CONSOLIDATED HALF-YEAR REPORT

2020

FILLING THE SHELVES

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Management Review

Arla Half-year Report 2020

The first half of 2020 was the most unusual period in recent history, with the Covid-19 virus forcing almost the entire world into lockdown and making us rethink how we work and do business. Arla couldn't have survived and delivered outstanding results in this period without the extraordinary dedication of its employees and farmer owners. We would like to honour them with our cover. Thank you for your continuous commitment!

HALF-YEAR 2020 PERFORMANCE AT A GLANCE

FINANCIAL PERFORMANCE

Revenue

5.4

(BILLION EUR)

Half-year 2020	5.4
Half-year 2019	5.2
Half-year 2018	5.1

Target 2020: 10.4-10.8 billion

Performance price*

37.0

(EUR-CENT/KG)

Half-year 2020	37.0
Half-year 2019	36.1
Half-year 2018	34.7

Milk volume

7.0

(BILLION KG)

Half-year 2020	7.0
Half-year 2019	7.0
Half-year 2018	7.0

Profit share**

3.0%

(OF REVENUE)

Half-year 2020	3.0%
Half-year 2019	2.3%
Half-year 2018	2.2%

Target 2020: 2.8-3.2%

COST AND CASH

alcium

69

(MILLION EUR)

Half-year 2020	69
Half-year 2019	97
Half-year 2018	95

Target 2020: 75-100 million

Leverage

2.6

Half-year 2020	2.6
Half-year 2019	3.0
Half-year 2018	2.6

Target 2020: 2.8-3.4

QUALITY OF BUSINESS

Strategic branded volume driven revenue growth

10.4%

Half-year 2020	10.4 %
Half-year 2019	4.6%
Half-year 2018	3.0%

Target 2020: 2-4%

Brand share

48.3%

Half-year 2020	48.3%
Half-year 2019	45.7%
Half-year 2018	44.6%

Target 2020: ≥ 48%

International share***

24.2%

Half-year 2020	24.2%
Half-year 2019	21.0%
Half-year 2018	19.2%

Target 2020: ≥ 23%

■ Half-year 2020 ■ Half-year 2019 ■ Half-year 2018

** Based on 4.2 per cent fat, 3.4 per cent protein*
*** Based on profit allocated to owners of Arla Foods amba*
**** International share is based on retail and foodservice revenue, excluding revenue from third party manufacturing, Arla Foods Ingredients and trading activities.*

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

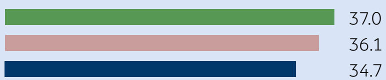
WE FACED UNCERTAINTIES WITH A STRONG COOPERATIVE SPIRIT

With the Covid-19 pandemic causing significant market changes and extreme volatility for our business, crisis management and keeping up a strong cooperative spirit were the defining factors during the first six months of 2020.

Performance price

37.0

(EUR-CENT/KG)



We close the first half of this turbulent year better than expected thanks to the agility of the business organisation and our farmer owners, and a strong focus on managing the negative effects of Covid-19. However, we are looking into a challenging second half of 2020: the effects of Covid-19, Brexit and a general recession paint a picture of a continued uncertain period.

The events of the first half year affected our performance price. After holding a steady milk price throughout 2019, the volatility in the dairy market returned. Considering the severe challenges of the ongoing pandemic, we maintained a reasonable performance price for our farmer owners at 37.0 EURcent/kg.

Throughout these critical months Arla farmers took all required measures to continue production in a safe way, ensuring the volumes needed to process and deliver a steady flow of dairy products to our customers and consumers. This effort was widely acknowledged by consumers and governments and highlighted the importance of continuous delivery of quality products.

Arlagården® and Climate Check off to a great start

We entered 2020 with clear targets set on sustainability for 2030 and 2050. Our cooperative reached important milestones on this journey as we updated and implemented our farm management programme Arlagården® and launched our new, globally aligned Climate Check programme that will help farmers identify emissions on farms and provide a clear picture of possible actions to reduce them further. We already have some of the most climate efficient farmers in the global dairy farming sector and with a submission rate of 100 per cent to the Arlagården® programme and 90 per cent on the first run of the voluntary Climate Checks, Arla farmer-owners showed their commitment and engagement in securing a sustainable future for our cooperative and dairy products. Together these programmes accumulate one of the world's largest sets of externally verified farm data and a solid foundation for benchmarking, knowledge sharing and research across the dairy industry.

Developing our democracy

Member meetings and democratic discussions are key to our cooperative structure and when most of the world closed down in March, we had to act quickly to ensure timely and steady communication with our farmer-owners and within our business. Digital meetings were the solution to the challenge, but in the long run not meeting face-to-face is not optimal, and physical meetings will be resumed as soon as possible.

As it seems we will have to keep up this way of working for the months to come, thus we will work on developing the format further to use it as a supplement to physical meetings going forward. We are facing uncertainty in the wake of the pandemic with a strong cooperative mindset and in a firm position to face the challenges ahead.

Jan Toft Nørgaard
Chairman of the Board of Directors

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

ARLA PERFORMED ABOVE EXPECTATIONS DESPITE THE GLOBAL PANDEMIC

In the massive disruption of Covid-19, Arla was agile to meet the changed customer and consumer needs. Whilst protecting the health and safety of our people, we utilised our good positions across categories and geographies to their full potential and maintained a steady flow of the products in demand in these abnormal times.

Strategic branded volume driven revenue growth

10.4%

(EUR-CENT/KG)

Target 2020: 2-4%

■ HY 2020 ■ HY 2019 ■ HY 2018

We are very proud to have provided food to the society during the pandemic, and at the same time to have built our brands, delivered efficiencies and strengthened our financial robustness.

Overall, our performance in the first half of 2020 was better than expected, with most of our key performance indicators exceeding their expected levels. We maintained a stable and competitive milk price to our owners, with a performance price at 37.0 EURcent/kg of milk. Our revenue reached a record-high EUR 5.4 billion, 2.8 per cent ahead of the first half of 2019. As a result of our solid performance and cash flow, our financial leverage ended on 2.6, positively well below our target range of 2.8-3.4.

Home consumption boosted brands

Lost foodservice sales and lower commodity prices in the first half were more than offset by exceptionally high branded volume growth of 10.4 per cent. The overriding reason for the boost in branded and retail volumes in both Europe and international was the increased eating and cooking at home.

Especially Lurpak® and Puck® exceeded expectations with 17.7 and 16.7 per cent growth respectively, compared to the same period last year. The Arla® brand performed well in retail, but was negatively affected by the drop in foodservice. Revenue was further strengthened by our licence agreement on Kraft® branded cheese in MENA, which became operational last year.

Arla Foods Ingredients also delivered a strong performance following a high demand for our unique protein ingredients in child nutrition and medical products. Our result reflects the efforts of an organisation that reacted fast to the abruptly changed consumer needs. Combined with our agile supply chain, we provided extensive support and flexibility to our customers during the different phases of disruption.

Results delivered as planned despite the crises

Despite the crisis, we maintained a strong internal commitment to our transformation programme, Calcium. As planned, we delivered EUR 69 million in sustainable cost savings, mainly from reduced indirect spend and optimized supply chain operations.

Furthermore, we reached another milestone in the transition to sustainable dairy. With extensive commitment from our owners, we updated our farm management programme, Arlagården® to fully align audit methods and reporting for all 9,700 Arla farmers and started to accumulate one of the world's largest sets of externally verified data on animal welfare and climate impact from dairy farming.

Robust cooperative in continued uncertainty

Due to the continued severe economic uncertainty caused by Covid-19 and the impending consequences of Brexit, we will not comment on the external outlook for the second half of 2020. However, we confirm all of our own full-year targets and expect to deliver on or above them. With our relatively strong performance despite the crisis, I believe that we have yet again proven that Arla stands strong against major challenges and provides one of the world's most robust co-operatives for dairy farmers.

Peder Tuborgh
CEO

HIGHLIGHTS

The first half of 2020 was the most unusual period in recent history, with a global pandemic causing major shifts in demand and consumer behavior. Our task was to was to continue to run the business as per usual, under these extraordinary times, and deliver food to our customers and consumers. While managing the crisis, we also entered a completely new market with plant-based products, qualified for a label ensuring good animal welfare, and drove our newest brand in the Middle-East to success.

Lurpak® sales soared during lockdown

While all key markets of Lurpak® were hit by lockdown in March and April, sales soared to unprecedented heights in almost all markets. In total sales were up by a staggering 17.7 per cent compared to the same period in 2019. In the UK, Lurpak's main market, demand surged even more, by 20.3 per cent. An all time record was also broken, when in a single week in April 86 truckloads of Lurpak® were shipped to the UK. This of course put some strain on our dairy in Holstebro, Denmark, where Lurpak® is produced. To serve the increasing demand colleagues took extra shifts during weekends, while our global planning and logistics team was working hard to closely follow the unusual fluctuation in demand.

