Press release
February 20 2023
Aarhus, Denmark

Announcement to stock exchanges:

Strong Growth in Second Half of 2023 and Accelerated Carbon Reductions

Arla Foods managed to adapt to a tough dairy market by returning to strong branded growth in the second half of 2023, and thereby reaffirming a positive outlook for the first half of 2024. A strong year ending enables the Board to propose a higher than expected supplementary payment (dividend) to Arla Foods' farmer owners - in total 270 mEUR for the full year. Arla Foods and its farmer owners also made significant progress in reducing carbon emissions, cutting close to 1 million tonnes of CO2e in the last two years. This means that Arla Foods is on track towards its 2030 reductions. With the 2023 launch of the Sustainability Incentive Model, a point-based system that rewards on-farm sustainability activities, as well as a new programme to help customers with their scope 3 reductions, Arla Foods expects to further accelerate reductions is 2024.

After a challenging first half of 2023, Arla Foods recovered fast delivering strong growth rates for all markets and brands in the second half. For the full year, the company's efficiency programme exceeded the ambitions and Arla's leverage was improved.

Total Arla Group revenue ended at EUR 13.7 billion, roughly the same level as its 2022 revenue of EUR 13.8 billion. The revenue was impacted by negative currency effects, primarily on SEK, GBP and USD. The cost of goods and general inflation led to a performance price decrease of 8.1 EUR-cent/kg to 47.0 EUR-cent/kg against the all-time high performance price in 2022. Although lower than 2022, the 2023 result is 15% above the last 5-year average.

"Thanks to the strong execution by our farmer owners, employees and management, Arla once again demonstrated our ability to adapt to challenging market conditions in 2023. I am incredibly proud of our solid results, both reflected in the competitive milk price and the sustainability milestones achieved. Sustainability is a challenge we cannot ignore, but we are on track towards our CO_2e reduction target for 2030. We, farmer owners, show that we dare to be proactive and take on the task through innovation and action," says Arla Foods chairman Jan Toft Nørgaard.

In 2023, Arla achieved a net profit of EUR 380 million, or 2.8% of revenue, which is at the bottom end of its target range of 2.8-3.2%.

The solid financial performance and robustness allowed the Arla Board of Directors to propose a supplementary payment, including interest on contributed capital, to farmers of 2.07 EUR-cent per kg of milk delivered equaling 270 MEUR in total, well-above the level set in Arla's Retainment Policy.

"The proposed supplementary payment as well as a competitive on account milk price in 2023 is a direct reflection of Arla's financial performance and robustness. We have navigated a deflated and volatile global dairy market as well as headwind from several currencies. In light of this, I am very pleased that we during 2023 managed to pay the second-highest ever average on account milk price and still deliver a high supplementary payment to our farmer owners at year end," says Peder Tuborgh, CEO of Arla Foods.

Investments amounted to an all-time high EUR 601 million compared to EUR 521 million in 2022.

ON TRACK TOWARDS 2030 TARGET WITH ACCELLERATED EMISSION REDUCTIONS

Arla's farmer owners are once again showing their commitment to reducing carbon emissions. On average, they delivered a 3.6% CO_2e cut compared to 2022, leading to a drop in on-farm emissions from 1.12 to 1.08 kg CO_2e per kg of owner milk.

The total Scope 3 emissions, which account for 96% of Arla's total carbon footprint, were reduced by 3 percentage points per kg of milk and whey, and in total by 12% compared to the company's 2015 baseline.

In scope 1 and 2, Arla lowered its emissions by 4 percentage points in 2023, and in total by 33% compared to the company's 2015 baseline. This was mainly due to energy optimization at sites and impact from power purchase agreements.

In the two years between 2021 and 2023, Arla together with its farmer owners have cut nearly 1 million tonnes of CO_2e and is on track to deliver its 2030 reduction targets of -63% on Scope 1+2 and -30% on Scope 3.

