AGILITY, RESILIENCE AND RESPONSIBILITY

CONSOLIDATED HALF-YEAR REPORT

2022

Arla

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PERFORMANCE AT A GLANCE

REVENUE

6,382

(million EUR)
2022 target: EUR 11.8-12.4 billion

HY 2022	6.382
HY 2021	5,441
HY 2020	5,377

PERFORMANCE PRICE[1)]

49.6

(EUR-cent/kg)

HY 2022	49.6
HY 2021	38.2
HY 2020	36.6

STRATEGIC BRANDED VOLUME DRIVEN REVENUE GROWTH

-0.1%

2022 target 0-2.5%

HY 2022	-0.1%
HY 2021	5.6%
HY 2020	10.4%

MILK VOLUME

6.8

(billion kg)

HY 2022	6.8
HY 2021	7.0
HY 2020	7.0

NET EFFICIENCIES

72

(million EUR)
2022 target: EUR 70-100 million

HY 2022	72
HY 2021	82
HY 2020	143

PROFIT SHARE[2)]

3.0%

(of revenue)
2022 target: 2.8-3.2%

HY 2022	3.0%
HY 2021	3.0%
HY 2020	3.0%

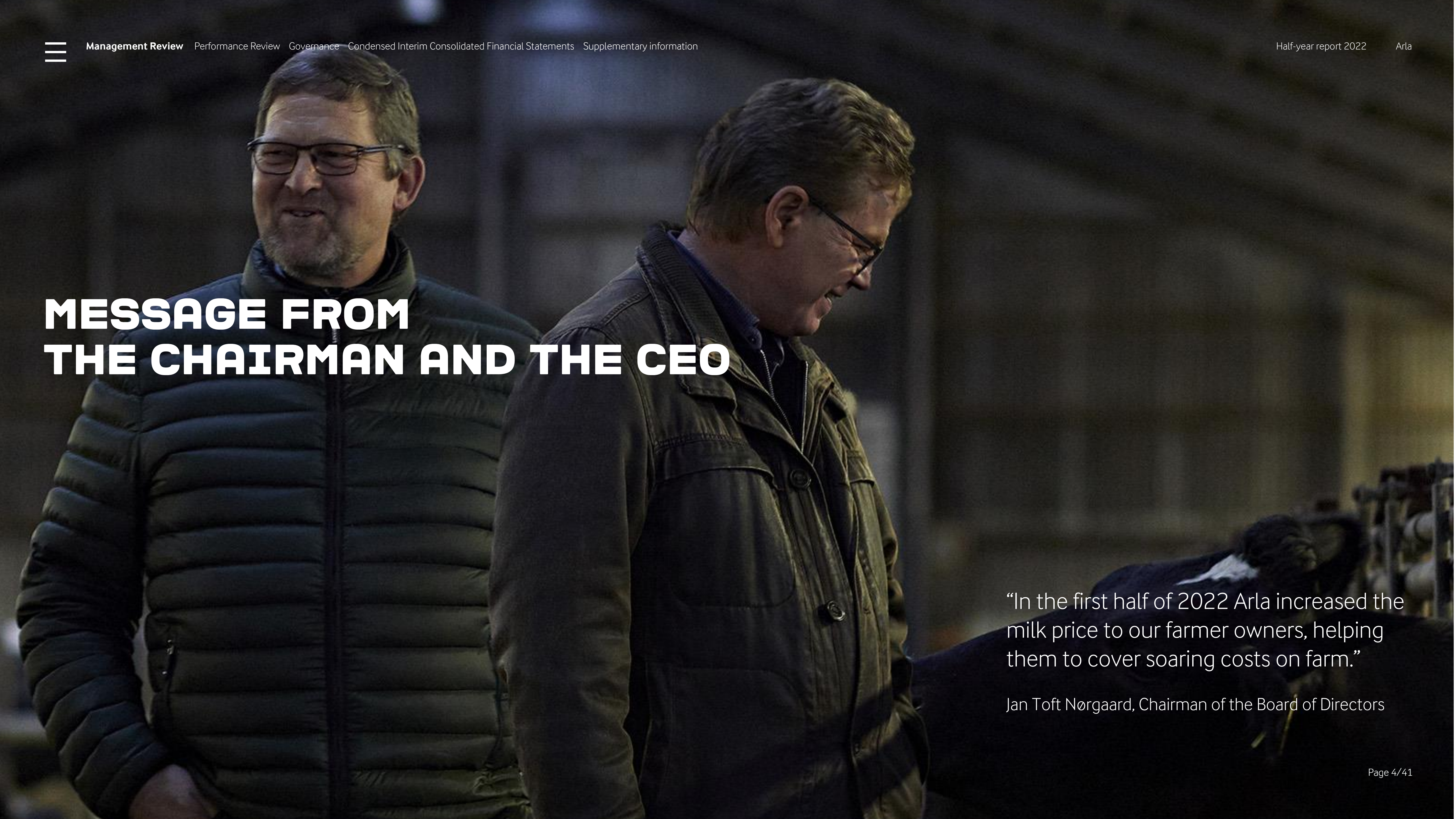
LEVERAGE

3.0

2022 target: 2.8-3.4

HY 2022	3.0
HY 2021	2.8
HY 2020	2.6

[1)] 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. Historical numbers were restated accordingly.
[2)] Based on profit allocated to owners of Arla Foods amba.



MESSAGE FROM THE CHAIRMAN AND THE CEO

"In the first half of 2022 Arla increased the milk price to our farmer owners, helping them to cover soaring costs on farm."

Jan Toft Nørgaard, Chairman of the Board of Directors

SECURING RETURNS IN A VOLATILE ENVIRONMENT

The inflationary environment and a slowdown in global milk production during the first half of 2022 enabled Arla to increase returns to our farmer owners. Together with the first ever interim supplementary payment, the returns helped covering the soaring costs on farm and allows for investments necessary for the transition to sustainable dairy production.

Going into the year, we anticipated inflation to build, however, the Russian invasion in Ukraine, in addition to the humanitarian tragedy, added substantial unexpected pressure on global markets and supply chains, leading to an inflationary environment across industries. With continued stable demand for dairy combined with a decline in the global milk production due to growing uncertainty for farmers, Arla saw significant price increases on dairy commodities and retail products in the first half of 2022.

The price increases drove our first half revenue to EUR 6.4 billion, up from EUR 5.4 billion in 2021. The share of the profit allocated to our owners was 3.0 per cent of revenue, in the middle of our normal target range, leading to a performance price of 49.6 EURcent/kg milk, more than 11 EURcent higher than same time last year.

For the first time ever, Arla Foods will make an interim payment of 1.0 EURcent/kg milk on the half-year volumes in September, in line with the new retainment policy decided by the Board of Representatives, and as set out in our Future26 strategy. All in all, our total payout offered a welcomed financial alleviation for our farmer owners, who month by month had to manage considerable costs increases on feed and fertilisers ahead of the general inflation.

Inflation impacted consumer behaviour

On the back of two exceptionally strong years, our branded growth was flat as expected. Especially in Europe, consumers were buying less and trading down, most notably in the category of butter and spreadable. Even so, we maintained our market share, and our Foodservice segment bounced back from the pandemic and grew branded volumes.

The International zone continued to deliver solid growth in both prices and volumes, while AFI delivered a robust first half-year performance and Global Industry Sales grew strongly fuelled by high commodity prices.

Progress on the transition to sustainable dairy

We continued to take action on our commitment to lead sustainable dairy and our recent Coop 2.0 discussions have reinforced the vertical integration of the farms in the value creation. A strong milk price will put our owners' in a more robust position to make the necessary investments in the urgent transition.

On-farm we are rolling out the 5 most effective emission reducing levers and have running a trial on 10,000 dairy cows across three countries testing a methane reducing feed additive. As a major next major step, the Board of Directors expect to introduce a new incentive model to motivate and reward further action on farm.

