

FINANCIAL HIGHLIGHTS

2  
16

Creating the future  
of dairy



# 2016 in short

We evaluate our performance and the success of our strategy and business model by utilising key performance indicators. We have chosen to measure these key performance indicators because we believe they demonstrate how well we are driving the business and creating value for our owners.

Our strong performance in 2016 reflects the successful execution of our strategy, Good Growth 2020. Despite a lower milk price and volumes, we achieved nearly all of our key performance indicators.

Furthermore, we have set ambitious targets for 2017, which can be seen on page 50 in the consolidated annual report for 2016.

**Read more in our consolidated annual report for 2016 and on [www.arla.com](http://www.arla.com)**

✓ Target achieved.

(✓) Target not fully achieved.

✗ Target not achieved.

All key performance indicators include the gain from sale of Rynkeby.

\* Peer group index for 2016 is preliminary before year-end results have been published for Royal FrieslandCampina N. V. and Deutsches Milchkontor eG.

\*\* Brand and International shares are based on retail and foodservice revenue excluding third party manufacturing (TPM) revenue. Trading share is based on milk consumption.

\*\*\* Based on profit allocated to owners of Arla Foods amba.

## Peer group index\*

# 105



■ Target range 103-105

**Target for 2016: 103-105 ✓**

## Brand share\*\*



# 44.5%



## Scalability



# >2.0

2014: >2.0 2015: >2.0 2016: >2.0

**Target for 2016: >2.0 ✓**

### Milk volume



# 13.9

billion kg



### Revenue

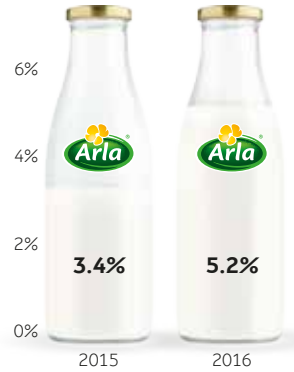
# 9.6

billion EUR



### Strategic branded volume driven revenue growth

# 5.2%



Target for 2016: 4-5% ✓

Strategic branded volume driven revenue growth rate for 2014 is not available due to the restructure of the organisation.

### Retail and foodservice volume driven revenue growth

# 2.7%



Target for 2016: 3-5% (✓)

### International share\*\*



# 18.0%



### Trading share\*\*



# 20.1%



### Conversion cost index

# 99.2



Target for 2016: 98,5 X

### Leverage

# 2.4



Target range 2.8-3.4

Target for 2016: 3,2 ✓

### Profit share\*\*\*

# 3.6%

of revenue



Target range 2.8%-3.2%

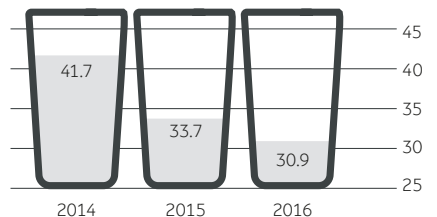
Target for 2016: 2,8-3,2% ✓

### Performance price



# 30.9

EUR-cent/kg



# Seven essential business priorities for 2016

The seven essential priorities are the outcome of our annual business planning process, outlining the core priorities for the coming year, key activities, as well as associated key performance indicators and targets that define success. The seven essential priorities are utilised throughout all business functions and commercial zones to ensure delivery of our most important strategic priorities as ONE united group.

## Volume is king

**Target:** Add an additional 400 million kg owner milk into retail and foodservice.

**Status:** 

**Result:** In 2016, we delivered retail and foodservice volume driven revenue growth of 2.7 per cent, slightly below our target of three to five per cent. We successfully increased retail and foodservice volumes by 341 million kg. This was a great delivery close to target, despite total milk volumes being more than 800 million kg less than initially expected. Certain tradeoffs between volume and price were made during the second half of 2016 based on the increasing raw material shortage and rapidly increasing milk prices. The reduction in milk intake expectations during 2016 exemplifies this change in strategic perspective.

