

# DELIVERING GROWTH THROUGH TRUSTED BRANDS

CONSOLIDATED  
HALF-YEAR REPORT

# 2021



## VISION

**CREATE THE  
FUTURE OF DAIRY  
TO BRING HEALTH AND  
INSPIRATION TO THE  
WORLD, NATURALLY.**



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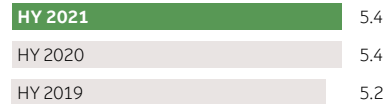
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# HALF-YEAR 2021 PERFORMANCE AT A GLANCE

## Revenue

**5.4**

(billion EUR)

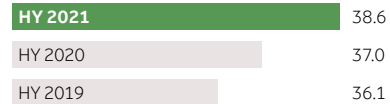


2021 target: EUR 10.3-10.6 billion

## Performance price <sup>1)</sup>

**38.6**

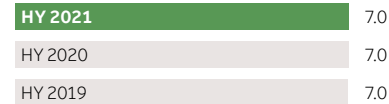
(EUR-cent/kg)



## Milk volume

**7.0**

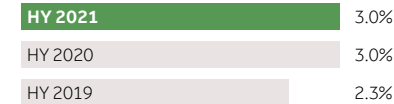
(billion kg)



## Profit share <sup>2)</sup>

**3.0%**

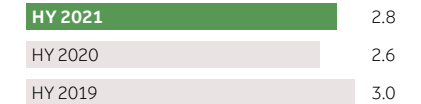
(of revenue)



2021 target: 2.8-3.2%

## Leverage

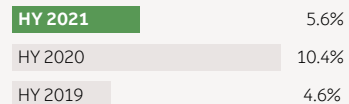
**2.8**



2021 target: 2.8-3.4

## Strategic branded volume driven revenue growth

**5.6%**



2021 target: 1-3%

## Brand share

**49.2%**



2021 target: >50%

## International share <sup>3)</sup>

**24.5%**



2021 target: >23.5%



**29**

(million EUR)



Accumulated savings at HY 2021: 383

## Calcium savings excluding estimated inflation

**82**

(million EUR)



Accumulated savings at HY 2021: 562

# HIGH ENGAGEMENT TO DEVELOP OUR COOPERATIVE



## Sound half-year results but increasing uncertainty ahead

We close another turbulent half year with good results and a satisfactory performance price to our farmer owners despite the Covid-19 pandemic stretching longer into 2021 than expected. As the economy picks up ahead of us lies a challenging second half of the year. Inflation is increasing around the world, pushing dairy production costs up both for farmers and Arla as a company.

## Positive milk price development

We entered 2021 in a strong position, and now we close the half year on a positive note, as our retail business, supported by our strong brand portfolio, is flourishing. Thanks to the strong commitment from Arla's farmer owners and employees all over

the world, we continue to adapt to the ongoing challenges presented by the pandemic as markets and consumers adjust their behaviour.

Month by month we saw the pre-paid milk price increase in the first half of 2021, following increased commodity prices and a solid performance across the business, and we close the half year with a competitive performance price of 38.6 EUR-cent/kg of milk. This is a welcome but also necessary development as dairy farmers all over Europe are facing increasing production costs. The high inflationary pressure results in rising prices of feed, energy and wages, putting extra strain on farmers who are already pressured by the growing requirements from politicians and consumers.

“ THANKS TO THE CONSIDERABLE EFFORT WE AS FARMER OWNERS PUT INTO THE CLIMATE CHECK PROGRAMME WE HAVE A STRONG TOOL TO GUIDE OUR NEXT STEPS ON OUR SUSTAINABILITY JOURNEY ”

## Among the world's most climate-efficient dairy farmers

Data from approximately 8,000 Climate Checks across Arla farms in 2020 have now been validated and analysed, documenting that Arla farmers are among the most climate-efficient dairy farmers in the world. Thanks to the considerable effort we as farmer owners have put into the Climate Check programme we have a strong tool to guide our next steps on our sustainability journey, measure our progress and showcase the great work being done at the farms. Politicians and consumers have responded positively to the first results and our transparency. We now need to continue on our journey to become even more climate-efficient.

## Developing our cooperative for the future

A strong cooperative thrives on open and honest

dialogue and our right to voice our opinions, ask questions and bring ideas forward. Through the initiative Coop 2.0 we aim to strengthen this aspect further as we engage in dialogue about what the future of dairy looks like, how our business and cooperative can support each other in responding to the challenges lying ahead, and how to improve our democratic processes and member engagement. As Chairman of the Board of Directors I am both happy and grateful that Arla members are eager to involve themselves in this important process of developing our cooperative for the future, and it is positive to see that there is a high level of alignment across countries on what topics to focus on.

With this in mind I am very much looking forward to getting our meeting structure back to normal as our member countries begin to reopen. Hopefully it will be possible to conduct physical meetings at all levels in a safe way as the year progresses. These meetings are key to our democracy and will be resumed as soon as possible.

## Jan Toft Nørgaard

Chairman of the Board of Directors

Performance price <sup>1)</sup>

# 38.6

(EUR-cent/kg)

HY 2021	38.6
HY 2020	37.0
HY 2019	36.1

# OUR MOMENTUM CONTINUED THROUGH EXCELLENT EXECUTION

As the impact of the Covid-19 pandemic persisted in the first half of 2021, we continued to manage our business effectively in this volatile environment and deliver a financial performance at the top end of our expectations, thanks to the unflagging commitment of our colleagues and farmer owners.

Revenue increased slightly by 1.2 per cent to EUR 5,441 million compared to EUR 5,377 million in the first half of 2020. Performance was above our industry peers leading to a pre-paid milk price to our farmer owners that increased in five consecutive months, closing on a 36.0 EURcent/kg of milk.

Driven by the pressure on supply chains during the reopening, a general inflation in prices for energy, feed, ingredients, logistic etc. has negatively influenced both our business and our owners' economy. I am pleased that during the first half we were, to a high degree, able to offset this by price increases.

Our financial position remains robust with a leverage of 2.8, the low end of our target range. Our Calcium initiatives performed above expectations, however the savings were hit hard by the increasing inflation, and we achieved net savings of EUR 29 million. This was essential to deliver our competitive performance price.

## Strong branded growth across-the-board

Following a 2020 of exceptional branded growth, most European markets and international regions continued to deliver at the top end of our expectations, leading to a 5.6 per cent volume growth for our strategic brands.

Foodservice is recovering in many markets, leading to the start of a rebalancing of demand between retail and foodservice, however it was still some way from pre-Covid-19 levels in the first half of the year as retail sales continued to dominate our performance. The on-going demand for Arla®, Lurpak®, Castello®, Puck® and Starbucks™ demonstrates how well our brand concepts resonate with consumers.

Arla Foods Ingredients secured revenue growth of 7.0 per cent, while the continued demand in retail caused a decrease in the share of milk solids sold by Global Industry Sales.

**“ TOGETHER WITH OUR FARMER OWNERS, WE CONTINUED TO RAISE THE BAR ON SUSTAINABILITY ”**

## Further action on the sustainability agenda

Together with our farmer owners, we continued to raise the bar on sustainability. After implementing the first round of Climate Checks in all seven owner countries, we have identified our overall carbon footprint average at 1.15 CO<sub>2</sub>e per litre of milk at farmgate, and we have pinpointed the five most effective levers as our first steps towards a 30 per cent reduction by 2030.

A key business priority is to find ways to commercialise our owners' climate actions, mainly through the Arla® brand. One of the latest examples is the launch of carbon neutral organic milk achieved through carbon reductions and compensation in the Netherlands, our third European market to launch this type of product.



## Expectations for the second half

In the second half, we expect the rebalancing of demand between retail and foodservice to continue to play out and slow down branded growth, while the broad inflationary environment will continue to provide challenges to the Company and to our farmers. While our recipe for managing Covid-19 has been successful, we have to manage the transition to the next normal just as well.

Before the end of the year, we plan to present our new Group strategy. Since 2015, our Good Growth strategy has successfully improved the quality and resilience of Arla, and the new strategy will build on these strengths to ensure a continued competitive milk price to our owners as well as strong value creation for our customers and consumers.

**Peder Tuborgh**  
CEO

Strategic branded volume driven revenue growth

**5.6%**



# HIGHLIGHTS

We continued our growth journey into 2021 at the same high pace as the year before, driven by high performance across our brands and segments. Combined with increasing commodity prices, this enabled us to pay out a competitive pre-paid milk price to our farmer owners. We also introduced a new member engagement platform for democratic discussion among our farmer owners to ensure a successful future for our cooperative.



## EXCEEDING OUR BRANDED GROWTH EXPECTATIONS

Covid-19 continued to impact our business with long periods of lockdowns in many markets. We increased our market share and grew our strategic brands by 5.6 per cent in the first half of 2021, driven by our strong operations, the agility of our business in a continued uncertain environment as well as high consumer confidence in Arla brands. The foodservice business slowly climbed back as restaurants started to open, and the initial decline was offset by the overall growth in retail. Our e-commerce business also continued growing at a fast pace with a revenue increase of 34 per cent compared to the same period last year.

[Read more on page 13](#)



## CALCIUM DELIVERED AS EXPECTED

Our transformation and efficiency programme, Calcium, delivered savings of EUR 82 million excluding inflation, equal to a net saving of EUR 29 million. Savings primarily came from optimised supply chain operations, in-sourcing of marketing activities and optimised trade investments. The net saving was visibly impacted by the significant increase in inflation.

[Read more on page 15](#)

## STRENGTHENING OUR FARMER DEMOCRACY

In March, we introduced Coop 2.0 to our farmer owners to kick-start a debate on how to be successful together in the future in light of the external realities we are facing. Building on 800+ lines of member feedback, we launched CoopTalks, a series of articles, podcasts and

webinars with the aim of bringing perspective on relevant topics, ranging from understanding what the future of dairy looks like, how the business and cooperative can support each other in responding to this and how to improve our democratic processes and member engagement.