In the business, we have secured endorsement from the Science Based Target initiative, confirming that our sustainability targets and plans are consistent with a 1.5°C commitment. The shift to renewable energy has never been more urgent, and we are pleased to have made a 10-year agreement to purchase power from four new solar parks in Denmark. Our desire to invest in the future is strong as demonstrated by the inauguration of our biggest single investment ever; a new powder tower in Pronsfeld, Germany.

Expectations for second half of 2022

The extreme volatility on multiple levels makes it hard to predict how the second half will play out. High costs across the value chain and no sign of an uplift in global milk production will continue to impact the full year and we expect sustained high dairy prices. Accelerated price increases, led by commodity prices and followed by high inflation in retail and foodservice, will further decrease consumption and change consumer patterns, however it is difficult to predict the full extent of this trend.

Jan Toft Nørgaard
Chairman of the Board of Directors

Peder Tuborgh
Chief Executive Officer

PERFORMANCE REVIEW

Our International zone, covering all the markets where we sell our products outside the Europe zone, delivered strong volume growth of 3.8 per cent despite inflation driven price increases. Our South East Asian region stood out with a historically high 27 per cent branded volume growth, driven by further penetrating the South East Asian markets. We gained new customers and consumers, and leveraged our strong foodservice business in a growing out of home consumption market in South East Asia.

GLOBAL MARKET OVERVIEW

The first half of 2022 was dominated by inflation and uncertainty throughout the global dairy supply chain. Declining global milk supply coupled with increasing demand drove prices to record heights, and thus alleviated some of the on-farm cash flow pressures. The war in Ukraine accelerated the inflationary pressures in the second quarter and added significant volatility and uncertainty to the markets, fuelling further cost increases both on farm, in production and in logistics.

Russia-Ukraine war exacerbated inflation

Global economies continued to recover after Covid-19 lockdowns during the first half of 2022. Both the European and the US economy has seen a great surge in economic activity since the second half of 2021, mostly driven by increased consumption in virtually all categories (global GDP growth forecast for 2022: 4.4 per cent (IMF)). While the economic momentum carried over into 2022, the accelerating demand coupled with global supply chain disruptions quickly started to drive prices up, resulting in an inflation more than double the average of the previous ten years. This trend was further exacerbated by the onset of the tragic war between Russia and Ukraine. The various sanctions against Russia and the halted production in Ukraine lead to supply shortages especially in energy and agricultural products, exacerbating price increases and uncertainty about the economic outlook.

Covid-19 consumer trends normalised

Despite elevated inflation, consumers still exhibited a willingness to spend, however more price-sensitive buyers have already started to change their shopping habits, and trade down to cheaper products in the second quarter. The slowly materialising effects from inflation were coupled with the normalisation of consumption in Europe after Covid-19, leading to a decline in some dairy categories, most notably in butter and spreadable. On the flip side, the foodservice segment revived and consumption returned to pre-pandemic levels during the first half of 2022. In the meantime, large-scale lockdowns in China severely affected consumption and caused supply chain disruptions, which further accelerated global inflation and caused market turbulence.

Low supply drove dairy commodity prices up

While demand for dairy products in general remained firm globally due to the steady economic growth, major dairy producing regions were struggling with poor weather and margin erosions, resulting in a year-on-year milk supply deficit.

GLOBAL INFLATION

7.7%

(forecasted global inflation for 2022)

Source: IFO Institute

FEED PRICE INCREASE ON FARM

36%

(per kg of standard milk, June 2022 vs June 2021)

Source: Arla calculation

ENERGY COST INCREASE

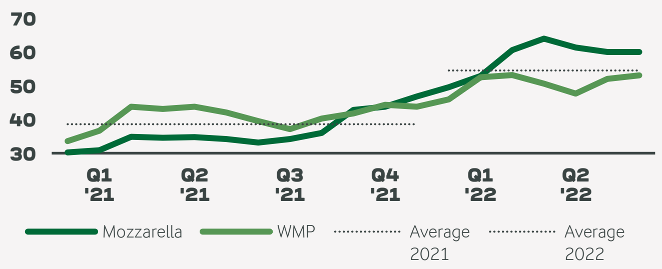
346%

(average natural gas price development in Europe, HY 22 vs HY 21)
Source: ICE, TTF - natural gas

1

EUROPEAN DAIRY COMMODITY PRICES

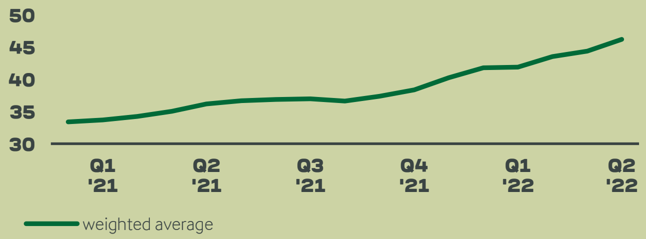
(EUR-cent/kg, Milk Utilisation Equivalent)



Source: Global Dairy Trade

FEED PRICE INCREASE IN OUR CORE MARKETS

(EUR/100 kg)



Source: Arla calculation

Lower supply led to steeply increasing dairy commodity prices throughout the first half of 2022, with virtually all categories surpassing their 5-year price average. In Europe, mozzarella prices increased by 21 per cent and WMP prices increased by 13 per cent from January 2022, and 76 per cent and 26 per cent, respectively, year on year.

Significantly increased farm and production costs

Due to global inflationary pressures, high demand for energy, feed and fertilizer price increases exacerbated by the war in Ukraine, input costs for dairy production accelerated their already upward trend from the second quarter of 2022. On farm, costs in key Arla regions increased significantly compared to 2021: Feed prices increased by 36 per cent and fertilizer prices by 145 per cent.

Driven by the factors above, farmgate milk prices increased significantly across all major dairy producing regions during the first half of 2022. In the EU-27 average farmgate milk prices gained 38.2 per cent compared to the same period last year. Higher milk prices helped to offset the pressure cost increases put on farmers, but this has not triggered an uplift in production yet. From an Arla point of view, total milk decreased, from 7.0 to 6.8 billion kilos. The decrease came from both owner and contract milk.

Production costs at dairy sites were also affected by inflation and shortages, driving up prices for packaging and ingredients, but especially energy (natural gas price increased by 346 per cent compared to June 2021).

Favourable foreign exchange markets

In the first half of 2022, exchange rates developed mostly in favour of Arla. The average rate of the USD strengthened by 10 per cent and the GBP by 3 per cent, whereas the SEK weakened by 3 per cent.

PERFORMANCE OVERVIEW

Arla handled the extreme volatility with firm hands in the first half of 2022. Our revenue and milk price reached unprecedented heights: Revenue was EUR 6.4 billion, and profit share was 3.0 per cent, in the middle of our target range. Our pre-paid milk price reached 46.6 EUR-cent/kg which supported our farmers in tough times of margin erosion. Despite our flat branded growth, we managed to keep market shares in our key markets.

Significant milk price increase driven by commodity prices and firm business execution

Arla's average pre-paid milk price increased to 46.6 EUR-cent/kg in the first half of 2022 compared to 35.6 EUR-cent/kg in the same period last year. This constitutes an 11 EUR-cent/kg increase, more than 70 per cent of which happened in the second quarter of 2022. Our performance price, which measures the value Arla adds to each kilo of our owner's milk, reached 49.6 EUR-cent/kg, an 11.4 EUR-cent increase compared to the first half of 2021. These unprecedented increases were mainly driven by the commodity price rallies and firm execution of price increases across channels to regain margins. The increase was absolutely necessary to compensate our farmer owners for their soaring production costs, and ensure they can invest in sustainable transformation. Our transformation and efficiency programme, Fund our Future, also contributed, by partly mediating the effects of inflation with EUR 72 million net savings.