Our new brand, Kraft® delivered amazing results in MENA

Kraft®, our newest brand, for which we acquired a licence last year to produce and market in MENA, delivered almost 50 per cent above expectations for revenue in the first half of 2020. In the professional hands of our brand team, Kraft® flourished in the Ramadan season, and the growth was further boosted by the increased consumption of dairy products at home during the Covid-19 curfew.

A skyriously great campaign was launched for Skyr

Our best in category yoghurt, Arla® Skyr was supported by a big product quality campaign in three core markets during spring. Creatively, we used the Icelandic nature as a metaphor to describe how good Skyr is. As an additional attention grabber we also launched our own catchy adverb, "skyriously".

Bedre Dyrevelfærd

Arla24 is now labelled as milk produced with good animal welfare

Our best-selling milk in Denmark, Arla24 is now marked with the Danish Veterinary and Food Administration's green " Better Animal Welfare" label, which acknowledges that Arla milk has been produced with a high focus in animal welfare. Arla24 milk received two hearts, which among other things means that cows are not tied up in the cowsheds, and that they are on grass during the spring and summer time. This labelling makes it easier for consumers to choose dairy products with the best care for cows.

Welcoming JÖRÐ, our plant-based range

Keeping our product portfolio relevant to our consumers ensures the greatest profitability for our farmer owners. As more and more of our consumers started to combine milk with plant-based drinks in their diet, we knew we had to make a bold and unusual move for a dairy company: to enter the plant-based market. Building on our innovation edge, in May we launched JÖRÐ This is our new range of plant-based drinks made with natural Nordic ingredients, such as oat, barley and hemp. It's now available in the Danish market, soon to be followed by Sweden and the UK, during the second half of 2020 and 2021, respectively.

CELEBRATING OUR EVERYDAY HEROES

When the situation is extraordinary, the ideas and solutions need to be too. Our farmers and colleagues from across the whole value chain went above and beyond to find out-of-the-box solutions for the problems caused by Covid-19. We dealt with unusually large swings in demand; helped each other across our value chain by trying out new roles; started selling products that were meant for sale to restaurants to other customers; and also found means to help local communities. Here are few examples of our many everyday heroes.

Packaging must go on

When the Nigerian city of Lagos, where Arla has a packaging plant, went into lock-down, 110 of our Nigerian colleagues isolated themselves at the plant in a temporary accomodation to maintain production. Until the situation normalised, they spent all their time at the plant, working, sleeping, eating, and sometimes playing a well-deserved match of table tennis. Without them, the Nigerian consumers wouldn't have been able to get their daily dairy from us.

Managing work, life and hundreds of cows

Managing work and private life was a balancing act for our farmer owners as well, when the daycares and schools closed down in most countries. Many had to provide education for their children, while also keeping their employees and animals safe, the milk quality high and taking part in Arla's democratic decision making from a distance. As for everyone, keeping distance in both their work and leisure time was not an easy obstacle to overcome, but they knew that the more consistently they did it, the sooner the spread of the virus would slow down.

Supporting restaurants and health care personnel in one go

Our team in Sweden came up with a way to support many vulnerable groups - public transport drivers, health care personnel and local restaurants - with one gesture. They bought snack bags and food packages from Arla's restaurant and café customers, who were struggling with the lack of guests, and distributed the packages to bus drivers, emergency care personnel and other health care workers. This move also helped our foodservice business, as they were loosing their most important customers, restaurants.

Breaking records and helping children in need

Despite the challenges of keeping a safe distance and managing a volatile demand, our UK production sites reached outstanding achievements and even broke records during the crisis. Thanks to the great collaboration between their teams, Aylesbury Dairy broke their own record and increased their output to 840,000 milk cartons in just one shift, and 1.5 million in 24 hours. This meant an 25 per cent capacity increase compared to the same period last year.

Rolling up the sleeves to keep production going

To help out dairies dealing with increased demand while colleagues were calling in sick or quarantined, our office team in Finland rolled up their sleeves and quickly learned new skills. After a quick training session on safety, hygiene and waste handling in production, the over 25 "volunteers" who would otherwise work in office jobs in our supply chain, finance, or foodservice segment jumped in and produced or packed the goods they normally would only eat (and sell). "As sales slowed down in foodservice due to restaurants and public institutions closing down, we figured helping supply chain is the best way to ensure we sell as much as possible in retail", said Katja Knuutinen, head of foodservice in Finland.

OUR SUSTAINABILITY JOURNEY CONTINUES DESPITE THE CRISIS

We have continued our sustainability journey during the trying months of the Covid-19 crisis. We found ways to serve the growing demand for nutritious dairy products as people were stocking up at the beginning of the lockdowns, and also donated to those in need. Our ambitious carbon assessment programme on farms rolled out successfully with a participation rate above expectations, and we also continued to reduce our carbon footprint through better packaging solutions and by reducing product waste.

Arla farmers smash carbon assessment submission rate

A major milestone was met by our cooperative in the first half of 2020, which puts Arla at the forefront of the industry when it comes to climate impact measurement. 90 per cent of our farmer owners, covering 96 per cent of our milk pool submitted our Climate Check questionnaire. With this questionnaire we aim to triple the speed of CO_2e reduction on farm by helping farmers identify the main sources of emissions while we also accumulate one of the world's largest sets of externally verified data bases on the climate impact from dairy farming. After farmers submit data, an emissions expert visits their farm and they together draw a clear plan for actions to reduce emissions further.

Winning the fight against food waste

In the early weeks of the pandemic one of the challenges Arla was facing was a rapid escalation in finished product waste, due to restaurants, cafes and canteens closing down. Our Pandemic Planning Group addressed this through a range of actions, from a company-wide register of waste products, to the creative approach taken in Finland. There the foodservice team sold products meant for restaurants and catering companies to consumers via pop-up roadside markets and organised the first ever Arla Drive-in Dairy Tour, where consumers could tour around the dairy in their cars, while also buying high-quality products.

Bringing sustainable nutrition to those in need

Butter, cheese, yogurt and milk that should have been destined for Britain's cafes and restaurants were distributed into the homes of some of health care workers and the most vulnerable families in the country thanks to a new partnership between Arla and three food charities. Arla's products have been providing enough dairy for 4 million slices of Lurpak buttery toast, 1.4 million slices of pizza thanks to Arla® Pro mozzarella, and milk enough for 4.8 million bowls of cereal for hardworking nurses, doctors, hospital staff and families in need. "The challenges of coronavirus are hitting the dairy industry hard with a surplus of milk. To ensure Arla milk goes to a good home, we redistributed them to where they are needed most", says Jonathan Dixton, Vice president of Arla Foodservice UK.

New packaging innovation saves 400 tonnes of CO_2e yearly

Our market leading Icelandic style yoghurt, Arla® Skyr, got new packaging during the spring. The major change in the new packaging is that part of the plastic is replaced with cardboard, which is not only more environmentally friendly, but also fully recyclable. With this change the new bucket consists of 40 per cent less plastic, causes 30 per cent less CO_2e emissions, and is 100 per cent recyclable. As we sell around 17 million buckets of Skyr a year this means that the new packaging reduces Arla's CO_2e emissions by 440 tonnes on a yearly basis and cuts our annual plastic usage by 270 tonnes. The new Skyr bucket is now introduced in Denmark, Sweden, Germany, UK and the Netherlands.

> "By taking continuous action on climate and nutrition, we aim to build confidence in dairy as part of a sustainable future."
>
> **Hanne Søndergaard,** CMO

ESSENTIAL BUSINESS PRIORITIES FOR 2020

Our essential business priorities are the stepping stones on our Good Growth 2020 strategy. They are defined by the executive management team, and approved by the board of directors. When our 2020 business priorities were set, no one foresaw a global pandemic. Had we known it, our priorities might have looked different, but we are proud to say that we achieved the targets set in most fields, despite the circumstances. Nevertheless, Covid-19 interfered with the development of our new strategy. As we proceed with defining the details of the evolution of Good Growth beyond 2020, we will build on the learnings from the disruption of Covid-19 and ensure that Arla will continue to quickly adapt to new realities.

- ✓ Deliver Calcium transformation
- ✓ Succeed with commercial priorities
- ● Excite our people about future of Arla, including the new strategy
- ✓ Drive core brands and boost innovation
- ✓ Build strong customer partnership and grow
- ✓ Take lead and execute sustainability agenda
- ✓ Grow Arla Foods Ingredients

- ✓ Keep the business running and performing during Covid-19
- ● Adapting to a new reality and planning ahead

✓ *Target achieved*
● *Trend on track*

OUR PERFORMANCE REVIEW

Torben Nyholm
Chief Financial Officer

In the first half of 2020, Arla delivered strong results across all key performance indicators even though the Covid-19 pandemic disrupted consumer behaviour, global supply chains and the global economy in unprecedented ways. Due to our strong positions in retail and firm execution throughout our value chain, we managed to keep our milk price stable at a competitive level during the crisis, with a performance price of 37.0 EURcent/kg of milk. Our brands performed exceptionally well, resulting in a historically high branded volume growth of 10.4 per cent, mainly driven by increased dairy consumption at home. Despite the challenges caused by Covid-19 hitting Arla from farmers throughout our production lines to our sales organisation, we managed to accommodate large swings in volumes and in the composition of our product portfolio, while also maintaining good cooperation with our customers. At the same time our transformation and efficiency programme delivered results ahead of expectations, at EUR 69 million.