## SOLID MILK PRICE TO OUR FARMER OWNERS

Continued strong brand performance and increasing commodity prices enabled Arla to pay out a strong pre-paid milk price to our farmer owners of 36.0 EUR-cent/kg, which is an increase of 1.6 EUR-cent/kg compared to the same period last year. This positions Arla among the market leaders in Europe and supports our farmer owners, who also face increasing production costs at their farms.

[Read more on page 12](#)

# HIGHLIGHTS (CONTINUED)

With Arla's Stronger People – Stronger Planet strategy we continued our focus on improving the environment for future generations, increasing access to healthy dairy nutrition and inspiring good food habits. We took further steps towards our ambition to become carbon net zero by 2050, and we reached more people with our nutritious and affordable products in emerging markets.

## LAUNCHING RECYCLABLE LURPAK® PACKAGING

In March, we started the launch of our new 100 per cent recyclable Lurpak® Spreadable tubs and lids in the UK, Denmark and Greece. In the UK alone, we sell 85 million packs of our 500 gram Lurpak® Spreadable a year, so this is a major step towards our goal of full circularity for our packaging. We plan to roll out to all markets during 2021, and we will update our pack design to incorporate on-pack recycling labels on the back of the pack to help consumers understand how they can dispose of their packaging.



## PREPARING FOR FUTURE GROWTH IN GHANA

In just three years, Arla's business in Ghana has increased its sales volumes by almost 3,000 tonnes. From the relatively small warehouse in Ghana's capital Accra, bulk bags of Dano milk powder from our Pronsfeld dairy was repacked into sachets, but the rapid growth and ambitions for the future called for better facilities. In February, we opened the upgraded facilities, which in addition to providing better working conditions for our colleagues in Ghana, will increase capacity and enable more efficient packaging.



## PROVIDING ACCESS TO AFFORDABLE NUTRITION

The recently published ATNI (Access To Nutrition Index), which assesses how top 25 global food and beverage companies contribute to the Sustainable Development Goals on nutrition, shows that Arla has consistently improved over the past five years, now ranking number five. Arla has a target to provide access to affordable nutrition to 76 million low-income consumers annually, and we are happy to have improved our accessibility score since 2016. This progress is, among other things, a result of Arla's focus on expanding rural distribution networks and empowering a female sales force in Bangladesh as well as Arla Foods Ingredients' continuous product innovation.



## SAVING 21 TONNES OF PLASTIC IN SWEDEN

We continuously work to reduce material usage and increase the amount of recyclable packaging for our products. In Sweden, we removed the plastic spoons from our KESO® Cottage Cheese, Yoggi® and Arla KO® Greek yoghurts – in total 6.9 million spoons or 21 tonnes of plastic.



# LEADING TOWARDS A SUSTAINABLE FUTURE FOR DAIRY FARMING

Externally verified data from Arla's Climate Check programme confirmed that our farmer owners are on track towards reaching Arla's science-based target of 30 per cent reduction by 2030 and towards Arla's ambition to become carbon net zero by 2050. The data will serve as a foundation for driving further carbon emission reductions at Arla farms and contribute to driving the agenda for the future of sustainable dairy farming.

## ARLA FARMERS AMONG THE MOST CLIMATE-EFFICIENT

Recently published data from our Climate Check Programme, which was verified by an external climate advisor, confirmed that Arla farmers are among the most climate-efficient dairy farmers in the world with 1.15 kg of CO<sub>2</sub>e per kilo of milk, including peatlands<sup>1</sup>.

For the last decades, our farmer owners have worked steadily towards sustainable farming and implementing green opportunities on their farms, such as circular farming practices, renewable energy and biodiversity and now also Climate Checks. Through our Climate Check programme, which is one of the world's largest externally validated set of climate data, approximately 8,000 farmer owners assessed and submitted data to more than 200 questions about their herd, feed production, energy usage etc.

The data also revealed five universal levers for a lower carbon footprint for dairy on all types of Arla farms:

- Better feed efficiency to improve milk yield
- Precision feeding to reduce surplus protein in feed ration
- A healthy and long life for the cow to improve milk yield



- Precise fertilizer management to reduce nitrogen surplus from feed production
- Better land use management to ensure better crop yields.

With governments across our European markets initiating policy and legislation to reduce carbon emissions, we have been in dialogue with politicians and officials to enhance their understanding of the positive role that dairy plays in sustainability and nutrition. Our Climate Check programme and the work our owners are doing to reduce their carbon footprint have been recognised as industry leading by the EU Commission and welcomed by governments in several of our core markets.

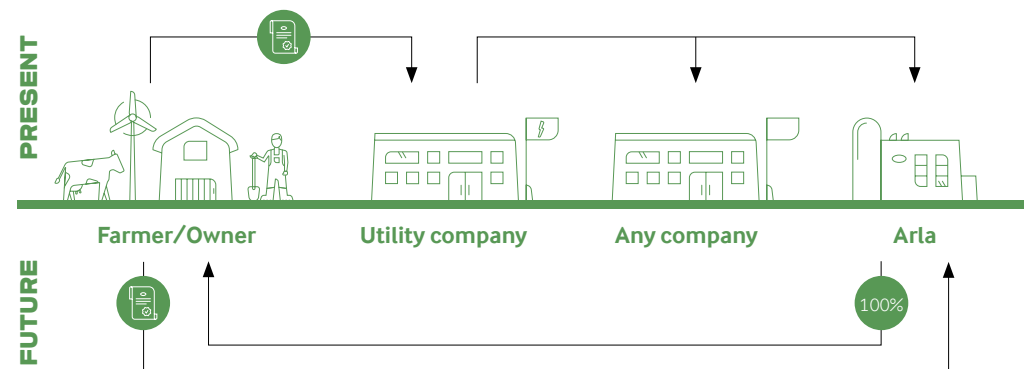
## ARLA FARMERS CLOSE THE LOOP ON RENEWABLE ENERGY

As part of Arla's carbon net zero ambition, we also aim to increase our share of renewable energy in our operations. In 2020, we bought green electricity certificates in the open market covering 41 per cent of our total electricity use in our operations. However, as 24 per cent of our farmer owners currently produce renewable energy from solar panels and wind turbines, we see a potential in closing the loop by buying Guarantees of Origin directly from our farmer owners. This will secure our farmers a better price for their power and give the dairy cooperative direct access to more green

electricity certificates. We estimate that approximately one fifth of Arla's total electricity usage can be covered by farmer-produced Guarantees of Origin<sup>2</sup>.

Technically, the loop is created via the Guarantees of Origin which are issued for the electricity from renewable sources produced on the farm. Until now, the farmers' only option was to sell their Guarantees of Origin as a commodity for resale. By selling their Guarantees of Origin directly to Arla, the other parties are left out of the transaction and the farmers are rewarded with the full market value that Arla would pay for Guarantees of Origin on the open market.

## THE GREEN POWER LOOP PRESENT AND FUTURE



<sup>1</sup>) Peatlands help preserve biodiversity by storing more carbon than other vegetation types.



# ESSENTIAL BUSINESS PRIORITIES FOR 2021

Arla's essential business priorities are the annual focus points on our strategic journey. They are set by our Executive Management Team and approved by the Board of Directors. We follow up on our progress on a monthly basis.

## CONTINUE STRONG OPERATIONS IN LIGHT OF COVID-19

Maintain operational stability and security of supply for our customers. Sustain and further develop branded market positions captured during Covid-19, while engaging and securing the safety of our employees.

● Satisfactory progress

## POWER UP GROWTH CHANNELS AND KEY CUSTOMERS

Protect and develop strategic positions with our top customers, step up e-commerce and drive new concepts for foodservice.

● Good progress

## WIN WITH FORESIGHT IN CHANGING CONSUMER TRENDS

Step up health and sustainability proposition through big plays for the Arla brand, while developing our strategic brands to capture consumers' demand for value offering.

● Good progress

## DEMONSTRATE AND ACCELERATE SUSTAINABILITY

Accelerate our sustainability agenda and demonstrate our progress, while further building on our strong farmer owner engagement and progress.

● Good progress

## DELIVER CALCIUM AND EMBED NEW WAYS OF WORKING

Deliver the last stretch of EUR >45 million to reach our 2021 target of EUR 400 million in sustainable cost savings, and continue to build our future pipeline, while anchoring the transformation and embedding Covid-19 learnings across the organisation.

● Satisfactory progress

## DELIVER MISSION-CRITICAL PROJECTS

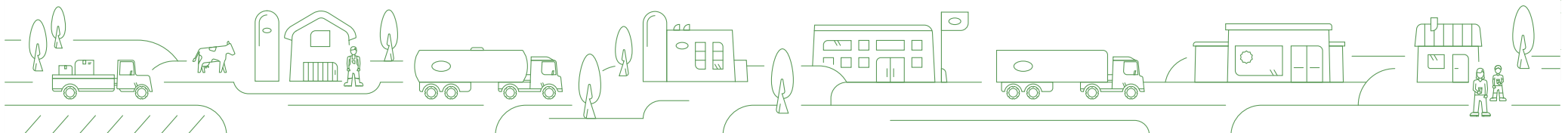
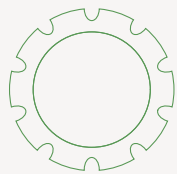
Navigate outcome of Brexit and minimise friction costs, secure more whey for AFI and deliver on key investment projects.

● Good progress

## WIN THE FUTURE

Create even stronger member relations where trust in the cooperative is further enhanced, while defining a new group strategy to set the future course for Arla.

● Satisfactory progress



# OUR PERFORMANCE REVIEW

2021 started at a high pace with strong branded growth of **5.6 per cent** despite continued uncertainty in the market due to Covid-19 impacts.

Combined with firm market milk prices and solid business execution this has enabled us to deliver a solid performance price of **38.6 EUR-cent/kg of milk**, up from 37.0 EUR-cent/kg of milk in the first half of 2020. During the first half of 2021, we continued the successful delivery of our transformation programme, Calcium, which contributed to our overall good performance.