Revenue growth due to prices

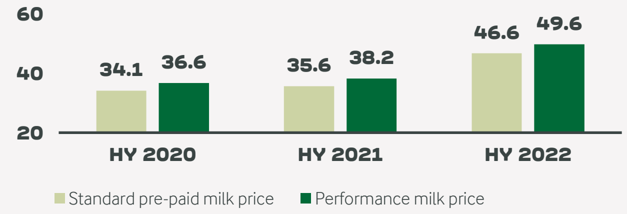
During the first half of 2022, revenue increased by 17 per cent to EUR 6,382 million compared to EUR 5,441 million in the same period last year, much of the increase occurring in the second quarter. Revenue growth was almost exclusively driven by increased prices. Low supply and high consumer demand drove up both commodity and retail prices, which contributed positively to the revenue increase by EUR 970 million. Slightly decreasing sales volumes impacted revenue negatively by EUR 126 million, while the effect from currencies contributed positively by EUR 97 million

Market conditions put pressure on retail product margins

In the past few years of nearly constant crisis management Arla showed that our diverse and balanced portfolio makes us ready for whatever the market brings. Whereas during the Covid-19 pandemic consumption of branded products skyrocketed, fuelling our branded volume growth, in the current market situation dairy commodity markets are putting pressure on retail margins. This was mainly driven by the increased cost related to milk, general global inflation raising production cost, and to a smaller extent by consumers starting to trade down to cheaper products.

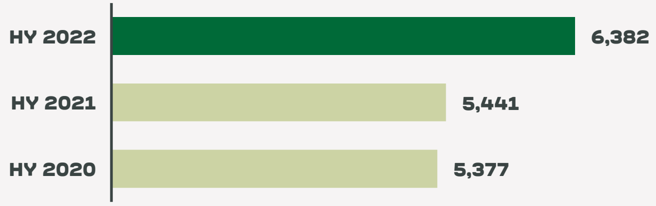
OWNER MILK PRICE

(EUR-cent/kg)



REVENUE DEVELOPMENT

(million EUR)



Flat branded volume growth on the back of two extraordinary years

Following two years of exceptional branded growth in retail during the Covid-19 pandemic, mainly fuelled by increased in-home consumption and our agile reaction to changing market realities, our branded volume growth slowed down in 2022, the trend accelerating towards the end of the second quarter. The total volume growth landed at -0.1 per cent. The key reason for the flat sales volumes is the irregular pace of development in the past two years. Given the inflationary environment and price increases, our brands did well and we gained market shares in our key markets.

In the meantime, as Covid-19 lockdowns were permanently lifted in our core markets during the first quarter of 2022, our foodservice segment delivered strong branded volume growth of 19 per cent (2021 HY: 20.4 per cent). Growth was mainly driven by the Danish and UK markets from a geographical perspective, and by Lurpak® and the Arla® Pro brand from a brand perspective.

Branded revenue growth was 12.7 per cent in the first half of 2022. In retail, sales of Starbucks™ licensed products remained solid despite the volatile environment and the divestment of our Russian business (see details on page 12) and grew volumes by 19.5 per cent. The Arla® brand managed to maintain high volumes achieved during the pandemic (volume growth: -0.1 per cent), and increased revenue by 8.6 per cent. Puck® also managed to maintain volumes (growth of 0.1 per cent) and grew revenue by 20.1 per cent. Castello®, our specialty cheese brand, benefitted significantly from the home cooking trend in 2020 and 2021. Therefore after the normalisation of Covid-19 trends, volumes declined by 3.0 per cent, however revenue grew by 22.7 per cent. Our global butter and spreadable brand Lurpak® experienced the largest volume uptake during Covid-19, thus their volume dropped most steeply (by 5.9 per cent) while revenue increased by 13.8 per cent.

REVENUE GROWTH BY BRAND		STRATEGIC BRANDED VOLUME DRIVEN REVENUE GROWTH
8.6% HY 2021: 7.4%	Arla	-0.1% HY 2021: 6.9%
13.8% HY 2021: 3.2%	LURPAK	-5.9% HY 2021: -0.8%
22.7% HY 2021: 9.0%	CASTELLO	-3.0% HY 2021: 7.8%
20.1% HY 2021: 10%	Puck	0.1% HY 2021: 3.1%
	Starbucks	19.5% HY 2021:42.7 %

Commercial segments

Europe

The volatility already experienced in 2021 continued with force into 2022, and the inflation level in Europe reached historic heights in the first half of the year. This lead to significant price increases across our European commercial segment. Revenue increased by 10.5 per cent, to EUR 3,535 million compared to EUR 3,199 million in the same period last year. As a result of the current market circumstances, such as high prices and Covid-19 normalisation (details on page 6), our branded volume driven growth was -2.1 per cent. Therefore revenue development in EU was mainly driven by price increases in our retail and foodservice business, that more than offset the volume decline. A negative retail category growth was seen across all European markets and our volume development followed this general market trend. However at same time we also continued to see strong volume growth in our Starbucks business of 21 per cent and in our Foodservice business of 21 per cent largely driven by strong mozzarella growth.

International

Revenue in our international segment increased by 18.3 per cent, to EUR 1,226 million. Covid-19 pandemic normalised in most of markets, with some regional differences. As a consequence of the Russian invasion of Ukraine we divested our Russian business, which impacted our revenue and branded volume growth slightly negatively (see more on page 12). Global inflation impacted all levels of our international supply chain as well, to which we responded with price increases in all markets. Therefore, revenue development was mainly driven by prices, and to a smaller extent by branded volume growth, which was 3.8 per cent. The development in our main currencies also contributed to the revenue increase. Towards the end of the first half of the year we started to see a negative impact on demand from increasing consumer prices. Our activities in the Chinese market came under pressure when the Chinese local milk prices declined, negatively impacting our revenue.

REVENUE GROWTH

10.5%

HY 2021: 0.6%

STRATEGIC BRANDED VOLUME DRIVEN REVENUE GROWTH

-2.1%

HY 2021: 2.5%

REVENUE GROWTH

18.3%

HY 2021: 3.0%

STRATEGIC BRANDED VOLUME DRIVEN REVENUE GROWTH

3.8%

HY 2021: 12.2%

Arla Foods Ingredients (AFI)

Arla Foods Ingredients (AFI) enjoyed a solid demand for our highly specialised whey protein and lactose products. Market conditions led to significant prices increases, and at the same time improvements in our product mix were implemented. This resulted in a revenue growth of 19 per cent to EUR 460 million compared to EUR 387 million in the same period last year. The value-added whey volumes grew by 8.8 per cent to a total value-add share of 81.8 percent compared to 69.6 per cent in the same period last year. Rapidly rising cost for both our raw materials and energy has been a challenge for the overall performance. The early life nutrition business continued to face difficult market conditions in China and performed below the same period last year.

REVENUE GROWTH

19%

HY 2021 7.5%

VALUE-ADD SHARE GROWTH

8.8%

HY 2021: 9.8%

Global Industry Sales (GIS)

Our Global Industry Sales business performed extremely well in the first half of 2022. Due to low global milk supply and maintained high demand for dairy products, commodity prices were rising throughout the first half. This was reflected in the unprecedented revenue growth of 42 per cent, from EUR 818 million in the first half of 2021 to EUR 1,161 million in the first half of 2022. Virtually all commodity categories experienced steep price increases, cheese and butter being the most affected categories. In the meantime, volumes sold through our global industry sales channel fell from 23.6 per cent to 21.6 per cent, due to overall lower milk volumes.

REVENUE GROWTH

42%

HY 2021: 0.3%

MILK SOLIDS SOLD THROUGH GIS

21.6%

HY 2021: 23.6%

CRUCIAL SUSTAINABILITY ACTIONS LAUNCHED ON FARMS

The first half of 2022 once again proved the importance of providing the world with nutritious, affordable and sustainable dairy products even as prices are soaring. In the current market environment it makes more sense than ever for Arla to optimise farm management and thus reduce both costs and CO2e emissions. To build awareness, desire, knowledge and ability to take further climate action on farm, we initiated a comprehensive knowledge building programme at the start of 2022. It includes data and knowledge sharing, farmhouse meetings, digital communication and pilot projects. We recruited additional internal experts and sustainability managers to support our owners and we also increased the collaboration with external agricultural advisors.