Furthermore, 2023 saw Arla take historic steps to further accelerate scope 3 emissions with the launch of its Sustainability Incentive Model, which ties a part of the milk price farmers receive directly to sustainability actions on farm, and the launch of the Customer Sustainability Programme (CSP), which creates deeper farmer and customer collaboration through projects to deliver progress and value-creation towards shared climate targets.

"We have launched very important initiatives together with our farmer owners that have an impact on our emission reductions. We are on track towards our 2030 reduction target with close to 1 million tonnes CO2e cut in the last two years. At the same time, this approach also brings added value to our customers. This is a prime example of how we are shaping the future of the dairy industry," says Peder Tuborgh.

The first payouts issued in summer of 2023 marked, for the first time ever, that the milk price the individual Arla farmer receives is now directly tied to their activities related to environmental actions. Farmers can earn up to 3 EUR-cent per kg of milk through a total of 19 different levers, incentivizing actions that contribute to achieve Arla's 2030 target of reducing scope 3 CO_2e emissions by 30% per kg of milk and whey compared to the 2015 baseline, as well as other sustainability actions such as enhancing biodiversity. In 2023, a total of 226 EUR million were re-distributed through this system, based on their individual points collected in the incentive model and submitting Climate Check data.

FULL SPEED ON BRANDED GROWTH IN SECOND HALF OF 2023

The high inflation and cost of living in 2022 continued into the beginning of 2023, resulting in consumers in especially Europe trading down to discounters, cheaper products and in general buying less dairy products, resulting in a flat development in retail dairy consumption across the region. In Africa and South East Asia, negative currency effects significantly affected consumer purchasing power. However, Arla's brand portfolio demonstrated its robustness in volatile conditions.

”2023 was truly a year of two halves. In the first half, consumers continued to trade down to cheaper products due to inflation, and we saw our strategic branded volume growth drop by -6.0% for our global brands. However, we made a very strong recovery in the second half of 2023 with a strategic branded volume growth of +4.1%," says Peder Tuborgh.

The decline in retail dairy consumption slowed down during the year as inflation started to ease off and wages increased, and towards year-end we saw dairy consumption increase again, resulting in a flat development in retail dairy consumption across the EU region in 2023. In 2023, Arla saw a branded revenue increase of 1.2% to a record high level at EUR 6,375 million (2022: EUR 6,300 million) due to higher prices. Arla witnessed an underlying decrease in branded volume driven revenue growth of -0.7%, which was better than expected and was in positive momentum entering 2024.

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COMMERCIAL SEGMENTS MARKED BY ADVERSE CURRENCY EFFECTS
Arla divides its business into 4 commercial segments.

Due to high inflation and elevated dairy prices branded dairy volumes in **Europe** were under pressure in 2023, however consumers started returning to branded products in the second half of the year. Revenue increased by 2.7% to EUR 7,984 million, compared to EUR 7,771 million in 2022. Branded volume driven growth declined by 1.3% as consumers traded down to cheaper options and sought promotions. The hardest hit was felt in Sweden where Arla experienced a branded volume decrease of 5.1% as high inflation, interest rates and a weakened SEK adversely impacted Swedish households. Despite the challenging environment, Arla's Netherlands/Belgium/France cluster achieved 6.9% branded growth and UK 2.2%. Starbucks™ delivered growth of 21.8%, Arla® Protein continued its growth journey at 60.5%.

Arla's **International Segment** grew revenue by 1.4%, to EUR 2,471 million from EUR 2,437 million in 2022. Despite high price levels, branded volume driven growth remained positive with 1.9% growth. Branded volume driven growth was achieved in the company's Middle East and North Africa and Southeast Asia regions, where volumes grew by 4.2% and 3.9% respectively. The company's business in West Africa was negatively impacted by the currency devaluation and subsequent inflation in Nigeria.