MARKET OVERVIEW

Unparalleled disruption due to Covid-19

In the first half of 2020, the global macroeconomic environment was characterised by Covid-19 and the start of the economic crisis triggered by it. Due to lockdowns, curfews and other containment measures restricting movement and travel first in China in early 2020, followed in March by most of Europe and the US, the global food industry experienced logistics and supply chain challenges. The environment remained challenging even after the measures were eased in most countries.

Customer and consumer behaviour changed significantly even though the impact of the economic crisis is yet to be felt by consumers on a larger scale, and in their spending on dairy products. Nevertheless, as restaurants, cafes and canteens closed down, consumers cooked more and more at home, and in many markets, they engaged in "panic buying" at the beginning of the crisis, stocking up large quantities of essential foods. During the lockdown consumers made fewer trips to grocery stores, which meant larger baskets at a single shopping and heightened reliance on online grocery shopping. These changes caused significant swings in demand for dairy products that will very likely continue in the second half of 2020 as well, along with the growth in e-commerce, especially in case a second wave of Covid-19 hits the markets.

Another consequence of the pandemic is severe uncertainty around the macroeconomic outlook. When the pandemic arrived to the Western world in early spring, an economic slowdown was already forecasted by analysts for 2020. With the Covid-19 crisis hitting many nations' economies hard, the depth of the crisis and the speed of the recovery is still largely uncertain, partly because currently large government help packages mitigate the impact in most countries.

The economic disruption caused by the pandemic also affected exchange rates, however with a mixed impact and volatile changes across core Arla currencies. Compared to the first half of 2019 SEK decreased towards EUR, while USD increased. The GBP was almost flat against EUR. The overall effect of currency changes on Arla's revenue was neutral during the first half of 2020.

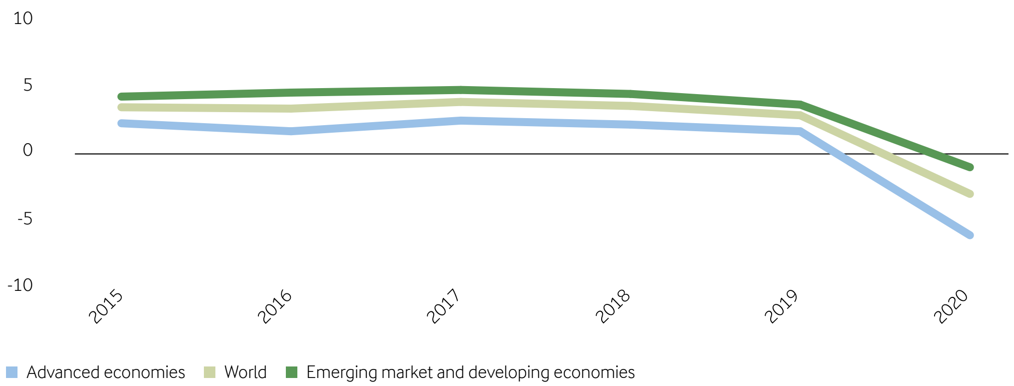
Milk markets plunged but show resilience

Notwithstanding the effects of the Covid-19 crisis, the global market for milk consumption and dairy products showed resilience during the first half of 2020 and is even projected to grow slightly by the end of the year.

That said, the export of dairy products sharply declined due to the Covid-19 lockdowns and the widespread economic slowdown, mainly affecting exports from Europe and New Zealand. The closure of restaurants, cafes and canteens around the world created a surplus of milk mainly redirected to the commodity markets. The contraction of the export market together with the milk surplus and the accumulation of unsold supplies lead to a significant drop in all commodity categories.

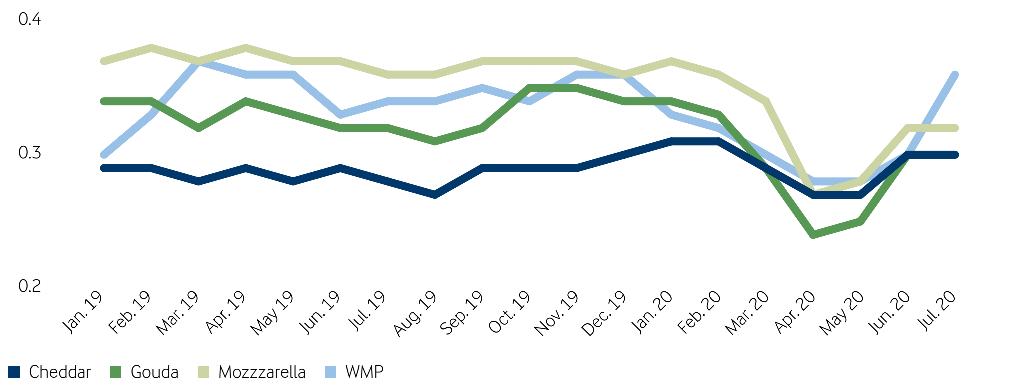
By the end of the first half of the year, commodity markets showed signs of recovery, with prices stabilizing close to, but still somewhat lower than, pre-pandemic levels. Given the economic hardships that many countries are facing, demand is likely to remain subdued in the coming months, which could keep international prices of dairy products under pressure.

Gross domestic product growth rate
(per cent)



** Source: IMF*

Commodity price developments
(standardised milk price, EUR)



** Source: GDT, Trigona Dairy Trade*

PERFORMANCE REVIEW

Stable milk price despite circumstances

Despite the extremely challenging market circumstances, Arla managed to keep the milk price stable at a competitive level, with a slight increase in the prepaid milk price in the beginning of the year, offset by a small decrease towards the end of the period. Overall, the average prepaid milk price was 34.4 EURcent/kg of milk, compared to 34.2 EURcent/kg of milk in the first half of 2019. This development is particularly strong when seen in combination with our 3.0 per cent net profit, an extraordinary result for a first half of the year.

Due to the strong profit, our most important performance indicator, the performance price ended at a healthy 37.0 EURcent/kg of milk, compared to 36.1 EURcent/kg of milk in the first half of 2019. Our strong positions in retail resulted in unprecedented branded volume growth of 10.4 per cent, which contributed largely to the strong performance price, along with the continued success of our transformation and efficiency programme, Calcium, and the strong execution throughout our value chain.

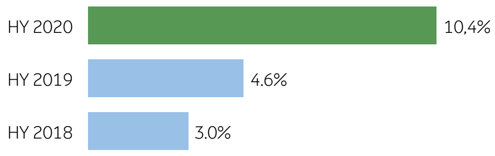
Milk intake from our farmer owners and other external sources was overall unchanged compared to the first half of 2019. While milk intake from our farmer owners slightly increased, by 0.4 per cent, milk intake from other sources decreased, leaving the overall milk intake virtually unchanged at 7 billion kilos.

Volumes and brands drive revenue growth

During the first half of 2020, revenue grew 2.8 per cent to EUR 5.4 billion, compared to EUR 5.2 billion in the first half of 2019. Revenue growth was primarily driven by higher branded volumes in retail, as well as M&A revenue impacts. The increase was offset by a significant decrease in revenue from our foodservice business segment, due to the lockdown of restaurants, canteens and cafes, and the lower commodity prices.

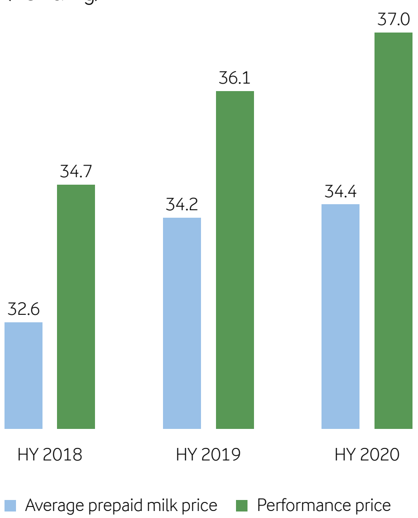
Branded volume growth positively impacted revenue by EUR 106 million or 2 per cent. Branded volume growth in retail was exceptionally strong in the UK, Germany and MENA, and from a brand perspective, Lurpak® performed above expectations, with a staggering 17.7 per cent sales growth compared to the same period last year. Prices affected revenue slightly negatively.

Branded volume growth development
HY 2018 to HY 2020



M&A positively impacted revenue by EUR 65 million or 1.2 per cent, mainly driven by our licence agreement to manufacture, market and distribute Kraft® branded cheese in MENA.