A main focus area for the programme are the so-called Big5. They include five farm efficiency levers (protein efficiency, animal robustness, feed efficiency, fertilizer use and land use), which were identified from Arla's Climate Check data as the key drivers of difference between high and low carbon footprint farms. As part of the knowledge building, we launched a benchmarking system, in which farms are compared to similar farms on the Big5 levers. The purpose is to show current performance as well as the potential that is within reach to both reduce emissions and strengthen the farm's profitability.

Before the end of the year, we expect to present a new sustainability incentive model to financially reward farmers for past sustainability action, to motivate future action and to cover the cost it may require for the farmer. The incentive is a key tool to meet requirements from governments, customers and consumers, and to maintain a leading role in sustainable dairy. The model is currently being discussed amongst our cooperative farmer owners.

Fund our Future savings on target

Our transformation and efficiency programme, Fund our Future, was delivering savings as expected in the first half of 2022 at EUR 72 million. While the programme faced some challenges in our European supply chain due to lower volumes, these were offset by the efficiency initiatives at our international sites.

Net profit within target range

In the first half of 2022, Arla achieved a net profit of EUR 192 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

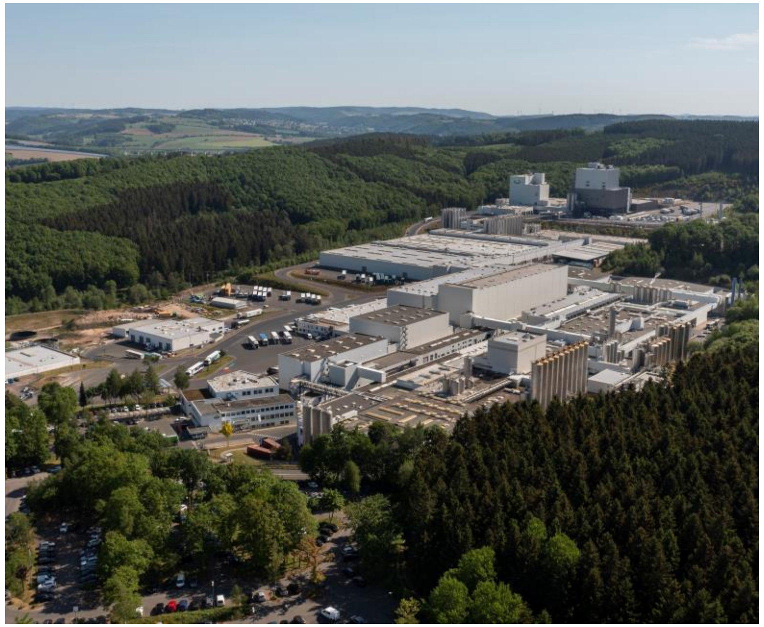
In the first half of 2022, Arla stood strong and we kept our robust financial position in a volatile and uncertain market. Other comprehensive income amounted to EUR 271 million compared to EUR 108 million in the same period last year. Value adjustment of hedge instruments related to future commodity and interest costs was the key driver of this change. Our leverage landed at 3.0, still comfortably within our target range of 2.8-3.4. It is higher than in the same period last year (2.8). Increased funds tied up in net working capital increased leverage while EBITDA was unchanged.

Our net interest-bearing debt increased to EUR 2,886 million compared to EUR 2,649 million in the first half of 2021, due to more funds tied up in net working capital. Net working capital increased due to higher sales prices, higher milk price and higher cost, driven largely by inflation. These factors had an adverse effect on our operating cash flow. Cash flow from operating activities decreased to EUR -29 million in the first half of 2022 compared to EUR 274 million in the same period last year.

Cash flow from investing activities amounted to EUR -176 million compared to EUR -208 million in the same period last year. Major projects, such as the finalisation of the powder tower in Pronsfeld, Germany (see on the picture to the right), investments in the production facilities in Bahrain and expansion of the mozzarella production in Denmark continued in the first half of 2022, however at lower activity levels as they are close to being finished. Further, investment in milk-based beverages capacity increase in Esbjerg, Denmark, has been initiated.

Divestment of our Russian business

Due to Russia's invasion of Ukraine in February 2022 we sold our Russian business to local management who will continue to run the business with the current workforce of 70 former colleagues. As exports were already much reduced to Russia since the 2014 embargo, our Russian business contributed to our revenue by EUR 56 million, or 0.5 per cent, in 2021, and had no effect on the milk price.



FINANCIAL OUTLOOK

At the end of 2021 we anticipated 2022 to be characterised by volatile market conditions and inflation, and even though the direction is as expected, the magnitude of these trends is greater, as both were exacerbated by Russia's invasion of Ukraine.

Recession on the horizon

We expect inflation and volatility in the market to continue to impact our business in the second half of 2022. Even though we have recently seen a small decrease in feed and fertilizer prices, this most likely will not have a positive impact on milk supply due to heightened uncertainty. Changes in consumer behaviours will be multifaceted and difficult to predict. We expect to see an even steeper slowdown in branded growth due to reduced buying power of consumers, fear from a looming recession, and to some extent the normalisation of trends from Covid-19.

Given this level of volatility and uncertainty it is hard to give a clear indication of our year end performance. Based on the above assumptions about the external market, we updated some of our expectations for the full year results. We expect to increase our revenue to EUR 13.5 – 14.0 billion (previously: EUR 11.8 – 12.4 billion), and our branded volumes to decrease by 2.0 - 3.0 per cent (previously: by 0-2.5 per cent). We narrowed our profit expectation to 2.8 to 3.0 per cent and raised our leverage threshold expectations to 2.7-3.1

	2021 RESULTS	2022 OUTLOOK FEBRUARY	2022 OUTLOOK UPDATE AUGUST
Strategic branded volume driven revenue growth	4.5%	0-2.5%	-3.0%~-2.0%
Revenue (billion EUR)	11.2	11.8-12.4	13.5-14.0
Profit share	3.0%	2.8-3.2%	2.8-3.0%
Efficiencies (million EUR)	155	70-100	70-100
Leverage	2.6	2.5-2.9	2.7-3.1
CO_{2e} emissions Scope 1+2	-25%	LOWER THAN LAST YEAR	LOWER THAN LAST YEAR
CO_{2e} emissions Scope 3 per kilo milk and whey	-7%	LOWER THAN LAST YEAR	LOWER THAN LAST YEAR

GOVERNANCE

In the first half of 2022, we started a large-scale on-farm pilot with the methane reducing feed additive Bovaer® on 10,000 dairy cows across three countries. Research and on-farm trials show that Bovaer® can reduce methane emissions by 30 per cent with continued high animal welfare. This is a huge step towards our commitment to create a sustainable future for dairy production.

OUR DEMOCRACY – 2022 ELECTION RESULTS

Arla is a cooperative owned by 8,651 dairy farmers in seven countries. Ensuring that all of our owners are able to raise their voice and seek representation for their opinions is essential in a trustworthy and successful cooperative. To ensure this, Arla's cooperative governance works on democratic principles. Every second year, our owners elect members to the Board of Representatives, which in turn elects the Board of Directors.

