



ANNOUNCEMENT TO STOCK EXCHANGES

Solid performance and sustainability action in another volatile year

Arla Foods navigated the inflationary environment of 2022 effectively, delivering a strong performance that enabled it to deliver a significant increase in its prepaid milk price and an above target supplementary payment to its farmer owners of 2.2 EUR-cent per kg milk for the full year. The European dairy cooperative also took significant steps on its sustainability journey by lowering scope 1, 2 and 3 emissions and successfully developing its Sustainability Incentive Model that will be introduced in 2023, which will include a sustainability payment as part of its milk price to support and enable farmer investments.

Total Arla Group revenue increased by 23.2 per cent to EUR 13.8 billion compared to EUR 11.2 billion in 2021. Revenue growth was almost exclusively driven by increased prices. Global stagnating supply and steady demand drove up commodity and retail prices, which contributed positively to the increase.

Arla's average pre-paid milk price increased by 40.5 per cent from 37.0 EUR-cent/kg in 2021 to 52.0 EUR-cent/kg in 2022. Its performance price, which measures the value Arla adds to each kilo of its owners' milk, was 55.1 EUR-cent/kg, a 38.8 per cent increase compared to 2021.

In 2022, Arla achieved a net profit allocated to farmer owners of EUR 382 million, or 2.8 per cent of revenue. Profit was driven by unprecedented high margins on commodity products, which, together with high production costs put retail and foodservice margins under pressure.

The financial performance allowed the Arla Board of Directors to propose a supplementary payment to farmers of 2.2 EUR-cent per kg of milk delivered, 0.7 EUR-cent above the level set in Arla's new retention policy, for the first time paid out over two installments in September 2022 and March 2023.

The higher returns helped alleviate pressure on farmers, who faced soaring production cost as prices on feed, fertilizer and energy reached unprecedented levels. It also supported them in making the investments required to continue their transition to more sustainable dairy production and meet Arla's on-farm target of reducing CO₂e by 30 per cent by 2030.

"2022 was a year dominated by inflation and uncertainty for both farmers and our company. Despite this challenging environment, we delivered solid results while taking important strides forward on sustainability. As a cooperative, we took a historic step in 2022 with the decision to introduce a sustainability incentive that ties the individual farmers' milk price to sustainability activities and performance. A total of up to 500 million euro will be redistributed every year based on farmer owners' individual sustainability actions, showing our ambition to be at the forefront of progressive dairy farming," says Arla Foods Chairman, Jan Toft Nørgaard.

BRANDED GROWTH SLOWED BY DOWN-TRADING AND LESS CONSUMPTION

Following two years of exceptional branded growth in retail sales during the Covid-19 pandemic, branded volume growth slowed down in 2022, as the cost of living crisis impacted consumers and exerted pressure



across the whole value chain. Significant downward pressure on consumer spending power, particularly in Europe and Africa, led to consumers both trading down to cheaper products and consuming less dairy in general. By the end of 2022, the European dairy category demand was down approx. 5 per cent compared to the same time in 2021.

“The cost of living crisis impacted us across the world, particularly affecting our brands which, whilst they continue to be a key value creator for our business, declined volumes by 3.2 per cent. Some exceptions to this were our foodservice brand Arla[®] Pro, Arla[®] Protein and our Starbucks[™] business, which all contributed with positive growth rates. Our international business also grew volumes with Puck[®] performing well in the Middle East,” says Arla CEO, Peder Tuborgh.

COMMERCIAL SEGMENTS MARKED BY INFLATION

Arla divides its business into 4 commercial segments.

Arla Europe Historically high inflation led to significant price increases across the Europe Zone. Revenue increased by 17.4 per cent to EUR 7,771 million, compared to EUR 6,621 million in 2021. Branded volume driven growth declined by 4.2 per cent as consumers traded down to cheaper options and sought promotions. Some product categories and brands saw significant volume declines, with the most acute impact in the whole butter and spreadable category, where volume decline was 7.0 per cent. Despite the challenges, Arla’s Netherlands/France/Belgium cluster achieved 1.3 percent branded growth. In the Eurioe zone, Starbucks delivered growth of 14.4 percent, Arla Protein grew 48.1 percent and Arla Pro grew by 20.4 per cent.