Arla Foods Ingredients (AFI), a 100% owned subsidiary of Arla, grew its value-added protein volumes by 10.4% but revenue decreased 6.3% to EUR 963 million compared to EUR 1,028 million in the same period last year. In 2023, AFI faced a very dynamic market environment and was subject to exceptionally volatile market prices for whey and lactose based ingredients, as well as the currency volatility such as the devaluation in Argentina, where AFI has a production site.

The overall share of milk solids sold by **Global Industry Sales** rose to historical high volumes at 27.4% compared to 23.6% last year. The business unit's revenue decreased by 8.7%, to 2,214 EUR million, from EUR 2,531 million in 2022, driven by rapid commodity price decreases in the first half of the year. Commodity prices started to recover in the second half of 2023, mainly driven by a decreasing milk production.

OUTLOOK FOR 2024
Arla expects the volatile market conditions, driven by external factors such as reduced consumer purchasing power, currency developments, and geopolitical tension and uncertainty, to continue to impact the business in 2024. Arla expects the growth momentum experienced in the last half of 2023 to continue in the first half of 2024, which results in an expected return to branded volume driven growth for 2024 as a whole of 1.0-3.0%, despite a more uncertain market and growth outlook for the second half of the year.

Through Arla's climate strategy, including the Sustainability Incentive model and latest building block CSP, the company aims to keep current pace in its efforts to reduce its climate impact. This will enable Arla to reach its 2030 emission reduction targets - a 63% reduction in scope 1 and 2 emissions and a 30% reduction in scope 3 emissions per kg of milk and whey - by leveraging the strong momentum fueled by the important milestones achieved in 2023.

Commenting on the effects of this, Peder Tuborgh says:

"While we anticipate continued volatility on multiple levels, our strong performance in the second half of 2023 makes us face 2024 with great confidence. Uncertainty remains as growing unrest around the world and related economic slowdown can potentially impact our business negatively. However, Arla is in a robust financial position, global demand for dairy remains strong. Through our climate strategy, including the incentive model and the latest building block CSP, we will further accelerate our efforts to reduce our climate impact and reach our 2030 emission targets on scope 1, 2 and 3. We remain committed to delivering our Future26 ambitions and continuing our efforts to be a leading role model for sustainable dairy."

Group revenue outlook for 2024 is expected to be EUR 13.2-13.7 billion, the reduction is primarily driven by reduced sales prices compared to the record highs in the beginning of 2023 and adverse currency effects. Net profit share will be in the range of 2.8 to 3.2% and efficiencies in the range of EUR 85-105 million. Leverage is expected to be in the range of 2.4-2.8.

Arla will publish its Financial and Sustainability Annual Report 2023 on February 29.

Annual Results 2023 key figures:

- Group revenue EUR 13.7 billion
- Performance price 47.0 EUR-cent/kg
- Milk volume 13.9 billion kg
- Net profit share of revenue 2.8%
- Board of Directors proposal for profit appropriation: Supplementary payment including interest amounting EUR 270 million corresponding to 2.07 EUR-cent per kg owner milk, whereof interest on contributed capital is EUR 18 million equal to 0.14 EUR-cent. Retainment amount to EUR 110 million corresponding to 0.84 EUR-cent per kg owner milk, with EUR 41 million on individual capital and EUR 69 million on common capital.
- Net efficiencies EUR 114 million
- Leverage 2.6
- Overall strategic branded volume driven revenue growth -0.7% - Includes Lurpak® Arla ® Puck® Castello® Starbucks®
  Strategic branded volume driven revenue growth first half of 2023: -6.0%
  Strategic branded volume driven revenue growth second half of 2023: +4.1%
- Investments in intangibles, property, plant and equipment incl right of use assets amounted to an all-time high EUR 601 million compared to EUR 521 million in 2022.

Sustainability

- Accelerated Scope 3 reductions, on track towards 2030 reduction target with close to 1 million tonnes CO_2e cut in the last two years.
- Ground-breaking Sustainability Incentive Model successfully launched in 2023 as well as a new Customer Sustainability Programme (CSP) to further accelerate both on-farm action and value creation.

