirect spend and production, where we were able to optimise our production, reduce complexity and enhance procurement.

**Saving the planet a billion packs at a time**

By the end of the year, we are making 600 million fresh milk cartons renewable and 560 million yoghurt pots recyclable thus cutting 7,330 tonnes of carbon out yearly from our value chain. This first big move in our sustainable packaging strategy will help us reach our 2030 ambition of reducing $CO_2$ emissions by 30 per cent.. The new packaging will be available for consumers in Arla's six main European markets – Sweden, Denmark, Finland, the Netherlands, Germany and the UK.



**Arla takes over cheese business in MENA**

In May, Mondeléz International handed over the keys to their production facility in Bahrain which Arla agreed to acquire in December 2018. In addition, Arla signed a long-term licence agreement with Kraft® to produce and sell their branded cheese products in MENA. With full ownership of this state-of-the-art production site, the acquisition strategically expands Arla's position within key cheese categories, while also expands our supply capabilities to deliver substantial value for the company.

# Highlights *(continued)*

### Arla's democracy in action

During the spring, elections for the Board of Representatives (BoR) took place across all of our seven member countries. As a result, 55 new members joined the BoR. Arla's 175-member governing body then elected four new members to our Board of Directors (BoD) for the next two years.

### Innovative new sales model in Bangladesh

Equipped with a bicycle, a tablet and our Dano milk powder sachets in their backpacks, a growing team of female microentrepreneurs – our Pushti ambassadors – is now enabled to reach people in rural parts in Bangladesh, taking a nutritious, affordable dairy product to rural regions, where the majority of children are underweight. The ambassadors are being mobilised through Arla's partnerships with local and international non-governmental organisations.


### Arla is among the best digital companies

A focus on performance-driven digital culture, implementation of digital as a part of the business across sales and marketing, and cooperation between global and local markets were the reasons why Arla took home two honors at the Danish Digital Awards. The jury acknowledged how fast we accelerated digital change despite the complexity and number of brands and markets in Arla. By insourcing digital media buying and creative content production we are on our way to something even bigger.


# Essential business priorities for 2019

**1. Continuous price & margin management while driving volume growth**

- ✓ Strong price management
- ✓ Take advantage of our diverse milk pool

**2. Deliver on Calcium to transform Arla**

- ✓ Deliver on Calcium savings
- ● Anchor the transformation

**3. Increase innovation output**

- ✓ Review and enhance innovation model
- ● Increase innovation speed and rate

**4. Drive strong branded volume growth agenda**

- ✓ Secure a portfolio of higher-margin and consumer oriented products
- ✓ Execute global brand bets with new launches and scaling of successful products
- ✓ Maintain strong, profitable presence in key markets

**5. Win in focus markets**

- ✓ Stay strong in European core markets
- ✓ Deliver brand growth and/or higher profit in key market segments such as MENA, Bangladesh, China and Nigeria
- ● Assessing the outcome and managing the impact of Brexit

**6. Take lead on sustainability**

- ✓ Launch our new climate ambition
- ✓ Support our branded volume growth with sustainable moves, eg. switching to sustainable packaging

**7. Power-up Arla Foods Ingredients**

- ✓ Increase proportion of value-added products
- ✓ Secure the growth of our early life nutrition business in China

✓ *Performance on track*

● *Trend on track*

# Our climate ambition

Arla and our 9,957 farmer owners in March launched our most ambitious targets so far to accelerate the transition to sustainable dairy production, with intensified focus on farms. The main target is to reduce greenhouse gas emissions by 30 per cent per kilo of milk over the next decade and to work towards carbon net zero by 2050.

## Our ambition covers three themes

### BETTER CLIMATE

### CLEAN AIR & WATER

Nitrogen and phosphorus cycles in balance

### MORE NATURE

Increase biodiversity and access to nature

## To reach our goals we will focus on three areas

### FARMS

- Optimized feed for the cows to decrease methane emissions
- Improved manure efficiency
- More carbon captured in the soil

### PRODUCTION

- More fossil free transportation
- Energy-efficiency
- Increased use of renewable energy in supply chain

### PACKAGING AND FOOD WASTE

- More sustainable packaging
- Minimize food waste through several initiatives
- Recyclable materials

## Three guiding principles will enable us to reach our targets

### FOSSIL TO RENEWABLE

### CIRCULAR ECONOMY

### COOPERATION IN THE VALUE CHAIN

## We have already come far in reducing our impact

### FARMS

24%

Smaller $CO_2$ footprint per kilo milk since 1990

### PRODUCTION

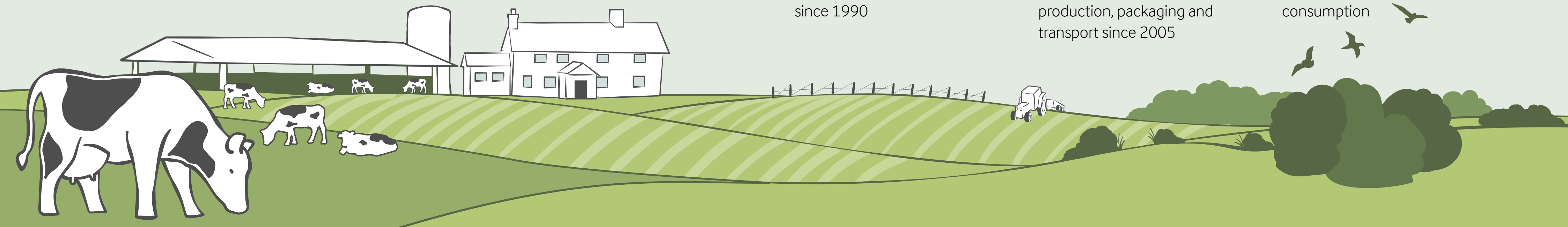
22%

Less $CO_2$ emissions from production, packaging and transport since 2005

### RENEWABLE ENERGY

27%

Out of overall consumption



# Calcium Becoming simpler and stronger

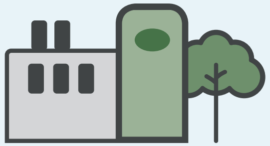
In 2018 we launched our transformation programme, Calcium which accelerates our strategy by transforming the way we work, spend and invest. Calcium strengthens our bones, creates efficiencies and releases money to reinvest in our growth.

**Great examples of our transformation:**

### Administration

A new level of transparency to the smallest details of our spend enables us to spend where it matters. We significantly reduce cost that do not directly contribute to our products.

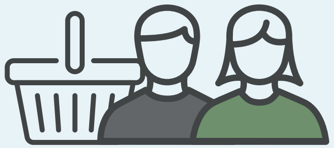
We reduced our travel mileage by **25** per cent, saving costs and $CO_2$ emmissions.



### Production

We create profound change at every site and in every role. We shift our focus from the dairy site to the efficiency of the individual production line and to overall equipment efficiency. We also reduce complexity, share more products across markets, and introduce a minimum volume target for new products.

We significantly reduced the number of unnecessary ingredients, thoroughly reviewed and optimised production processes on **24+** sites, and trained **300+** employees in the line-centric mindset.



### Marketing & promotion

We spend less on developing campaigns and more on reaching consumers. Our content is now developed cheaper, faster and better in our in-house digital studios, the Barn. With the help of data we also optimise our focused trade investments and enable our key account managers to make informed decisions.

We had a successful **pilot run** of our new retail promotion optimisation system that uses big data to create promotion strategies.

### Innovation

Our process from idea to market became simpler and shorter to capture new opportunities faster. We experiment more in the markets and scale successes quickly.

We moved our people closer to the **front lines** and set up our organisation so that we are quicker to get innovation to the markets.

97

Million EUR

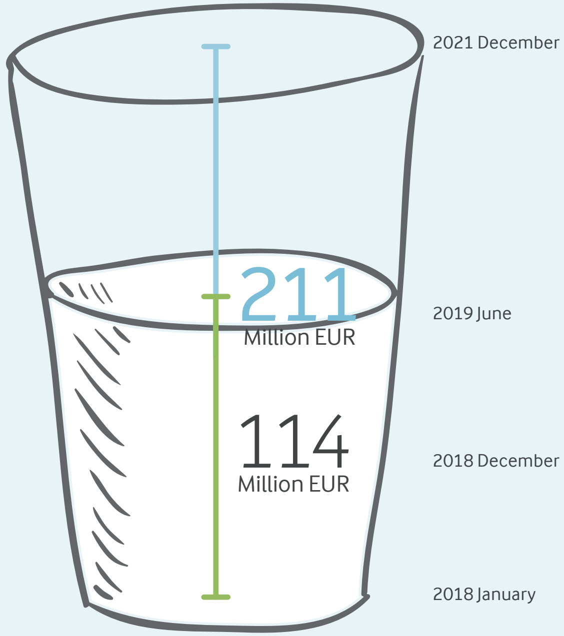
**Saved in half-year**

Updated full year target: ≥100 Million EUR

400

Million EUR

(Full programme target)



# Our democracy in action

Arla is  a cooperative owned by 9,957 dairy farmers in seven countries. Ensuring that all of our owners' voices are heard and represented is essential for success and trusting relations. In every odd year, our owners elect members to the Board of Representatives, which in turn elects the Board of Directors. The company's governance is shared between these elected bodies and the Executive Management Team.