Arla’s International Zone grew revenue by 17.2 per cent, to EUR 2,463 million from EUR 2,101 million in 2021. The majority of the development was related to price increases, which were necessary to offset the increasing production costs. The total branded volume driven growth declined by -1.2 per cent, but record branded volume growth was achieved in the company’s Middle East and North Africa and Southeast Asia regions, where volumes grew by 4.3 and 21.3 per cent respectively. The business in China struggled due to the full Covid lockdown throughout the year.

Arla Foods Ingredients (AFI), a 100 per cent owned subsidiary of Arla, grew its value-added protein volumes by 6.8 per cent and delivered a revenue growth of 29.5 per cent to EUR 1,028 million compared to EUR 794 million in the same period last year. Strong demand for AFI’s specialised whey protein and lactose products protected margins in a very dynamic market environment with record high energy and raw material prices.

The overall share of milk solids sold by our **Global Industry Sales** rose to 23.6 per cent compared to 22.1 per cent last year. The business unit’s revenue increased by 45.2 per cent, to EUR 2,531 million, from EUR 1,743 million in 2021, as a result of commodity price increases. Strong global industry sales were a key driver behind the competitive milk price to Arla’s farmer owners.

FARM CO₂e REDUCTIONS ON TRACK

Arla’s emission reduction programmes delivered the expected reductions in 2022.

“In the past few years, we have accelerated our sustainability action to reach our target scope 3 CO₂e emissions reduction by 2030. After a flat development in the past four years, Arla farmers have resumed their reductions as they managed to lower scope 3 emissions by 2 percentage point in 2022 and in total by



9 per cent compared to our 2015 baseline,” says Arla Foods CEO, Peder Tuborgh.

In scope 1 and 2, Arla lowered its emissions by 4 percentage points in 2022, and in total by 29 per cent compared to the company’s 2015 baseline. Whilst the company’s plans to move from fossil to renewable fuels remain intact, the risks of disruptions to the supply of gas in Europe, necessitated a temporary move to oil to power selected production sites and maintain continuity of supply. Arla compensated for these increased emissions through the purchase of additional renewable electricity certificates. In addition, Arla announced a new target of using 100 per cent renewable electricity in Europe by 2025, facilitated by the signing of further Power Purchase Agreements.

2022 also saw Arla take steps to further accelerate scope 3 emissions with the development of its Sustainability Incentive model, which ties the milk price farmers receive to sustainability actions on farm. After the Sustainability Incentive model comes into effect in August 2023, farmers can earn up to 3 EUR-cent per kg of milk for their actions contributing to achieve our 2030 target of reducing scope 3 CO₂e emissions by 30 per cent per kg of milk and whey, as well as other sustainability actions such as enhancing biodiversity.

To reward past action and motivate further environmental improvements on farms, Arla’s Board of Directors is earmarking up to EUR 500 million annually to be re-distributed to farmer owners based on their individual points collected in the incentive model.

OUTLOOK FOR 2023

Arla expects high inflation and volatility to continue to impact the business in 2023. Commenting on the effects of this, Peder Tuborgh says:

“2023 will undoubtedly be another difficult year with the challenging economic environment globally and the ongoing effects of the war in Ukraine continuing to impact the energy market and supply chains. We are currently seeing some easing of cost pressure on farmers, and as a result we expect the supply and demand balance to be restored on the dairy market over the course of 2023. Commodity prices, however, began a sharp decline during the fourth quarter of 2022, and we expect further decrease on the commodity markets in 2023. We also expect to see a continued slow-down in branded growth due to reduced buying power of consumers and fear of recession.”