Arla®, the largest strategic brand based on revenue and an umbrella brand with diverse and successful sub-brands covering milk, yoghurt, cream, powder and cheese, was generally challenged in 2023 with branded volumes declining by 2.8% compared to 2022, bringing volumes back to pre-covid level. Higher prices resulted in a slight revenue decrease of EUR 3,618 million (2022: EUR 3,702 million). Some sub-brands achieved exceptional volume growth despite higher prices, an example is Arla® Protein growing volumes by 60.5%.

Lurpak® is the leading butter and spreadable brand in Denmark, the UK and MENA and sold in 100 countries. Lurpak® experienced a volume increase of 0.8% compared to 2022, with volumes sold still higher than before Covid-19, successfully managing to keep consumer interest that peaked during the pandemic. Revenue grew by 2.9% to EUR 772 million (2022: EUR 750 million).

Puck® Arla's strong Middle East brand and number one brand in spreadable cheese in MENA, grew volumes at 6.5%, ahead of the 2022 growth of 4.7%. Revenue grew by 4.9%, to EUR 526 million, from EUR 504 million in 2022

Castello® lost 1.7% volumes compared to 2022. However, due to higher prices, revenue improved by 3.0% to EUR 246 million (2022: EUR 238 million). The branded cheese category and in particular speciality cheese, in which Castello operates, was struggling in times of inflation and recession.

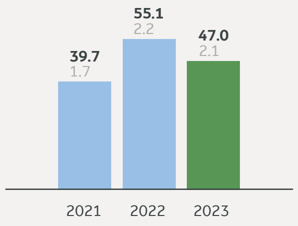
Starbucks® The licensed brand Starbucks® ready-to-drink coffee assortment available in more than 50 countries, delivered 15.7% volume growth in 2023 despite adverse impacts to international markets by inflation and economic uncertainty.

2023 PERFORMANCE AT A GLANCE

F26 Competitiveness

47.0

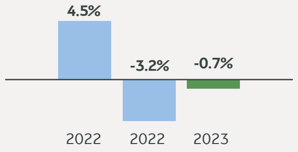
PERFORMANCE PRICE
EUR-CENT/KG



F26 Value creation

-0.7% ●

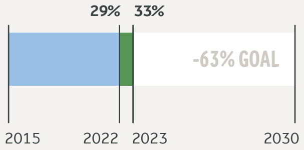
STRATEGIC BRANDED VOLUME DRIVEN REVENUE GROWTH[1]