NEW BOR MEMBERS ELECTED IN 2022

Farmers: Belinda Geiben (BE), Josien Niessen-Houben (BE), Thomsen (DK), Michal Jokumsen (DK), Anders Just (DK), Solveig Bjerre Clausen (DK), Peder Nørby (DK), Jacob Ørskov (DK), Søren Linde (DK), Thomas Poulsen (DK), Niels Hedermann (DK), Eivind Underbjerg Hansen (DK), Jesper Øbo Johansen (DK), Peter Christian Sievertsen (DK), Klaus Hansen (DK), Ingrid van den Hengel (DK), Vinzenz Andersen (DE), Hans-Peter Offen, Karsten Schlüter (DE), Bernd Schleupen (DE), Kevin Anhamm (DE), Lukas Dahmen (DE), Lars Hahn (DE), Eva-Lena Andersson (SE), Magnus Hagelsås (SE), Hans Samuelsson (SE), Tina Borgström (SE), Fredrik Davidson (SE), Oliver Williams (UK), Tom Neil, Sophie Gregory (UK), Samuel Parris (UK), Robert Wills, James Hole (UK), Gary Mitchell (UK), Craig Mounty (UK), Chris Jerman (UK) **Employee representatives:** Holger Lund (DK), Jack Hansen (DK), Stine Krogh Danielsen (DK), Theresa Malé (SE), Janique Koopman (UK), Andrew Hurt (UK)

WE WOULD LIKE TO THANK THE BOR MEMBERS STOPPING IN 2022 FOR THEIR WORK:

Jens Tyvald (DK), Michael Kuhr (DK), Anders Levring (DK), Andreas Bonde (DK), Bjarne Pedersen (DK), Carsten Vestergaard (DK), Erik Jepsen (DK), Erik Riskær (DK), Gregers Kristensen (DK), Henrik K. Kristensen (DK), Henrik Søgaard (DK), Jens Jørn Rasmussen (DK), Morten Agger (DK), Niels Martin Krag (DK), Preben Tving Andersen (DK), Søren Peter Ingvartsen (DK), Thomas Møller (DK), Torben Myrup (DK), Sonja Gehrke (DE), Martin Dahmen (DE), Sebastian Arndt (DE), Ulrich Niemeyer (DE), Florian Lüdenbach (DE), Marlen Biß (DE), Erik Pålsson (SE), Anders Norén (SE), Gleen Andersson (SE), Markus Tillmas (SE), Ingemar Thorstensson (SE), David Hyslop (UK), Shirley Preston (UK), Sarah Williams (UK), David Hale (UK), Jane Dornom (UK)

NEW BOARD OF DIRECTORS MEMBERS ELECTED IN 2022

Farmer owner representatives:

- Daniel Halmsjö (SE)

Employee representatives:

- Anders Olsson (SE)
- Grant Cathcart (UK)

External advisors promoted to ordinary members

The Board of Representatives also voted to include the Board of Director's external advisors, Nana Bule (DK) and Florence Rollet (FR) to become ordinary board members, meaning they have the same influence as the other board members, including the right to vote.

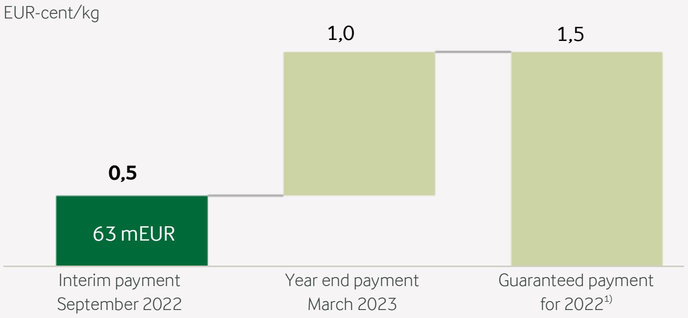
We would like to thank Walter Lausen (DE), Jonas Carlgren (SE), Harry Shaw (UK) and Håkan Gillström (SE) for their dedicated work in the BoD. They stepped down from their roles as board members during the first half of 2022.

Above (left to right): Anders Olsson, Grant Cathcart, Daniel Halmsjö
Below (left to right): Nana Bule and Florence Rollet

Supplementary payment for farmers paid at half-year for the first time

In October 2021, our Board of Representatives (BoR) voted in favour of a new retainment policy, which will allocate a higher supplementary payment of a guaranteed 1.5 EUR-cent per kg of milk, provided the company achieves an annual net profit of at least 2.8 per cent of revenue. The supplementary payment will be paid out in two installments, an interim in September and a final in March, based on the full year results. The BoR mandated the Board of Directors (BoD) to decide whether it would be appropriate to pay out an interim supplementary payment. In August 2022, the BoD decided to pay out 1 EURcent/kg of milk based on half-year volumes, due to the strong results, the robust financial position of Arla, and in order to alleviate cost pressure on farm. In February 2023, the BoR will vote on the amount of the final supplementary payment.

1 EUR-CENT ON MILK VOLUMES IN THE FIRST HALF-YEAR = ~ 0.5 EUR-CENT OF EXPECTED FULL-YEAR MILK VOLUMES



[1] The final amount is subject to the BoR's vote in February 2023

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As well as EUR 1 million donation to the Red Cross in Ukraine, Arla donated products to Ukraine and Ukrainian refugees. We shipped UHT milk, Mathilde Chocolate Milk, Baby & Me products and cheese sticks from several of our Danish and German sites to refugee help centres in Poland, Romania, and to people in need in Ukraine.

Income statement

(EURm)	Note	H1 2022	H1 2021	Development	2021
Revenue	1.1	6,382	5,441	17%	11,202
Production costs	1.2	-5,090	-4,287	19%	-8,822
Gross profit		**1,292**	**1,154**	**12%**	**2,380**
Sales and distribution costs	1.2	-848	-734	16%	-1,573
Administration costs	1.2	-206	-207	0%	-427
Other operating income		61	49	24%	110
Other operating costs		-74	-31	139%	-75
Share of results after tax in joint ventures and associates	3.1	27	21	29%	53
Earnings before interest and tax (EBIT)		**252**	**252**	**0%**	**468**
Specification:					
EBITDA		485	485	0%	948
Depreciation, amortisation and impairment losses	1.2	-233	-233	0%	-480
Earnings before interest and tax (EBIT)		**252**	**252**	**0%**	**468**
Financial income		10	8	25%	14
Financial costs		-32	-49	-35%	-75
Profit before tax		**230**	**211**	**9%**	**407**
Tax		-31	-39	-21%	-61
Profit for the period		**199**	**172**	**16%**	**346**
Allocated as follows:					
Arla Foods amba's share of profit for the year		192	165	16%	332
Non-controlling interests		7	7	0%	14
Total		**199**	**172**	**16%**	**346**

Comprehensive income

(EURm)	Note	H1 2022	H1 2021	2021
Profit for the period		**199**	**172**	**346**
Other comprehensive income				
Items that will not be reclassified to the income statement:				
Remeasurements of defined benefit schemes		47	12	-3
Tax on remeasurements of defined benefit schemes		-10	-3	10
Items that may be reclassified subsequently to the income statement:				
Value adjustments of hedging instruments		213	13	39
Fair value adjustment of certain financial assets		-	-1	-1
Adjustments related to foreign currency translation		21	87	127
Tax on items that may be reclassified to the income statement		-	-	-1
Other comprehensive income, net of tax		**271**	**108**	**171**
Total comprehensive income		**470**	**280**	**517**
Allocated as follows:				
Owners of Arla Foods amba		463	273	503
Non-controlling interests		7	7	14
Total		**470**	**280**	**517**

Balance sheet

(EURm)	Note	H1 2022	H1 2021	Development	2021
Assets					
Non-current assets					
Intangible assets and goodwill	3.1	942	951	-1%	946
Property, plant, equipment and right of use assets	3.1	3,036	2,960	3%	3,072
Investments in associates and joint ventures	3.1	572	507	13%	530
Deferred tax		23	20	15%	21
Pension assets	4.1	90	59	53%	69
Other non-current assets		29	30	-3%	30
Total non-current assets		**4,692**	**4,527**	**4%**	**4,668**
Current assets					
Inventory	2.1	1,613	1,203	34%	1,248
Trade receivables	2.1	1,153	947	22%	1,007
Derivatives		271	20	1255%	74
Other receivables		362	279	30%	285
Securities		437	426	3%	434
Cash and cash equivalents		130	124	5%	97
Total current assets		**3,966**	**2,999**	**32%**	**3,145**
Total assets		**8,658**	**7,526**	**15%**	**7,813**

