

ARLA FOODS ANNUAL RESULTS

# 2017

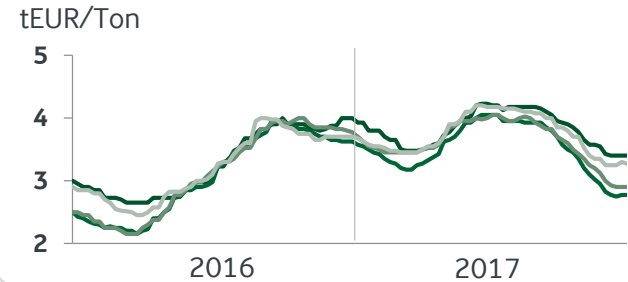
Press conference  
February 21st 2018



# HIGHLIGHTS: External trends in 2017

**Peak in dairy commodity prices**

**Yellow cheese commodity prices in EU**



**Firm market development**



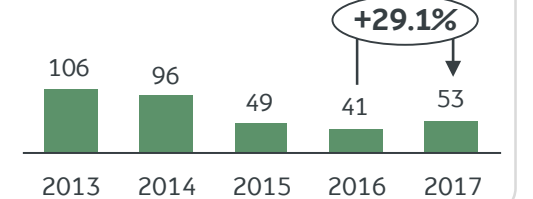
**Fat shortage increased fat price**



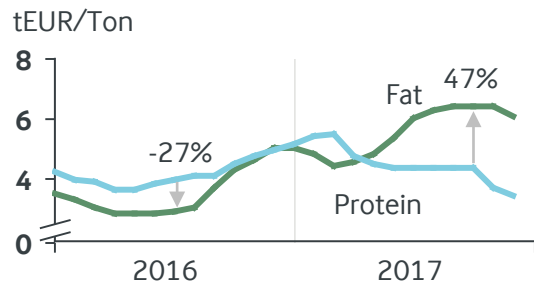
**Strong economic growth**



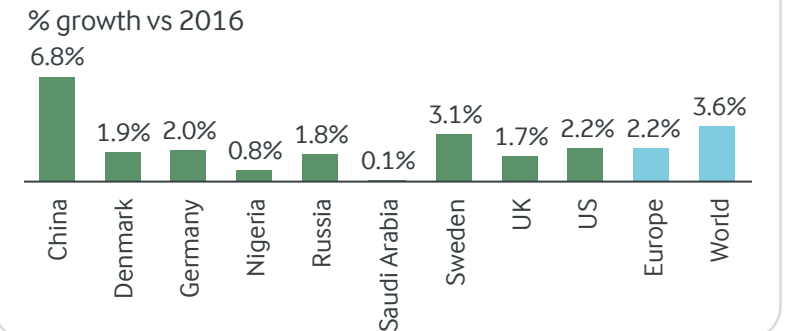
**Average OPEC crude oil price**  
USD/barrel