## Our cooperative governance

**Owners (Farmers)**

**Owner nationalities**

- Denmark
- Sweden
- Germany
- Luxembourg
- Belgium
- Holland
- United Kingdom

**Local representatives**

- Districts
- Regions

**Our boards and councils**

Board of Representatives
175 (+12 employee repr.)

| 77 DK members | 50 SE members | 23 CE members | 25 UK members |
|---|---|---|---|

Board of Directors
15 (+3 employee repr.)

- Area council
- Area council
- Area council
- Area council

In 2019 the members of the Board of Directors (BoD) were elected with a new process, accepted by the Board of Representatives (BoR) in October 2018. The new process includes a thorough competency evaluation to ensure the BoD has the right skills to conduct good global governance. The process is conducted by Evaluation Committees corresponding to member areas, and is facilitated by an external professional.

## New BoD members

Jørn Kjær Madsen
(DK)

René Lund Hansen
(DK)

Walter Lausen
(DE)

Marcel Goffinet
(BE)

**We would like to thank our departing BoD members**

- Viggo Bloch (DK)
- Torben Myrup (DK)
- Manfred Sievers (DE)
- Markus Hübers (DE)

## New BoR members

55
New members

Average age
45

24%
Female

76%
Male

# Financial review

In the first half of 2019, Arla delivered a stable and competitive milk price to our farmer owners, with our performance price reaching 36.1 EURcent/kg of milk. Revenue increased by 2.0 per cent to EUR 5,232 million, driven by strong branded volume growth at 4.6 per cent as well as slightly higher sales prices. Our transformation programme, Calcium, reached the half-year on a very positive note with savings amounting to EUR 97 million; significantly ahead of our expectations. Efficiencies enabled by Calcium contributed to a healthy net profit level at 2.3 per cent of the revenue, ahead of the previous two years' net profit levels. In the first six months of 2019, Arla also invested a record high EUR 384 million for M&A and CAPEX investments, supporting the delivery of our Good Growth 2020 strategy.

**Natalie Knight**
Chief Financial Officer

## MARKET OVERVIEW

**Slowdown in global growth**
In the first half of 2019, the global economic environment was characterised by growing uncertainty around Brexit, and an intensifying global trade conflict between the US and China. These growing tensions negatively impacted the stability of critical Arla geographies and led to a slowdown in economic growth rates as well as consumer confidence compared to the first half of 2018.

According to the International Monetary Fund (IMF) global economic growth in 2019 is expected at 3.3 per cent compared to 3.6 per cent for 2018. This growth is primarily driven by emerging markets, which are projected to grow by 4.4 per cent.

Meanwhile the European Union is forecasted to grow by 1.6 per cent, compared to 2.1 per cent in 2018. The European Central Bank has also raised increasing concerns of a potential recession in some of the core European markets.

According to the OECD, in 2019 dairy consumption is expected to grow only modestly, by 0.4 per cent in developed markets, and by 2.2 per cent in developing countries. In the EU markets, the 2019 consumption of fresh dairy products is projected to decline by 0.1 per cent, whereas cheese and butter consumption is expected to grow at 0.8 per cent and 0.9 per cent respectively.

"Despite increasing market uncertainty, Arla had an exceptionally strong first half of 2019. Our milk prices were stable and we significantly increased competitiveness versus last year. We also saved EUR 97 million by optimising our ways of working and spending."

In the first half of 2019, economic uncertainty impacted exchange rates, however with mixed impact across Arla core currencies. The SEK continued its negative trend of over 5 years with a 3.6 per cent drop, while the GBP and USD increased in relative strength to the EUR by 0.8 per cent and 6.6 per cent respectively. However, after our reporting period the GBP started to depreciate following news of an impeding no-deal Brexit.

### Unprecedented stability in milk prices and milk intake

Global and European milk prices have shown unprecedented stability in the first six months of 2019. This was reflected in the prepaid milk prices across Europe, which remained stable in the first six months of 2019. Such a long prepaid milk price stability has not been seen in Europe since 2006, so since before the liberalisation of the European milk markets.

The unusual stability in European milk prices was driven by the small positive demand growth coupled by only modest changes in milk supply. While the milk price was stable, the relative values of protein and fat moved towards the historic relationship, with the value of protein increasing and the value of fat decreasing during the first half of 2019.

Throughout the first half of 2019, the European and global milk prices decoupled slightly, with EU milk prices keeping a higher level compared to the Global Dairy Trade (GDT) quoted prices. However, by the end of the half year the gap  started to close, indicating integration o f the global milk markets on the mid to long term.

**Global Dairy Trade prices and Yellow Cheese prices in EU 2018-2019** (EUR/Tonne)


**Gross Domestic product growth rate** (per cent)*


** Source: IMF*

The milk production environment has been challenging since the second half of 2018, mainly related to the drought in the summer of 2018. According to the Food and Agriculture Organization of the UN, global milk production is projected to be flat for the first half of 2019 compared to the first half of 2018.

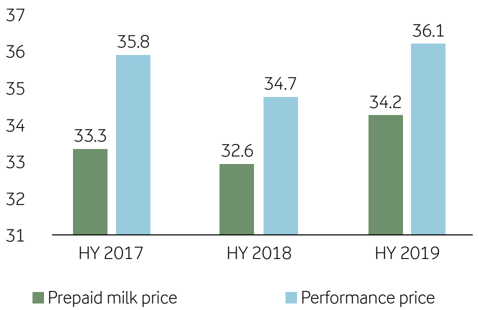
At Arla, milk intake from farmer owners remained unchanged compared to the first half of 2018, however with some variances across core geographies. Milk intake from Danish and UK farmers increased by 1.0 per cent and 2.7 per cent respectively, however milk intake from farmers in Central Europe and Sweden decreased by 5.1 per cent and 1.9 percent respectively. The main driver for the decrease in milk intake in Central Europe was the mandatory transition of all owners in Arla Central Europe to non-GMO feed, which lead to a number of farmers leaving the cooperative.

# FINANCIAL PERFORMANCE

**Competitive owner milk price in the first half of 2019**

During the first half of 2019, Arla's performance price improved by 1.4 EUR-cent to 36.1 EUR-cent, compared to 34.7 EUR-cent in the first half of 2018. This performance price is better than how our most important European peers performed in the same period, thus it is a key indicator that our transformation programme, Calcium, and our price management strategy are improving Arla's competitiveness in the European dairy market.

**Owner milk price** (EURc/kg)




The prepaid milk price paid to our farmer owners was remarkably stable with only minor changes from February to June, while it improved by 1.5 EUR-cent compared to 2018, reaching the highest level in the past three years.

**All drivers support positive revenue developement**

During the first half of 2019, revenue grew 2.0 per cent to EUR 5.2 billion, compared to EUR 5.1 billion in the first half of 2018. Revenue growth was primarily driven by sales prices, M&A, currency, as well as a positive mix effect from our branded volume growth.

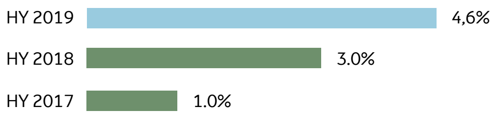
M&A positively impacted revenue in the first half of 2019 by EUR 36 million, the key drivers being full year effects from the Yeo Valley Dairies Ltd. licencing agreement in the UK, and the purchase of the remaining shares of our ingredients business, Arla Foods Ingredients SA in Argentina.

Currency movements impacted revenue positively by EUR 34 million, however considering the size of Arla's overall currency exposure, this constitutes a small impact in a historical perspective.

**Firm branded volume growth backed by our sustainability agenda**

Arla realised a firm strategic branded volume growth of 4.6 per cent during the first half of 2019. This increased our branded share of revenue to 45.7 per cent, equalling an increase of 1.1 percentage points compared to the first half of 2018. Hence we are on track to hit our 2019 branded share target of 46 per cent. Europe delivered 2.3 per cent branded volume growth in a saturated market, resulting in market share gains. Our international segment delivered 10.2 per cent branded volume growth, with Nigeria and Southeast Asia performing ahead of targets, and our early life nutrition business in China performing strong.