(EURm)	Note	H1 2022	H1 2021	Development	2021
Equity and liabilities					
Equity					
Common capital		2,107	1,973	7%	2,062
Individual capital		510	500	2%	542
Other equity accounts		280	-19	1574%	46
Unallocated profit for the period		129	165	-22%	-
Supplementary payment to owners		63	-		207
Equity attributable to the owners of Arla Foods amba		**3,089**	**2,619**	**18%**	**2,857**
Non-controlling interests		58	48	21%	53
Total equity		**3,147**	**2,667**	**18%**	**2,910**
Liabilities					
Non-current liabilities					
Pension liabilities	4.1	201	233	-14%	245
Provisions		27	25	8%	24
Deferred tax		80	74	8%	64
Loans		2,140	2,189	-2%	2,113
Total non-current liabilities		**2,448**	**2,521**	**-3%**	**2,446**
Current liabilities					
Loans		1,097	767	43%	628
Trade and other payables	2.1	1,541	1,184	30%	1,445
Provisions		15	22	-32%	18
Derivatives		80	40	100%	86
Other current liabilities		330	325	2%	280
Total current liabilities		**3,063**	**2,338**	**31%**	**2,457**
Total liabilities		**5,511**	**4,859**	**13%**	**4,903**
Total equity and liabilities		**8,658**	**7,526**	**15%**	**7,813**

Equity

	Common capital			Individual capital				Other equity accounts					
(EURm)	**Capital account**	**Reserve for special purposes**	**Unallocated profit for the period**	**Contributed individual capital**	**Delivery-based owner certificates**	**Injected individual capital**	**Supple-mentary payment**	**Reserve for value adjustment of hedging instruments**	**Reserve for fair value through OCI**	**Reserve for foreign exchange adjustments**	**Total before non-control-ling interests**	**Non-control-ling interests**	**Total Equity after non-controlling interests**
Equity at 1 January 2022	**889**	**1,173**	**-**	**334**	**61**	**147**	**207**	**-14**	**8**	**52**	**2,857**	**53**	**2,910**
Profit for the period	**-**	**-**	**129**	**-**	**-**	**-**	**63**	**-**	**-**	**-**	**192**	**7**	**199**
Other comprehensive income	37							213	-	21	271	-	271
Total comprehensive income	**37**	**-**	**129**	**-**	**-**	**-**	**63**	**213**	**-**	**21**	**463**	**7**	**470**
Transactions with owners	2			-14	-4	-4					-20		-20
Transactions with non-controlling interests	-										-	-3	-3
Supplementary payment related to 2021							-211				-211		-211
Foreign currency translation adjustments	6			-6	-1	-3	4				-	1	1
Total transactions with owners	**8**	**-**	**-**	**-20**	**-5**	**-7**	**-207**	**-**	**-**	**-**	**-231**	**-2**	**-233**
Equity at 30 June 2022	**934**	**1,173**	**129**	**314**	**56**	**140**	**63**	**199**	**8**	**73**	**3,089**	**58**	**3,147**
Equity at 1 January 2021	**878**	**1,090**	**-**	**302**	**65**	**146**	**223**	**-53**	**9**	**-74**	**2,586**	**53**	**2,639**
Profit for the period	**-**	**-**	**165**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**165**	**7**	**172**
Other comprehensive income	9							13	-1	87	108	-	108
Total comprehensive income	**9**	**-**	**165**	**-**	**-**	**-**	**-**	**13**	**-1**	**87**	**273**	**7**	**280**
Transactions with 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 currency translation adjustments	-11	-	-	1	-	5	5	-	-	-	-	2	2
Total transactions with owners	**-4**	**-**	**-**	**-10**	**-4**	**1**	**-223**	**-**	**-**	**-**	**-240**	**-12**	**-252**
Equity at 30 June 2021	**883**	**1,090**	**165**	**292**	**61**	**147**	**-**	**-40**	**8**	**13**	**2,619**	**48**	**2,667**

Cash flow

(EURm)	Note	H1 2022	H1 2021	2021
EBITDA		485	485	948
Reversal of share of results in joint ventures and associates	3.1	-27	-21	-53
Reversal of other operating items without cash impact		-26	-29	-80
Change in net working capital	2.1	-375	-274	-90
Change in other receivables and other current liabilities		-34	144	103
Dividends received, joint ventures and associates		-	9	24
Interest paid		-25	-24	-45
Interest received		3	3	8
Taxes paid		-30	-19	-35
Cash flow from operating activities		**-29**	**274**	**780**
Investment in intangible fixed assets	3.1	-36	-26	-45
Investment in property, plant and equipment	3.1	-144	-194	-452
Sale of property, plant and equipment		4	13	13
Operating investing activities		-176	-207	-484
Acquisition of financial assets		-9	-8	-26
Sale of financial assets		9	7	14
Sale of enterprises		-	-	14
Financial investing activities		-	-1	2
Cash flow from investing activities		**-176**	**-208**	**-482**
Supplementary payment regarding the previous financial year		-211	-228	-227
Transactions with owners		-22	-18	-18
Transactions with non-controlling interests		-3	-8	-6
New loans obtained		248	256	172
Other changes in loans		267	-17	-147
Payment of lease debt		-34	-35	-73
Payment to pension plans		-11	-19	-31
Cash flow from financing activities		**234**	**-69**	**-330**
Net cash flow		**29**	**-3**	**-32**

(EURm)	Note	H1 2022	H1 2021	2021
Cash and cash equivalents at 1 January		97	126	126
Net cash flow for the period		29	-3	-32
Exchange rate adjustment of cash funds		4	1	3
Cash and cash equivalents at 30 June		**130**	**124**	**97**
Free operating cash flow				
Cash flow from operating activities		-29	274	780
Operating investing activities		-176	-207	-484
Free operating cash flow		**-205**	**67**	**296**
Free cash flow				
Cash flow from operating activities		-29	274	780
Cash flow from investing activities		-176	-208	-482
Free cash flow		**-205**	**66**	**298**

Operating cash flow impacted by higher milk prices

Cash flow from operating activities decreased by EUR 303 million to EUR -29 million compared to EUR 274 million in the first half of last year. While EBITDA was on the same level as first half of last year, more cash was tied up in the net working capital positions, driven by higher milk prices and inflation.

Cash flow from investing activities amounted to EUR -176 million compared to EUR -208 million in the same period last year.

Free cash flow for the half-year totalled EUR -205 million representing a decrease of EUR 271 million compared to same period last year.

Cash flow from financing activities amounted to EUR 234 million compared to EUR -69 million last year. The increase was driven by new loans and higher usage of credit facilities to facilitate the decrease in free cash flow and the supplementary payment for 2021.

Cash and cash equivalents amounted to EUR 130 million, compared to EUR 124 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 are disclosed in Note 3.

NOTE 4
FUNDING

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

NOTE 5
ACCOUNTING POLICIES

The group's general accounting principles and accounting policies are described in note 5.

Basis for preparation

The condensed interim consolidated financial statements are based on the group's monthly reporting procedures. Group entities are required to report using standard accounting principles in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS).

General accounting principles and the applied accounting policies can be found in note 5.

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.

Applying materiality

Our focus is to present information that is considered of material importance to our stakeholders in a simple and structured way.

Significant accounting estimates and assessments

Preparing the group's condensed interim consolidated financial statements requires management to apply accounting estimates and judgements that affect the recognition and measurement of the group's assets, liabilities, income and expenses. The estimates and judgements are based on historical experience and other factors.

By nature, these estimates are associated with uncertainty and unpredictability which can have a significant effect on the amounts recognised.

The most significant accounting estimates are addressed below.

Measurements of revenue and rebates

Revenue, net of rebates, is recognised when goods are transferred to customers. Estimates are applied when measuring the accruals for rebates and other sales incentives. In some customer relationships the final settlement of rebates depends on future volumes, prices and other incentives, which requires estimation based on historical experience and forecasted future sales.

Valuation of goodwill

Estimates are applied in assessing the value in use of goodwill. Goodwill is tested annually for impairment, and is not subject to amortisation. Assessing future cash flows and setting discount rates involves a level of estimation based on approved forecasts and market data. The majority of goodwill is allocated to activities in the UK.

Valuation of inventory

Arla uses a standard cost model and estimates are applied when assessing the historical cost price of milk, utilities and other production-related costs. Furthermore assessment of net realisable values on certain parts of the inventory requires estimates and judgements, most significantly this applies on quality and future market price of certain cheese categories with long maturity time.