**Torben Dahl Nyholm** CFO

# MARKET OVERVIEW

Despite the continued uncertainty caused by Covid-19, the global economy recovered fast and was growing steadily throughout the first half of 2021. The inflationary pressure caused by high economic activity led to increased global commodity prices, which hit producers hard. In a European context, the impacts of Brexit seemed to be modest due to the Free Trade Agreement between the EU and the UK.

## GLOBAL ECONOMY RECOVERED FASTER THAN EXPECTED

2021 started with Covid-19 lockdowns in many countries continuing also into the second quarter of the year. This naturally had a negative impact on the foodservice industry as restaurants, cafés and canteens were out of business for a long time. Without options to eat out, consumers continued to cook more at home, driving retail sales up in the first half of 2021. Online grocery shopping was also steadily growing, with one third of the UK's population buying groceries online at least once a week<sup>1)</sup>. The channel penetration for dairy products reached 30 per cent<sup>2)</sup>.

## HIGH INFLATIONARY PRESSURE DROVE PRICES UP

The better-than-expected economic activity and increased consumer purchasing power enabled by government support packages led to increasing inflationary pressure on raw materials, most visibly seen in steel, oil and oil-related products, construction materials and agricultural products. By 30 June 2021, raw material prices had generally increased by 60 per cent compared to the same date last year<sup>3)</sup>, and the price of a barrel of oil increased from USD 41.15 to USD 75.13 – an increase of 82 per cent. The increasing commodity prices put pressure on input costs for many manufacturing companies, including Arla.

## STABLE MILK SUPPLY IN EUROPE

The European milk intake and production increased slightly by 0.5 per cent compared to the same period last year. Milk intake and production generally decreased in big countries like Germany and France, but this was offset by growth in small countries like Ireland. The supply flow was stable, but high inflation in raw material and feed prices as well as challenging weather conditions put pressure on milk production.

## INCREASING MILK COMMODITY PRICES

European and global dairy commodity markets slowly started to recover after Covid-19. Similarly to other commodities, dairy prices increased steadily throughout the first quarter of the year and stabilised at solid levels during the second quarter. The Global Dairy Trade (GDT) Price Index was up by 15.0 per cent in early March, but stabilised again during the second quarter of the year<sup>4)</sup>.

## CALM FOREIGN EXCHANGE MARKET

The first half of 2021 was characterised by relatively stable exchange rates despite continued Covid-19 uncertainty. Compared to EUR, the average rate for USD weakened 9.3 per cent while the SEK improved 5.0 per cent. The GBP remained steady in the first half of 2021, with a slight strengthening of 0.6 per cent against the EUR.

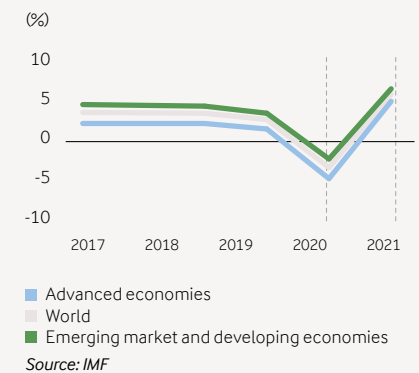
## DAIRY SECTOR IMPACTED BY BREXIT

The friction caused by Brexit impacted the UK/EU dairy sector with trade in some categories falling significantly year on year<sup>6)</sup>. In Arla, our preparation helped us navigate the new trading environment and we have only experienced minor disruption to our EU/UK trade. Brexit is however still in its early stages and the situation in the UK continues to evolve. Arla was impacted by the disruption in the local labour market with national driver shortages. We are also preparing for the UK to implement its new border procedures on 1 October 2021.

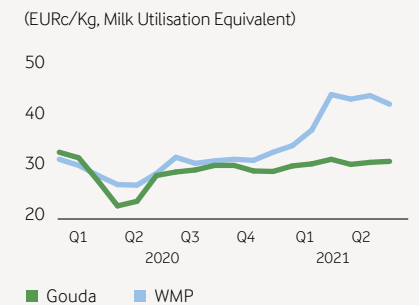
## CONTINUED UNCERTAIN ECONOMIC OUTLOOK

More than one year into the Covid-19 pandemic, there is still high uncertainty about the global economic outlook even though growing vaccine coverage lifts sentiment. The IMF, however, estimates that the unprecedented decline in 2020 could have been at least three times worse if not for extraordinary governmental support. The global economy is projected to grow by 6 per cent in 2021<sup>5)</sup>. This is 0.8 percentage points stronger than projected in October 2020, reflecting additional fiscal support in a few large economies and the expected vaccine-powered recovery in the second half of the year.

## GROSS DOMESTIC PRODUCT GROWTH RATE



## EUROPEAN DAIRY COMMODITY PRICES DEVELOPMENT



# PERFORMANCE REVIEW



## COMPETITIVE PRE-PAID MILK PRICE

Despite the continued uncertainty caused by Covid-19, Arla managed to increase the average standard pre-paid milk price to 36.0 EUR-cent/kg, which is an increase of 1.6 EUR-cent/kg compared to the same period last year. This positions Arla at a competitive level and supports our farmer owners through times of increasing production costs at their farms.

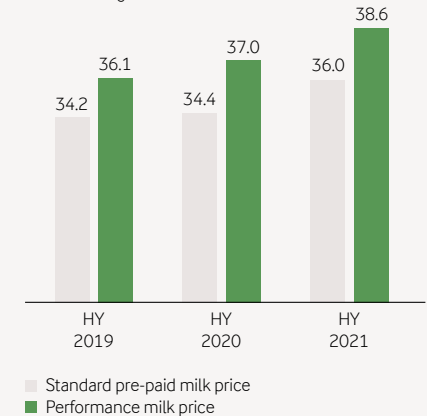
Firm execution throughout our value chain combined with increasing market milk prices and changed volume/mix contributed to achieving a solid performance price of 38.6 EUR-cent/kg compared to 37.0 EUR-cent/kg in the first half of 2020. Our transformation and efficiency programme, Calcium, contributed positively by EUR 82 million excluding inflation, equal to EUR 29 million in net savings. Milk intake from our farmer owners and other external sources was overall unchanged at 7 billion kilos, same as in the first half of 2020.

## SOLID RETAIL DRIVEN REVENUE GROWTH

During the first half of 2021, revenue increased by 1.2 per cent to to EUR 5,441 million compared to EUR 5,377 million in the same period last year. Revenue growth was primarily driven by higher sales prices and branded volumes in retail. This was partly offset by a decrease in the foodservice segment in the first quarter due to long periods of lockdowns. High consumer demand put inflationary pressure on commodity prices, and

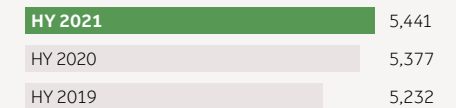
## OWNER MILK PRICE <sup>1)</sup>

(EUR-cent/kg)



## REVENUE DEVELOPMENT

(million EUR)



increasing sales prices contributed positively to the revenue increase by EUR 77 million. Currency effects had a negative impact on revenue of EUR 61 million.

<sup>1)</sup> The milk conversion factor from litre into kg was 1.02 for milk volumes until 30 June, 2021. Effective from 1 July 2021, the milk conversion factor is 1.03.

# PERFORMANCE REVIEW (CONTINUED)

## BRANDED VOLUME GROWTH DEVELOPMENT

HY 2019 to HY 2021

HY 2021	5.6%
HY 2020	10.4%
HY 2019	4.6%

## BRANDED VOLUME GROWTH BY GLOBAL BRAND



**6.9%**

HY 2020: 3.3%



**-0.8%**

HY 2020: 17.7%



**7.8%**

HY 2020: -0.5%



**3.1%**

HY 2020: 16.7%



**42.7%**

HY 2020: 13.1%



## STEADY BRANDED GROWTH IN LIGHT OF COVID-19

Following a year of exceptional branded growth, Arla's brands continued the growth journey into 2021 delivering strategic branded volume growth of 5.6 per cent, which is above our target range of 1-3 per cent. However, the exceptionally high growth rates started to normalise towards the end of the half year reaching normal levels in the last months, and we expect to see normal growth levels throughout the second half of the year. The growth in the first half of the year can partly be explained by the effects of continued lockdowns

and in-home consumption due to Covid-19 restrictions, but also by an overall executional power, brands that resonate well with consumers, new market share gains and new product launches.

Sales of Starbucks™ licensed products increased by 42.7 per cent in branded volume growth, and Castello® performed above expectations, reaching 7.8 per cent. The Arla® brand also delivered high growth of 6.9 per cent driven by high performance across most categories and sub-brands. After an unprecedented volume growth in the first half of 2020, largely driven by changed consumer behavior

on the back of the Covid lockdowns, Lurpak® almost managed to repeat its historically high sales volumes from last year. Puck® delivered solid 3.0 per cent in branded revenue growth. The overall brand share increased to 49.2 per cent compared to 48.3 per cent in the first half of last year.

Foodservice slowly started recovering in many markets; however it was still not back to pre-Covid-19 levels in the first half of the year where retail sales continued to be the main driver of our performance.

# PERFORMANCE REVIEW (CONTINUED)

## COMMERCIAL SEGMENTS



### EUROPE

Our European commercial segment delivered overall branded growth of 2.5 per cent, primarily driven by Starbucks™ at 41.3 per cent, Castello® at 4.2 per cent and the Arla® brand at 2.5 per cent. Especially the Arla sub-brands LactoFREE® and Fill N' Fuel grew strongly by 14.4 and 13.5 per cent, respectively. Markets continued to grow, led by Netherlands/France/Belgium, UK and Denmark with 9.5, 4.6 and 2.4 per cent, respectively. The brand share of the European segment increased to 55 per cent compared to 53 per cent last year. Revenue increased slightly to EUR 3,199 million compared to EUR 3,178 million in the same period last year. Long periods of lockdowns caused a small decline in foodservice in the first quarter of the year; however, significant growth was seen in the second quarter as restaurants started to reopen. The e-commerce business grew at a fast pace with revenue growth of 34 per cent compared to the same period last year.