## Deliver significant growth on brands

**Target:** Deliver significant growth on strategic brands, covered by Arla®, Lurpak®, Castello® and Puck®.

**Status:** 

**Result:** Delivering strategic branded volume driven revenue growth at 5.2 per cent is an all-time high for Arla. In 2016, almost the entire growth in our core retail and foodservice business has been driven by our brands. Intensified sales efforts and increased investment in marketing have resulted in our branded growth being driven by the Arla® brand (4.5 per cent), Lurpak® (7.7 per cent), Castello® (3.0 per cent) and Puck® (10.6 per cent). With a brand share of 44.5 per cent, the proportion of high profit products is the strongest in years.

## Improve Central Europe peer performance\*

**Target:** Improve Central Europe peer performance by addressing cost and brand performance and competitively export milk into retail and foodservice outside the EU.

**Status:** 

**Result:** The business delivered significant cost improvements according to plan in supply chain, across administrative and commercial functions, as well as significantly improving the results in the German cheese business. In addition, branded positions grew by 3.4 per cent, a solid achievement in a difficult market. Milk supply and price volatility have unfolded more rigorously in Germany than any other region, and the market has become even more fragmented, tough and competitive. This proved to be even more challenging than expected, although some improvements have become visible towards year-end.

## Strengthen market positions in International\*\*

**Target:** Strengthen leading positions in China, the Americas, Nigeria, Middle East and North Africa measured by volume and market share.

**Status:** 

**Result:** In 2016, we have succeeded in growing volumes in these International regions by 9.5 per cent and our branded business by 10.7 per cent. China and South East Asia grew by 31.2 per cent, Sub-Saharan Africa grew by 15.8 per cent, the Middle East and North Africa grew by 3.8 per cent, and the Americas grew by 3.4 per cent. In a volatile year impacted significantly by low oil prices and the spill over economies in the Middle East and Nigera, we are satisfied with the results, although they are below our 15 per cent growth target.

## Structurally reduce the cost level

**Target:** Volume driven revenue growth should be >2.0 times higher than the growth in capacity costs. Deliver a conversion cost in production at an index level of 98.5.

**Status:** 

**Result:** Our strong cost performance is, in part, due to huge efforts to run an efficient supply chain, however, our conversion cost has fallen short of the target at 99.2, impacted by the lower milk volume. Scalability ensures that capacity costs are increasing at a lower rate than revenue. Our scalability met the target of >2.0 due to firm control of capacity costs. EUR 100 million of our new ambitious cost improvement target of EUR 400 million in supply chain has been delivered in 2016.

## Improve cash flow

**Target:** Improve cash flow to achieve leverage of 2.8 to 3.2 and release EUR 130 million\*\*\* in cash within net working capital.

**Status:** 

**Result:** In 2016, we achieved leverage of 2.8, which is at the low range of our long-term target range of 2.8 to 3.4, underpinning the Group's strong financial position. Including the gain on divestment of Rynkeby, leverage is 2.4. Our primary net working capital position, excluding owner milk, was significantly improved and a cash release of EUR 165 million was achieved.

## Strengthen the Arla cooperative

**Target:** Establish a process with the Board of Directors, National Councils and Board of Representatives to create strong owner relations.

**Status:** 

**Result:** The new owner strategy will prepare Arla for the future and ensure a competent and aligned fundamental owner structure that unites owners across countries. In October, the Board of Representatives decided on an aligned structure, annual calendar and to explore if the UK and Central European owners can be offered direct membership in Arla Foods amba. The first elements of the strategy will come into effect in 2017.

\* After the reorganisation Consumer Central Europe is referred to as Central Europe. The priorities remain unchanged.

\*\* After the reorganisation Consumer International is referred to as International. The priorities remain unchanged.

\*\*\* Changed at mid-year from EUR 150 million due to a higher share of sales in International.

- Target not achieved.
- Achievement on major components.
- Target fully achieved.