Owner milk price
(EURc/kg)



M&A positively impacted the revenue by (EUR)

65 MIO

mainly driven by our licence agreement to manufacture, market and distribute Kraft® branded cheese in MENA.

PERFORMANCE REVIEW (CONTINUED)

Extraordinary branded growth driven by increased home consumption

Arla realised extraordinary strategic branded volume growth of 10.4 per cent during the first half of 2020, far ahead of our target range of 2 to 4 per cent. This increased our branded share of revenue to 48.3 per cent, equalling an increase of 2.6 percentage points compared to the first half of 2019. This unprecedented growth was mainly due to changes in consumer behaviour during the global lockdown, as with the closure of restaurants people cooked more at home and in general consumed more dairy products.

Our best performing brands were Lurpak® with a branded volume growth of 17.7 per cent, and Puck® with a branded volume growth of 16.7 per cent. The Arla® brand and Castello® performed below expectations due to challenges in the foodservice segment of the branded sales, with a branded volume growth of 3.3 and -0.5 per cent, respectively. Our milk based beverages performed in line with expectation, at 13.1 per cent branded growth, mainly driven by Starbucks™.

Branded volume growth by global brand

Arla	3.3%	HY 2019: 5.3%
Lurpak	17.7%	HY 2019: 1.6%
Castello	-0.5%	HY 2019: -4.1%
Puck	16.7%	HY 2019: 4.2%
Starbucks / Milk based beverages / Cocio	13.1%	HY 2019: 11.9%

Commercial segment growth driven by brands

Europe Our European commercial segment was highly affected by the Covid-19 crisis in the first half of 2020, as virtually all markets went into lockdown from March. Nevertheless, the segment delivered revenue of EUR 3,178 million, compared to EUR 3,149 million in the same period last year. Our food service business in Europe experienced a steep decline due to the closure of restaurants. However, significantly increased home consumption and e-commerce sales drove strong performance of retail, which more than compensated the food service reduction. Our branded volumes in the European markets performed exceptionally, with 6.3 per cent growth, compared to 2.3 per cent in the same period last year. Brand share increased to 53 per cent, compared to 52 per cent in the first half of 2019. The growth was primarily driven by Starbucks™, Lurpak®, and the Arla® brand, with 29.5, 20.0 and 3.1 per cent respectively. From a market point of view, branded volumes grew by the highest rate in the UK at 15.9 per cent, followed by Germany and the Netherlands/Belgium/France region at 9.3 and 7.9 per cent respectively.

International Despite the challenging circumstances due to Covid-19, our international commercial segment delivered significant revenue growth of 22.1 per cent. Revenue increased to EUR 1,024 million, compared to EUR 839 million in the same period last year, which constitutes the highest revenue growth in the past five years. The main driver for the growth was MENA, with 36.7 per cent branded growth, as consumption of dairy products at home increased due to the lockdowns in the region. Our Kraft® cheese business was also a big contributor to the success in MENA. All other international markets contributed positively to revenue growth, the success primarily driven by increased branded volumes, with SEA at 10.3 per cent, North America at 5.0 per cent, and West Africa at 4.7 per cent of branded volume growth. As a result, the branded share of the revenue in the segment grew to 87 per cent.

AFI: In the first half of 2020, Arla Foods Ingredients continued to discover and deliver the wonders of whey through a strong performance supported by stable operations despite turbulence caused by Covid-19. Within the ingredients segment, the value added business grew 7.2 per cent following a high demand for our unique protein ingredients in our child nutrition and medical products. This demand growth more than offset the Covid-19 effects, namely the lower whey intake due to decreased mozzarella production for foodservice, and the reduced demand for sports nutrition. Higher market prices for lactose and a strong customer demand for dry blend quality conclude a positive first half year. Our child nutrition manufacturing business performed in line with the same period last year, but difficult trading conditions in the important Chinese market slowed growth considerably.

Trading 2020 started strongly for our trading business as the trend from the end of 2019 continued. Protein prices continued to increase whilst fat prices remained stable. However, the lockdowns in China, and across Europe and US due to Covid-19 impacted the global market gravely, resulting in a dramatic fall in prices as manufacturers started to clear stocks. Demand for Arla products remained relatively strong as the lower prices meant that areas where the trading business has a strong presence, such as MENA, continued to buy product. We were able to manage the trading product portfolio to accommodate the significant volatility resulting from "panic-buying" and the shutdown of foodservice business by working closely with our global planning team and adjusting product mix and volumes. As a result of this flexibility, Arla did not have to make any arrangements for the restriction or disposal of its members milk.

PERFORMANCE REVIEW (CONTINUED)

Continued success of all Calcium workstreams

While focusing on business continuity throughout the Covid-19 crisis, Arla is well on track to deliver the planned efficiency initiatives across Calcium workstreams, with EUR 69 million in savings. Our guidance for total savings in 2020 increased to EUR 90-100 million. The savings mainly came through improved efficiencies in indirect costs and optimised supply chain operations, where less travelling, more online meetings, reduced marketing and lower energy prices due to the Covid-19 crisis gave favourable tailwind in costs compared with the first half of 2019. The favourable impact of Covid-19 was offset by difficulties in building up further efficiencies in our supply chain, as we had to accommodate large swings in demand and in the composition of our product portfolio.

Net profit in target range

In the first half of 2020 Arla achieved a net profit of EUR 163 million, or 3.0 per cent of revenue which is at the middle of our target range (2.8 – 3.2) and 0.7 percentage points ahead of last year's. This was partly driven by increased consumption of dairy products at home.

Arla in a strong financial position

Despite the challenges posed by the Covid-19 crisis, Arla was in a very strong financial position at the end of the first half of 2020. We ended with a financial leverage of 2.6, below our target range of 2.8-3.4. This constitutes a decrease of 0.4 compared to the first half of 2019. This was driven by a positive development in EBITDA combined with a positive development in net working capital. In March 2020, Arla paid out the supplementary payment related to the net profit for 2019 according to the retainment policy.

Cash flow from operating activities increased to EUR 477 million in the first half of 2020, compared to EUR 204 million in the same period last year. This strong cash flow is primarily explained by strong underlying cash flow from operations combined with positive net working capital development.

Arla continued improving net working capital during the first half of 2020, successfully reducing net working capital to 30 days. The decrease was primarily a result of lower trade receivables. Increased working capital requirements primarily related to our international business were offset by the effect of the utilisation of receivables and supply chain finance programmes, as well as improved internal processes.

Our largest Capex investment projects continued to be executed during the Covid-19 crisis, however at a slightly slower pace than originally expected. Key Capex projects included the capacity increase in mozzarella production at our site in Branderup, Denmark, and increased activities in the construction of our powder tower in Pronsfeld, Germany. Our Capex investments, including right of use assets totalled EUR 278 million for the first half of 2020.

Net profit
3.0%
(OF REVENUE)

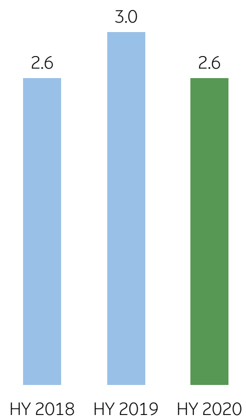
Calcium savings,
69
(MILLION EUR)

Net working capital*
30
(DAYS)

** Trailing 3 months average number.*

Our equity ratio increased to 35 per cent compared to 32 per cent at the same time last year. The current ratio is on level with prior years while the extraordinary low ratio in 2019 was attributable to the one time pay out of full profit in 2019 related to the financial year 2018.

Financial leverage development



FINANCIAL OUTLOOK

Due to the severe uncertainty around the duration and intensity of the economic and market impacts caused by the Covid-19 pandemic, Arla refrains from commenting on the external market outlook for the second half of 2020. However, based on our current knowledge and strong financial performance realised during the first half of 2020, we provide the below cautious guidance for our own full year 2020 financial performance.

We expect revenue and net profit to follow the guidance communicated in our 2019 Annual Report, while we have updated our guidance on branded volume growth, brand share, international share, Calcium and leverage following the strong developments in the first half of 2020.