Valuation of pension plans

Judgements are applied when setting actuarial assumptions such as the discount rate, expected future salary increases, inflation and mortality. The actuarial assumptions vary from country to country, based on national economic and social conditions. They are set using available market data and compared to benchmarks to ensure consistency on an annual basis and in compliance with best practise.

Revenue and cost

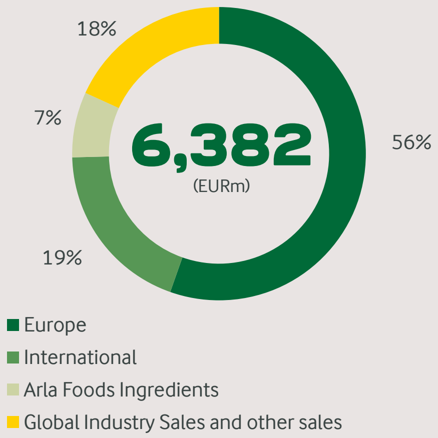
1.1 Revenue

Revenue growth driven by prices

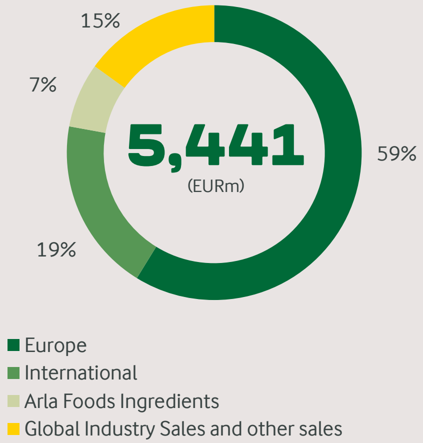
Revenue increased 17.3 per cent to EUR 6,382 million, compared to EUR 5,441 million at the first half of last year. Higher sales prices increased revenue with EUR 970 million, while changes to volume/mix impacted revenue negatively by EUR 126 million. Positive currency effects amounted to EUR 97 million due to stronger USD and GBP against the EUR.

Strategic branded revenue amounted to EUR 2,985 million, compared to EUR 2,657 million in the same period last year. Strategic branded volume driven revenue growth was -0.1 per cent impacted heavily by the inflationary environment and a normalisation of Covid-19 trends. Read more about the performance of our brands and commercial segments in the performance review on page 9-10.

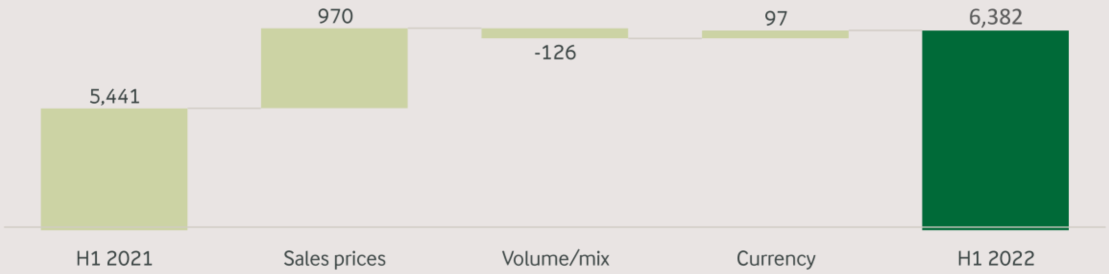
Revenue split by commercial segment, H1 2022



Revenue split by commercial segment, H1 2021



Development in revenue
(EURm)



Revenue split by brand

(EURm)	H1 2022	H1 2021
Arla	1,775	1,626
Lurpak	347	305
Puck	248	207
Castello	104	85
Milk based beverage	164	132
Other supported brands	357	302
Strategic branded revenue	**2,995**	**2,657**
AFI	460	387
Private label, global industry sales and other	2,927	2,397
Total	**6,382**	**5,441**

Revenue and cost

1.2 Costs

Higher milk price to farmers and inflation increased costs

Operational costs amounted to EUR 6,144 million compared to EUR 5,228 million in the first half of last year, representing an increase of 17.5 per cent.

Production costs increased with EUR 803 million to EUR 5,090 million compared to EUR 4,287 million in the first half of 2021. The overall driver was higher milk prices, which increased the cost of raw milk by EUR 670 million. The prepaid milk price to farmer owners increased EUR 661 million. Production costs excluding the cost of raw milk increased due to higher energy prices and inflation on other production related costs, partly offset by changes in volume/mix.

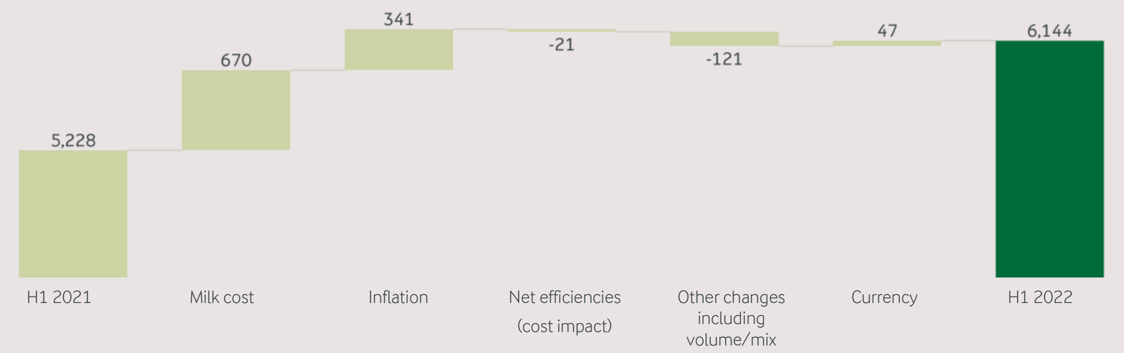
Sales and distribution costs increased EUR 114 million, partly due to higher transportation cost as a result of increased fuel prices.

Staff costs increased EUR 34 million to EUR 712 million due to regular salary adjustments and foreign exchange effects across Arla.

The cost savings from net efficiencies amounted to EUR 21 million equalling net efficiencies of EUR 72 million deducted savings related to revenue as well as reinvestments.

Development in operational costs

(EURm)



Operational costs split by function and type

(EURm)	H1 2022	H1 2021
Production costs	5,090	4,287
Sales and distribution costs	848	734
Administration costs	206	207
Total	**6,144**	**5,228**
Specification:		
Weighed-in raw milk	3,253	2,583
Other production materials*	963	880
Staff costs	712	678
Transportation costs	403	347
Marketing costs	101	113
Depreciation, amortisation and impairment	233	233
Other costs**	479	394
Total	**6,144**	**5,228**
Average number of full-time employees	20,357	20,304

**Other production materials includes packaging, additives, consumables, variable energy and changes in inventory*
***Other costs mainly includes maintenance, utilities and IT*

Weighed-in raw milk

	H1 2022		H1 2021	
	Mkg	EURm	Mkg.	EURm
Owner milk	6,312	3,006	6,405	2,345
Other milk	495	247	596	238
Total	**6,807**	**3,253**	**7,001**	**2,583**

Revenue and cost

1.3 Key performance indicators

The alternative performance measures disclosed below are key performance indicators for the group.

Performance price

Increased commodity prices and firm price management drove 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 period, divided by the weighed-in milk volume in the first half of 2022. The performance price was 49.6 EUR-cent/kg owner milk, compared to 38.2 EUR-cent/kg owner milk for the first half of last year.

Strategic branded volume driven revenue growth

Flat branded volume 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 decreased 0.1 per cent in the first half of 2022, compared to a 5.6 per cent increase in the first half of last year. The main reason for the decline is shift in consumer trends following the inflationary environment.

Performance price

	H1 2022			H1 2021		
	EURm	**Mkg.**	**EUR-cent/kg**	**EURm**	**Mkg.**	**EUR-cent/kg**
Owner milk	3,006	6,312	47.6	2,345	6,405	36.6
Adjustment to standard milk (4.2% fat, 3.4% protein)			-1.0			-1.0
Arla Foods amba's share of profit for the period	192		3.0	165		2.6
Total		**6,312**	**49.6**		**6,405**	**38.2**

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. Historical figures were restated according to the new conversion factor, thereby also restating the performance price for H1 2021.