**Branded volume growth development**
HY 2017 to HY 2019




Among our global brands, the key highlights are:

- Our milk-based beverages grew 11.9 per cent, driven by innovative launches like Starbucks™ Almond, the Doubleshot and Skinny Latte.
- The Arla® brand grew 5.3 per cent, supported by 13.5 per cent growth of the successfully re-launched Lactofree brand.
- Lurpak® was up 1.6 per cent, driven by high sales of our innovative spreadable, Lurpak® Softest, despite its high prices.
- Puck® with 4.2 per cent growth. Our Middle East star launched Puck® Squares in February, which proved to be a fruitful innovation already in the first months after launch.
- Castello's decline in volumes was due to a challenging competitive environment across Europe and certain international markets.

In the first half of 2019 our branded growth was also supported by the launch of our climate ambition to produce carbon net zero dairy by 2050. Arla has always been a forerunner in sustainable dairy production, and now we are putting even more effort both into transforming our ways of farming, production and packaging and into communicating our achievements. This reflects the very strong trend among consumers who are pushing for more sustainable foods, hence our climate agenda gives our brands extra credibility and competitive advantage. We have already seen the commercial impact in the successful relaunch of our Organic line, while our switch to environmentally-friendly brown carton has also led to higher sales.

**Branded volume growth by global brand** (per cent)

5.3 Arla
1.6 LURPAK
-4.1 CASTELLO
4.2 Puck
11.9*

*Milk-based beverages (incl. Starbucks)*

## Commercial segment growth driven by brands

### Europe: Brand and innovation drive top line

European retail and foodservice sales declined 1.5 per cent to EUR 3,149 million in the first half of 2019, compared to EUR 3,197 million in the same period last year, due to the strategic decision to discontinue selected loss-making private label contracts and the depreciaction of the SEK.

The Europe segment has continued to push the sales of our higher margin, branded products, which has resulted in strong branded volume growth of 2.3 per cent, bringing the brand share of business to 52.0 per cent. All core European markets but Denmark increased branded volume.

Our strong focus on big bets and fast scaling of successes across Europe were the main drivers behind our branded volume growth and behind the continuing strong growth of the Arla® brand outside Scandinavia.

The branded growth was primarily driven by retail in the UK, the Netherlands, and Finland, and our foodservice segment. Within the product categories main drivers were Lactofree, Skyr, cheese, milk-based beverages under the Arla® brand and Starbucks™.

2.3%

Strategic branded volume driven revenue growth

### International: Double digit sales and branded volume growth

Our international segment experienced the highest growth in the past three years. Sales grew 11.9 per cent to EUR 839 million in first half of 2019 compared to EUR 750 million in the same period last year, with strong development across regions. Our branded business grew 10.2 per cent in the first half of 2019, bringing our branded share of business to 85.4 per cent.

With the recent approval of our early life nutrition (ELN) products' registration, China had a very strong growth in the organic ELN business and liquid milk, enjoying more than 50 per cent growth, both in volume and revenue. West Africa and South East Asia have also experienced double digit growth.

MENA, being our biggest commercial region in international also delivered strong branded volume growth and outperformed the market, leading to increased market share in all key product categories. We formally took over the Kraft® branded cheese business from Mondeléz International in May. The investment and the following license agreement to use Kraft® for the next 12 years will have great strategic importance for the international zone going forward.

Sales in North America slightly declined due to a strategic reset in the US with closing down some business areas, however profitability improved significantly.

10.2%

Strategic branded volume driven revenue growth

### AFI: Continued growth in value-added whey protein business and child nutrition

In the first half of 2019, Arla Foods Ingredients, revenue grew 13.1 per cent to EUR 352 million from EUR 311 million in the same period last year.

The value-added business grew 14.7 per cent by successfully moving more volumes into value-added protein segments like alpha-lactalbumin, whey protein hydrolysates and whey protein isolate.

Revenue in our child nutrition manufacturing business in China was stable, affected by the new regulation limiting the number of customers for which a specific site can produce.

14.7%

Growth in value-added products

### Trading: Trading share proactively managed to optimize overall group profit

Sales in our trading business increased by 8.3 per cent to EUR 892 million in first half of 2019 from EUR 796 million in the same period last year.

The value of protein continued to rise during the first half of 2019, supporting the value of both skim milk powder and caseinate products for manufacturing in EU and for export. A strong export drive to China also secured higher marginal value for powders in general.

High milk intake in the UK in combination with Brexit initially projected at end of March, pushed more milk into the liquid commodity market and lifted Arla's trading share marginally.

892

Revenue, million EUR

## Our Calcium transformation programme delivers savings ahead of targets

Our transformation programme, Calcium performed strongly during the first half of 2019, delivering savings of EUR 97 million. This means that halfway into 2019 we have almost reached the high-end of our initial full year target of EUR 75-100 million. The savings were achieved at same levels in marketing, indirect spend as well as production. We consider this a remarkable achievement showing the dedication and hard work delivered by the full Arla organization to support our transformation.

2.3%

Net profit

97

Calcium savings, million EUR

## Transformation pays off: Net profit improves and ahead of expectations

In the first half of 2019, Arla achieved a net profit of EUR 122 million, or 2.3 per cent of revenue which is slightly ahead of our expectations and 0.1 percentage points ahead of last year's level. This was driven mainly by reduced costs, but also impacted by active price management in the European and international commercial segment.

The net profit improvement is particularly satisfying when seen in combination with our competitive prepaid milk price during the first half of 2019.

## Working capital maintained at historically low levels

Net working capital increased by EUR 54 million to EUR 982 million, compared to EUR 928 million during the same period last year. The increase is a result of lower inventory volumes offset by higher prepaid and sales prices. Overall, this is a satisfactory development reflecting our continued focus on optimising our working capital positions. For more details refer to page 25.

## Cash flow impacted by high levels of investment

Arla delivered a cash flow from operating activities of EUR 204 million in the first half of 2019. However, the extraordinary pay-out of the full 2018 profit (EUR 289 million) to our farmer owners, the highest level of investments in seven years in supply chain and payments in relation to acquisitions as well as higher working capital resulted in a negative total free cash flow of EUR 134 million.

We formally took over the Kraft® branded cheese business from Mondeléz International in May. The investment and the following license agreement to use Kraft® for the next 12 years will have great strategic importance for the international segment going forward.

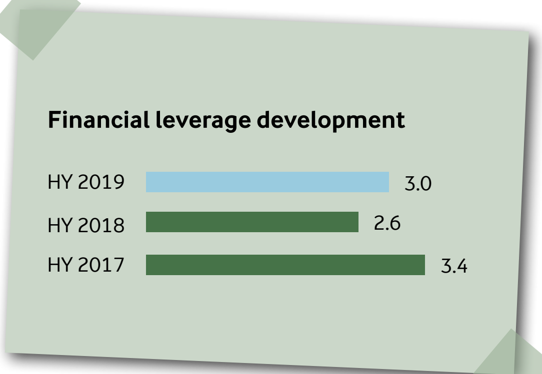
The biggest CAPEX investments for the first half of 2019 include two large investments in Arla Foods Ingredients: the construction of a new powder tower in Pronsfeld, Germany, as well as the consolidation of our footprint for fermented products in Northern Europe.

## Leverage in target range as expected

The first half of 2019 ended with a financial leverage of 3.0, and hence in the middle of our target range of 2.8-3.4. This constitutes an increase of 0.4 compared to the first half of 2018.

This development was driven by an increase in net interest-bearing debt, however countered by an increased EBITDA. The negative development in net interest-bearing debt was driven by the extraordinary payment of the 2018 profits to our farmer owners and our significant investments. On top of this, the technical accounting change related to the implementation of the IFRS 16 leasing standard had a modest impact on leverage due to a negative impact on net interest-bearing debt of EUR 188 million, countered largely by a positive impact on EBITDA.

Overall, the leverage development is in line with expectations.




As a further result of the full payout of the 2018 profit, high levels of investment, and the implementation of the IFRS 16 leasing standard, our equity ratio for the first half of 2019 decreased to 32 per cent, compared to 36 per cent at 30 June 2018. This is in line with our previously communicated expectations.

# FINANCIAL OUTLOOK

Arla delivered strong results in the first half of 2019 with all financial and strategic KPIs tracking at or ahead of targets. The second half of 2019 will be focused on securing delivery of our increased full year targets, further strengthening our relative competitiveness versus our peers and preparing ourselves for the potential adverse consequences of Brexit that will affect our results into 2020.

Given the continued uncertainty around the adverse outcomes of Brexit, as well as the global market economy being increasingly challenged by trade conflicts, we believe that our performance in the second half of 2019 could be negatively impacted by external factors. Revenue in the UK amounted to EUR 1.4 billion in first half of 2019.

For the full year 2019 we expect total group revenue to come in within our communicated target range of EUR 10.2 billion to EUR 10.6 billion.