F26 Sustainability

4%p ●

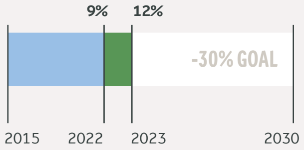
SCOPE 1+2 EMISSIONS
REDUCTION IN 2023



F26 Sustainability

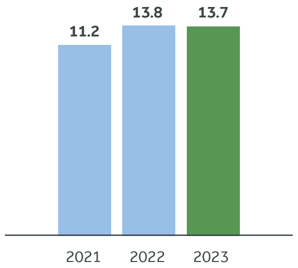
3%p ●

SCOPE 3 EMISSIONS[2]
REDUCTION IN 2023



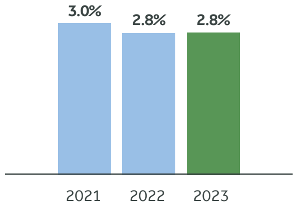
13.7 ●

REVENUE
EUR BILLION



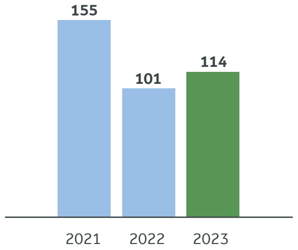
2.8% ●

PROFIT SHARE[3]
OF REVENUE



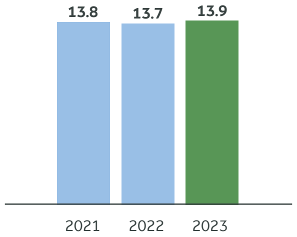
114 ●

NET EFFICIENCIES[4]
EUR MILLION



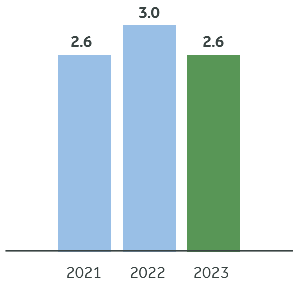
13.9

MILK VOLUME[5]
BILLION KG



2.6 ●

LEVERAGE



● Within guidance
○ Outside guidance

[1] -0.3% excluding our Russian business which was divested in the first half of 2022.
[2] Per kg of milk and whey.
[3] Based on profit allocated to owners of Arla Foods amba.
[4] Between 2021 and 2022, we altered the methods of creating efficiencies due to the start of our new strategy period. 2022 and 2023 numbers are therefore not fully comparable with historic numbers related to our previous efficiency programme, Calcium.
[5] Standardised milk: 4.2% fat, 3.4% protein; 2021 and 2022 numbers are restated accordingly.

INCOME STATEMENT

(EUR million)	Note	2023	2022	Develop-ment
Revenue	1.1	13,674	13,793	-1%
Production costs	1.2	-10,894	-11,145	-2%
Gross profit		**2,780**	**2,648**	**5%**
Sales and distribution costs	1.2	-1,764	-1,771	0%
Administration costs	1.2	-459	-439	5%
Other operating income	1.3	113	162	-30%
Other operating costs	1.3	-121	-131	-8%
Share of results after tax in joint ventures and associates	3.3	51	60	-15%
Earnings before interest and tax (EBIT)		**600**	**529**	**13%**
Specification:				
EBITDA		1,079	1,001	8%
Depreciation, amortisation and impairment losses	1.2	-479	-472	1%
Earnings before interest and tax (EBIT)		**600**	**529**	**13%**
Financial income	4.2	135	120	13%
Financial costs	4.2	-280	-200	40%
Profit before tax		**455**	**449**	**1%**
Tax	5.1	-56	-49	14%
Profit for the year		**399**	**400**	**0%**
Allocated as follows:				
Arla Foods amba's share of profit for the year		380	382	-1%
Non-controlling interests		19	18	6%
Total		**399**	**400**	**0%**

COMPREHENSIVE INCOME

(EUR million)	Note	2023	2022
Profit for the year		**399**	**400**
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Remeasurements of defined benefit schemes	4.7	-19	-1
Tax on remeasurements of defined benefit schemes		4	2
Non-recyclable OCI from joint ventures and associates		-3	-
Items that may be reclassified subsequently to the income statement:			
Value adjustments of hedging instruments	4.4	-141	225
Fair value adjustment of certain financial assets		-2	-3
Foreign currency translation		-47	-48
Tax on items that may be reclassified to the income statement		9	-19
Other comprehensive income, net of tax		**-199**	**156**
Total comprehensive income		**200**	**556**
Allocated as follows:			
Arla Foods amba's share		181	538
Non-controlling interests		19	18
Total		**200**	**556**

Financial comments

Comprehensive income consists of realised profit for the year and other value adjustments that have yet to be realised and are accounted for directly in equity.

Profit for the year amounted to EUR 399 million (2022: EUR 400 million) and other comprehensive income amounted to EUR -199 million (2022: EUR 156 million).

Other comprehensive income was primarily unrealised value adjustments on hedging instruments of EUR -141 million and adjustments related to foreign currency translation of EUR -47 million.