### INTERNATIONAL

Our International segment grew branded volumes across all regions and main brands in the first half of 2021. Starbucks™ delivered high growth of 45.1 per cent, followed by the Arla® brand at 24.7 per cent and Castello® at 11.0 per cent. Sales from Kraft® branded products were at the same level as in the first half of 2020. The long periods of increased in-home consumption impacted positively on sales, and the higher costs for products and services as well as the adverse effects of a declining USD were to a high degree offset by price increases. Thus, revenue grew modestly to EUR 1,037 million compared to EUR 1,024 million last year. The brand share of the International segment increased slightly to 88 per cent compared to 87 per cent in the first half of 2020.

## ARLA FOODS INGREDIENTS

Arla Foods Ingredients (AFI) continued to meet increasing customer demands for protein and lactose ingredients, and revenue grew to EUR 387 million compared to EUR 360 million in the same period last year. The value-add whey volumes grew by 9.8 per cent to a total value-add share of 69.6 per cent due to successfully utilising additional new raw materials, recently secured through new strategic sourcing arrangements. AFI's child nutrition manufacturing business performed in line with the same period last year with a revenue of EUR 78 million. New product launches from our customers showed positive indications for the future for this part of the business.

## GLOBAL INDUSTRY SALES

Our Global Industry Sales business had a positive start of the year as commodity markets started to recover after Covid-19. This was driven by high global demand. Commodity prices generally increased during the first half of 2021 and by the end of the period, prices reached a higher level compared to the same period last year. Due to the increased sales through Arla's retail channels, the overall share of milk solids sold by our Global Industry Sales fell to 23.1 per cent compared to 23.6 per cent last year. Despite the decrease in volume the revenue increased slightly to EUR 818 million compared to EUR 815 million in the first half of 2020 as a result of the price increases.



# PERFORMANCE REVIEW (CONTINUED)

Net profit

# 3.0%

(of revenue)

Calcium savings

# 29

(million EUR)

Calcium savings, excluding estimated inflation

# 82

(million EUR)

Net working capital\*

# 36

(days)

Leverage

# 2.8

\*Trailing three months average number

## CALCIUM SAVINGS ON TARGET

Our transformation and efficiency programme delivered EUR 82 million excluding inflation, that translates to EUR 29 million net savings in the first half of 2021. This brings total savings since the start of the programme in 2018 to EUR 562 million excluding inflation, equal to a net saving of EUR 383 million. Savings primarily came from optimised supply chain operations, in-sourcing of marketing activities and optimised trade investments. The surprisingly fast macroeconomic recovery after Covid-19 led to significantly higher than expected inflation, which challenges our ability to reach our original net savings target of EUR 400 million for the 4-year programme. Savings excluding inflation are, however, exceeding the targets both for the first half of 2021 and for the full programme.

## NET PROFIT WITHIN TARGET RANGE

In the first half of 2021, Arla achieved a net profit of EUR 165 million, or 3.0 per cent of revenue, which

is in the middle of our target range of 2.8-3.2 per cent.

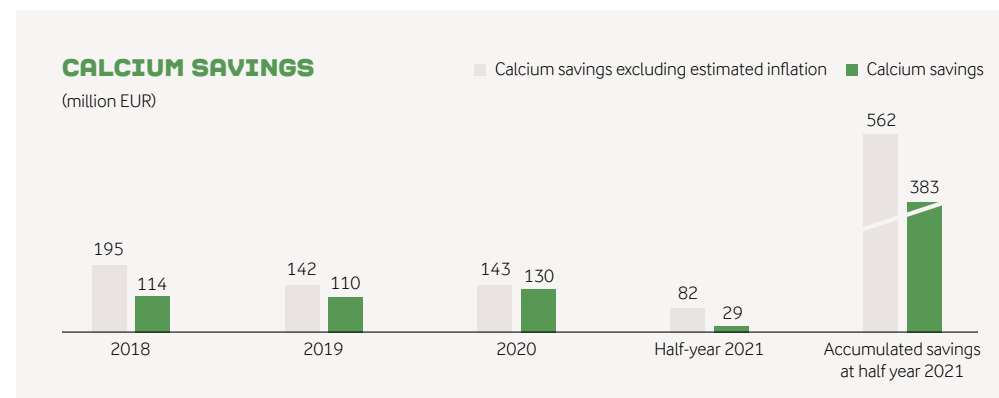
## ROBUST FINANCIAL POSITION

The first half of 2021 proved that Arla continued to be in a robust financial position. With a leverage of 2.8, we ended at the low end of our target range of 2.8-3.4.

Cash flow from operating activities decreased to EUR 274 million in the first half of 2021 compared to EUR 477 million in the same period last year. A positive development in EBITDA was offset by increased cash tied up in working capital. Measured in days of turnover, net working capital increased to 36 days compared to 30 days end of June last year. The increase was due to the deliberately reduced utilisation of trade receivable finance programmes as part of capital structure optimisation.

Cash flow from investing activities amounted to EUR 208 million in the first half of 2021, compared to EUR 194 million in the same period last year. We continued the execution of our four key CAPEX investment projects in the first half of 2021. In Germany, the construction of a new powder tower in Pronsfeld proceeded well. In Bahrain, we extended our production site to encompass the entire production of Kraft® and Puck® products. In Denmark, we continued with the capacity increase of the mozzarella production at Branderup dairy as well as the construction of our new AFI Innovation Centre. Our investments, totalled at EUR 256 million for the first half of 2021.

Cash flow from financing activities decreased to EUR -69 million, primarily explained by the extraordinary high supplementary payment to our farmer owners of EUR 228 million related to the 2020 profit appropriation, offset by the issuing of green bonds and newly obtained loans.



# FINANCIAL OUTLOOK

After a strong first half of 2021, we increase our guidance for revenue and strategic branded volume driven revenue growth for the full year 2021. Our expectations for Calcium are challenged due to high inflationary pressure into the second half of 2021.

## IMPROVED OUTLOOK FOR IMPORTANT KPIS

Our expectations for revenue growth are adjusted up from EUR 10.3-10.6 to 10.6-11.00. Leverage is adjusted from 2.8-3.4 to  $\leq 2.8$ . Our strategic branded volume driven revenue growth guidance is up from 1-3 per cent to 3-4 per cent.

We maintain our guidance on international share, brand share and profit share as communicated in the Annual Report 2020.

## INFLATION CHALLENGES CALCIUM NET DELIVERY

Accelerated work on our efficiency pipeline across our value chain will continue to deliver added value during the second half of 2021. However, due to significant impacts from the expected inflationary pressure in the second half of the year, we adjust our guidance for Calcium savings for 2021 to EUR < 20 million. Excluding inflation, full-year savings are expected to exceed EUR 150 million which is ahead of our initial expectations for 2021. Accelerated work on our efficiency pipeline across our value chain will likely not fully compensate for the high pressure from inflation.

### 2021 TARGETS

Revenue

**10.6-11.0**

EURb (adjusted from 10.3-10.6)

Profit share

**2.8-3.2%**

(unchanged)

Calcium savings  
excluding estimated inflation

**> 150**

EURm

Calcium  
savings

**< 20**

EURm (adjusted from >45)

Strategic branded volume  
driven revenue growth

**3-4%**

(adjusted from 1-3%)

International share

**> 23.5%**

(unchanged)

Leverage

**$\leq 2.8$**

(adjusted from 2.8-3.4)

Brand share

**$\geq 50%$**

(adjusted from > 50%)



**OUR CONDENSED  
INTERIM  
CONSOLIDATED  
FINANCIAL  
STATEMENTS**

# INCOME STATEMENT

(EURm)	Note	Half-year 2021	Half-year 2020	Development, %	Full-year 2020
Revenue	1.1	5,441	5,377	1	10,644
Production costs	1.2	-4,287	-4,203	2	-8,301
<b>Gross profit</b>		<b>1,154</b>	<b>1,174</b>	<b>-2</b>	<b>2,343</b>
Sales and distribution costs	1.2	-734	-745	-1	-1,483
Administration costs	1.2	-207	-203	2	-439
Other operating income		49	17	188	61
Other operating costs		-31	-31	-	-52
Share of results after tax in joint ventures and associates	3.1	21	6	250	28
<b>Earnings before interest and tax (EBIT)</b>		<b>252</b>	<b>218</b>	<b>16</b>	<b>458</b>
<i>Specification:</i>					
<i>EBITDA</i>		485	443	9	909
<i>Depreciation, amortisation and impairment losses</i>	1.2	-233	-225	4	-451
<b>Earnings before interest and tax (EBIT)</b>		<b>252</b>	<b>218</b>	<b>15</b>	<b>458</b>
Financial income		8	3	167	7
Financial costs		-49	-38	29	-79
<b>Profit before tax</b>		<b>211</b>	<b>183</b>	<b>15</b>	<b>386</b>
Tax		-39	-17	129	-34
<b>Profit for the period</b>		<b>172</b>	<b>166</b>	<b>3</b>	<b>352</b>
Non-controlling interests		-7	-3	133	-7
<b>Arla Foods amba's share of profit for the period</b>		<b>165</b>	<b>163</b>	<b>1</b>	<b>345</b>

# COMPREHENSIVE INCOME

(EURm)	Note	Half-year 2021	Half-year 2020	Full-year 2020
<b>Profit for the period</b>		<b>172</b>	<b>166</b>	<b>352</b>
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to the income statement:</b>				
Remeasurements of defined benefit schemes		12	23	5
Tax on remeasurements of defined benefit schemes		-3	-3	4
<b>Items that may be reclassified subsequently to the income statement:</b>				
Value adjustments of hedging instruments		13	25	41
Fair value adjustment of certain financial assets		-1	-1	-3
Adjustments related to foreign currency translation		87	-56	-84
Tax on items that may be reclassified to the income statement		-	-	-
<b>Other comprehensive income, net of tax</b>		<b>108</b>	<b>-12</b>	<b>-37</b>
<b>Total comprehensive income</b>		<b>280</b>	<b>154</b>	<b>315</b>
<b>Allocated as follows:</b>				
Owners of Arla Foods amba		273	151	308
Non-controlling interests		7	3	7
<b>Total</b>		<b>280</b>	<b>154</b>	<b>315</b>