Our branded growth outlook for the full year of 2019 is increased to 3.5 per cent or above. This is up from our previous guidance of 1.5-3.5 per cent. The strong first half of 2019 and the continued solid market momentum in both our European and international segment supports this positive outlook. Higher sales from our "big bet" innovation and products related to our sustainability agenda will be the main drivers of this increase. The strong branded growth outlook also impacts our outlook for delivering our branded share target. We expect to deliver at least 46 percent brand share level.

We are also increasing the outlook for the international share of retail and foodservice sales from 20 per cent to 21 per cent. This improvement is driven by the strong branded growth realised in our international markets during first half of 2019 as well as a strong momentum of commercial activities into the second half of 2019.

Concerning our transformation programme, Calcium, we increase our expectations, and now expect to deliver at least EUR 100 million versus our previous guidance of EUR 75-100 million in savings.

**Expectations for 2019**

Revenue
10.2-10.6
BILLION EUR

Profit share
2.8-3.2%
OF REVENUE

Leverage
2.8-3.1

Brand share
≥46.0%

International share
≥21.0%

Calcium savings
≥100
MILLION EUR

Strategic branded volume driven revenue growth
~3.5%

■ *Guidance updated* ■ *Original guidance*

Due to timing and phasing of Calcium initiatives we expect the year on year delivery of Calcium savings to slow down in the second half of 2019.

We confirm our year end 2019 net profit share outlook of 2.8-3.2 per cent of revenue unless significant adverse consequences of Brexit affect our results..

We strengthen our year end 2019 leverage outlook to 2.8-3.1.

The global milk price environment has remained stable for the first months of the second half of 2019. However, given the inherent volatility of the milk markets and the significant price sensitivity to changes in supply and demand we do not provide guidance on the milk price outlook towards year end 2019.

# Our interim consolidated financial statements


# Income statement

| (EURm) | Half-year 2019 | Half-year 2018* | Develop-ment | Full-year 2018* |
|---|---|---|---|---|
| Revenue | 5,232 | 5,127 | *2%* | 10,425 |
| Production costs | -4,167 | -4,083 | *2%* | -8,341 |
| **Gross profit** | **1,065** | **1,044** | *2%* | **2,084** |
| | | | | |
| Sales and distribution costs | -701 | -698 | *0%* | -1,362 |
| Administration costs | -187 | -216 | *-13%* | -422 |
| Other operating income | 23 | 45 | *-49%* | 118 |
| Other operating costs | -39 | -24 | *63%* | -43 |
| Share of results after tax in joint ventures and associates | 14 | 13 | *8%* | 29 |
| **Earnings before interest and tax (EBIT)** | **175** | **164** | *7%* | **404** |
| *Specification:* | | | | |
| *EBITDA* | 382 | 338 | *13%* | 767 |
| *Depreciation, amortisation and impairment losses* | -207 | -174 | *19%* | -363 |
| **Earnings before interest and tax (EBIT)** | **175** | **164** | *7%* | **404** |
| | | | | |
| Financial income | 13 | 12 | *8%* | 2 |
| Financial costs | -44 | -44 | *0%* | -64 |
| **Profit before tax** | **144** | **132** | *9%* | **342** |
| | | | | |
| Tax | -15 | -12 | *25%* | -41 |
| **Profit for the period** | **129** | **120** | *8%* | **301** |
| | | | | |
| Non-controlling interests | -7 | -5 | *40%* | -11 |
| **Arla Foods amba's share of profit for the period** | **122** | **115** | *6%* | **290** |

** Not restated following implementation of IFRS 16, please refer to page 29*

# Comprehensive income

| (EURm) | Half-year 2019 | Half-year 2018* | Full-year 2018* |
|---|---|---|---|
| **Profit for the period** | **129** | **120** | **301** |
| | | | |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to the income statement:** | | | |
| Remeasurements of defined benefit schemes | -41 | 28 | 25 |
| Tax on remeasurements of defined benefit schemes | 9 | -5 | -6 |
| | | | |
| **Items that may be reclassified subsequently to the income statement:** | | | |
| Value adjustments of hedging instruments | -22 | -7 | 3 |
| Fair value adjustment of certain financial assets | -1 | -2 | -3 |
| Adjustments related to foreign currency translation | 1 | 2 | -10 |
| Tax on items that may be reclassified to the income statement | - | 1 | -1 |
| **Other comprehensive income, net of tax** | **-54** | **17** | **8** |
| | | | |
| **Total comprehensive income** | **75** | **137** | **309** |
| | | | |
| **Allocated as follows:** | | | |
| Owners of Arla Foods amba | 68 | 131 | 297 |
| Non-controlling interests | 7 | 6 | 12 |
| **Total** | **75** | **137** | **309** |

# Balance sheet

| (EURm) | Half-year 2019 | Half-year 2018* | Develop-ment | Full-year 2018* |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Intangible assets | 958 | 819 | *17%* | 887 |
| Property, plant, equipment and right of use assets | 2,583 | 2,246 | *15%* | 2,308 |
| Investments in associates and joint ventures | 453 | 451 | *0%* | 439 |
| Deferred tax | 55 | 39 | *41%* | 30 |
| Pension assets | - | - | - | 4 |
| Other non-current assets | 22 | 25 | *-12%* | 29 |
| **Total non-current assets** | **4,071** | **3,580** | *14%* | **3,697** |
| | | | | |
| **Current assets** | | | | |
| Inventory | 1,133 | 1,126 | *1%* | 1,074 |
| Trade receivables | 979 | 899 | *9%* | 989 |
| Derivatives | 37 | 29 | *28%* | 37 |
| Other receivables | 257 | 190 | *35%* | 254 |
| Securities | 454 | 477 | *-5%* | 465 |
| Cash and cash equivalents | 115 | 152 | *-24%* | 119 |
| **Total current assets** | **2,975** | **2,873** | *4%* | **2,938** |
| | | | | |
| **Total assets** | **7,046** | **6,453** | *9%* | **6,635** |

| (EURm) | Half-year 2019 | Half-year 2018* | Develop-ment | Full-year 2018* |
|---|---|---|---|---|
| **Equity and liabilities** | | | | |
| **Equity** | | | | |
| Common capital | 1,784 | 1,815 | *-1%* | 1,814 |
| Individual capital | 432 | 464 | *-7%* | 456 |
| Other equity accounts | -111 | -84 | *32%* | -89 |
| Profit for the period | 122 | 115 | *2%* | - |
| Proposed supplementary payment to owners | - | - | - | 290 |
| **Equity attributable to the owners of Arla Foods amba** | **2,227** | **2,310** | *-4%* | **2,471** |
| Non-controlling interests | 53 | 41 | *29%* | 48 |
| **Total equity** | **2,280** | **2,351** | *-3%* | **2,519** |
| | | | | |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Pension liabilities | 244 | 227 | *7%* | 224 |
| Provisions | 21 | 14 | *50%* | 17 |
| Deferred tax | 103 | 57 | *81%* | 84 |
| Loans | 1,743 | 1,298 | *34%* | 1,369 |
| **Total non-current liabilities** | **2,111** | **1,596** | *32%* | **1,694** |
| | | | | |
| **Current liabilities** | | | | |
| Loans | 1,123 | 986 | *14%* | 860 |
| Trade and other payables | 1,130 | 1,097 | *3%* | 1,169 |
| Provisions | 10 | 9 | *11%* | 11 |
| Derivatives | 105 | 123 | *-15%* | 85 |
| Current tax | 5 | 16 | *-69%* | 5 |
| Other current liabilities | 282 | 275 | *3%* | 292 |
| **Total current liabilities** | **2,655** | **2,506** | *6%* | **2,422** |
| | | | | |
| **Total liabilities** | **4,766** | **4,102** | *16%* | **4,116** |
| | | | | |
| **Total equity and liabilities** | **7,046** | **6,453** | *9%* | **6,635** |