The cost of living crisis, which is expected to continue to impact consumers throughout 2023, has led to a downward revision of a key economic indicator in Arla’s Future26 strategy. Whilst the majority of Future26 remains relevant and therefore unchanged, Arla’s branded volume growth ambitions needed to be adjusted.

The economic impact is most severe in 2022 and 2023 and Arla expects a return to growth conditions from 2024. Based on these assumptions, Arla expects its branded volumes to decline by -3.5 to -1.5 per cent in 2023, and expect to start growing its volumes again from 2024 and onwards in the strategy period, in the range of 1-4 per cent.

Group revenue outlook for 2023 is expected to be EUR 13.6-14.2 billion, net profit share will be in the range



of 2.8 to 3.2 per cent and efficiencies in the range of EUR 55-85 million. Leverage is expected to be in the range of 2.4-2.8. Arla will publish its Financial and Sustainability Annual Report 2022 on February 23.

Annual Results 2022 key figures:

Group revenue EUR 13.8 billion

Performance price 55.1 eurocent/kg

Milk volume 13.5 billion kg

Net profit share of revenue 2.8 per cent

Net efficiencies EUR 101 million

Leverage 3.0

Overall strategic branded volume driven revenue growth -3.2 per cent - Includes Lurpak® Arla® Puck® Castello® Starbucks®

Arla® is the largest strategic brand based on revenue and an umbrella brand with diverse and successful sub-brands covering milk, yoghurt, cream, powder and cheese. Arla® was challenged in 2022 due to consumers reacting to higher prices and Covid-19 normalisation. Branded volumes declined by 4.3 per cent compared to 2021, however, the brand retained its value market share in its core markets. Revenue increased by 10.2 per cent, to EUR 3,702 million from EUR 3,359 million in 2021.

Lurpak® is the leading butter and spreadable brand in Denmark, the UK and MENA and sold in 95 countries. Lurpak® experienced a volume decline of 7.6 per cent compared to 2021 driven by price increases, and an overall category decline. Revenue grew by 16 per cent, to EUR 750 million from EUR 646 million in 2021.

Puck® Arla's strong Middle East brand and number one brand in spreadable cheese in MENA (Middle East and North Africa). Puck® grew volumes at 4.7 per cent, ahead of the 2021 growth of 3.2 per cent. Revenue grew by 31.8 per cent, to EUR 504 million, from EUR 383 million in 2021.

Castello® lost 6.9 per cent volumes compared to 2021. Revenue improved by 24.4 per cent, to EUR 239 million from EUR 192 million in 2021.

Starbucks® The licensed brand Starbucks® ready-to-drink coffee assortment delivered 12.4 per cent volume growth in 2022, despite price increases across the portfolio.