# BALANCE SHEET

(EURm)	Note	Half-year 2021	Half-year 2020	Develop- ment, %	Year-end 2020
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets and goodwill	3.1	951	941	1	931
Property, plant, equipment and right of use assets	3.1	2,960	2,721	9	2,915
Investments in associates and joint ventures	3.1	507	460	10	470
Deferred tax		20	30	-33	29
Pension assets	4.1	59	37	59	40
Other non-current assets		30	21	43	28
<b>Total non-current assets</b>		<b>4,527</b>	<b>4,210</b>	<b>8</b>	<b>4,413</b>
<b>Current assets</b>					
Inventory	2.1	1,203	1,154	4	1,080
Trade receivables	2.1	947	771	23	811
Derivatives		20	75	-73	57
Other receivables		279	252	11	424
Securities		426	425	0	420
Cash and cash equivalents		124	150	-17	126
<b>Total current assets</b>		<b>2,999</b>	<b>2,827</b>	<b>6</b>	<b>2,918</b>
<b>Total assets</b>		<b>7,526</b>	<b>7,037</b>	<b>7</b>	<b>7,331</b>

(EURm)	Note	Half-year 2021	Half-year 2020	Develop- ment, %	Year-end 2020
<b>Equity and liabilities</b>					
<b>Equity</b>					
Common capital		1,973	1,927	2	1,968
Individual capital		500	464	8	513
Other equity accounts		-19	-104	-82	-118
Profit for the period		165	163	1	-
Proposed supplementary payment to owners		-	-	0	223
<b>Equity attributable to the owners of Arla Foods amba</b>		<b>2,619</b>	<b>2,450</b>	<b>7</b>	<b>2,586</b>
Non-controlling interests		48	46	4	53
<b>Total equity</b>		<b>2,667</b>	<b>2,496</b>	<b>7</b>	<b>2,639</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Pension liabilities	4.1	233	235	-1	247
Provisions		25	25	0	21
Deferred tax		74	75	-1	64
Loans	4.1	2,189	1,887	16	1,964
<b>Total non-current liabilities</b>		<b>2,521</b>	<b>2,222</b>	<b>13</b>	<b>2,296</b>
<b>Current liabilities</b>					
Loans	4.1	767	740	4	695
Trade and other payables	2.1	1,184	1,123	5	1,212
Provisions		22	9	144	25
Derivatives		40	83	-52	66
Current tax		13	9	44	11
Other current liabilities		312	355	-12	387
<b>Total current liabilities</b>		<b>2,338</b>	<b>2,319</b>	<b>1</b>	<b>2,396</b>
<b>Total liabilities</b>		<b>4,859</b>	<b>4,541</b>	<b>7</b>	<b>4,692</b>
<b>Total equity and liabilities</b>		<b>7,526</b>	<b>7,037</b>	<b>7</b>	<b>7,331</b>

# EQUITY

(EURm)	Common capital			Individual capital				Other equity accounts			Total before non-controlling interests	Non-controlling interests	Total Equity after non-controlling interests
	Capital account	Reserve for special purposes	Profit for the period	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			
<b>Equity at 1 January 2021</b>	<b>878</b>	<b>1,090</b>	<b>-</b>	<b>302</b>	<b>65</b>	<b>146</b>	<b>223</b>	<b>-53</b>	<b>9</b>	<b>-74</b>	<b>2,586</b>	<b>53</b>	<b>2,639</b>
<b>Profit for the period</b>	-	-	<b>165</b>	-	-	-	-	-	-	-	<b>165</b>	<b>7</b>	<b>172</b>
Other comprehensive income	9	-	-	-	-	-	-	13	-1	87	108	-	108
<b>Total comprehensive income</b>	<b>9</b>	<b>-</b>	<b>165</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>-1</b>	<b>87</b>	<b>273</b>	<b>7</b>	<b>280</b>
Payments to owners	1	-	-	-11	-4	-4	-	-	-	-	-18	-	-18
Transactions with non-controlling interests	6	-	-	-	-	-	-	-	-	-	6	-14	-8
Supplementary payment related to 2020	-	-	-	-	-	-	-228	-	-	-	-228	-	-228
Foreign exchange adjustments	-11	-	-	1	-	5	5	-	-	-	-	2	2
<b>Total transactions with owners</b>	<b>-4</b>	<b>-</b>	<b>-</b>	<b>-10</b>	<b>-4</b>	<b>1</b>	<b>-223</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-240</b>	<b>-12</b>	<b>-252</b>
<b>Equity at 30 June 2021</b>	<b>883</b>	<b>1,090</b>	<b>165</b>	<b>292</b>	<b>61</b>	<b>147</b>	<b>-</b>	<b>-40</b>	<b>8</b>	<b>13</b>	<b>2,619</b>	<b>48</b>	<b>2,667</b>
<b>Equity at 1 January 2020</b>	<b>885</b>	<b>1,009</b>	<b>-</b>	<b>271</b>	<b>68</b>	<b>159</b>	<b>127</b>	<b>-94</b>	<b>12</b>	<b>10</b>	<b>2,447</b>	<b>47</b>	<b>2,494</b>
<b>Profit for the period</b>	-	-	<b>163</b>	-	-	-	-	-	-	-	<b>163</b>	<b>3</b>	<b>166</b>
Other comprehensive income	20	-	-	-	-	-	-	25	-1	-56	-12	-	-12
<b>Total comprehensive income</b>	<b>20</b>	<b>-</b>	<b>163</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25</b>	<b>-1</b>	<b>-56</b>	<b>151</b>	<b>3</b>	<b>154</b>
Payments to owners	-	-	-	-10	-4	-7	-	-	-	-	-21	-	-21
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-4	-4
Supplementary payment related to 2019	-	-	-	-	-	-	-127	-	-	-	-127	-	-127
Foreign exchange adjustments	13	-	-	-	-2	-11	-	-	-	-	-	-	-
<b>Total transactions with owners</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>-10</b>	<b>-6</b>	<b>-18</b>	<b>-127</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-148</b>	<b>-4</b>	<b>-152</b>
<b>Equity at 30 June 2020</b>	<b>918</b>	<b>1,009</b>	<b>163</b>	<b>261</b>	<b>62</b>	<b>141</b>	<b>-</b>	<b>-69</b>	<b>11</b>	<b>-46</b>	<b>2,450</b>	<b>46</b>	<b>2,496</b>

# CASH FLOW

(EURm)	Note	Half-year 2021	Half-year 2020	Full-year 2020
EBITDA		485	443	909
Reversal of share of results in joint ventures and associates	3.1	-21	-6	-28
Reversal of other operating items without cash impact		-29	18	53
Change in net working capital	2.1	-274	-14	4
Change in other receivables and other current liabilities		144	69	-137
Dividends received from joint ventures and associates		9	6	8
Interest paid		-24	-28	-53
Interest received		3	1	3
Taxes paid		-19	-12	-28
<b>Cash flow from operating activities</b>		<b>274</b>	<b>477</b>	<b>731</b>
Investment in intangible fixed assets	3.1	-26	-29	-53
Investment in property, plant and equipment	3.1	-194	-193	-478
Sale of property, plant and equipment	3.1	13	17	19
Operating investing activities		-207	-205	-512
Sale of financial assets		7	11	22
Acquisition of financial assets		-8	-	-5
Sale of enterprises		-	-	7
Financial investing activities		-1	11	24
<b>Cash flow from investing activities</b>		<b>-208</b>	<b>-194</b>	<b>-488</b>
Supplementary payment regarding the previous financial year		-228	-127	-127
Paid in and out from equity regarding individual capital instruments		-18	-21	-22
Paid out to non-controlling interests		-8	-4	-18
New loans obtained		256	62	149
Other changes in loans		-17	-179	-173
Payment of lease debt		-35	-33	-66
Payment to pension plans		-19	-17	-36
<b>Cash flow from financing activities</b>		<b>-69</b>	<b>-319</b>	<b>-293</b>
<b>Net cash flow</b>		<b>-3</b>	<b>-36</b>	<b>-50</b>

(EURm)	Note	Half-year 2021	Half-year 2020	Full-year 2020
Cash and cash equivalents at 1 January		126	187	187
Net cash flow for the period		-3	-36	-50
Exchange rate adjustment of cash funds		1	-1	-11
<b>Cash and cash equivalents at 30 June</b>		<b>124</b>	<b>150</b>	<b>126</b>
<i>Free operating cash flow</i>				
<i>Cash flow from operating activities</i>		274	477	731
<i>Operating investing activities</i>		-207	-205	-512
<b>Free operating cash flow</b>		<b>67</b>	<b>272</b>	<b>219</b>
<i>Free cash flow</i>				
<i>Cash flow from operating activities</i>		274	477	731
<i>Cash flow from investing activities</i>		-208	-194	-488
<b>Free cash flow</b>		<b>66</b>	<b>283</b>	<b>243</b>



## Operating cash flow impacted by higher milk prices

Cash flow from operating activities decreased by EUR 203 million to EUR 274 million compared to EUR 477 million in the first half of last year. The development was a result of cash tied up in working capital mainly from reduced trade receivable finance programmes, and also from increased inventory driven by higher milk prices. These effects were partly offset by a higher EBITDA and by settlements of VAT receivables positions.

Cash flow from investing activities amounted to EUR -208 million consistent with the same period last year. The majority of CAPEX investments in the first half of 2021 comprised of continued execution of the key projects on our sites Pronsfeld in Germany, Bahrain, Branderup and AFI Innovation Center in Denmark.