** Not restated following implementation of IFRS 16, please refer to page 29*

# Equity

| | Common capital | | Individual capital | | | | Other equity accounts | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (EURm) | Capital account | Reserve for special purposes | Contributed individual capital | Delivery-based owner certificates | Injected individual capital | Supplementary payment | Reserve for value adjustment of hedging instruments | Reserve for fair value through OCI | Reserve for foreign exchange adjustments | Result for the period | Total before non-controlling interests | Non-controlling interests | Total Equity after non-controlling interests |
| **Equity at 1 January 2019** | **928** | **886** | **222** | **72** | **162** | **290** | **-72** | **14** | **-31** | **-** | **2,471** | **48** | **2,519** |
| **Profit for the period** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **122** | **122** | **7** | **129** |
| Other comprehensive income | -32 | - | - | - | - | - | -22 | -1 | 1 | - | -54 | - | -54 |
| **Total comprehensive income** | **-32** | **-** | **-** | **-** | **-** | **-** | **-22** | **-1** | **1** | **122** | **68** | **7** | **75** |
| Payments to owners | - | - | -10 | -4 | -9 | - | - | - | - | - | -23 | - | -23 |
| Dividend to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | -2 | -2 |
| Supplementary payment related to 2018 | - | - | - | - | - | -289 | - | - | - | - | -289 | - | -289 |
| Foreign exchange adjustments | 2 | - | -1 | -1 | 1 | -1 | - | - | - | - | - | - | - |
| **Total transactions with owners** | **2** | **-** | **-11** | **-5** | **-8** | **-290** | **-** | **-** | **-** | **-** | **-312** | **-2** | **-314** |
| **Equity at 30 June 2019** | **898** | **886** | **211** | **67** | **154** | **-** | **-94** | **13** | **-30** | **122** | **2,227** | **53** | **2,280** |
| **Equity at 1 January 2018** | **895** | **886** | **243** | **79** | **180** | **127** | **-75** | **17** | **-19** | **-** | **2,333** | **36** | **2,369** |
| **Profit for the period** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **115** | **115** | **5** | **120** |
| Other comprehensive income | 23 | - | - | - | - | - | -7 | -2 | 2 | - | 16 | 1 | 17 |
| **Total comprehensive income** | **23** | **-** | **-** | **-** | **-** | **-** | **-7** | **-2** | **2** | **115** | **131** | **6** | **137** |
| Payments to owners | - | - | -14 | -6 | -13 | - | - | - | - | - | -33 | - | -33 |
| Dividend to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | -1 | -1 |
| Supplementary payment related to 2017 | - | - | - | - | - | -121 | - | - | - | - | -121 | - | -121 |
| Foreign exchange adjustments | 11 | - | -2 | -2 | -1 | -6 | - | - | - | - | - | - | - |
| **Total transactions with owners** | **11** | **-** | **-16** | **-8** | **-14** | **-127** | **-** | **-** | **-** | **-** | **-154** | **-1** | **-155** |
| **Equity at 30 June 2018** | **929** | **886** | **227** | **71** | **166** | **-** | **-82** | **15** | **-17** | **115** | **2,310** | **41** | **2,351** |

# Cash flow

| (EURm) | Half-year 2019 | Half-year 2018* | Full-year 2018* |
|---|---|---|---|
| EBITDA | 382 | 338 | 767 |
| Reversal of share of results in joint ventures and associates | -14 | -13 | -29 |
| Change in net working capital | -76 | 70 | 90 |
| Change in other receivables and other current liabilities | 8 | -12 | -73 |
| Reversal of other operating items without cash impact | -51 | -18 | -43 |
| Dividends received, joint ventures and associates | - | 1 | 11 |
| Interest paid | -33 | -23 | -46 |
| Interest received | 2 | 3 | 1 |
| Taxes paid | -14 | -15 | -29 |
| **Cash flow from operating activities** | **204** | **331** | **649** |
| Investment in intangible fixed assets | -22 | -25 | -55 |
| Investment in property, plant and equipment | -195 | -159 | -383 |
| Sale of property, plant and equipment | 16 | 12 | 13 |
| Operating investing activities | -201 | -172 | -425 |
| *Free operating cash flow* | *3* | *159* | *224* |
| Sale of financial assets | 20 | - | 44 |
| Acquisition of enterprises | -163 | -29 | -51 |
| Sale of enterprises | 6 | - | - |
| Financial investing activities | -137 | -29 | -7 |
| **Cash flow from investing activities** | **-338** | **-201** | **-432** |
| *Free cash flow* | *-134* | *130* | *217* |

| (EURm) | Half-year 2019 | Half-year 2018* | Full-year 2018* |
|---|---|---|---|
| **Financing** | | | |
| Supplementary payment regarding the previous financial year | -289 | -121 | -121 |
| Paid in and out from equity regarding individual capital instruments | -23 | -33 | -38 |
| Loans obtained, net | 483 | 98 | 5 |
| Repayment of leases debt | -32 | - | - |
| Payment to pension liabilities | -9 | -15 | -37 |
| **Cash flow from financing activities** | **130** | **-71** | **-191** |
| **Net cash flow** | **-4** | **59** | **26** |
| Cash and cash equivalents at 1 January | 119 | 91 | 91 |
| Exchange rate adjustment of cash funds | - | 2 | 2 |
| **Cash and cash equivalents at 30 June** | **115** | **152** | **119** |

### Cash flow develops in line with expectations

Cash flow from operating activities decreased by EUR 127 million to EUR 204 million compared to EUR 331 million in the first half of last year. The development is mainly explained by changes in the working capital positions.

Operating investment activities, driven by investments in property, plant and equipment, were higher than the first half of last year. Financial investing activities increased to EUR 137 million primarily explained by the acquisition of operations of the Kraft® branded cheese business in MENA from Mondeléz International and a payment relating to Yeo Valley Dairies Ltd., UK, which were acquired in 2018. Cash flow from investing activities was EUR -338 million, compared to EUR -201 million in the first half of last year.

A supplementary payment of EUR 289 million was made in relation to the 2018 profit allocation, representing a one-time pay-out of the full profit for the year. Further payments amounting to EUR 23 million were paid out from individual capital, to owners who resigned or retired.

Cash flow in the period was financed using credit facilities. As a result, total cash and cash equivalents decreased to EUR 115 million, compared to EUR 152 million at end of last half-year.

The cash flow has developed as expected and both the leverage and the equity ratio at half year are considered to be at a healthy level.

** Not restated following implementation of IFRS 16, please refer to page 29*

# Revenue

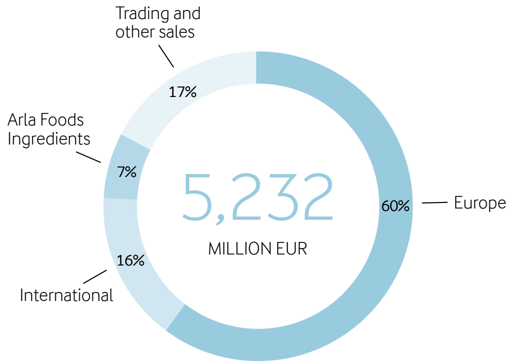
**Continued revenue growth**

Revenue increased by EUR 105 million or 2.0 per cent to EUR 5,232 million, compared to EUR 5,127 million in the first half of last year. The increase was mainly driven by higher sales prices. Volume/mix effects increased revenue by EUR 10 million.

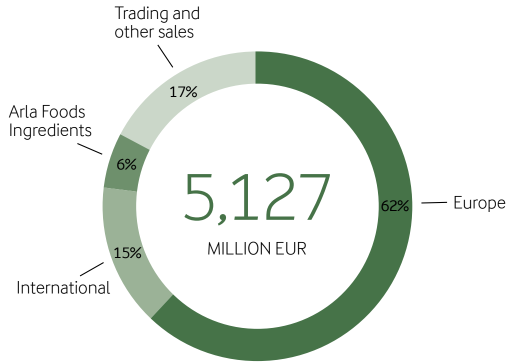
Acquisitions attributed to an increase in revenue of EUR 36 million compared to the first half of last year.

Finally, revenue was affected positively by currency effects of EUR 34 million. For more information on the development of our commercial segments refer to the Financial review on page 15.

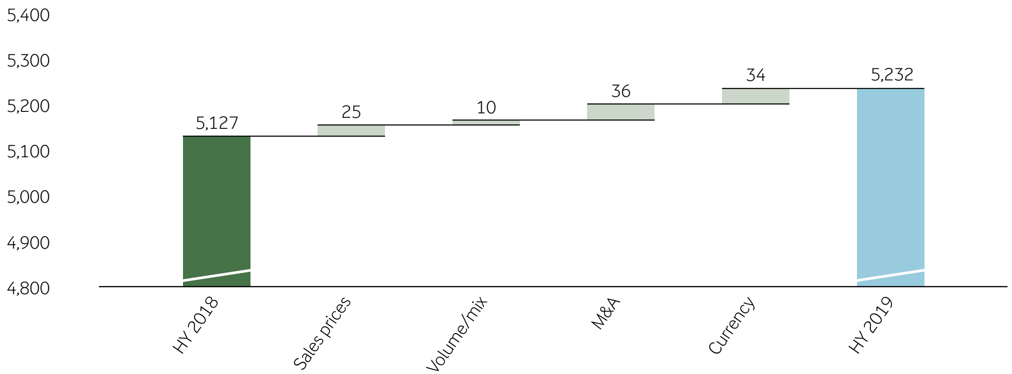
**Revenue split by commercial segment, Half-year 2019**