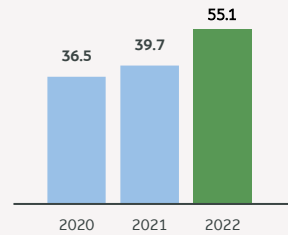
2022 PERFORMANCE AT A GLANCE

F26

Competitive milk price

55.1

PERFORMANCE PRICE
EUR-CENT/KG

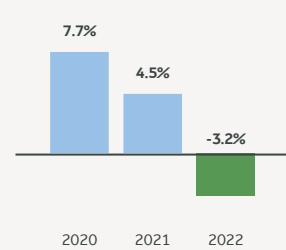


F26

Scale to grow

-3.2%

STRATEGIC BRANDED
VOLUME DRIVEN
REVENUE GROWTH

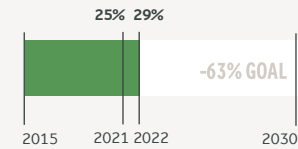


F26

Lead sustainable dairy

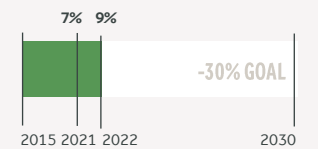
4%p

SCOPE 1+2 EMISSIONS
REDUCTION IN 2022
PERCENTAGE POINTS



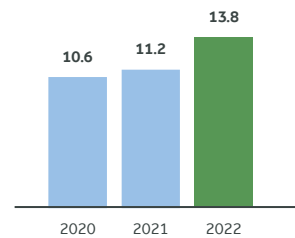
2%p

SCOPE 3 EMISSIONS¹
REDUCTION IN 2022
PERCENTAGE POINTS



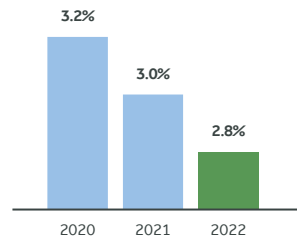
13.8

REVENUE
BILLION EUR



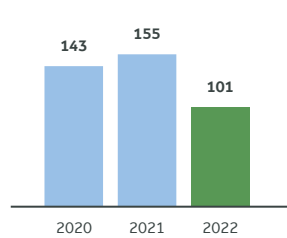
2.8%

PROFIT SHARE²
OF REVENUE



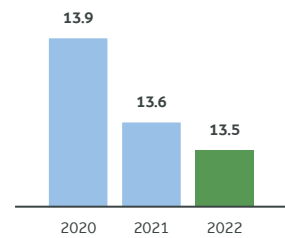
101

NET EFFICIENCIES³
MILLION EUR



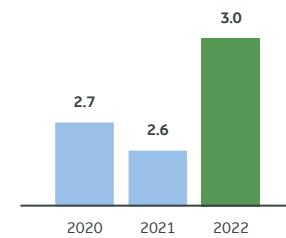
13.5

MILK VOLUME
MILLION KG



3.0

LEVERAGE



F26

● Within guidance ○ Outside guidance

¹ Per kilo of milk and whey.
² Based on profit allocated to owners of Arla Foods amba.
³ Between 2021 and 2022 we altered the methods of creating efficiencies, due to the start of our new strategy period. With the new strategy we launched our new efficiency programme, Fund our Future. 2022 numbers are therefore not fully comparable with historic numbers, related to our previous efficiency programme, Calcium.



INCOME STATEMENT

(EURm)	Note	2022	2021	Development
Revenue	1.1	13,793	11,202	23%
Production costs	1.2	-11,145	-8,822	26%
Gross profit		2,648	2,380	11%
Sales and distribution costs	1.2	-1,771	-1,573	13%
Administration costs	1.2	-439	-427	3%
Other operating income	1.3	162	110	47%
Other operating costs	1.3	-131	-75	75%
Share of results after tax in joint ventures and associates	3.3	60	53	13%
Earnings before interest and tax (EBIT)		529	468	13%
Specification:				
EBITDA		1,001	948	6%
Depreciation, amortisation and impairment losses	1.2	-472	-480	-2%
Earnings before interest and tax (EBIT)		529	468	13%
Financial income	4.2	37	14	164%
Financial costs	4.2	-117	-75	56%
Profit before tax		449	407	10%
Tax	5.1	-49	-61	-20%
Profit for the year		400	346	16%
Allocated as follows:				
Arla Foods amba's share of profit for the year		382	332	15%
Non-controlling interests		18	14	29%
Total		400	346	16%

COMPREHENSIVE INCOME

(EURm)	Note	2022	2021
Profit for the year		400	346
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Remeasurements of defined benefit schemes	4.7	-1	-3
Tax on remeasurements of defined benefit schemes		2	10
Items that may be reclassified subsequently to the income statement:			
Value adjustments of hedging instruments	4.4	225	39
Fair value adjustment of certain financial assets		-3	-1
Adjustments related to foreign currency translation		-48	127
Tax on items that may be reclassified to the income statement		-19	-1
Other comprehensive income, net of tax		156	171
Total comprehensive income		556	517
Allocated as follows:			
Arla Foods amba's share		538	503
Non-controlling interests		18	14
Total		556	517