Free cash flow for the half-year totalled EUR 66 million representing a decrease of EUR 217 million compared to same period last year.

Cash flow from financing activities amounted to EUR -69 million compared to EUR -319 million last year. An extraordinarily high supplementary payment of EUR 228 million from the 2020 profit appropriation was paid out in March 2021. Individual capital of EUR 18 million was paid out to owners who either resigned or retired from Arla. New loans obtained of EUR 256 million included a green bond issue in Sweden of EUR 148 million.

Cash and cash equivalents amounted to EUR 124 million, compared to EUR 150 million at the end of the same period last year.

# INTRODUCTION TO NOTES

The following sections provide additional disclosures supplementing the primary financial statements.

## NOTE 1 REVENUE AND COSTS

Details on the group's performance and rentability are disclosed in Note 1.

## NOTE 2 NET WORKING CAPITAL

Details on the development and composition of inventory and trade balances are disclosed in Note 2.

## NOTE 3 CAPITAL EMPLOYED

Details on production capacity, intangible assets and financial investments held by the group are disclosed in Note 3.

## NOTE 4 FUNDING

Details on funding of the group's activities are disclosed in Note 4.

### BASIS FOR PREPARATION

The condensed interim consolidated report is prepared according to the same accounting policies as applied in the consolidated annual report for 2020.

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 condensed interim consolidated report for 2021 is issued on a voluntarily basis, and management has decided not to fully apply IAS 34 in terms of disclosures for interim reporting.

In response to the Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority (ESMA), we have provided additional information on the APMs used by the group. These APMs are deemed critical to understanding the financial performance and financial position of the group. As they are not defined by IFRS, they may not be directly comparable with other companies who use similar measures. Definitions are provided in the Glossary and Note 1.3

The functional currency of the parent company is DKK. The presentation currency of the parent company and of the group is EUR.

These condensed interim financial statements are prepared to the million EUR nearest.

### CURRENCY EXPOSURE

The group's financial position is significantly exposed to currencies, both due to transactions conducted in currencies other than the EUR and due to the translation of financial reporting from entities not part of the Eurozone. The most significant exposure relates to financial reporting from entities operating in GBP and SEK, and to transactions relating to sales in USD or USD-related currencies.

### CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are prepared as a compilation of the parent company's and the individual subsidiaries' financial statements, in line with the group's accounting policies. Revenue, costs, assets and liabilities, along with items included in equity of subsidiaries are aggregated and presented on a line-by-line basis. Intra-group shareholdings, balances and transactions, as well as unrealised income and expenses arising from intra-group transactions are eliminated.

The consolidated financial statements comprise Arla Foods amla (parent company) and the subsidiaries in which the parent company directly or indirectly holds more than 50 per cent of the voting rights, or otherwise maintains control to obtain benefits from its activities. Entities in which the group exercises joint control through a contractual arrangement are considered to be joint ventures. Entities in which the group exercises a significant but not a controlling influence, are considered as associates.

Unrealised gains arising from transactions with joint ventures and associates, i.e. profits from sales to joint ventures or associates and whereby the customer pays with funds partly owned by the group, are eliminated against the carrying amount of the investment in proportion to the group's interest in the company. Unrealised losses are eliminated in the same manner, but only to the extent that there is no evidence of impairment.

### TRANSLATION OF TRANSACTIONS AND MONETARY ITEMS IN FOREIGN CURRENCIES

For each reporting entity in the group, a functional currency is determined, being the currency used in the primary economic environment where the entity operates. Where a reporting entity transacts in a foreign currency, it will record the transaction in its functional currency using the transaction date rate. Monetary

assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate applicable at the reporting date. Exchange differences are recognised in the income statement under financial items. Non-monetary items, for example property, plant and equipment which are measured based on historical cost in a foreign currency, are translated into the functional currency upon initial recognition.

### TRANSLATION OF FOREIGN OPERATIONS

The assets and liabilities of consolidated entities, including the share of net assets and goodwill of joint ventures and associates with a functional currency other than EUR, are translated into EUR using the half-year-end exchange rate. The revenue, costs and share of the results for the year are translated into EUR using the average monthly exchange rate if this does not differ materially from the transaction date rate. Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve.

### ADOPTION OF NEW OR AMENDED IFRS

The group implemented all new standards and interpretations effective in the EU from 2021. IASB issued a number of new or amended and revised accounting standards and interpretations that have not yet come into effect. Arla will adopt these new standards when they become mandatory. No material impact is expected.

## Revenue and cost

### 1.1 REVENUE



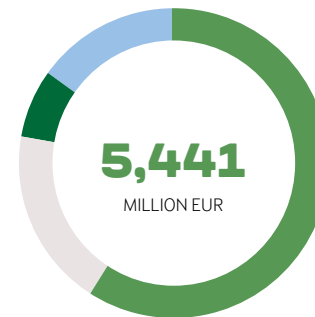
#### Revenue up following sales of more branded products

Revenue increased 1.2 per cent to EUR 5,441 million, compared to EUR 5,377 million at the first half of last year. Higher sales prices increased revenue with EUR 77 million, while changes to volume/mix had a positive impact of EUR 48 million. Negative currency effects amounted to EUR 61 million due to a weaker USD, a stronger SEK and a neutral GBP against the EUR.

Strategic branded revenue amounted to EUR 2,657 million for the first half of 2021, compared to EUR 2,557 million in the same period last year. Strategic branded volume driven revenue growth was 5.6 per cent as further described in the performance review on page 13 and in note 1.3 on page 25.

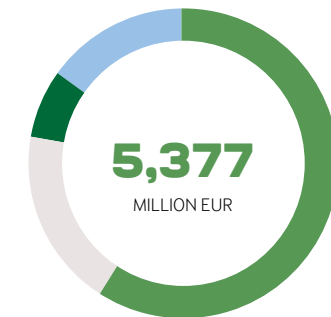
For more information on the development of our Commercial segments refer to the Performance review on page 14.

#### Revenue split by Commercial segment, Half-year 2021



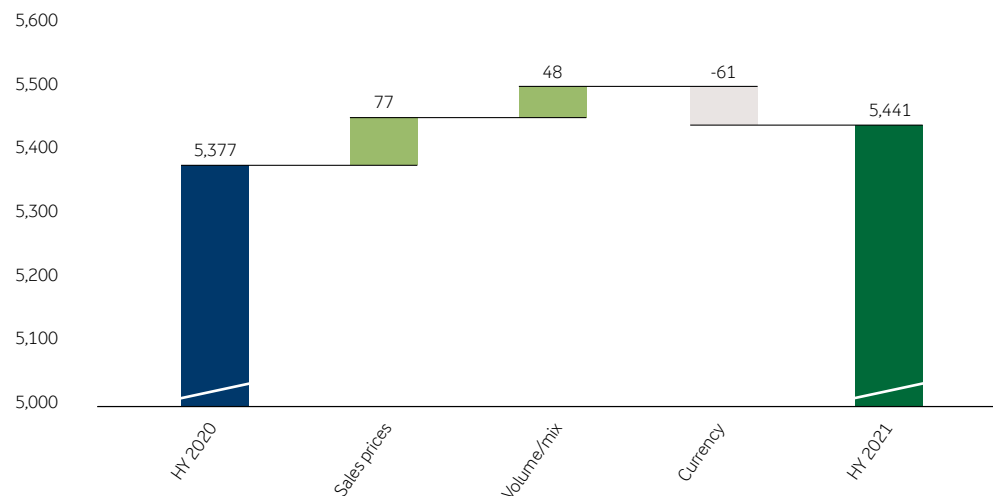
- Europe 59%
- International 19%
- Arla Foods Ingredients 7%
- Trading and other sales 15%

#### Revenue split by Commercial segment, Half-year 2020



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

#### Development in revenue (EURm)



#### Revenue split by brand (EURm)

	Half-year 2021	Half-year 2020
Arla®	1,626	1,514
Lurpak®	305	315
Puck®	207	230
Castello®	85	78
Milk based beverage brands	132	103
Other supported brands	302	317
<b>Strategic branded revenue</b>	<b>2,657</b>	<b>2,557</b>
AFI	387	360
Non-strategic brands and other	2,397	2,460
<b>Total</b>	<b>5,441</b>	<b>5,377</b>

## Revenue and cost

### 1.2 COSTS



#### Higher milk price to farmers and changed brand mix increased costs

Operational costs amounted to EUR 5,228 million compared to EUR 5,151 million in the first half of last year, representing an increase of 1.5 per cent.

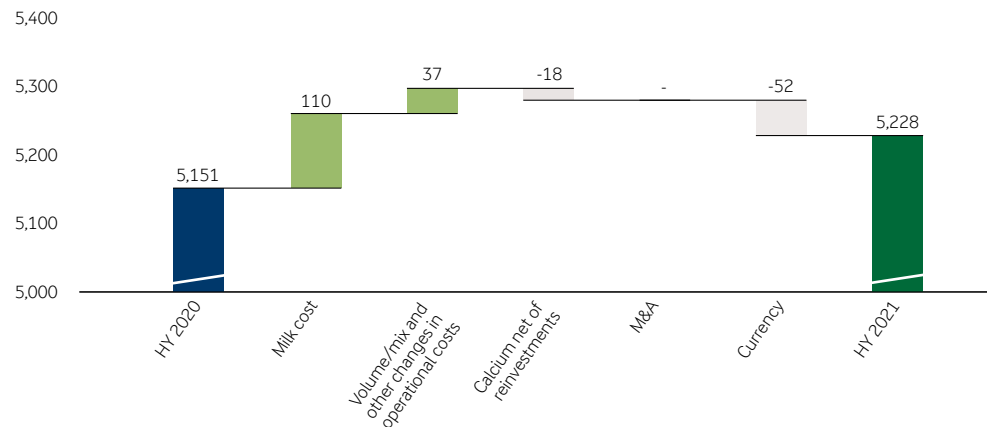
Production costs increased with EUR 84 million to EUR 4,287 million compared to EUR 4,203 million in the first half of 2020. The overall driver was higher milk prices, which increased the cost of raw milk by EUR 110 million. The prepaid milk price to farmer owners increased EUR 117 million, while costs of other milk decreased EUR 7 million. Production costs excluding the cost of raw milk decreased EUR 26 million compared to the same period last year.