**Fat and protein prices**



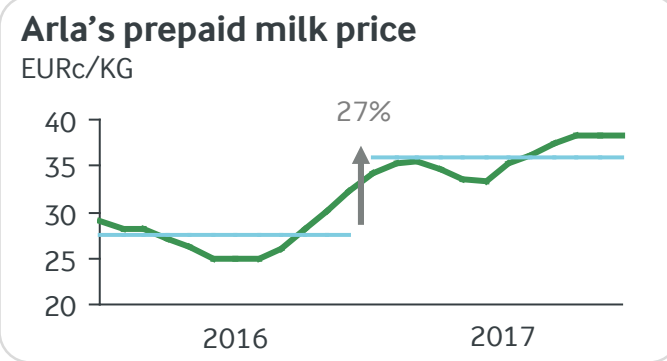
**Gross domestic product in 2017**



# HIGHLIGHTS: Internal trends in 2017



**Prepaid up 27% in 2017**



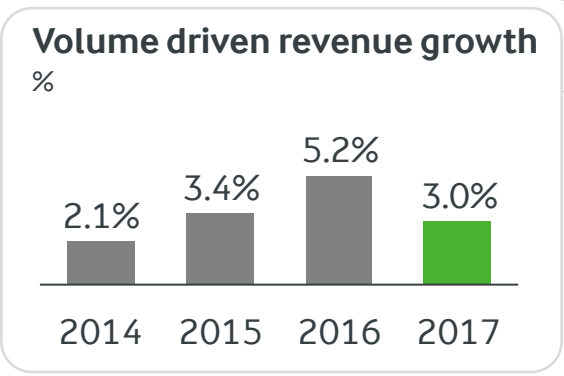
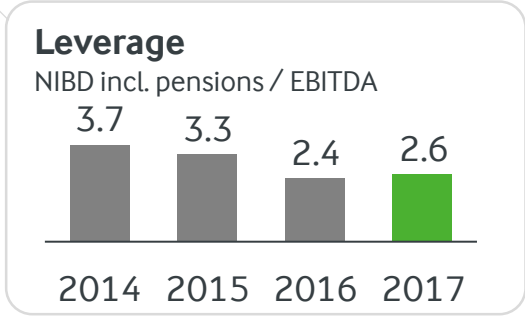
**Strong balance sheet**

**GG2020**

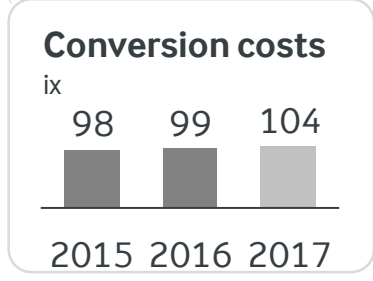


**Strong branded growth**

**Increased complexity drives costs**



Opening of our Global Innovation Centre in Aarhus



# 2017 Performance at a glance



## Performance price

EURc/KG

**38.1**

2017



## Profit share<sup>1</sup>

**2.8%**

OF REVENUE



● Target 2017 2.8-3.2%

## Revenue

**10.3**

BILLION EUR



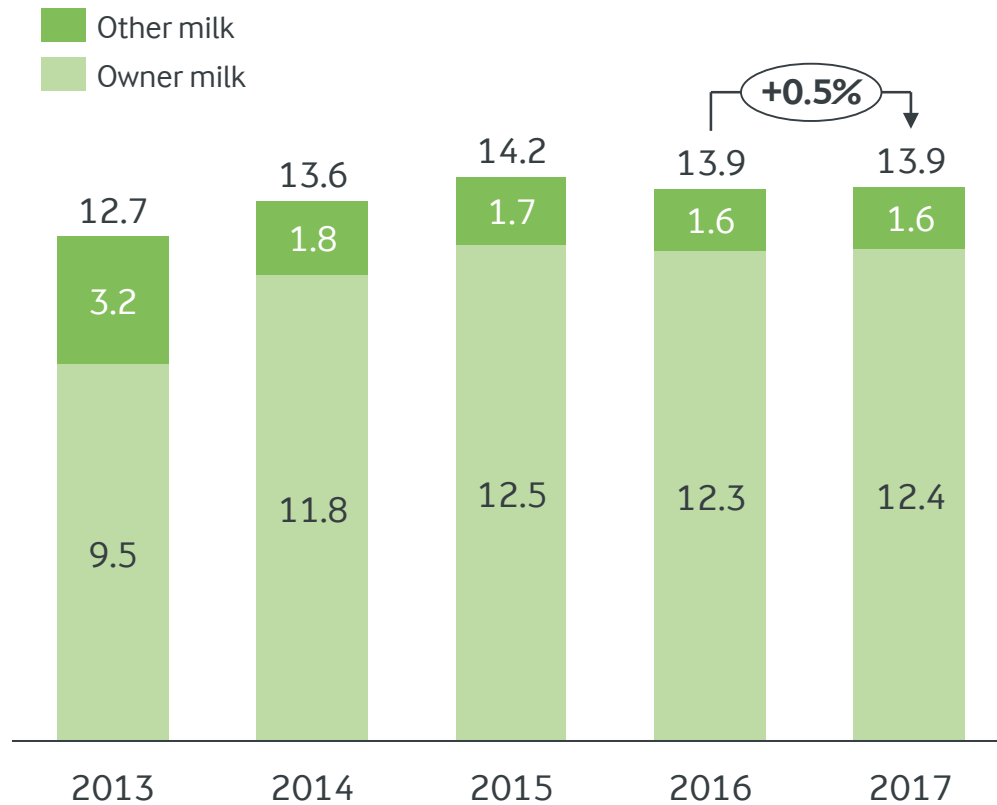
● Target 2017 EUR 10 - 10.5 billion

<sup>1</sup>Based on profit allocated to owners of Arla Foods amba.