BALANCE SHEET

(EURm)	Note	2022	2021	Development
Assets				
Non-current assets				
Intangible assets and goodwill	3.1	954	946	1%
Property, plant, equipment and right of use assets	3.2	3,031	3,072	-1%
Investments in associates and joint ventures	3.3	565	530	7%
Deferred tax	5.1	22	21	5%
Pension assets	4.7	16	69	-77%
Other non-current assets		23	30	-23%
Total non-current assets		4,611	4,668	-1%
Current assets				
Inventory	2.1	1,772	1,248	42%
Trade receivables	2.1	1,267	1,007	26%
Derivatives	4.5	239	74	223%
Other receivables	2.1	319	285	12%
Securities	4.5	432	434	0%
Cash and cash equivalents		106	97	9%
Total current assets		4,135	3,145	31%
Total assets		8,746	7,813	12%

(EURm)	Note	2022	2021	Development
Equity and liabilities				
Equity				
Common capital		2,150	2,062	4%
Individual capital		540	542	0%
Other equity accounts		203	46	341%
Supplementary payment to owners		208	207	0%
Equity attributable to the owners of Arla Foods amba		3,101	2,857	9%
Non-controlling interests		67	53	26%
Total equity		3,168	2,910	9%
Liabilities				
Non-current liabilities				
Pension liabilities	4.7	161	245	-34%
Provisions	5.2	28	24	17%
Deferred tax	5.1	86	64	34%
Loans	4.3	2,640	2,113	25%
Total non-current liabilities		2,915	2,446	19%
Current liabilities				
Loans	4.3	709	628	13%
Trade and other payables	2.1	1,597	1,445	11%
Provisions	5.2	20	18	11%
Derivatives	4.5	36	86	-58%
Other current liabilities	2.1	301	280	8%
Total current liabilities		2,663	2,457	8%
Total liabilities		5,578	4,903	14%
Total equity and liabilities		8,746	7,813	12%



CASH FLOW

(EURm)	Note	2022	2021
EBITDA		1,001	948
Reversal of share of results in joint ventures and associates	3.3	-60	-53
Reversal of other operating items without cash impact		21	-80
Change in net working capital	2.1	-707	-90
Change in other receivables and other current liabilities		11	103
Dividends received, joint ventures and associates		15	24
Interest paid		-67	-45
Interest received		23	8
Taxes paid		-53	-35
Cash flow from operating activities		184	780
Investment in intangible fixed assets	3.1	-92	-45
Investment in property, plant and equipment	3.2	-373	-452
Sale of property, plant and equipment	3.2	13	13
Operating investing activities		-452	-484
Acquisition of financial assets		-16	-26
Sale of financial assets		17	14
Sale of enterprises		8	14
Financial investing activities		9	2
Cash flow from investing activities		-443	-482

(EURm)	Note	2022	2021
Interim supplementary payment for the year		-61	-
Supplementary payment regarding 2021		-211	-227
Transactions with owners		-22	-18
Transactions with non-controlling interests		-11	-6
New loans obtained	4.3.c	1,310	172
Other changes in loans	4.3.c	-643	-147
Payment of lease debt	4.3.c	-71	-73
Payment to pension plans	4.3.c	-22	-31
Cash flow from financing activities		269	-330
Net cash flow		10	-32
Cash and cash equivalents at 1 January		97	126
Net cash flow for the year		10	-32
Exchange rate adjustment of cash funds		-1	3
Cash and cash equivalents at 31 December		106	97

(EURm)	Note	2022	2021
Free operating cash flow			
Cash flow from operating activities		184	780
Cash flow from operating investing activities		-452	-484
Free operating cash flow		-268	296
Free cash flow			
Cash flow from operating activities		184	780
Cash flow from investing activities		-443	-482
Free cash flow		-259	298