# Consolidated income statement

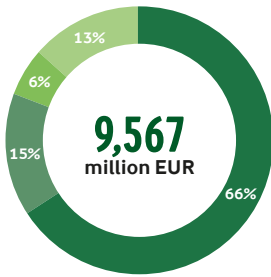
## 1 January - 31 December

(EURm)	2016	2015	Development
Revenue	9,567	10,262	-7%
Production costs	-7,177	-7,833	-8%
<b>Gross profit</b>	<b>2,390</b>	<b>2,429</b>	<b>-2%</b>
Sales and distribution costs	-1,642	-1,597	3%
Administration costs	-435	-417	4%
Other operating income	91	37	146%
Other operating costs	-29	-74	-61%
Gain from sale of enterprise	120	-	
Share of results after tax in joint ventures and associates	10	22	-55%
<b>Earnings before interest and tax (EBIT)</b>	<b>505</b>	<b>400</b>	<b>26%</b>
<i>Specification:</i>			
<i>EBITDA excluding gain from sale of enterprise</i>	719	754	-5%
<i>Gain from sale of enterprise</i>	120	-	
<i>Depreciation, amortisation and impairment losses</i>	-334	-354	-6%
<b>Earnings before interest and tax (EBIT)</b>	<b>505</b>	<b>400</b>	<b>26%</b>
Financial income	7	14	-50%
Financial costs	-114	-77	48%
<b>Profit before tax</b>	<b>398</b>	<b>337</b>	<b>18%</b>
Tax	-42	-42	0%
<b>Profit for the year</b>	<b>356</b>	<b>295</b>	<b>21%</b>
Minority interests	-9	-10	-10%
<b>Arla Foods amba's share of profit for the year</b>	<b>347</b>	<b>285</b>	<b>22%</b>

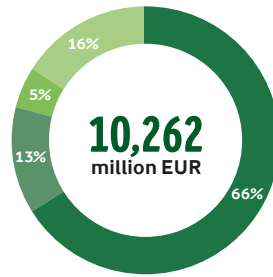
## Revenue by segment

Read more on page 91 in the consolidated annual report for 2016.

Revenue split by commercial segment, 2016



Revenue split by commercial segment, 2015



(EURm)

- Europe
- International
- AFI
- Trading and other

	2016	2015
Europe	6,321	6,793
International	1,428	1,348
AFI	545	519
Trading and other	1,273	1,602

## Revenue by country

Read more on page 91 in the consolidated annual report for 2016.

(EURm)	2016	2015
UK	2,532	2,968
Sweden	1,463	1,517
Germany	1,302	1,370
Denmark	1,061	1,100
Netherlands	373	389
Finland	329	348
Saudi Arabia	246	247
China	202	174
Belgium	197	261
USA	180	179
Other*	1,682	1,709
<b>Total</b>	<b>9,567</b>	<b>10,262</b>

\*Other countries include Canada, Oman, UAE, Spain, France, Australia, Nigeria and Russia.

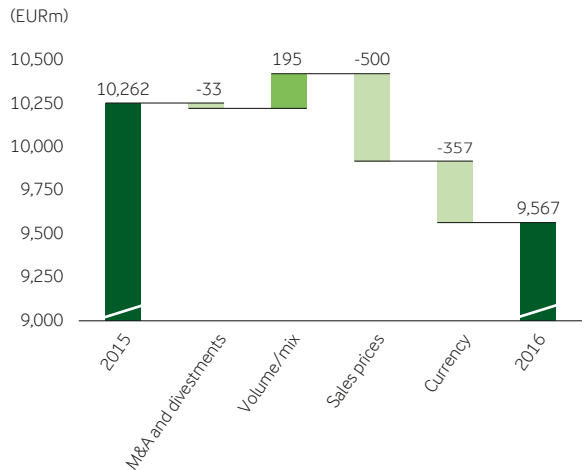
## Revenue by category

Read more on page 91 in the consolidated annual report for 2016.