# 2017 milk inflow unchanged compared to 2016, however very volatile year

## Inflow of raw milk

bKG



## Inflow of raw milk by country

	2016	2017	
	%	%	mKG
Denmark	0.5%	2.1%	4,827
UK	-3.3%	-0.2%	3,203
Sweden	-4.3%	-2.8%	1,855
Germany	1.0%	0.1%	1,759
Other owner milk <sup>1</sup>	-2.8%	2.0%	729
Other milk	-10.2%	0.6%	1,564
<b>Total</b>	<b>-2.2%</b>	<b>0.5%</b>	<b>13,937</b>

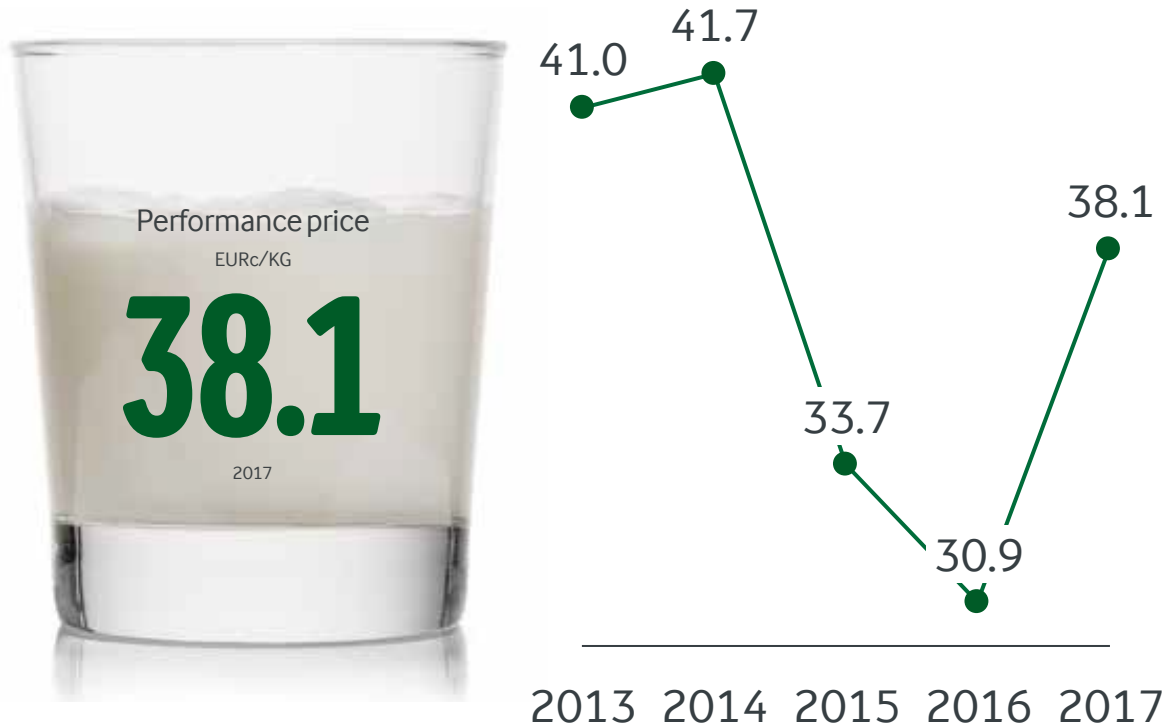


Note that development is impacted by mergers (UK and Central Europe)