Sales and distribution costs decreased EUR 11 million, primarily due to lower sales costs within our International business.

Staff costs increased to EUR 678 million, compared to EUR 667 million in the first half of last year, due to of insourcing in MENA as well as regular salary adjustments across Arla.

The Calcium savingsnet of inflation were EUR 29 million in the first half of 2021. The net cost effect compared to the first half of 2020 amounted to EUR 18 million and includes reinvestments.

#### Development in operational costs (EURm)



#### Operational costs split by function and type (EURm)

	Half-year 2021	Half-year 2020
Production costs	4,287	4,203
Sales and distribution costs	734	745
Administration costs	207	203
<b>Total</b>	<b>5,228</b>	<b>5,151</b>
<i>Specification:</i>		
Weighed-in raw milk	2,583	2,473
Other production materials*	880	936
Staff costs	678	667
Transportation costs	347	323
Marketing costs	113	112
Depreciation, amortisation and impairment	233	225
Other costs**	394	415
<b>Total</b>	<b>5,228</b>	<b>5,151</b>
Average number of full-time employees	20,304	19,610

\*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 2021		Half-year 2020	
	mkg	EURm	mkg	EURm
Owner milk	6,343	2,345	6,360	2,228
Other milk	596	238	625	245
<b>Total</b>	<b>6,939</b>	<b>2,583</b>	<b>6,985</b>	<b>2,473</b>



## Revenue and cost

## 1.3 KEY PERFORMANCE INDICATORS

The alternative performance measures disclosed below are key performance indicators for the group. They are not IFRS requirements.

## Performance price



## Strong business performance led to higher performance price

Arla's performance price is a key measure of the overall performance, expressing the value added to each kilo of milk supplied by our farmer owners. The performance price is calculated as the standardised prepaid milk price, included in production costs, plus Arla Foods amba's

share of profit for the year, divided by the weighed-in milk volume in the first half of 2021. The performance price was 38.6 EUR-cent/kg owner milk, compared to 37.0 EUR-cent/ kg owner milk for the first half of last year.

Table 1.3.1 Performance price

	Half-year 2021			Half-year 2020		
	EURm	Volume in mkg	EUR-cent/kg	EURm	Volume in mkg	EUR-cent/kg
Owner milk	2,345	6,343	37.0	2,228	6,360	35.0
Adjustment to standard milk (4.2% fat, 3.4% protein)			-1.0			-0.6
Standard pre-paid milk price			36.0			34.4
Arla Foods amba's share of profit for the period	165		2.6	163		2.6
<b>Total</b>		<b>6,343</b>	<b>38.6*</b>		<b>6,360</b>	<b>37.0</b>

\*The milk conversion factor from litre into kg, was 1.02 for milk volumes until 30 June 2021. Effective from 1 July 2021, the milk conversion factor is 1.03.

## Strategic branded volume driven revenue growth



## Continued strong brand growth

Volume driven revenue growth (VDRG) is defined as revenue growth that is derived from growth in volumes keeping prices constant. VDRG on strategic brands is an alternative performance measure applied to support and understand the non-price revenue growth and performance of our branded business. Strategic

branded VDRG increased 5.6 per cent in the first half of 2021, compared to 10.4 per cent for the first half of last year. Higher sales of branded products in the retail business was the main driver of the continued increase.

Table 1.3.2 Strategic branded volume driven revenue growth (EURm)

	Half-year 2021	Half-year 2020
Strategic branded revenue last half-year	2,557	2,220
Strategic branded volume driven revenue growth	140	231
Price- and exchange rate adjustments	-40	106
<b>Strategic branded revenue</b>	<b>2,657</b>	<b>2,557</b>
Strategic branded volume driven revenue growth, %	5.6%	10.4%

The calculation of strategic branded VDRG is based on fixed exchange rates and is defined as volume growth of EUR 140 million divided by the net amount of strategic branded revenue last year of EUR 2,557 million and an exchange rate effect from average to fixed exchange rates of EUR -58 million.

## Profit share



## Profit share in line with expectations

The profit share in Arla is targeted at 2.8-3.2 per cent of revenue, calculated from the profit attributable to our farmer owners. For the first half of 2021 the profit share amounted to EUR 165 million compared to EUR 163

million for the first half of last year. This corresponded to 3.0 per cent of revenue. The profit distributable to farmer owners will be specified in the profit appropriation at year end.

Table 1.3.3 Profit share (EURm)

	Half-year 2021	Half-year 2020
Revenue	5,441	5,377
Profit for the period	172	166
Profit relating to non-controlling interests	-7	-3
Profit attributable to farmer owners	165	163
<b>Profit share</b>	<b>3.0%</b>	<b>3.0%</b>

Profit share is calculated as EUR 165 million divided by EUR 5,441 million and equals 3.0 per cent at half-year 2021.

## Net working capital

## 2.1 NET WORKING CAPITAL



## Net working capital position driven by higher prices and inventory volumes

Net working capital increased by EUR 164 million to EUR 966 million, corresponding to an increase of 20 per cent compared to the carrying amount at 30 June 2020.

Measured in days of turnover\* net working capital increased to 36 days compared to 30 days end of June last year. The increase was due to deliberately reduced use of trade receivable finance programmes and higher inventory values.

Trade receivable finance programmes are used as an integrated part of our liquidity management. Together with increased sales prices this was the main reasons for an increase of the trade receivables position of EUR 176 million compared to 30 June 2020.

Inventory increased by EUR 49 million due to higher milk prices and higher volumes partly offset by reclassification of certain spare part positions as of last year.

During the covid-19 pandemic and onwards we have carefully monitored the development in trade receivables. We have not experienced any significant adverse developments in overdues, and the provision for expected losses decreased by EUR 3 million to a level of EUR 14 million at 30 June 2021.

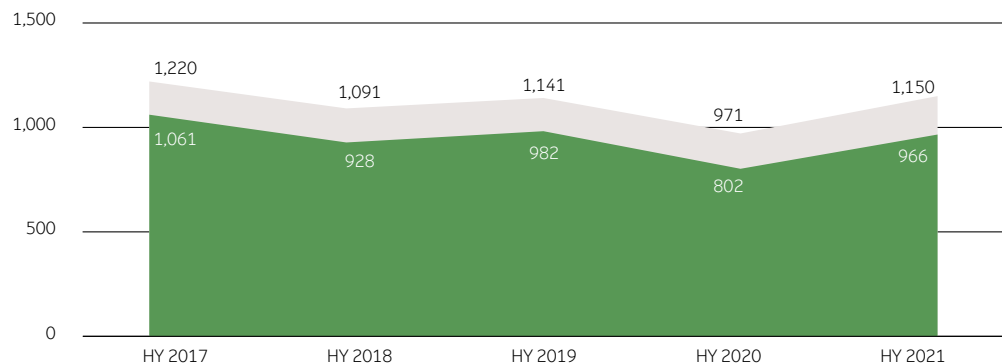
Trade and other payables increased EUR 61 million to EUR 1.184 as a result of regular business activities.

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 when relevant.

\* Measured on trailing 3 months data.

## Net working capital

(EURm)



■ Net working capital excluding payables related to owner milk

■ Net working capital

Net working capital  
(EURm)

	Half-year 2021	Half-year 2020
Inventory	1,203	1,154
Trade receivables	947	771
Trade and other payables	-1,184	-1,123
<b>Net working capital</b>	<b>966</b>	<b>802</b>

Inventory  
(EURm)

	Half-year 2021	Half-year 2020
Inventory before write-downs	1,223	1,182
Write-downs	-20	-28
<b>Total inventory</b>	<b>1,203</b>	<b>1,154</b>
Raw materials and consumables	246	297
Work in progress	392	332
Finished goods and goods for resale	565	525
<b>Total inventory</b>	<b>1,203</b>	<b>1,154</b>

Trade receivables  
(EURm)

	Half-year 2021	Half-year 2020
Trade receivables before provision for expected losses	961	788
Provision for expected losses	-14	-17
<b>Total trade receivables</b>	<b>947</b>	<b>771</b>

## Capital employed

### 3.1 CAPITAL EMPLOYED



#### Continued high level of investment

The carrying value of non-current assets increased to EUR 4,527 million compared to EUR 4,210 million at 30 June 2020.

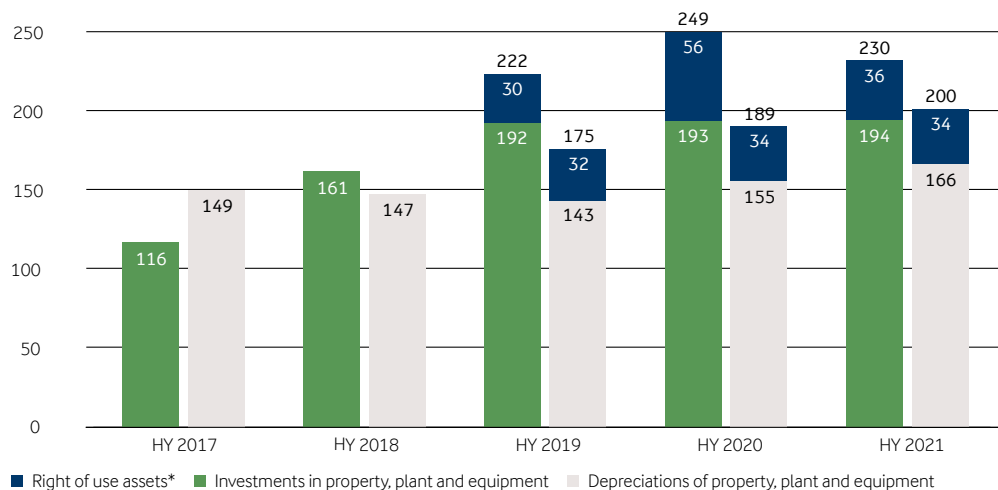
Intangible assets and goodwill increased marginally to EUR 951 million compared to EUR 941 million at 30 June 2020. The increase was driven by exchange rate effects on goodwill, and partly offset by amortisation of trademarks, IT and other development projects.