	Milk, yogurt, powder and cooking (MYPC)	Cheese	Butter, spreads and margarine (BSM)	Other
2016	45%	26%	14%	15%
2015	45%	25%	13%	17%

## Development in revenue

Read more on page 91 in the consolidated annual report for 2016.



## Operational costs split by function

Read more on page 92 in the consolidated annual report for 2016.

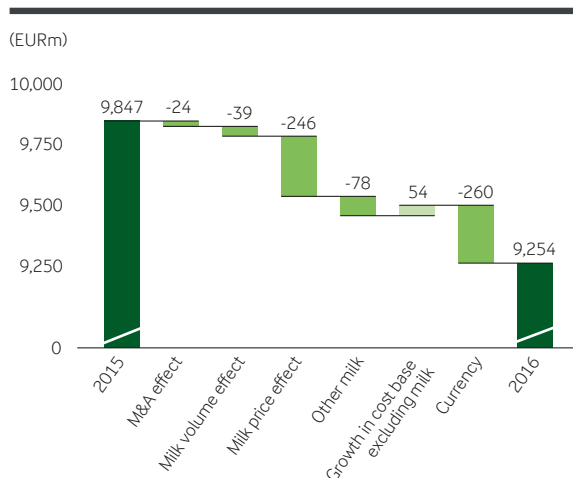
(EURm)	2016	2015
Production costs	7,177	7,833
Sales and distribution costs	1,642	1,597
Administration costs	435	417
<b>Total</b>	<b>9,254</b>	<b>9,847</b>
<i>Specification:</i>		
Cost of raw milk	4,028	4,547
Other production materials*	1,463	1,435
Staff costs	1,223	1,225
Transportation	1,010	1,044
Marketing cost	309	283
Depreciation, amortisation and impairment	334	354
Other costs**	887	959
<b>Total</b>	<b>9,254</b>	<b>9,847</b>

\*Other production materials include packaging, additives, consumables and change in inventory

\*\*Other costs mainly includes maintenance, utilities and IT

## Development in operational cost

Read more on page 92 in the consolidated annual report for 2016.



## Cost of raw milk

Read more on page 92 in the consolidated annual report for 2016.

	2016		2015	
	Weighed in mio. kg.	EURm	Weighed in mio. kg.	EURm
Owner milk	12,320	3,503	12,463	3,918
Other milk	1,554	525	1,729	629
<b>Total</b>	<b>13,874</b>	<b>4,028</b>	<b>14,192</b>	<b>4,547</b>

# Consolidated balance sheet

## 31 December

(EURm)	2016	2015	Development
<b>Assets</b>			
<b>Non-current assets:</b>			
Intangible assets	825	873	-5%
Property, plant and equipment	2,310	2,457	-6%
Investments in associates	434	434	0%
Investments in joint ventures	51	50	2%
Deferred tax	74	64	16%
Other non-current assets	20	25	-20%
<b>Total non-current assets</b>	<b>3,714</b>	<b>3,903</b>	<b>-5%</b>
<b>Current assets:</b>			
Inventories	950	1,007	-6%
Trade receivables	876	910	-4%
Derivatives	31	75	-59%
Current tax	1	1	0%
Other receivables	222	202	10%
Securities	504	509	-1%
Cash and cash equivalents	84	70	20%
<b>Total current assets excluding assets held for sale</b>	<b>2,668</b>	<b>2,774</b>	<b>-4%</b>
Assets held for sale	-	59	-100%
<b>Total current assets</b>	<b>2,668</b>	<b>2,833</b>	<b>-6%</b>
<b>Total assets</b>	<b>6,382</b>	<b>6,736</b>	<b>-5%</b>
<b>Equity and liabilities</b>			
<b>Equity:</b>			
Equity excluding proposed supplementary payment to owners	2,033	2,000	2%
Proposed supplementary payment to owners	124	113	10%
<b>Equity attributable to the parent company's owners</b>	<b>2,157</b>	<b>2,113</b>	<b>2%</b>
Minority interests	35	35	0%
<b>Total equity</b>	<b>2,192</b>	<b>2,148</b>	<b>2%</b>
<b>Liabilities</b>			
<b>Non-current liabilities:</b>			
Pension liabilities	369	294	26%
Provisions	12	8	50%
Deferred tax	80	65	23%
Loans	1,281	1,717	-25%
<b>Total non-current liabilities</b>	<b>1,742</b>	<b>2,084</b>	<b>-16%</b>
<b>Current liabilities:</b>			
Loans	947	1,076	-12%
Trade payables	995	918	8%
Provisions	13	19	-32%
Derivatives	168	158	6%
Current tax	18	5	260%
Other current liabilities	307	298	3%
<b>Total current liabilities excluding liabilities regarding assets held for sale</b>	<b>2,448</b>	<b>2,474</b>	<b>-1%</b>
Liabilities regarding assets held for sale	-	30	-100%
<b>Total current liabilities</b>	<b>2,448</b>	<b>2,504</b>	<b>-2%</b>
<b>Total liabilities</b>	<b>4,190</b>	<b>4,588</b>	<b>-9%</b>
<b>Total equity and liabilities</b>	<b>6,382</b>	<b>6,736</b>	<b>-5%</b>



