



INVESTOR ANNOUNCEMENT

21-02-2018

Annual Results 2017: Quality of business improved due to brand investment, international expansion, and product innovation

Strong performance by Arla Foods' global brands, international markets, and Ingredients business ensured a year of high growth for dairy cooperative Arla Foods in 2017, as it delivered a 27.4 per cent increase in pre-paid milk price to its farmer owners, and a net profit of 2.8 per cent of revenue within its target range.

This was achieved in another volatile year in the global dairy market characterised by significant shifts in market prices, which supported an increase in sales prices of EUR 1 billion.

- Group revenue increased by 8.1 per cent to EUR 10.3 billion driven by higher sales prices, increased branded share of sales, and a better geographical and product mix
- 27.4 per cent increase in pre-paid milk price to farmer owners, and an average performance price of 38.1 EUR-cent/kg
- 10.1 per cent growth in Arla® brand revenue
- 13.2 per cent increase in revenue from International markets
- 19.6 per cent revenue growth in Arla Foods Ingredients

Core to the cooperative's Good Growth 2020 Strategy is a focus on meeting increasing demand from consumers around the world for dairy products, as part of a healthier and more natural lifestyle. The Arla® brand, which is at the forefront of this commitment, registered strong gains in many markets, propelled by organic launches in the Middle East, cream cheese launches in the US, and high demand for Arla's innovative skyr and protein products in Europe.

Commenting on the 2017 results, Arla Foods' CEO Peder Tuborgh, says: "In 2017, we delivered a strong performance built on the good balance of brands, categories, and geographies that we have in our business to drive growth. Most importantly, this enabled us to pay out significantly higher milk prices to our farmer owners and utilize our balance sheet to enable the substantial capital investments we are making in 2018."

Branded growth to counter market volatility

Branded growth remains crucial for Arla Foods because it helps offset market and raw material price volatility, having greater impact on non-branded products. In 2017, Arla Foods grew its share of branded business to 44.6 per cent – near the long-term ambition in Good Growth Strategy 2020 of 45 per cent.

This has enabled the Arla® brand to capitalise on increasing demand for dairy as part of a healthier lifestyle from consumers around the world. Strong gains in many markets with Arla® skyr as an

example of this trend, performing particularly impressively in the German market showing a revenue growth of 94 per cent, and Arla® protein drinks, launched into six new markets in 2017 and now available in 14 markets worldwide.

Internationally, cream cheese launches propelled growth in the US, while Arla® branded organic milk was launched in the Middle East. Arla Foods' strategic brands all performed well in 2017, mainly driven by increased sales prices and a strategic branded volume driven revenue growth of 3.0 per cent:

- Arla® grew 10.1 per cent in sales, of which 3.4 per cent was driven by higher volumes
- Lurpak® grew 8.3 per cent in sales, despite negative volume growth of -2.7 per cent
- Castello® grew 3.1 per cent in sales, of which 2.7 per cent was driven by higher volumes
- Puck® grew 6.8 per cent in sales, of which 4.4 per cent was driven by higher volumes

Strong revenue growth mainly driven by higher sales prices

Commenting on revenue, Arla Foods' CFO Natalie Knight, says: "This is the single biggest organic revenue increase inside one year in company history when you don't count mergers. It was driven by our continued drive into international markets as well as our focus on growing and developing our strategic brands on all markets."

The International commercial segment, which comprises 16 per cent of Arla Foods total revenue, showed a strong performance throughout 2017. International sales to retail and foodservice customers delivered a 13.2 per cent increase in revenue to reach an all-time high, achieving EUR 1,616 million.

Increasing global demand for dairy products is enabling growth, and Arla Foods' international priorities include:

- Growing demand for dairy in Sub-Saharan Africa, where disposable incomes are increasing and more nutritious foods are sought
- A new appetite for organic products in the Middle East, where provenance, traceability, and food quality are paramount
- The growth of the foodservice sector in China, where trust in Arla Foods' European farmers and supply chain practices is driving confidence in a population that is rapidly changing its eating habits, demanding more on-the-go dairy.

As Arla Foods' largest commercial market, Europe showed solid performance in 2017 with total revenue increasing by 3.9 per cent to EUR 6,568 million. This reflects the longer-term rebound in demand for natural, whole fat dairy products such as butter and cheeses as well as the trend towards convenient high-protein products.

Arla Foods continues to deliver a strong financial position, reporting a leverage of 2.6 safely below its target range of 2.8 -3.4, and a solvency ratio of 36 per cent.

Innovation and investment enhance product mix

For Arla Foods Ingredients, a 100 per cent owned subsidiary of Arla Group, 2017 was another strong year, showing significant top and bottom line growth driven by innovation in its specialty protein range. As a global leader in whey-based ingredients, Arla Foods Ingredients supports a wide range of

categories from bakery, beverages, dairy, and ice cream to clinical, infant and sports nutrition. Sold in more than 90 countries, revenue grew 19.6 per cent to EUR 651 million driven by the sale of higher volumes in Arla Infant Milk Formula Business to Business as well as strong price and volume growth in the value-added protein segment.

Expectations for 2018

Arla Foods' Good Growth 2020 Strategy remains key for strengthening brands and business in 2018. The EUR 527 million investment plan recently announced will drive branded and international growth with increasing investments in innovative technology and new, expanded, and improved production capacity to enable this. Strategic growth markets such as Middle East and North Africa, China, South-East Asia, Sub-Saharan Africa, and the US remain in focus for 2018.