Guidance 2020

Revenue

10.4-10.8

(BILLION EUR)

Profit share

2.8-3.2%

(OF REVENUE)

Calcium

≥ 90-100

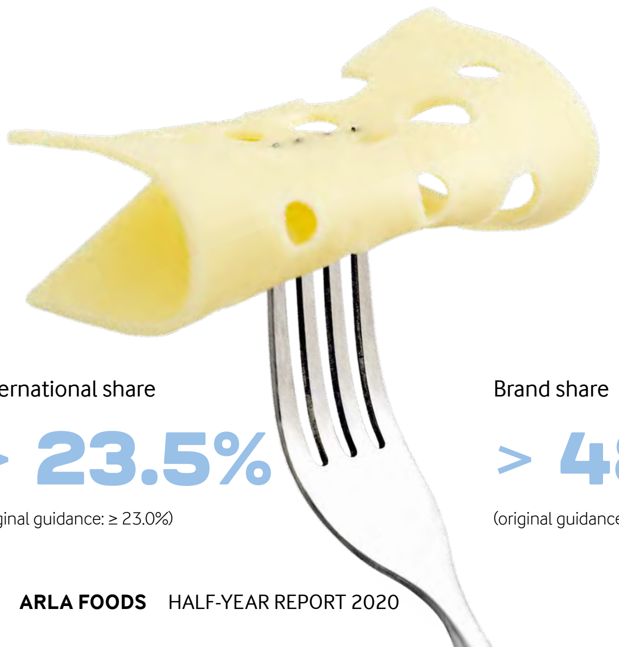
(MILLION EUR)

(original guidance: 75-100)

Leverage

≤ 2.8

(original guidance: 2.8-3.4)



International share

> 23.5%

(original guidance: ≥ 23.0%)

Brand share

> 48.5%

(original guidance: ≥ 48.0%)

Strategic branded volume driven revenue growth

≥ 6%

(original guidance: 2-4%)

Brexit exacerbates uncertainty

Little progress in the negotiations between the UK and the EU and delays due to the Covid-19 crisis created further uncertainty on the future trading relationship. Currency market volatility has continued to affect our business and will impact our 2020 results.

Following the end of the transition period on 31 December 2020, the UK will leave the EU single market and customs union. There is still a risk that no deal will be agreed, thus we are continuing to engage political stakeholders in the UK and EU, advocating for a Free Trade Agreement that supports the dairy industry. We have continued preparing the business to minimise the negative impact of a number of potential outcomes as much as possible, but we recognise that deal or no deal, there will be disruption to trade flows between the UK and EU, and additional costs to our business in the future.

OUR INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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 2020 is issued on a 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 2019. No new IFRS standards with effect from 1 January 2020 have been implemented. Refer to the management review for details on how we have managed the Covid-19 and Brexit situations. Neither of these have triggered any significant changes to our accounting estimates. For a detailed description of the accounting policies and uncertainties in accounting estimates, please refer to our consolidated annual report 2019.

The interim consolidated report has not been subject to an external audit.

INCOME STATEMENT

(EURm)	Half-year 2020	Half-year 2019	Develop-ment	Full-year 2019
Revenue	5,377	5,232	*3%*	10,527
Production costs	-4,203	-4,167	*1%*	-8,325
Gross profit	**1,174**	**1,065**	*10%*	**2,202**
Sales and distribution costs	-745	-701	*6%*	-1,416
Administration costs	-203	-187	*9%*	-389
Other operating income	17	23	*-26%*	-64
Other operating costs	-31	-39	*-21%*	39
Share of results after tax in joint ventures and associates	6	14	*-57%*	34
Earnings before interest and tax (EBIT)	**218**	**175**	*25%*	**406**
Specification:				
EBITDA	443	382	*16%*	837
Depreciation, amortisation and impairment losses	-225	-207	*9%*	-431
Earnings before interest and tax (EBIT)	**218**	**175**	*25%*	**406**
Financial income	3	13	*-77%*	10
Financial costs	-38	-44	*-14%*	-69
Profit before tax	**183**	**144**	*27%*	**347**
Tax	-17	-15	*13%*	-24
Profit for the period	**166**	**129**	*29%*	**323**
Non-controlling interests	-3	-7	*-57%*	-12
Arla Foods amba's share of profit for the period	**163**	**122**	*34%*	**311**

COMPREHENSIVE INCOME

(EURm)	Half-year 2020	Half-year 2019	Full-year 2019
Profit for the period	**166**	**129**	**323**
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Remeasurements of defined benefit schemes	23	-41	-50
Tax on remeasurements of defined benefit schemes	-3	9	11
Items that may be reclassified subsequently to the income statement:			
Value adjustments of hedging instruments	25	-22	-22
Fair value adjustment of certain financial assets	-1	-1	-2
Adjustments related to foreign currency translation	-56	1	42
Tax on items that may be reclassified to the income statement	-	-	-1
Other comprehensive income, net of tax	**-12**	**-54**	**-22**
Total comprehensive income	**154**	**75**	**301**
Allocated as follows:			
Owners of Arla Foods amba	151	68	**289**
Non-controlling interests	3	7	12
Total	**154**	**75**	**301**

BALANCE SHEET

(EURm)	Half-year 2020	Half-year 2019	Develop-ment	Full-year 2019
Assets				
Non-current assets				
Intangible assets and goodwill	941	958	*-2%*	982
Property, plant, equipment and right of use assets	2,721	2,583	*5%*	2,710
Investments in associates and joint ventures	460	453	*2%*	468
Deferred tax	30	55	*-45%*	43
Pension assets	37	-	-	16
Other non-current assets	21	22	*-5%*	24
Total non-current assets	**4,210**	**4,071**	*3%*	**4,243**
Current assets				
Inventory	1,154	1,133	*2%*	1,092
Trade receivables	771	979	*-21%*	889
Derivatives	75	37	*103%*	20
Other receivables	252	257	*-2%*	240
Securities	425	454	*-6%*	435
Cash and cash equivalents	150	115	*30%*	187
Total current assets	**2,827**	**2,975**	*-5%*	**2,863**
Total assets	**7,037**	**7,046**	*0%*	**7,106**

(EURm)	Half-year 2020	Half-year 2019	Develop-ment	Full-year 2019
Equity and liabilities				
Equity				
Common capital	1,927	1,784	*8%*	1,894
Individual capital	464	432	*7%*	498
Other equity accounts	-104	-111	*-6%*	-72
Profit for the period	163	122	*34%-*	-
Proposed supplementary payment to owners	-	-	-	127
Equity attributable to the owners of Arla Foods amba	**2,450**	**2,227**	*10%*	**2,447**
Non-controlling interests	46	53	*-13%*	47
Total equity	**2,496**	**2,280**	*9%*	**2,494**
Liabilities				
Non-current liabilities				
Pension liabilities	235	244	*-4%*	249
Provisions	25	21	*19%*	23
Deferred tax	75	103	*-27%*	81
Loans	1,887	1,743	*8%*	1,951
Total non-current liabilities	**2,222**	**2,111**	*5%*	**2,304**
Current liabilities				
Loans	740	1,123	*-34%*	776
Trade and other payables	1,123	1,130	*-1%*	1,158
Provisions	9	10	*-10%*	9
Derivatives	83	105	*-21%*	86
Current tax	9	5	*80%*	5
Other current liabilities	355	282	*26%*	274
Total current liabilities	**2,319**	**2,655**	*-13%*	**2,308**
Total liabilities	**4,541**	**4,766**	*-5%*	**4,612**
Total equity and liabilities	**7,037**	**7,046**	*0%*	**7,106**

EQUITY

(EURm)	Common capital		Individual capital				Other equity accounts						
	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 2020	**885**	**1,009**	**271**	**68**	**159**	**127**	**-94**	**12**	**10**	**-**	**2,447**	**47**	**2,494**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**163**	**163**	**3**	**166**
Other comprehensive income	20	-	-	-	-	-	25	-1	-56	-	-12	-	-12
Total comprehensive income	**20**	**-**	**-**	**-**	**-**	**-**	**25**	**-1**	**-56**	**163**	**151**	**3**	**154**
Payments to owners	-	-	-10	-4	-7	-	-	-	-	-	-21	-	-21
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-4	-4
Supplementary payment related to 2019	-	-	-	-	-	-127	-	-	-	-	-127	-	-127
Foreign exchange adjustments	13	-	-	-2	-11	-	-	-	-	-	-	-	-
Total transactions with owners	**13**	**-**	**-10**	**-6**	**-18**	**-127**	**-**	**-**	**-**	**-**	**-148**	**-4**	**-152**
Equity at 30 June 2020	**918**	**1,009**	**261**	**62**	**141**	**-**	**-69**	**11**	**-46**	**163**	**2,450**	**46**	**2,496**
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**

CASH FLOW

(EURm)	Half-year 2020	Half-year 2019	Full-year 2019
EBITDA	443	382	837
Reversal of share of results in joint ventures and associates	-6	-14	-34
Change in net working capital	-14	-76	79
Change in other receivables and other current liabilities	69	8	-37
Reversal of other operating items without cash impact	18	-51	16
Dividends received from joint ventures and associates	6	-	8
Interest paid	-28	-33	-69
Interest received	1	2	3
Taxes paid	-12	-14	-30
Cash flow from operating activities	**477**	**204**	**773**
Investment in intangible fixed assets	-29	-22	-52
Investment in property, plant and equipment	-193	-195	-425
Sale of property, plant and equipment	17	16	21
Operating investing activities	-205	-201	-456
Sale of financial assets	11	20	37
Acquisition of enterprises	0	-163	-168
Sale of enterprises	-	6	16
Financial investing activities	11	-137	-115
Cash flow from investing activities	**-194**	**-338**	**-571**
Supplementary payment regarding the previous financial year	-127	-289	-289
Paid in and out from equity regarding individual capital instruments	-21	-23	-24
Paid out to non-controlling interests	-4	-	-15
Loans obtained, net	-117	483	295
Repayment of lease debt	-33	-32	-66
Payment to pension liabilities	-17	-9	-37
Cash flow from financing activities	**-319**	**130**	**-136**
Net cash flow	**-36**	**-4**	**66**