## Non-current assets by type

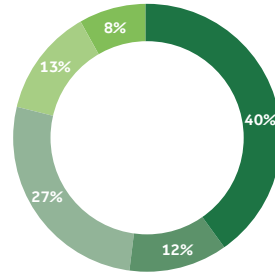
Read more on page 99 and 102 in the consolidated annual report for 2016.



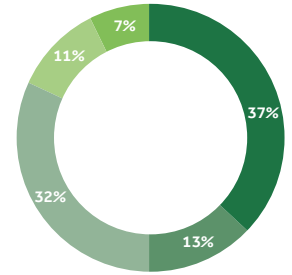
## Property, plant and equipment by country

Read more on page 102 in the consolidated annual report for 2016.

Property, plant and equipment by country, 2016



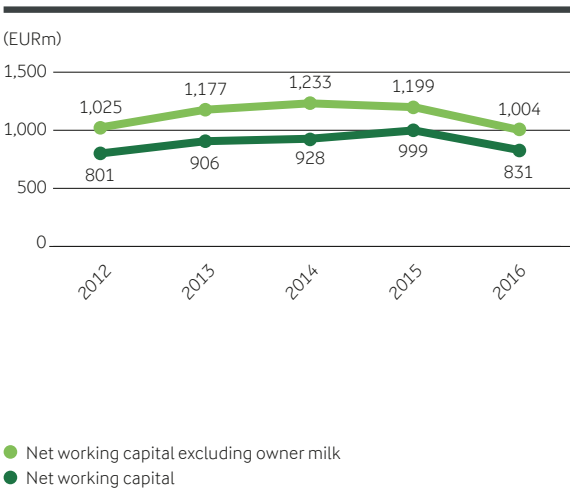
Property, plant and equipment by country, 2015



- Denmark
- Sweden
- UK
- Germany
- Other

## Net working capital

Read more on page 96 in the consolidated annual report for 2016.



## Net interest bearing debt and financial leverage

Read more on page 109 in the consolidated annual report for 2016.