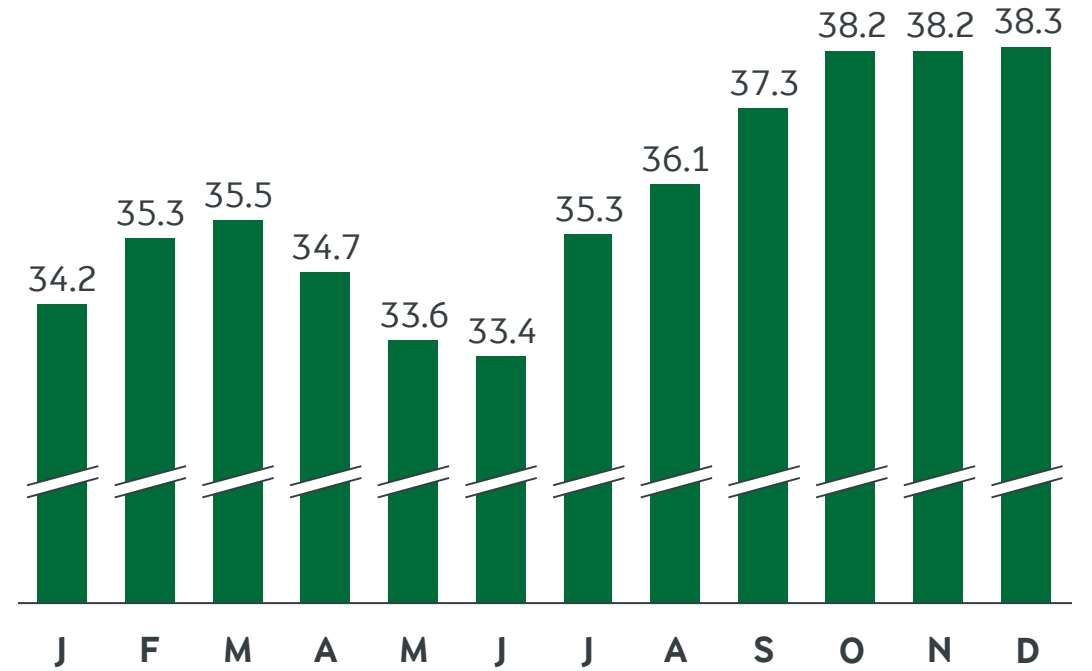
<sup>1</sup>Including Belgium, Luxembourg and Netherlands

# Performance price improved 23% in 2017 and averaged 38.1 EURc/KG

## Performance price EURc/KG



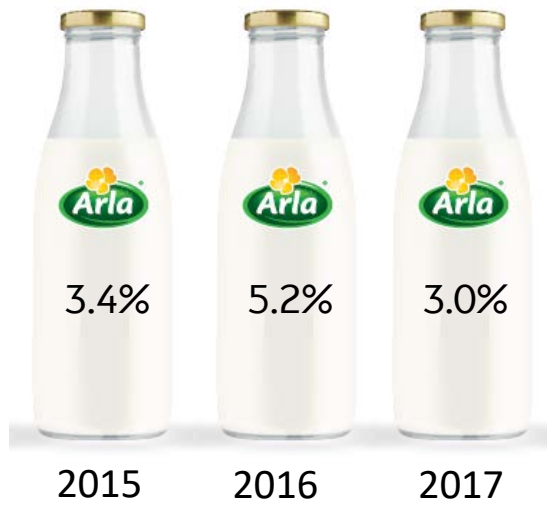
## Prepaid milk price month by month in 2017 EURc/KG



# 2017 Quality of business

Strategic branded volume driven revenue growth

**3.0%**



● Target 2017 1-3%

Brand share<sup>1</sup>



● Target 2020 > 45%

International share<sup>2</sup>



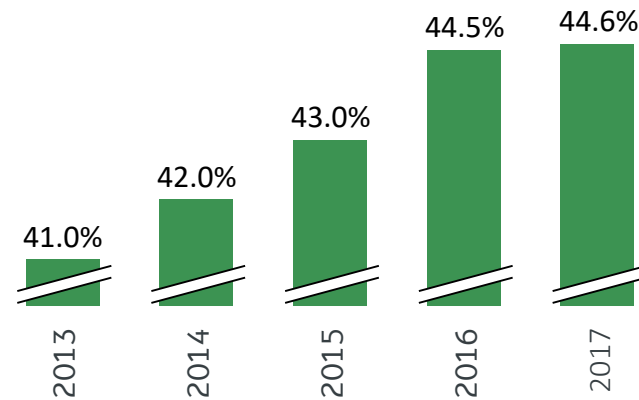
● Target 2020 > 20%

# Strong strategic branded revenue growth driven by both sales price and volume increases

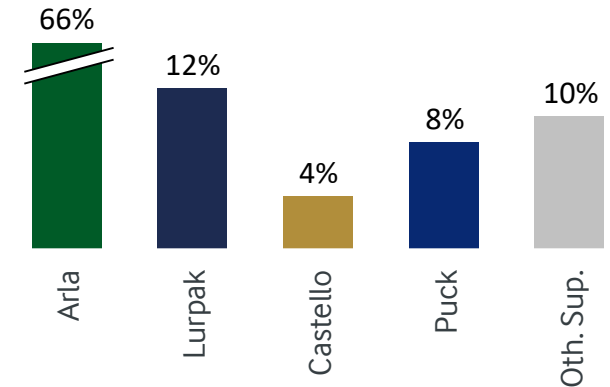


Revenue growth of  
**10%**  
Strategic branded  
volume driven revenue growth  
**3.0%**  
2016: 5.2%