(EURm)	Half-year 2020	Half-year 2019	Full-year 2019
Cash and cash equivalents at 1 January	187	119	119
Net cash flow for the year	-36	-4	66
Exchange rate adjustment of cash funds	-1	-	2
Cash and cash equivalents at 30 June	**150**	**115**	**187**
Free operating cash flow			
Cash flow from operating activities	*477*	*204*	*773*
Operating investing activities	*-205*	*-201*	*-456*
Free operating cash flow	**272**	**3**	**317**
Free cash flow			
Cash flow from operating activities	*477*	*204*	*773*
Cash flow from investing activities	*-194*	*-338*	*-571*
Free cash flow	**283**	**-134**	**202**

Strong operating cash flow

Cash flow from operating activities increased by EUR 273 million to EUR 477 million compared to EUR 204 million in the first half of last year. The strong cash flow was a result of higher EBITDA.

Cash flow from operating investment activities amounted to EUR -205 million which was consistent with the level at first half of last year. Key CAPEX projects included the capacity increase in mozzarella production at our site in Branderup, Denmark and the construction of our new powder tower in Pronsfeld, Germany.

Free operating cash flow totalled EUR 272 million representing an improvement of EUR 269 million compared to the first half of last year.

A supplementary payment of EUR 127 million from the 2019 profit allocation was paid out in March 2020. Individual capital of EUR 21 million were paid out to owners who either resigned from Arla or retired.

The strong cash flow in the period resulted in a net reduction of interest-bearing debt amounting to EUR 261 million compared to end of last half-year. Cash and cash equivalents was EUR 150 million, compared to EUR 115 million at the end of last half-year.

The cash flow developed better than expected and both the leverage and the equity ratio at half year are considered to be at healthy levels.

REVENUE

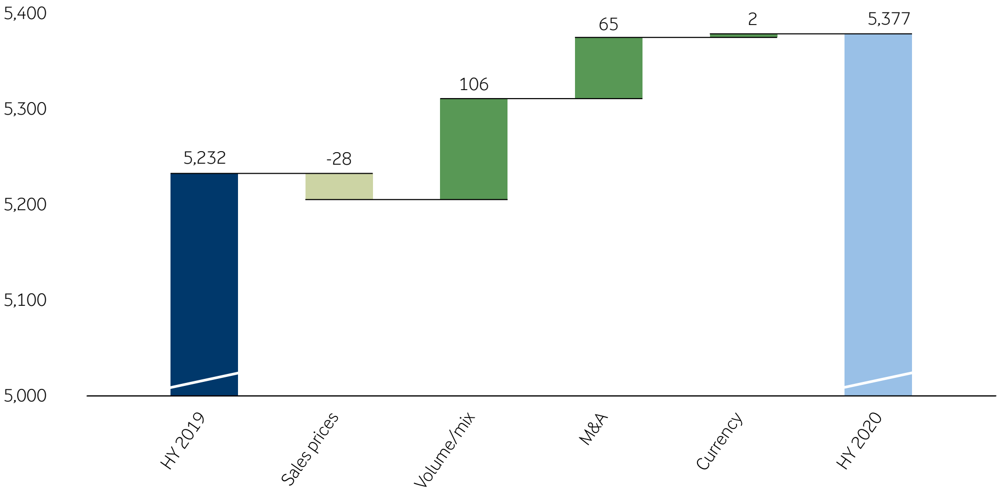
Revenue up following sales of more branded products

Revenue increased by EUR 145 million or 2.8 per cent to EUR 5,377 million, compared to EUR 5,232 million in the first half of last year. Changed sales mix with higher sales of branded products contributed to an increase of EUR 106 million while prices decreased revenue by EUR 28 million.

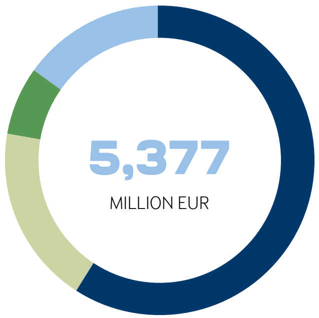
M&A activities in 2019 including the acquisition in Bahrain, a later license agreement to sell and distribute Kraft branded cheese in MENA and the divestment of the remaining Allgäu-activities contributed to a net revenue increase of EUR 65 million.

For more information on the development of our commercial segments refer to the Financial review on page 13.

Development in revenue
(EURm)

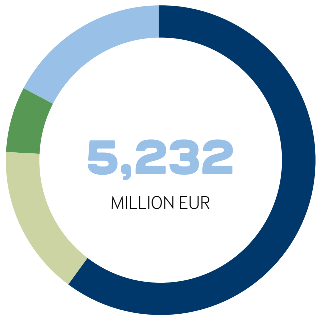


Revenue split by commercial segment, Half-year 2020



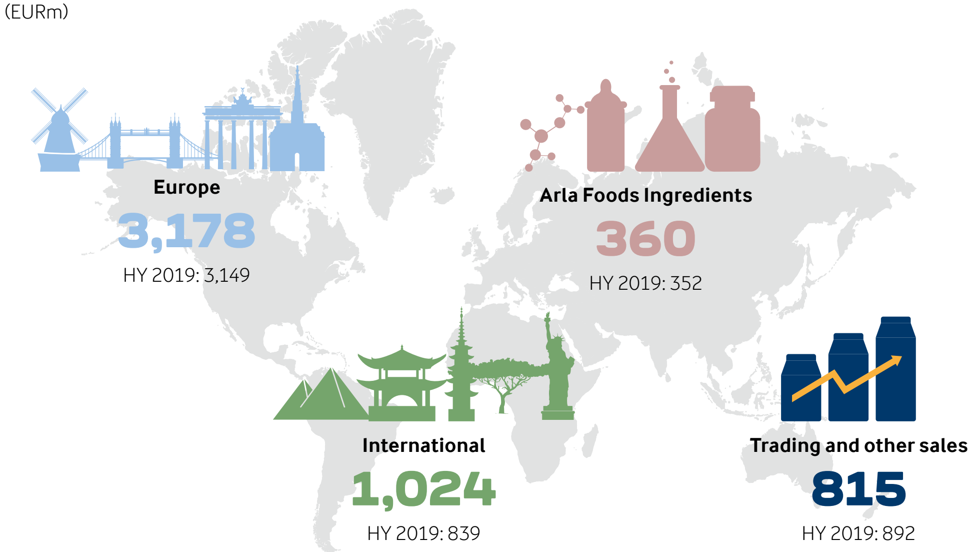
- Europe 59%
- International 19%
- Arla Foods Ingredients 7%
- Trading and other sales 15%

Revenue split by commercial segment, Half-year 2019



- Europe 60%
- International 16%
- Arla Foods Ingredients 7%
- Trading and other sales 17%

Revenue by commercial segment, Half-year 2020
(EURm)



COSTS

Calcium continues to deliver cost savings

Operational costs amounted to EUR 5,151 million compared to EUR 5,055 million in the first half of last year, representing an increase of 1.9 per cent.

The cost of production increased to EUR 4,203 million compared to EUR 4,167 million in the first half of last year.

Excluding the cost of raw milk, the cost of production increased EUR 31 million to EUR 1,729 million compared to EUR 1,698 million in the first half of last year. The sales of more branded products resulted in additional cost. This was partly offset by cost savings achieved through our transformation programme Calcium. Finally, production cost increased due to the effect of M&A activities.

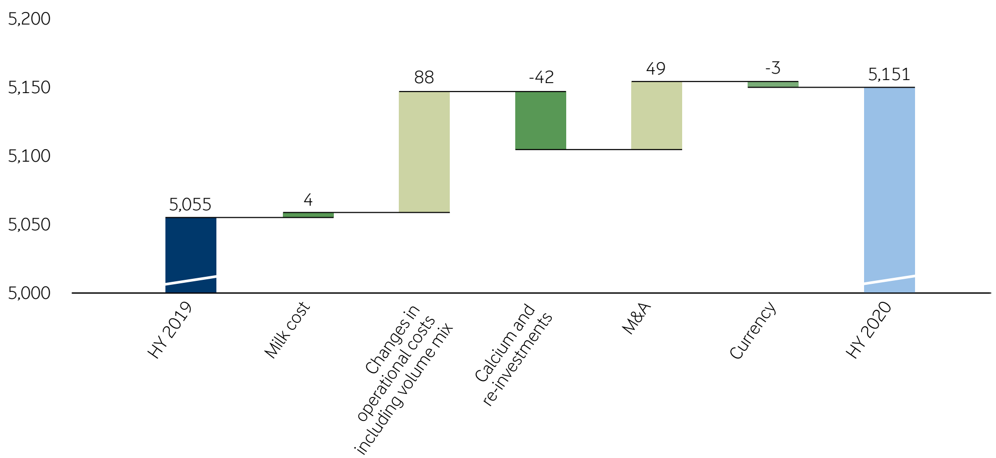
The cost related to weighed-in raw milk increased by EUR 4 million. The prepaid milk price to farmer owners increased EUR 21 million compared to first half of last year. The costs of other milk decreased by EUR 17 million.