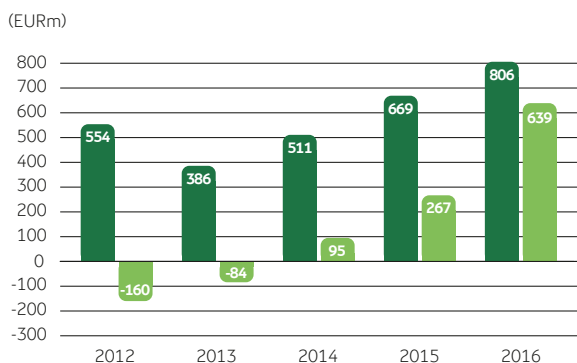
# Consolidated cash flow statement

## 1 January - 31 December

(EURm)	2016	2015
EBITDA	839	754
Gain from sale of enterprise	-120	-
EBITDA excluding gain from sale of enterprise	719	754
Share of results in joint ventures and associates	-10	-22
Change in working capital	138	-23
Change in other working capital	-3	10
Other operating items without cash impact	22	11
Dividends received, joint ventures and associates	12	8
Interest paid	-59	-56
Interest received	5	6
Tax paid	-18	-19
<b>Cash flow from operating activities</b>	<b>806</b>	<b>669</b>
Investment in intangible fixed assets	-58	-70
Investment in property, plant and equipment	-263	-348
Sale of property, plant and equipment	16	8
<b>Operating investing activities</b>	<b>-305</b>	<b>-410</b>
Free operating cash flow	501	259
Acquisition of enterprises	-	-29
Sale of enterprises	138	37
<b>Financial investing activities</b>	<b>138</b>	<b>8</b>
<b>Cash flow from investing activities</b>	<b>-167</b>	<b>-402</b>
Free cash flow	639	267
Supplementary payment regarding the previous financial year	-108	-105
Paid in funds from new owners	-	5
Paid out from equity regarding terminated membership contracts	-22	-18
Loans obtained, net	-400	-173
Payment to pension liabilities	-45	-70
Change in current liabilities	-54	37
Net change in marketable securities	5	50
<b>Cash flow from financing activities</b>	<b>-624</b>	<b>-274</b>
<b>Net cash flow</b>	<b>15</b>	<b>-7</b>
Cash and cash equivalents at 1 January	70	81
Exchange rate adjustment of cash funds	-8	3
Transferred to asset held for sale	7	-7
<b>Cash and cash equivalents at 31 December</b>	<b>84</b>	<b>70</b>

## Development in cash flow

Read more on page 89 in the consolidated annual report for 2016.



- Cash flow from operating activities
- Free cash flow

## Equity

Read more on page 86 in the consolidated annual report for 2016.

(EURm)	2016	2015
Common capital	1,595	1,482
Individual capital	503	516
Other reserves	-65	2
Proposed supplementary payment to owners	124	113
<b>Equity before minority interest</b>	<b>2,157</b>	<b>2,113</b>
Minority interest	35	35
<b>Equity incl. minority interest</b>	<b>2,192</b>	<b>2,148</b>

Equity ratio,  
2016

34%

Equity ratio,  
2015

31%

## Milk and owners

Read more on page 44 in the consolidated annual report for 2016.

	2016	2015	2014	2013	2012
<b>Inflow of raw milk (mkg)</b>					
Inflow from owners in Denmark	4,728	4,705	4,550	4,508	4,419
Inflow from owners in Sweden	1,909	1,995	2,035	2,016	2,059
Inflow from owners in Germany	1,758	1,741	1,526	1,332	685
Inflow from owners in the UK	3,210	3,320	3,088	1,254	286
Inflow from owners in Belgium	515	531	403	253	53
Inflow from owners in Luxembourg	144	130	119	111	27
Inflow from owners in the Netherlands	56	41	17	-	-
Inflow from others	1,554	1,729	1,832	3,202	2,881
<b>Total inflow of raw milk</b>	<b>13,874</b>	<b>14,192</b>	<b>13,570</b>	<b>12,676</b>	<b>10,410</b>
<b>Number of owners</b>					
Owners in Denmark	2,877	3,027	3,144	3,168	3,354
Owners in Sweden	2,972	3,174	3,366	3,385	3,661
Owners in Germany	2,461	2,636	2,769	2,500	2,911
Owners in the UK	2,485	2,654	2,854	2,815	1,584
Owners in Belgium	852	882	997	529	501
Owners in Luxembourg	218	221	228	232	245
Owners in the Netherlands	57	56	55	-	-
<b>Total number of owners</b>	<b>11,922</b>	<b>12,650</b>	<b>13,413</b>	<b>12,629</b>	<b>12,256</b>



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