BALANCE SHEET

(EUR million)	Note	2023	2022	Develop-ment
Assets				
Non-current assets				
Intangible assets and goodwill	3.1	1,010	954	6%
Property, plant, equipment and right of use assets	3.2	3,149	3,031	4%
Investments in associates and joint ventures	3.3	560	565	-1%
Deferred tax	5.1	23	22	5%
Pension assets	4.7	21	16	31%
Other non-current assets		25	23	9%
Total non-current assets		**4,788**	**4,611**	**4%**
Current assets				
Inventory	2.1	1,384	1,772	-22%
Trade receivables	2.1	1,145	1,267	-10%
Derivatives	4.5	132	239	-45%
Other receivables	2.2	309	319	-3%
Securities	4.5	403	432	-7%
Cash and cash equivalents	4.1	138	106	30%
Total current assets		**3,511**	**4,135**	**-15%**
Total assets		**8,299**	**8,746**	**-5%**

(EUR million)	Note	2023	2022	Develop-ment
Equity and liabilities				
Equity				
Common capital		2,211	2,150	3%
Individual capital		557	540	3%
Other equity accounts		13	203	-94%
Supplementary payment to owners		207	208	0%
Attributable to the owners of Arla Foods amba		**2,988**	**3,101**	**-4%**
Non-controlling interests		64	67	-4%
Total equity		**3,052**	**3,168**	**-4%**
Liabilities				
Non-current liabilities				
Pension liabilities	4.7	167	161	4%
Provisions	5.2	31	28	11%
Deferred tax	5.1	83	86	-3%
Loans	4.3	2,369	2,640	-10%
Total non-current liabilities		**2,650**	**2,915**	**-9%**
Current liabilities				
Loans	4.3	803	709	13%
Trade payables and other payables	2.1	1,425	1,597	-11%
Provisions	5.2	20	20	0%
Derivatives	4.5	43	36	19%
Other current liabilities	2.2	306	301	2%
Total current liabilities		**2,597**	**2,663**	**-2%**
Total liabilities		**5,247**	**5,578**	**-6%**
Total equity and liabilities		**8,299**	**8,746**	**-5%**

CASH FLOW

(EUR million)	Note	2023	2022
EBITDA		1,079	1,001
Reversal of share of profit in joint ventures and associates	3.3	-51	-60
Reversal of other operating items without cash impact		-54	21
Change in net working capital	2.1	320	-707
Change in other receivables and other current liabilities		-23	11
Dividends received, joint ventures and associates		18	15
Interest paid		-145	-67
Interest received		55	23
Taxes paid		-48	-53
Cash flow from operating activities		**1,151**	**184**
Investment in intangible assets	3.1	-68	-81
Investment in property, plant and equipment	3.2	-445	-373
Sale of property, plant and equipment	3.2	6	13
Operating investing activities		**-507**	**-441**
Acquisition of financial assets		-18	-16
Sale of financial assets		29	17
Acquisition of enterprises	3.4	-26	-11
Sale of enterprises		3	8
Financial investing activities		**-12**	**-2**
Cash flow from investing activities		**-519**	**-443**

(EUR million)	Note	2023	2022
Half-year supplementary payment		-63	-61
Supplementary payment regarding the previous financial year		-201	-211
Transactions with owners		-25	-22
Transactions with non-controlling interests		-13	-11
New loans obtained	4.3.c	777	810
Other changes in loans	4.3.c	-967	-143
Payment of lease debt	4.3.c	-78	-71
Payment to pension plans	4.3.c	-22	-22
Cash flow from financing activities		**-592**	**269**
Net cash flow		**40**	**10**
Cash and cash equivalents at 1 January		106	97
Net cash flow for the year		40	10
Exchange rate adjustment of cash funds		-8	-1
Cash and cash equivalents at 31 December		**138**	**106**

(EUR million)	Note	2023	2022
Free operating cash flow			
Cash flow from operating activities		1,151	184
Cash flow from operating investing activities		-507	-441
Free operating cash flow		**644**	**-257**
Cash flow from operating activities		1,151	184
Cash flow from investing activities		-519	-443
Free cash flow		**632**	**-259**