Sales and distribution costs increased primarily within our International business due to higher activity level while marketing spend was at the same level as the first half of last year.

Administration costs increased by EUR 16 million primarily due to increased salary and IT costs. The cost of salaries includes the effect from a change in holiday accrual principles in Denmark.

Staff costs increased to EUR 667 million, compared to EUR 625 million in the first half of last year, due to increased cost within production, insourcing of distribution activities in the UK, higher sales activities within International and M&A effect from the Bahrain acquistion in 2019.

Development in operational costs
(EURm)



Operational costs split by functions (EURm)	**Half-year 2020**	**Half-year 2019**
Production costs	4,203	4,167
Sales and distribution costs	745	701
Administration costs	203	187
Total	**5,151**	**5,055**
Specification:		
Weighed-in raw milk	2,473	2,469
Other production materials*	897	884
Staff costs	667	625
Transportation costs	323	328
Marketing costs	112	116
Depreciation, amortisation and impairment	225	206
Other costs**	454	427
Total	**5,151**	**5,055**
Average number of full-time employees	19,610	19,016

**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 2020**		**Half-year 2019**	
	mkg	EURm	mkg	EURm
Owner milk	6,360	2,228	6,332	2,207
Other milk	625	245	684	262
Total	**6,985**	**2,473**	**7,016**	**2,469**

NET WORKING CAPITAL

Strong net working capital position

Net working capital decreased by EUR 180 million to EUR 802 million, corresponding to a decrease of 10 per cent compared to the carrying amount at 30 June 2019.

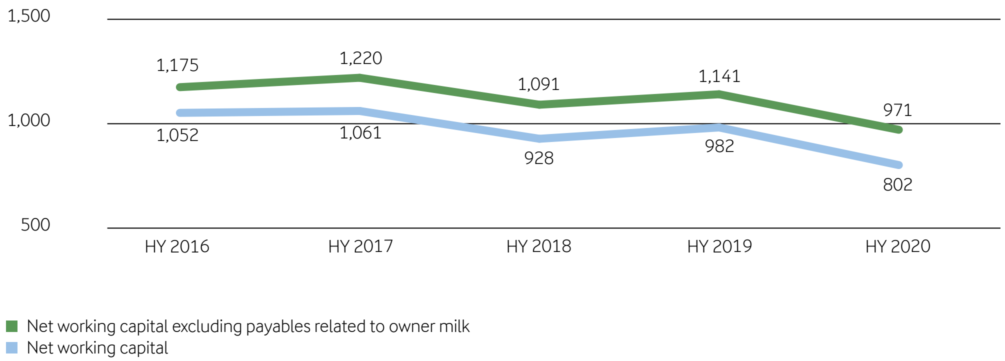
Trade receivables decreased by EUR 208 million, which was driven by utilisation of trade receivables finance programmes in the UK and Germany and by timing of customer payments, which lead to fewer days outstanding in 2020 compared to 2019.

During the Covid-19 crisis we have carefully monitored the development of trade receivable balances and not experienced any significant adverse development in overdues.

Provision for expected losses increased by EUR 5 million to a level of EUR 17 million at 30 June 2020. Inventory increased due to a slightly higher prepaid milk price and higher volumes. Trade and other payables amounting to EUR 1,123 million was consistent with the level at 30 June 2019.

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 customers and suppliers.

Net working capital
(EURm)



Net working capital (EURm)	**Half-year 2020**	**Half-year 2019**
Inventory	1,154	1,133
Trade receivables	771	979
Trade and other payables	-1,123	-1,130
Net working capital	**802**	**982**

Inventory (EURm)	**Half-year 2020**	**Half-year 2019**
Inventory before write-downs	1,182	1,153
Write-downs	-28	-20
Total inventory	**1,154**	**1,133**
Raw materials and consumables	297	275
Work in progress	332	349
Finished goods and goods for resale	525	509
Total inventory	**1,154**	**1,133**

Trade receivables (EURm)	**Half-year 2020**	**Half-year 2019**
Trade receivables before provision for expected losses	788	992
Provision for expected losses	-17	-13
Total trade receivables	**771**	**979**

CAPITAL EMPLOYED

Continued high level of investment

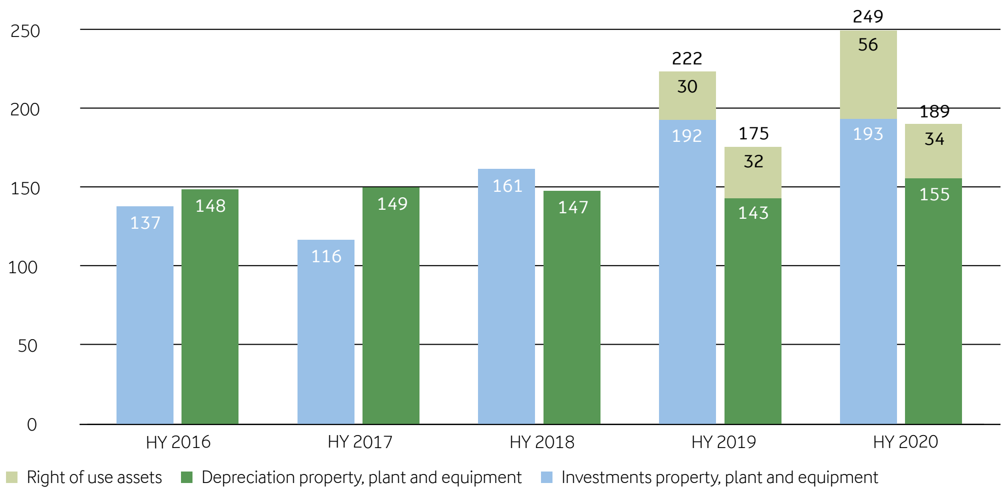
The carrying value of non-current assets increased to EUR 4,210 million compared to EUR 4,071 million 30 June 2019.

Intangible assets and goodwill reduced marginally compared to last year due to amortisation of trademarks and foreign exchange rate effects. No impairment of goodwill was made in the first half year of 2020.

The carrying value of property, plant, equipment and right of use assets increased by EUR 138 million to EUR 2,721 million. Investments in the first half year amounted to EUR 249 million while total depreciation was EUR 189 million, both consistent with the first half of last year.

The recognised value of associates and joint ventures was EUR 460 million compared to EUR 453 million 30 June 2019. This primarily consists of the carrying values 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 348 million, compared to EUR 327 million 30 June 2019. The carrying amount of the investment in COFCO includes goodwill amounting to EUR 151 million.

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



Intangible assets and goodwill (EURm)	**Half-year 2020**	**Half-year 2019**
Goodwill	668	679
Licenses and trademarks	84	90
IT and development projects	189	189
Total intangible assets and goodwill	**941**	**958**

Property, plant and equipment and right of use assets (EURm)	**Half-year 2020**	**Half-year 2019**
Land and buildings	971	911
Plant and machinery	1,140	1,069
Fixtures and fittings, tools and equipment	214	205
Assets in the course of construction	396	398
Total property, plant and equipment and right of use assets	**2,721**	**2,583**

Hereof right of use assets (EURm)	**Half-year 2020**	**Half-year 2019**
Land and buildings	127	93
Plant and machinery	16	24
Fixtures, fittings, tools and equipment	83	79
Total right of use assets	**226**	**196**

Associates and joint ventures (EURm)	**Half-year 2020**	**Half-year 2019**
Share of equity in COFCO/Mengniu	197	179
Goodwill in COFCO/Mengniu	151	148
Share of equity in other associates	78	90
Recognised value of associates	**426**	**417**
Share of equity in other joint ventures	34	36
Recognised value of associates and joint ventures	**460**	**453**

FUNDING AND PENSIONS

Increased net interest-bearing debt

The Group's financial leverage was 2.6, representing an improvement of 0.4 compared to the first half of last year. Despite high CAPEX investments net interest-bearing debt decreased as a result of strong operational cash flow and prolonged payment terms provided by government's Covid-19 funding programmes. Pension liabilities amounted to EUR 235 million compared to EUR 244 million at 30 June 2019. The position at 30 June 2020 excludes a UK pension net asset of EUR 37 million recognised separately and not included in the calculation of net interest-bearing debt and leverage. The UK pension scheme was only in a marginal liability on a net basis at 30 June 2019.