Revenue in 2018 is expected to be at a similar level of between EUR 10 to 10.5 billion as a result of higher milk volumes and an improving product mix, which are likely to be largely offset by expected negative currency developments. Arla Foods will continue to target a net profit share for 2018 in the range of 2.8 to 3.2 per cent of revenue, but expects seasonality to have a high impact on the 2018 half-year results, which are expected to be below the annual target range.

“We welcome an even more consumer-driven dairy market, where inclusiveness with the whole value chain and holistic responsibility will be more important than ever. As a farmer-owned dairy company we must meet these demands by being transparent and using the tools we have in our quality assurance programme Arlagården®, to bring consumers and customers closer to Arla,” says Peder Tuborgh.

Income statement

(EURm)	Note	2017	2016	Development
Revenue	1.1	10,338	9,567	8%
Production costs	1.2	-8,063	-7,177	12%
Gross profit		2,275	2,390	-5%
Sales and distribution costs	1.2	-1,584	-1,642	-4%
Administration costs	1.2	-419	-435	-4%
Other operating income	1.3	71	91	-22%
Other operating costs	1.3	-39	-29	34%
Gain from sale of enterprise	3.6	44	120	-63%
Share of results after tax in joint ventures and associates	3.4	37	10	270%
Earnings before interest and tax (EBIT)		385	505	-24%
<i>Specification:</i>				
<i>EBITDA excluding gain from sale of enterprise</i>		694	719	-3%
<i>Gain from sale of enterprise</i>	3.6	44	120	-63%
<i>Depreciation, amortisation and impairment losses</i>	1.2	-353	-334	6%
Earnings before interest and tax (EBIT)		385	505	-24%
Financial income	4.1	13	7	86%
Financial costs	4.1	-77	-114	-32%
Profit before tax		321	398	-19%
Tax	5.1	-22	-42	-48%
Profit for the year		299	356	-16%
Minority interests		-14	-9	56%
Arla Foods amba's share of profit for the year		285	347	-18%

Balance sheet

(EURm)	Note	2017	2016	Development
Assets				
Non-current assets				
Intangible assets	3.1	811	825	-2%
Property, plant and equipment	3.3	2,212	2,310	-4%
Investments in associates	3.4	401	434	-8%
Investments in joint ventures	3.4	53	51	4%
Deferred tax	5.1	43	74	-42%
Other non-current assets		31	20	55%
Total non-current assets		3,551	3,714	-4%
Current assets				
Inventory	2.1	1,126	950	19%
Trade receivables	2.1	942	876	8%
Derivatives		19	31	-39%
Current tax		1	1	0%
Other receivables		181	222	-18%
Securities		511	504	1%
Cash and cash equivalents		91	84	8%
Total current assets		2,871	2,668	8%
Total assets		6,422	6,382	1%
Equity and liabilities				
Equity				
Common capital		1,781	1,595	12%
Individual capital		502	503	0%
Other equity accounts		-77	-65	18%
Proposed supplementary payment to owners		127	124	3%
Equity attributable to the parent company's owners		2,333	2,157	8%
Minority interests		36	35	3%
Total equity		2,369	2,192	8%
Liabilities				
Non-current liabilities				
Pension liabilities	4.7	277	369	-25%
Provisions	3.5	12	12	0%
Deferred tax	5.1	59	80	-26%
Loans	4.2	1,206	1,281	-6%
Total non-current liabilities		1,554	1,742	-11%
Current liabilities				
Loans	4.2	1,013	947	7%
Trade payables	2.1	1,098	995	10%
Provisions	3.5	11	13	-15%
Derivatives		87	168	-48%
Current tax		11	18	-39%
Other current liabilities		279	307	-9%
Total current liabilities		2,499	2,448	2%
Total liabilities		4,053	4,190	-3%
Total equity and liabilities		6,422	6,382	1%

Cash flow

(EURm)	Note	2017	2016
EBITDA		738	839
Gain from sale of enterprise	3.6	-44	-120
EBITDA excluding gain from sale of enterprise		694	719
Share of results in joint ventures and associates	3.4	-37	-10
Change in net working capital	2.1	-200	138
Change in other working capital		8	-3
Other operating items without cash impact		-10	22
Dividends received, joint ventures and associates		7	12
Interest paid		-52	-59
Interest received		5	5
Tax paid	5.1	-29	-18
Cash flow from operating activities		386	806
Investment in intangible fixed assets	3.1	-50	-58
Investment in property, plant and equipment	3.3	-248	-263
Sale of property, plant and equipment	3.3	12	16
Operating investing activities		-286	-305
<i>Free operating cash flow</i>		<i>100</i>	<i>501</i>
Acquisition of enterprises	3.6	-7	-
Sale of enterprises	3.6	74	138
Financial investing activities		67	138
Cash flow from investing activities		-219	-167
<i>Free cash flow</i>		<i>167</i>	<i>639</i>
Supplementary payment regarding the previous financial year		-120	-108
Paid out from equity regarding terminated membership contracts		-28	-22
Loans obtained, net	4.2	32	-449
Payment to pension liabilities		-39	-45
Cash flow from financing activities		-155	-624
Net cash flow		12	15
Cash and cash equivalents at 1 January		84	70
Exchange rate adjustment of cash funds		-5	-8
Transferred to asset held for sale		-	7
Cash and cash equivalents at 31 December		91	84