Brand share 2012-2017



2017 brand share split



## Revenue development by brands



<sup>1</sup> Adjusted from the effect of sale of Rynkeby





Revenue exceeded EUR 3 billion in 2017 with volumes up 3.4%

## Financial highlights

Revenue, mEUR

**3,026**

Revenue development

**10.1%**

Strategic branded volume driven revenue growth

**3.4%**

2016: 4.5%

## Innovative products

Increasing pipeline of innovative products

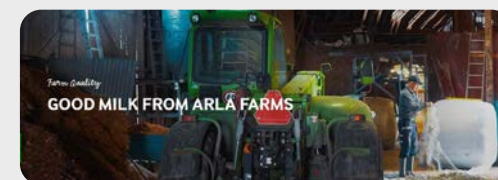
Focusing on growth areas  
Protein, Skyr and Organic



## Highlights

**Arlagården® Plus**

Launched in November 2017

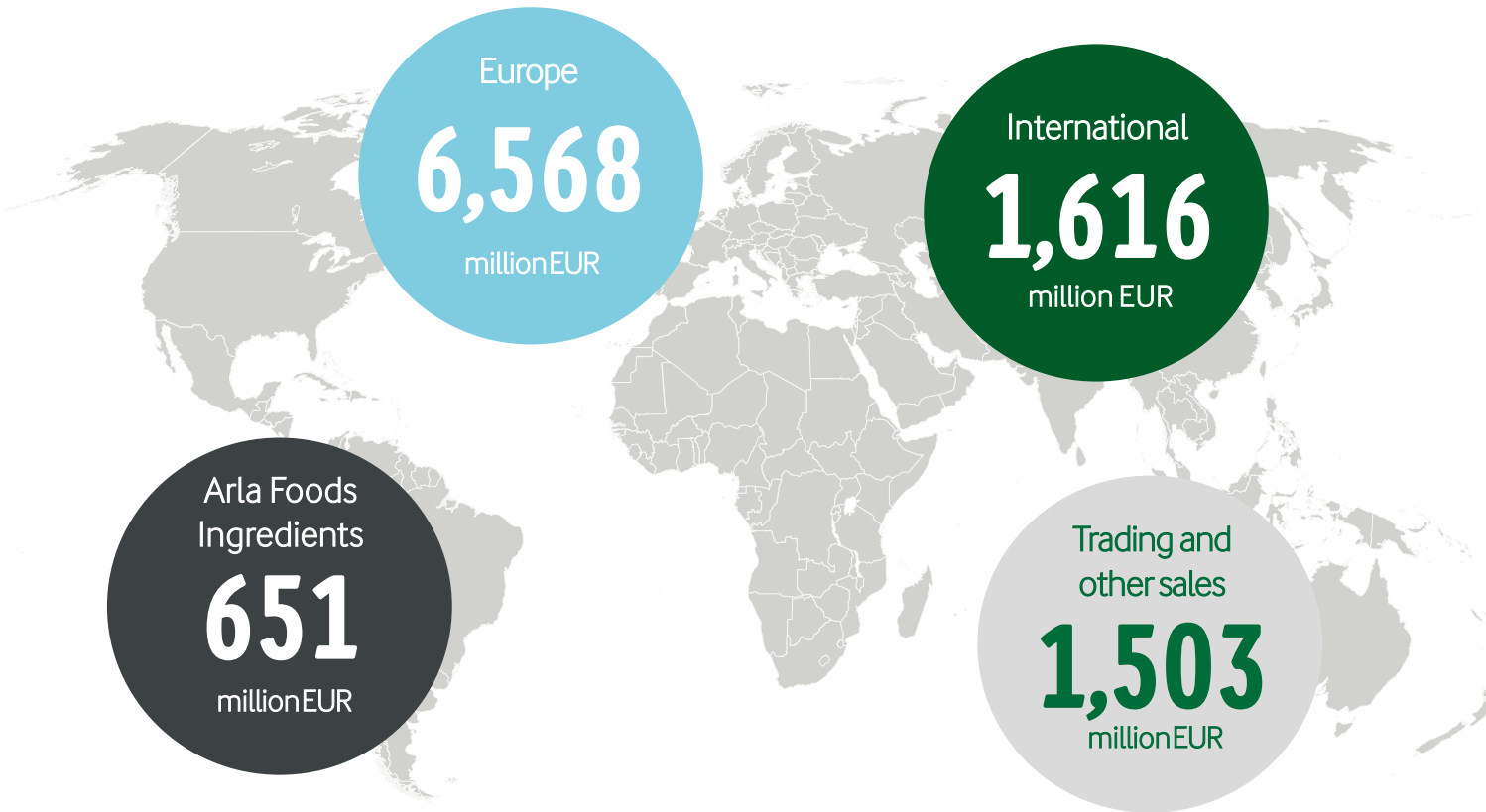


**88%**

of member milk

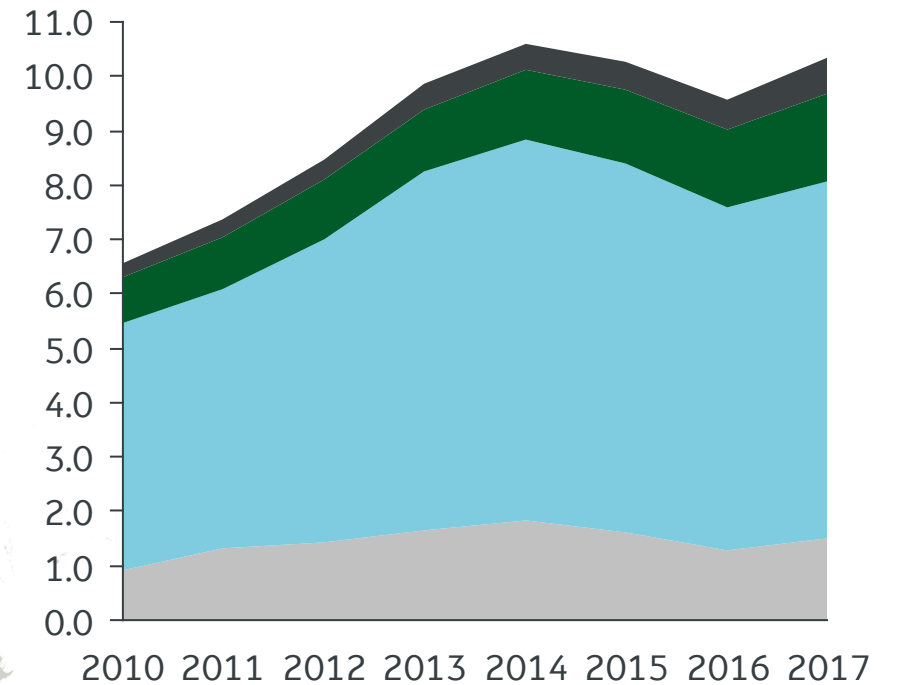
# Revenue composition in the four commercial segments continues to shift towards AFI and International

## Revenue composition by business area in 2017



## Revenue development 2010-2017

bEUR



# EU delivered significant price increases, and grew branded MYPC in adverse conditions

Revenue development

**3.9%**

2016: -6.9%

Brand share

**48.3%**

2016: 47.6%

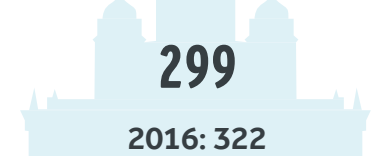
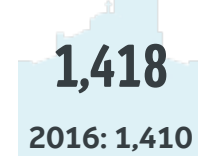
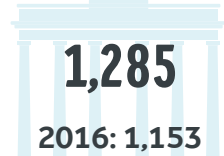
Strategic branded volume driven revenue growth

**-0.1%**

2016: 3.2%

## EU markets – performance and highlights

Revenue in mEUR



### United Kingdom

- Arla® **fastest growing brand** among large manufacturers in the UK
- BoB white milk voted **product of the year**
- Weak **GBP** reduces profit for group