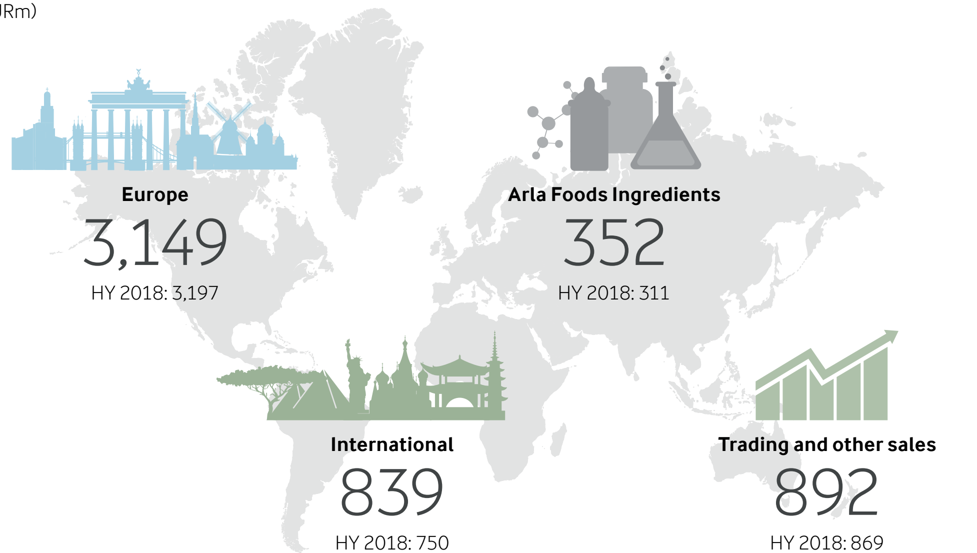

**Revenue split by commercial segment, Half-year 2018**




**Development in revenue**
(EURm)




**Revenue by commercial segment, Half-year 2019**
(EURm)



# Costs

### Calcium enabled higher prepaid price

Operational costs amounted to EUR 5,055 million compared to EUR 4,997 million in the first half of last year, representing an increase of 1.2 per cent.

The cost of production increased to EUR 4,167 million from EUR 4,083 million in first half of last year.

Excluding the cost of raw milk, the cost of production decreased EUR 57 million to EUR 1,698 million from EUR 1,755 million. The strong cost reduction was mainly driven by our transformation programme, Calcium.

The cost related to weighed-in raw milk increased by EUR 141 million. The prepaid milk price to farmer owners increased EUR 116 million compared to first half of last year. Cost of other milk increased by EUR 25 million mainly due to the acquisition of Yeo Valley Dairies Ltd. in July 2018. The increased milk price contributed positively due to the revaluation of inventory.

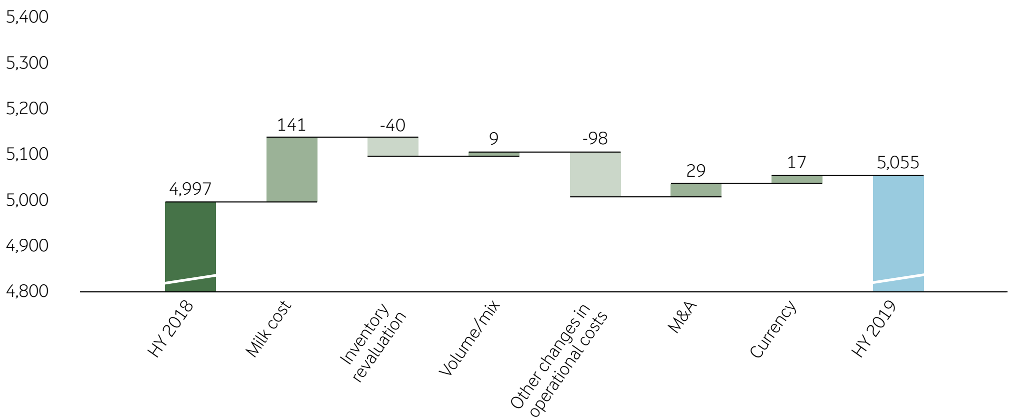
Sales and distribution costs increased due to modest increases in salary and distribution costs, offset by lower marketing spend.

Administration costs decreased by EUR 29 million due to savings in 2019 related to the Calcium project as well as 2018 restructuring costs that were not repeated in 2019.

Staff costs decreased to EUR 625 million, compared to EUR 628 million in the first half of last year. Savings in our administrative functions more than offset an increase within sales and distribution functions.

Costs also increased by EUR 29 million as a result of aquisitions. Further currency developments led to an increase in operational costs by EUR 17 million.

**Development in costs**
(EURm)




**Operational costs split by functions**
(EURm)

| | Half-year 2019 | Half-year 2018 |
|---|---|---|
| Production costs | 4,167 | 4,083 |
| Sales and distribution costs | 701 | 698 |
| Administration costs | 187 | 216 |
| **Total** | **5,055** | **4,997** |
| *Specification:* | | |
| Weighed-in raw milk | 2,469 | 2,328 |
| Other production materials* | 930 | 992 |
| Staff costs | 625 | 628 |
| Transportation costs | 282 | 266 |
| Marketing costs | 116 | 139 |
| Depreciation, amortisation and impairment | 206 | 174 |
| Other costs** | 427 | 470 |
| **Total** | **5,055** | **4,997** |
| Average number of full-time employees | 19,016 | 19,207 |

*Other production materials includes packaging, additives, consumables and changes in inventory
**Other costs mainly includes maintenance, utilities and IT

**Weighed-in raw milk**
(EURm)

| | Half-year 2019 | | Half-year 2018 | |
|---|---|---|---|---|
| | Weighed in mio. kg | EURm | Weighed in mio. kg | EURm |
| Owner milk | 6,332 | 2,207 | 6,332 | 2,091 |
| Other milk | 684 | 262 | 691 | 237 |
| **Total** | **7,016** | **2,469** | **7,023** | **2,328** |

# Net working capital

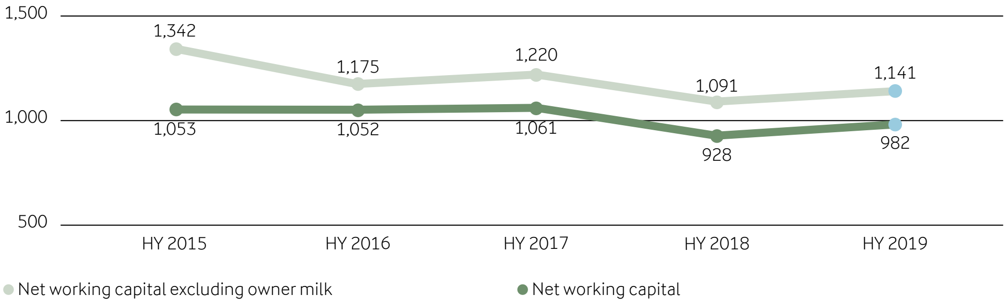
### Net working capital impacted by higher prices

Net working capital increased by EUR 54 million to EUR 982 million, which corresponds to an increase of 5.8 per cent compared to 30 June 2018.

Trade receivables increased by EUR 80 million to EUR 979 million as a result of higher sales prices and timing of customer payments. Provision for expected losses remains on the same level as 30 June 2018. The value of the inventory increased as a result of higher prepaid milk prices, offset by lower volumes. Trade and other payables increased by EUR 33 million to EUR 1,130 million.

We continuously strive to optimise our net working capital positions through initiatives such as increased use of global procurement agreements, optimisation of inventory levels, improved payment terms, as well as utilisation of financing programmes with customer and suppliers. Utilisation of supply chain finance programmes were at the same level as 30 June 2018.