The maturity profile of debt increased to 5.8 years compared to 4.3 years in the same period last year. Average maturity is affected by lapse of time, refinancing or obtainment of new committed facilities and the level of net interest-bearing debt. Average interest costs, excluding pensions, were 2.4 per cent compared to 3.1 per cent in the first half of last year.

The liquidity reserves increased from EUR 378 million at 30 June 2019 to EUR 701 million mainly as a result of lower net interest-bearing debt, obtaining new loans and utilisation of extension options on existing facilities. Due to the very strong liquidity position no exceptional measures were taken to secure liquidity during the uncertain market conditions from Covid-19. As a contingency Arla established a European Commercial Paper program to broaden our funding facilities.

Leverage

2.6

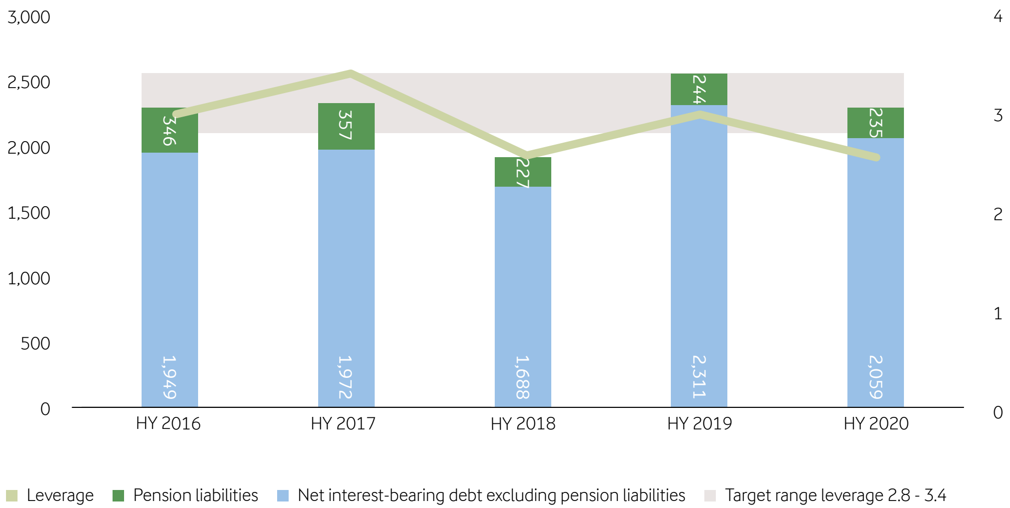
Half-year 2020

Leverage

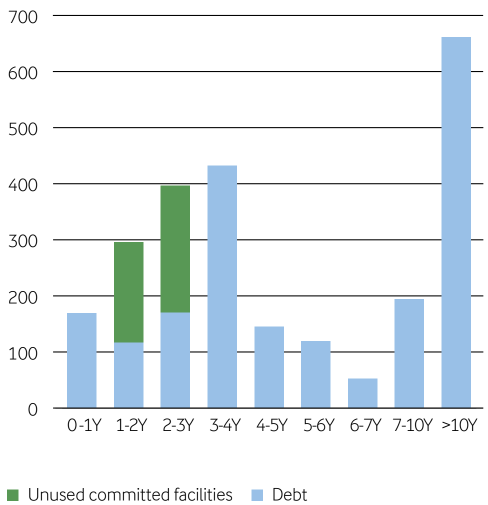
3.0

Half-year 2019

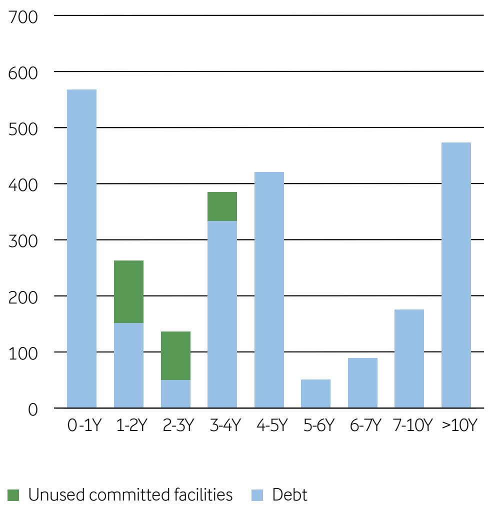
Net interest-bearing debt
(EURm) (Leverage)



Maturity of net interest-bearing debt excluding pension liabilities at 30 June 2020
(EURm)



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

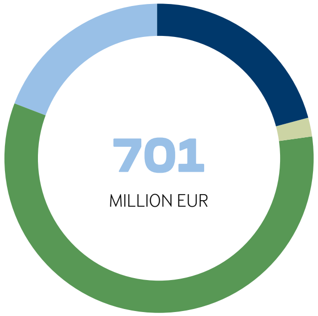


FUNDING AND PENSIONS (CONTINUED)

Liquidity reserves (EURm)	**Half-year 2020**	**Half-year 2019**
Cash and cash equivalents	150	115
Securities (free cash flow)	11	8
Unutilised committed loan facilities (maturity > 1 year)	406	250
Unutilised other loan facilities	134	5
Total	**701**	**378**

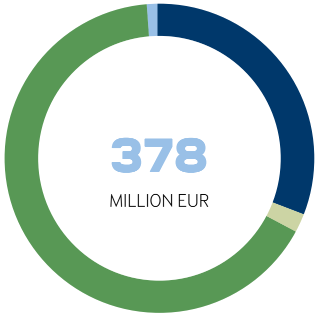
Exchange rates	Closing rate			Average rate		
	Half-year 2020	**Half-year 2019**	**Change**	**Half-year 2020**	**Half-year 2019**	**Change**
EUR/GBP	0.914	0.897	*-1.9%*	0.873	0.873	*0.0%*
EUR/SEK	10.489	10.563	*0.7%*	10.660	10.510	*-1.4%*
EUR/DKK	7.452	7.464	*0.2%*	7.465	7.465	*0.0%*
EUR/USD	1.124	1.138	*1.2%*	1.102	1.130	*2.5%*
EUR/SAR	4.217	4.264	*1.1%*	4.137	4.239	*2.4%*

Liquidity reserves, Half-year 2020



- Cash and cash equivalents 21%
- Securities (free cash flow) 2%
- Unutilised committed loan facilities 58%
- Unutilised other loan facilities 19%

Liquidity reserves, Half-year 2019



- Cash and cash equivalents 31%
- Securities (free cash flow) 2%
- Unutilised committed loan facilities 66%
- Unutilised other loan facilities 1%

Pension liabilities (EURm)	**Half-year 2020**	**Half-year 2019**
Present value of funded liabilities	1,662	1,607
Fair value of plan assets	-1,473	-1,373
Deficit of funded plans	**189**	**234**
Present value of unfunded liabilities	9	10
Net pension liabilities recognised	**198**	**244**
Presented as:		
Pension assets	-37	-
Pension liabilities	235	244
Net pension liabilities recognised	**198**	**244**

The UK pension scheme represented a net asset and the Swedish pension scheme represented a net liability.

Assumptions for the actuarial calculations	**Half-year 2020**	**Half-year 2019**
Discount rate, Sweden	1.5%	1.8%
Discount rate, UK	1.5%	2.4%
Expected payroll increase, Sweden	2.3%	2.3%
Expected payroll increase, UK	2.8%	2.5%
Inflation (CPI), Sweden	1.4%	2.0%
Inflation (CPI), UK	1.7%	2.1%

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.

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

Innovation pipeline is defined as the net incremental revenue generated from innovation projects up to 36 months from their launch.

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

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

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.

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.

Profit margin is a measure of profitability. It is the amount by which revenue from sales exceeds costs in a business.

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 segment contains products of Arla Foods Ingredients 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.

WMP is an abbreviation referring to whole milk powder.

Project management: Consolidation and external reporting, Arla. Design and production: We Love People. Translation: Semantix Photos: Arla.

CORPORATE CALENDAR

Financial reports and major events

11 FEBRUARY 2021

Announcement of the 2020 results

25 FEBRUARY 2021

Publication of the 2020 Annual Report

3 SEPTEMBER 2020

Publication of the consolidated half-year report

8-9 OCTOBER 2020

Meeting of the Board of Representatives

24-25 FEBRUARY 2021

Meeting of the Board of Representatives

Arla Foods amba
Sønderhøj 14
DK-8260 Viby J.
Denmark
CVR no.: 25 31 37 63

Phone +45 89 38 10 00
E-mail arla@arlafoods.com

www.arla.com

Arla Foods UK plc
4 Savannah Way
Leeds Valley Park
Leeds, LS10 1 AB
England

Phone +44 113 382 7000
E-mail arla@arlafoods.com

www.arlafoods.co.uk