### Germany

- Significant growth in **Arla** and **Starbucks** brands; **Skyr** won several awards
- **Strong organic position** in Arla Bio
- Significant **price increases**, however **profitability still challenged**



### Denmark

- **Positive year in a challenging market**
- Innovations included **non-GMO** white milk and new **Baby and Me** products
- Record positive **reputation** scores



### Sweden

- **Reputation continued to improve** in 2017
- Key market for **Lactofree** products tapping into lifestyle dairy segment



### Netherlands & Belgium

- Highest **market share** to date in fresh dairy at >10%
- Market leader in **organic**
- Close collaboration with **customers**



### Finland

- Key focus brands **Arla Luonto+** and **Lempi** continued to grow
- **Arla Family** cheeses gaining market shares
- **Castello** launch exceeded expectations
- Market challenged by **decreasing dairy consumption**



# INT delivered profitable growth, and our footprint expanded in a challenging macro-environment

Revenue development

**13.2%**

2016: 5.9%

Brand share

**83.9%**

2016: 81.4%

Strategic branded volume driven revenue growth

**10.5%**

2016: 10.7%

## INT markets – performance and highlights

Revenue in mEUR

**144**

2016: 85

### SSA

- Revenue almost doubled driven by **Dano@ brand**
- **Footprint expanded** with new presence in **Ghana**
- NextGen product portfolio **pipeline for West Africa**
- Challenging **currency environment**



**550**

2016: 519

### MENA

- Good progress on strategic MENA agenda
- Launched **Arla Organic** in **UAE**, and locally produced **White Cheese** in **Egypt**
- **Challenging economic environment and political uncertainty**



**324**

2016: 323

### Americas

- **Big natural cheese bet in US** driven by Arla@ brand
- Continued to develop **cooperation with DFA**
- **Canada driving profits**
- **Vigor share divested**



**368**

2016: 336

### Russia & others

- **Strong turnaround** in Russia business; profitable growth despite embargo
- **Significant growth on Lurpak, Castello, MBB** (Arla Protein & Starbucks) across the markets



**102**

2016: 56

### China

- Revenue **almost doubled; profitability improved**
- **Branded position strengthened** with **Infant Formula** and **Organic**
- **UHT prices challenged**



**128**

2016: 102

### SEA

- Strong **Dano brand** growth in **Bangladesh**
- **Singapore, Japan, Korea** delivered profitable growth
- **Partnership agreement** signed with **Indofood** in **Indonesia**



# AFI increased the value-added share of products

Share of value products

**74%**

2016: 60%<sup>1</sup>

Revenue share of Arla Group total

**6.3%**

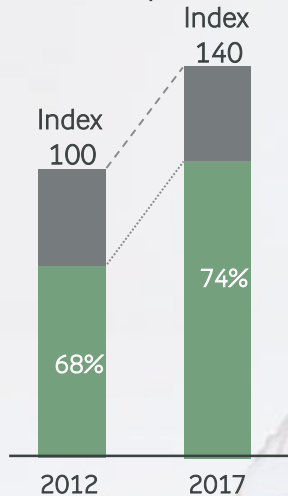
2016: 5.7%

Revenue development

**19.6%**

2016: 5.0%

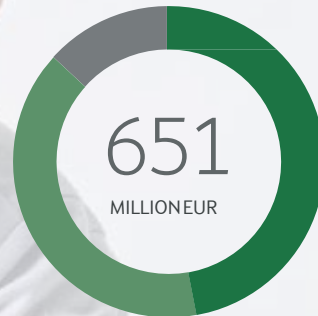
Volume of standard & value-add products



Mission statement officially launched:

*“To discover and deliver all the wonders whey can bring to people’s lives.”*

Revenue split by regions



	2017	2016
● Europe and MEA	49%	47%
● Asia	41%	40%
● Americas	10%	13%

# Trading revenue increased due to higher commodity prices

Trading share of Group revenue

**14.5%**

2016: 13.3%

Revenue development

**18.0%**

2016: -20.5%

Trading share of milk volume

**20.2%**

2016: 20.1%

<sup>1</sup>Share of value products in 2016 impacted by stock reduction exercise

# 2017

## Cost, cash and efficiency

Conversion cost

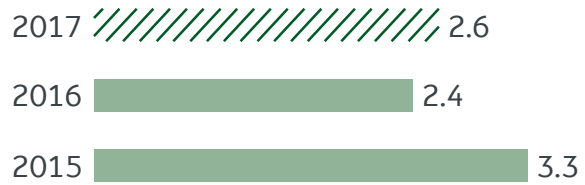
**103.9**



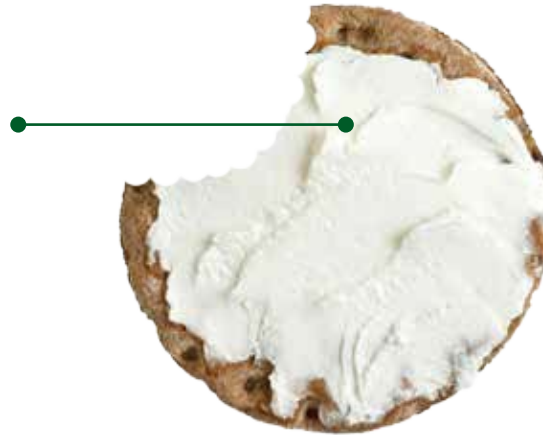
● Target 2017 <100

Leverage

**2.6**



● Target 2017 2.8 - 3.4



# 2018 outlook

## Expectations for 2018


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Revenue  
**10-10.5**  
BILLION EUR

Profit share  
**2.8-3.2%**  
OF REVENUE

Approved CAPEX Investments  
**527**  
MILLION EUR

Brand share  
**>45%**



International share  
**>20%**

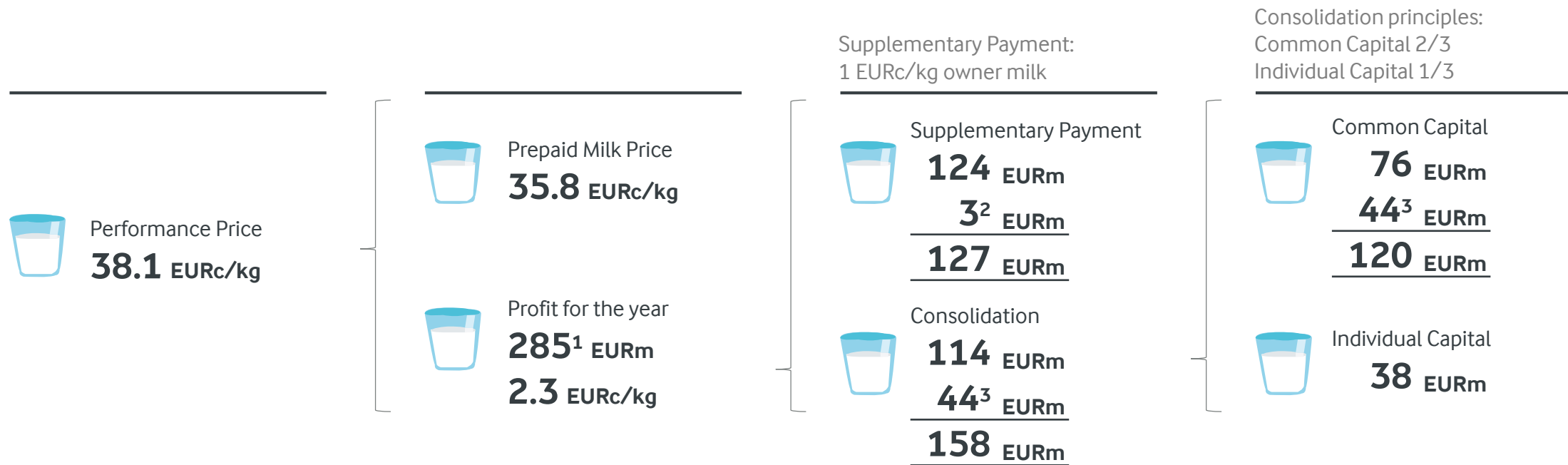
Strategic branded volume driven  
revenue growth  
**1-3.5%**

Leverage  
**2.8-3.4**



# BoD proposal on profit appropriation provides a supplementary payment equal to 1 EURc, and retainment of Vigor proceeds as common capital

## Profit appropriation for 2017 with proceeds from Vigor retained as common capital



<sup>1</sup> Based on profit allocated to owners of Arla Foods amba; <sup>2</sup> Interest on contributed capital: 0.04 EURc/kg

<sup>3</sup> Gain on the divestment of associated company Vigor



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