**Net working capital**
(EURm)




| **Net working capital** (EURm) | **Half-year 2019** | **Half-year 2018** |
|---|---|---|
| Inventory | 1,133 | 1,126 |
| Trade receivables | 979 | 899 |
| Trade and other payables | -1,130 | -1,097 |
| **Net working capital** | **982** | **928** |

| **Inventory** (EURm) | **Half-year 2019** | **Half-year 2018** |
|---|---|---|
| Inventory before write-downs | 1,153 | 1,153 |
| Write-downs | -20 | -27 |
| **Total inventory** | **1,133** | **1,126** |
| Raw materials and consumables | 275 | 264 |
| Work in progress | 349 | 366 |
| Finished goods and goods for resale | 509 | 496 |
| **Total inventory** | **1,133** | **1,126** |

| **Trade receivables** (EURm) | **Half-year 2019** | **Half-year 2018** |
|---|---|---|
| Trade receivables before provision for expected losses | 992 | 911 |
| Provision for expected losses | -13 | -12 |
| **Total trade receivables** | **979** | **899** |

# Non-current assets

**Significant investments and implementation of IFRS 16 leases**

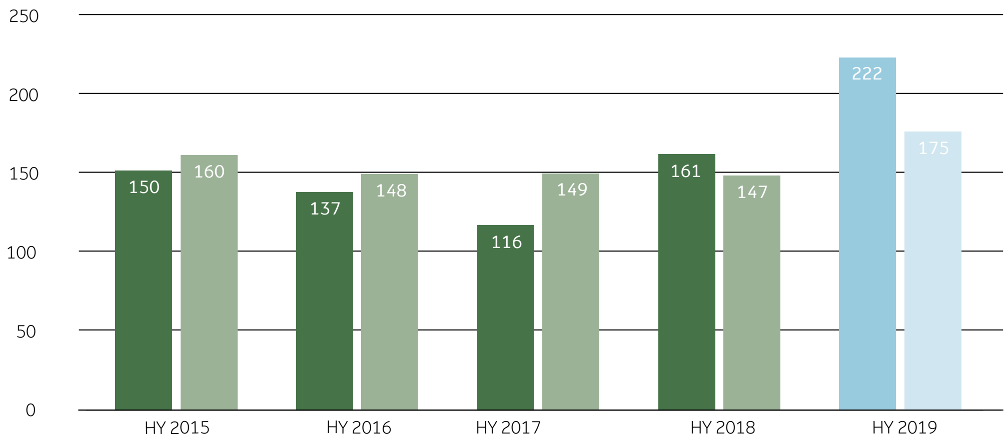
The carrying value of non-current assets increased to EUR 4,071 million compared to EUR 3,580 million 30 June 2018.

The level of intangible assets increased by EUR 139 million mainly driven by acquisitions and consolidation of Svensk Mjölk in 2018. No impairment of goodwill was made in the first half-year of 2019.

The carrying value of property, plant and equipment, including right of use assets, increased by EUR 337 million to EUR 2,583 million. The main drivers for the development were increased CAPEX investments, the acquisition of operations of the Kraft® branded cheese business in MENA from Mondeléz International amounting to EUR 46 million and the implementation of IFRS 16, which increased the property, plant, equipment and right of use assets by EUR 196 million. The level of investments and depreciations related to property, plant, equipment, and right of use assets increased by EUR 27 million and EUR 33 million respectively, compared to first half of 2018 as a result of IFRS 16 implementation.

The recognised value of associates and joint ventures was EUR 453 million compared to EUR 451 million 30 June 2018. This primarily consist of investments in Mengniu and LRF. The Group's proportionate share of the net asset value of COFCO including the investment in Mengniu was EUR 327 million, compared to EUR 311 million 30 June 2018. The carrying amount of the investment in COFCO includes goodwill amounting to EUR 148 million.

**Investments and depreciation property, plant, equipment and right of use assets**
(EURm)




| **Intangible assets** (EURm) | **Half-year 2019** | **Half-year 2018** |
|---|---|---|
| Goodwill | 679 | 606 |
| Licenses and trademarks | 90 | 25 |
| IT and development projects | 189 | 188 |
| **Total intangible assets** | **958** | **819** |

| **Property, plant and equipment including right of use assets** (EURm) | **Half-year 2019** | **Half-year 2018*** |
|---|---|---|
| Land and buildings | 911 | 824 |
| Plant and machinery | 1,069 | 1,049 |
| Fixtures and fittings, tools and equipment | 205 | 132 |
| Assets in the course of construction | 398 | 241 |
| **Total property, plant and equipment** | **2,583** | **2,246** |

**Hereof financial leases amounting to EUR 46 million at 30 June 2018*

| **Hereof right of use assets** (EURm) | **Half-year 2019** | **Half-year 2018*** |
|---|---|---|
| Land and buildings | 93 | - |
| Plant and machinery | 24 | - |
| Vehicles, fixtures, fittings, tools and equipment | 79 | - |
| **Total right of use assets** | **196** | **-** |

| **Associates and joint ventures** (EURm) | **Half-year 2019** | **Half-year 2018** |
|---|---|---|
| Share of equity in COFCO/Mengniu | 179 | 166 |
| Goodwill in COFCO/Mengniu | 148 | 145 |
| Share of equity in immaterial associates | 90 | 102 |
| **Recognised value, material associates** | **417** | **413** |
| Share of equity in non-material joint ventures | 36 | 38 |
| **Recognised value** | **453** | **451** |

**Not restated following implementation of IFRS 16, please refer to page 28*

# Net interest-bearing debt

### Increased net interest-bearing debt

The Group's financial leverage at half-year was 3.0, representing an increase of 0.4 compared to first half of last year. Net interest-bearing debt increased as a result of, the acquisitions of enterprises, the implementation of the new IFRS leases standard and an increase in net working capital. The lease obligations are discounted with the incremental borrowing rate (between 1.75 per cent and 7.5 per cent). Furthermore, increased CAPEX investments have also increased the net interest-bearing debt. The net pension liability increased compared to the first half of last year, due to actuarial losses, payments to the pension schemes and currency effects.

The maturity profile of debt decreased from 6.0 years to 4.3 years due to lapse of time and increased debt temporarily financed by short term credit facilities. Average interest costs, excluding pensions, was 3.1 per cent compared to 3.4 per cent in the first half of last year. The liquidity reserves have been assessed as adequate for the coming 12 months. After closing Arla has obtained a new five year loan of EUR 100 million which is not disclosed in the half year figures 2019.

Leverage

3.0

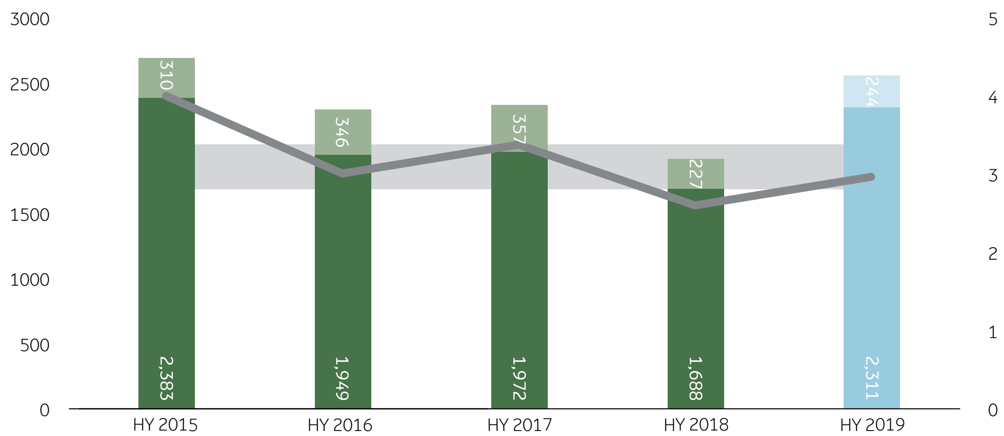
Half-year 2019

Leverage

2.6

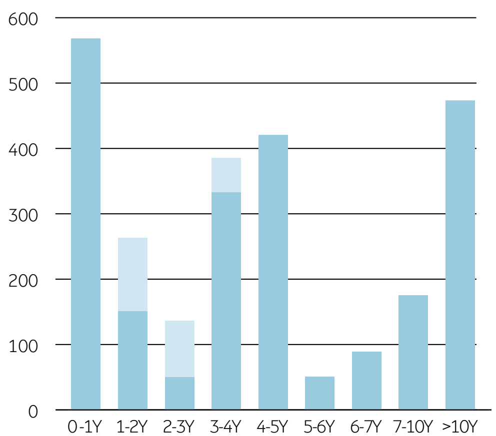
Half-year 2018

**Net interest-bearing debt**
(EURm)



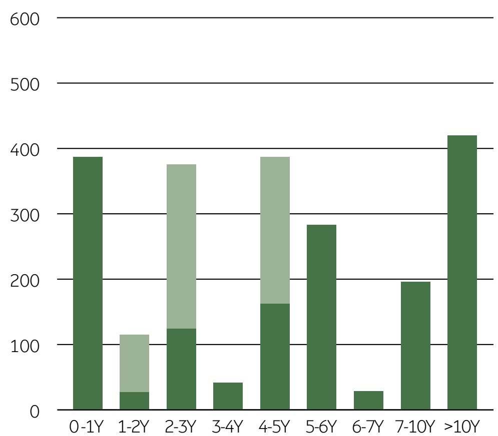

Leverage
Net pension liabilities
Net interest-bearing debt excluding pension liabilities
Target range leverage 2.8 - 3.4