The carrying value of property, plant and equipment including right of use assets increased by EUR 239 million to EUR 2,960 million. Investments including right of use assets in the first half year amounted to EUR 230 million while total depreciation was EUR 200 million, which were both consistent with the first half of last year. The majority of CAPEX investments in the

first half of 2021 comprised continued construction of the powder tower in Pronsfeld, Germany, the production facilities for the Kraft® and Puck® brands in Bahrain, the capacity expansion of mozzarella production in Branderup, Denmark and a new AFI Innovation Center in Denmark.

The recognised value of associates and joint ventures was EUR 507 million compared to EUR 460 million at 30 June 2020. This primarily consists of the carrying values of investments in COFCO Dairy Holding Ltd. (Mengniu) and LRF. The Group's proportionate share of the net asset value of COFCO Dairy Holding Ltd. was EUR 387 million, compared to EUR 348 million at 30 June 2020. The carrying amount of the investment in COFCO Dairy Holding Ltd. includes goodwill amounting to EUR 142 million.

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



Intangible assets and goodwill (EURm)	Half-year 2021	Half-year 2020
Goodwill	691	668
Licenses and trademarks	79	84
IT and other development projects	181	189
<b>Carrying amount at 30 June</b>	<b>951</b>	<b>941</b>

Property, plant and equipment including right of use assets (EURm)	Half-year 2021	Half-year 2020
Land and buildings	1,009	971
Plant and machinery	1,202	1,140
Fixtures and fittings, tools and equipment	200	214
Assets in the course of construction	549	396
<b>Carrying amount at 30 June</b>	<b>2,960</b>	<b>2,721</b>

Right of use assets (EURm)	Half-year 2021	Half-year 2020
Land and buildings	140	127
Plant and machinery	11	16
Fixtures, fittings, tools and equipment	81	83
<b>Carrying amount at 30 June</b>	<b>232</b>	<b>226</b>

Value of associates and joint ventures (EURm)	Half-year 2021	Half-year 2020
Share of equity in COFCO Dairy Holding Ltd. (Mengniu)	245	197
Goodwill in COFCO Dairy Holding Ltd. (Mengniu)	142	151
Share of equity in immaterial associates	86	78
<b>Recognised value of associates</b>	<b>473</b>	<b>426</b>
Share of equity in immaterial joint ventures	34	34
<b>Recognised value of associates and joint ventures</b>	<b>507</b>	<b>460</b>

## Funding

### 4.1 FUNDING AND PENSIONS

#### Increased net interest-bearing debt

The group's financial leverage was 2.8, representing an increase of 0.2 compared to the first half of last year. Net interest-bearing debt excluding pensions increased EUR 357 million compared to the position at 30 June 2020. The increase was driven by cash tied up in net working capital and an extraordinarily high supplementary payment relating to 2020. Moreover our CAPEX investments were maintained at a high level.

New loans obtained amounted to EUR 256 million, which includes a green bond issue in Sweden of EUR 148 million.

Pension liabilities amounted to EUR 233 million compared to EUR 235 million at 30 June 2020. The position at 30 June 2021 excludes a UK pension net asset recognised separately and not included in the calculation of net interest-bearing debt and leverage.

The UK pension net asset had a carrying amount of EUR 59 million, compared to EUR 37 million at 30 June 2020.

The maturity profile of debt decreased to 5.1 years compared to 5.8 years in the same period last year. Average maturity is affected by lapse of time, refinancing or obtaining of new committed facilities and the level of interest-bearing debt. Average interest costs, excluding pensions, were 1.9 per cent compared to 2.4 per cent in the first half of last year.

The liquidity reserves decreased from EUR 701 million at 30 June 2020 to EUR 503 million mainly as a result of maturing of debt and a higher net working capital. The liquidity reserves are considered adequate for Arla. Due to a strong liquidity position, no exceptional measures were taken to secure liquidity during the uncertain market conditions due to the pandemic.

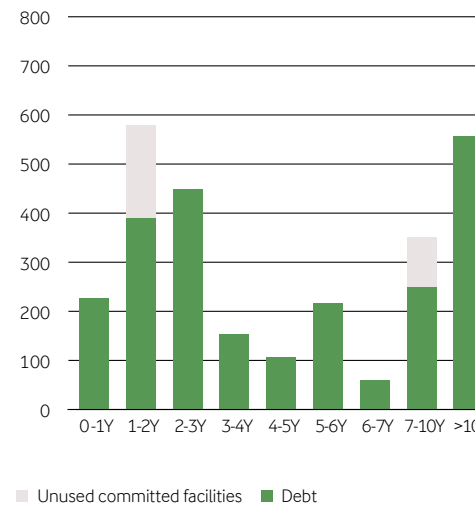
Leverage  
**2.8**  
Half-year 2021

Leverage  
**2.6**  
Half-year 2020

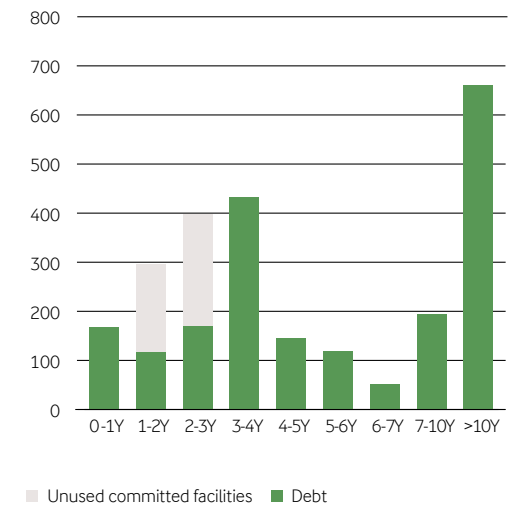
#### Net interest-bearing debt (EURm)



#### Maturity of net interest-bearing debt excluding pension liabilities at 30 June 2021 (EURm)



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

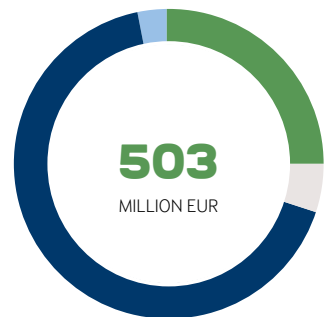


**Funding**
**4.1 FUNDING AND PENSIONS**

Liquidity reserves (EURm)	Half-year 2021	Half-year 2020
Cash and cash equivalents	124	150
Securities (free cash flow)	25	11
Unutilised committed loan facilities	339	406
Unutilised other loan facilities	15	134
<b>Total</b>	<b>503</b>	<b>701</b>

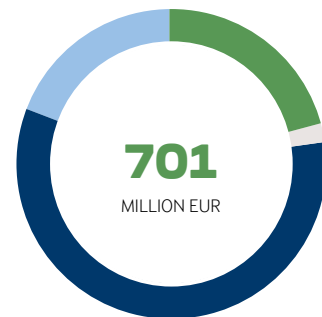
Exchange rates	Closing rate			Average rate		
	Half-year 2021	Half-year 2020	Change %	Half-year 2021	Half-year 2020	Change %
EUR/GBP	0.860	0.914	5.9	0.868	0.873	0.6
EUR/SEK	10.147	10.489	3.3	10.129	10.660	5.0
EUR/DKK	7.436	7.452	0.2	7.437	7.465	0.4
EUR/USD	1.190	1.124	-5.8	1.205	1.102	-9.3
EUR/SAR	4.464	4.217	-5.9	4.520	4.137	-9.2

Liquidity reserves, Half-year 2021



- Cash and cash equivalents 25%
- Securities (free cash flow) 5%
- Unutilised committed loan facilities 67%
- Unutilised other loan facilities 3%

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%

Pension liabilities (EURm)	Half-year 2021	Half-year 2020
Present value of funded liabilities	1,692	1,662
Fair value of plan assets	-1,524	-1,473
<b>Deficit of funded plans</b>	<b>168</b>	<b>189</b>
Present value of unfunded liabilities	6	9
<b>Net pension liabilities recognised on the balance sheet</b>	<b>174</b>	<b>198</b>
<i>Presented as:</i>		
Pension assets	-59	-37
Pension liabilities	233	235
<b>Net pension liabilities</b>	<b>174</b>	<b>198</b>

*The UK pension scheme represented a surplus and the Swedish pension scheme represented a deficit. Surplus is presented as Pension assets and deficit as Pension liabilities.*

Assumptions for the actuarial calculations	Half-year 2021 %	Half-year 2020 %
Discount rate, Sweden	1.9	1.5
Discount rate, UK	2.0	1.5
Expected payroll increase, Sweden	2.4	2.3
Expected payroll increase, UK	3.3	2.8
Inflation (CPI), Sweden	1.9	1.4
Inflation (CPI), UK	2.5	1.7

# 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 exclusive of 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.

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

**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 pre-paid 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.

**Pre-paid milk price** describes the cash payment farmers receive per kg of 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 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 of 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** comprises Arla Foods Ingredients 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.

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

# CORPORATE CALENDAR

Financial reports and major events

**26 AUGUST**  
Publication of the Half-Year Report 2021

**26-27 AUGUST**  
Extraordinary Board of Representatives meeting

**26-27 OCTOBER**  
Meeting of the Board of Representatives

**10 FEBRUARY**  
Announcement of the 2021 results

**23-24 FEBRUARY**  
Meeting of the Board of Representatives

**24 FEBRUARY**  
Publication of the Annual Report 2021





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