**Maturity of net interest-bearing debt excluding pension liabilities at 30 June 2019**
(EURm)




Unused committed facilities
Debt

**Maturity of net interest-bearing debt excluding pension liabilities at 30 June 2018**
(EURm)



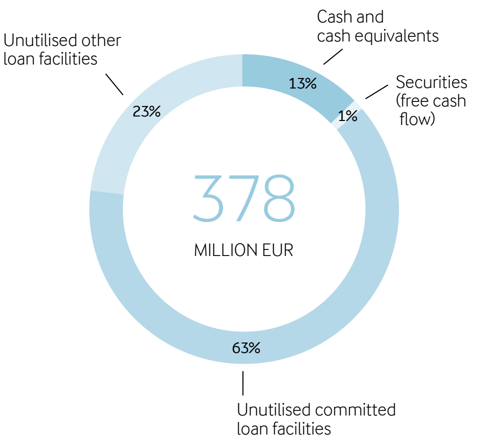

Unused committed facilities
Debt

# Net interest-bearing debt

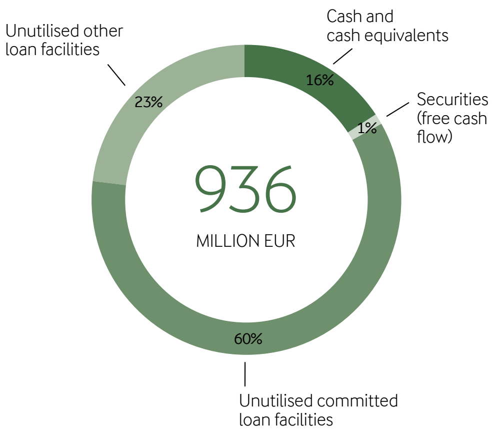
*(continued)*

| **Liquidity reserves** (EURm) | **Half-year 2019** | **Half-year 2018** |
|---|---|---|
| Cash and cash equivalents | 115 | 152 |
| Securities (free cash flow) | 8 | 7 |
| Unutilised committed loan facilities | 250 | 565 |
| Unutilised other loan facilities | 5 | 212 |
| **Total** | **378** | **936** |

**Liquidity reserves, Half-year 2019**




**Liquidity reserves, Half-year 2018**




| **Pension liabilities** (EURm) | **Half-year 2019** | **Half-year 2018** |
|---|---|---|
| Present value of funded liabilities | 1,607 | 1.538 |
| Fair value of plan assets | -1,373 | -1.325 |
| **Deficit of funded plans** | **234** | **213** |
| Present value of unfunded liabilities | 10 | 14 |
| **Net pension liabilities recognised on the balance sheet** | **244** | **227** |

| **Assumptions for the actuarial calculations** | **Half-year 2019** | **Half-year 2018** |
|---|---|---|
| Discount rate, Sweden | 1.8% | 2.4% |
| Discount rate, UK | 2.4% | 2.7% |
| Expected payroll increase, Sweden | 2.3% | 2.3% |
| Expected payroll increase, UK | 2.5% | 2.5% |
| Inflation (CPI), Sweden | 2.0% | 1.9% |
| Inflation (CPI), UK | 2.1% | 1.9% |

| **Exchange rates** | Closing rate | | | Average rate | | |
|---|---|---|---|---|---|---|
| | **Half-year 2019** | **Half-year 2018** | **Change** | **Half-year 2019** | **Half-year 2018** | **Change** |
| EUR/GBP | 0.897 | 0.885 | *-1.4%* | 0.873 | 0.880 | *0.8%* |
| EUR/SEK | 10.563 | 10.434 | *-1.2%* | 10.510 | 10.140 | *-3.6%* |
| EUR/DKK | 7.464 | 7.453 | *-0.1%* | 7.465 | 7.448 | *-0.2%* |
| EUR/USD | 1.138 | 1.157 | *1.6%* | 1.130 | 1.210 | *6.6%* |
| EUR/SAR | 4.264 | 4.339 | *1.7%* | 4.239 | 4.577 | *7.4%* |

# Glossary

**Arlagarden®** is the name of our quality assurance programme.

**Brand share** measures the revenue from strategic brands as a proportion of total revenue, and is defined as the ratio of revenue from strategic branded products and total revenue.

**CAPEX** is an abbreviation of capital expenditure.

**CPI** is an abbreviation of Consumer Price Index.

**EBIT** is an abbreviation of earnings before interest and tax, and a measure of earnings from operations.

**EBITDA** is an abbreviation of earnings before interest, tax, depreciation and amortisation from ordinary operations.

**EBIT margin** measures EBIT as a percentage of total revenue.

**Equity ratio** is the ratio between equity excluding minority interests and total assets, and is a measure of the financial strength of Arla.

**Fermented milk products**, also known as cultured dairy products, are dairy foods that have been fermented with lactic acid bacteria such as Lactobacillus, Lactococcus, and Leuconostoc. The fermentation process increases the shelf life of the product, while enhancing the taste and improving the digestibility of milk.

**Free cash flow** is defined as cash flow from operating activities after deducting cash flow from investing activities.

**Interest cover** is the ratio between EBITDA and net interest costs.

**International share** of business is defined as the revenue from the international segment as a percentage of the revenue from the zones International and Europe.

**Lactalbumin**, also known as “whey protein”, is the albumin contained in milk and ob-tained from whey.

**Leverage** is the ratio between net interest-bearing debt inclusive of pension liabilities and EBITDA. It enables evaluation of the ability to support future debt and obligations; the long-term target range for leverage is between 2.8 and 3.4.

**MENA** is an acronym referring to the Middle East and North Africa.

**Milk volume** is defined as total intake of raw milk in kg from owners and contractors.

**M&A** is an abbreviation of mergers and acquisitions.

**Net interest-bearing debt** is defined as current and non-current interest-bearing liabilities less securities, cash and cash equivalents, and other interest-bearing assets.

**Net interest-bearing debt inclusive of pension liabilities** is defined as current and non-current interest-bearing liabilities less securities, cash and cash equivalents, and other interest-bearing assets plus pension liabilities.

**OECD** refers to the Organisation for Economic Cooperation and Development.

**Performance price** for Arla Foods is defined as the prepaid milk price plus net profit divided by total member milk volume intake. It measures value creation per kg of owner milk including retained earnings and supplementary payments.

**Prepaid milk price** describes the cash payment farmers receive per kg milk delivered during the settlement period.

**Private label** refers to retail brands, which are owned by retailers but produced by Arla based on contract manufacturing agreements.

**Profit share** is defined as the ratio between profit for the period allocated to owners of Arla Foods, and total revenue.

**Net working capital** is the capital tied up in inventories, receivables, and payables including payables for owner milk.

**Net working capital excluding owner milk** is defined as capital that is tied up in inventories, receivables, and payables excluding payables for owner milk.

**Strategic brands** are defined as products sold under branded products such as Arla®, Lurpak®, Castello® and Puck®.

**Strategic branded volume driven revenue growth** is defined as revenue growth associated with growth in volumes from strategic branded products while keeping prices constant.

**Trading share** is a measure for the total milk consumption for producing commodity products relative to the total milk consumption, i.e. based on volumes. Commodity products are sold with lower or no value added, typically via business-to-business sales for other companies to use in their production as well as via industry sales of cheese, butter, or milk powder.

**Value-added protein segment** contains products with special functionality and compounds, compared to standard protein concentrates with a protein content of approximately 80 per cent.

**Volume driven revenue growth** is defined as revenue growth associated with growth in volumes while keeping prices constant.

**Whey protein isolate** is a dietary supplement and food ingredient created by separating components from whey.

**WMP** is an abbreviation referring to whole milk powder.

*Arla’s consolidated annual report is prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statement Act. This interim consolidated report for 2019 is issued on voluntarily basis. Management has decided not to fully apply IAS 34. The interim consolidated report is prepared according to the same accounting policies as applied in the consolidated annual report for 2018, except for the implementation of new IFRS standards effective from 1 January 2019. For detailed description of accounting policies and uncertainties in estimates, please refer to our annual report 2018. Some reclassifications have been carried out compared to previously. These, however, have no impact on the half-annually results or the equity. IFRS 16 was implemented with effect from 1 January 2019, applying the modified retrospective approach where comparative figures are not restated. Right of use assets and the corresponding lease liabilities were recognised amounting to EUR 200 million. Right of use assets include office buildings, vehicles, filling and packaging equipment. Short term leases with a rental period shorter than 12 months are excluded. Low value leases are not considered from a materiality perspective. The interim consolidated report is not audited.*

*Project management: Corporate external reporting, Arla. Design and production: We Love People. Translation: Semantix*
*Photos: Tine Harden and Arla.*

# Corporate calendar
## Financial reports and major events

**29**
August
2019

Publication of the consolidated half-year report

**8-9**
October
2019

Board of Representatives meeting

**19**
February
2020

Announcement of 2019 annual results

**27-28**
February
2020

Board of Representatives meeting

**28**
February
2020

Publication of the 2019 Annual Report

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