Strategic branded volume driven revenue growth

	H1 2022	**H1 2021**
Strategic branded revenue last half-year	2,657	2,557
Strategic branded VDRG	-3	140
Price and exchange rate adjustments	341	-40
Strategic branded revenue	**2,995**	**2,657**
Strategic branded volume driven revenue growth, %	-0.1%	5.6%

The calculation of strategic branded VDRG is based on fixed exchange rates and is defined as volume growth of EUR -3 million divided by the net amount of strategic branded revenue last year of EUR 2,657 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 2022 the profit share amounted to EUR 192 million compared to EUR 165 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.

Profit share

	H1 2022	**H1 2021**
Revenue	6,382	5,441
Profit for the period	199	172
Profit relating to non-controlling interests	-7	-7
Profit attributable to farmer owners	**192**	**165**
Profit share	3.0%	3.0%

Profit share is calculated as EUR 192 million divided by EUR 6.382 million and equals 3.0 per cent at half-year 2022.

Net working capital

2.1 Net working capital

Net working capital position driven by higher prices
Net working capital increased by EUR 259 million to EUR 1,225 million, corresponding to an increase of 27 per cent compared to the carrying amount at 30 June 2021.

Measured in days of turnover* net working capital increased to 38 days compared to 36 days end of June last year. The increase was mainly due to higher inventory values, driven by milk prices and inflation.

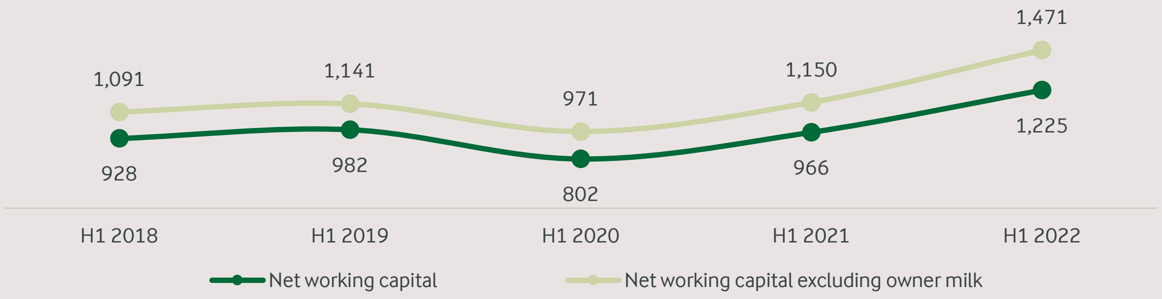
Inventory increased by EUR 410 million due to higher milk prices and inflation related to other production costs.

Trade receivables increased EUR 206 million compared to 30 June 2021. This is a result of increased sales prices partly offset by an increased use of financing programmes. Trade receivable finance programmes are used as an integrated part of our liquidity management.

Trade and other payables increased EUR 357 million to EUR 1,541 million as a result of high energy prices and inflation on other production related costs.

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.

Development in net working capital
(EURm)



Net working capital

(EURm)	H1 2022	H1 2021
Inventory	1,613	1,203
Trade receivables	1,153	947
Trade and other payables	-1,541	-1,184
Net working capital	**1,225**	**966**

Inventory

(EURm)	H1 2022	H1 2021
Inventory before write-downs	1,627	1,223
Write-downs	-14	-20
Total inventory	**1,613**	**1,203**
Raw materials and consumables	336	246
Work in progress	534	392
Finished goods and goods for resale	743	565
Total inventory	**1,613**	**1,203**

Trade receivables

(EURm)	H1 2022	H1 2021
Trade receivables before provision for expected losses	1,170	961
Provision for expected losses	-17	-14
Total trade receivables	**1,153**	**947**

* Measured on trailing 3 months data.

Capital employed

3.1 Capital employed

Continued high level of investment

The carrying value of non-current assets increased to EUR 4,692 million compared to EUR 4,527 million at 30 June 2021.

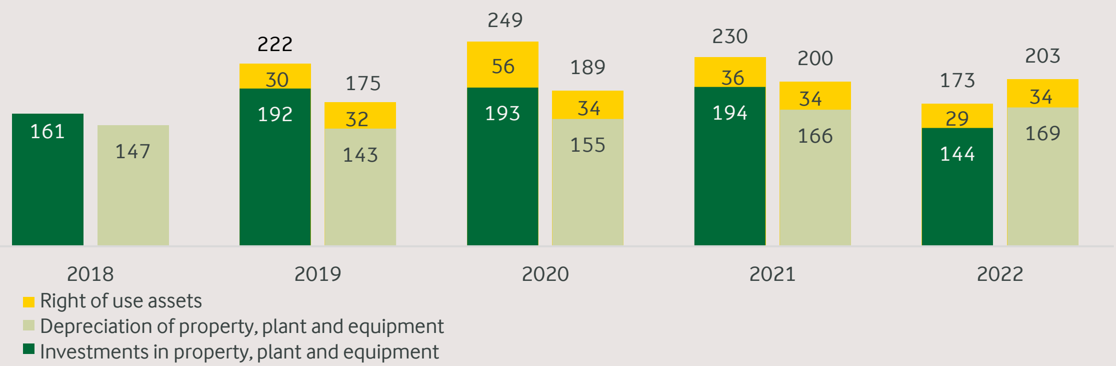
Intangible assets and goodwill decreased marginally to EUR 942 million compared to EUR 951 million at 30 June 2021. The decrease was driven by amortisation of trademarks, IT and other development projects, offset by exchange rate effects on goodwill.

The carrying value of property, plant and equipment including right of use assets increased by EUR 76 million to EUR 3,036 million. Investments including right of use assets in the first half year amounted to EUR 173 million compared with 230 million in the same period last year. Major projects, such as the finalisation of the powder tower in Pronsfeld, Germany, investments in the production facilities in Bahrain and expansion of the mozzarella production in Denmark continued in the first half of 2022, however at lower activity levels as they are close to being finalised. Further, investment in milk-based beverages capacity increase in Esbjerg, Denmark, has been initiated.

The recognised value of associates and joint ventures was EUR 572 million compared to EUR 507 million at 30 June 2021. 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 458 million, compared to EUR 387 million at 30 June 2021. The carrying amount of the investment in COFCO Dairy Holding Ltd. includes goodwill amounting to EUR 160 million.

Investments and depreciation of property, plant, equipment and right of use assets

(EURm)



Intangible assets and goodwill

(EURm)	**H1 2022**	**H1 2021**
Goodwill	701	691
Licenses and trademarks	71	79
IT and other development projects	170	181
Carrying amount at 30 June	**942**	**951**

Property, plant and equipment including right of use assets

(EURm)	**H1 2022**	**H1 2021**
Land and buildings	1,147	1,009
Plant and machinery	1,340	1,202
Fixtures and fittings, tools and equipment	199	200
Assets in the course of construction	350	549
Carrying amount at 30 June	**3,036**	**2,960**
Right of use assets included in the carrying amount	224	232

Associates and joint ventures

(EURm)	**H1 2022**	**H1 2021**
Value of associates and joint ventures		
Share of equity in COFCO Dairy Holdings Ltd. (Mengniu)	298	245
Goodwill in COFCO Dairy Holdings Ltd. (Mengniu)	160	142
Share of equity in immaterial associates	91	86
Recognised value of associates	**549**	**473**
Share of equity in immaterial joint ventures	23	34
Recognised value of associates and joint ventures	**572**	**507**

Funding

4.1 Funding and pensions

Increased net interest-bearing debt
The group's financial leverage was 3.0 representing an increase of 0.2 compared to the first half of last year. Net interest-bearing debt excluding pensions increased EUR 269 million compared to the position at 30 June 2021. The increase was driven by cash tied up in net working capital.

Pension liabilities amounted to EUR 201 million compared to EUR 233 million at 30 June 2021. The position at 30 June 2022 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 90 million, compared to EUR 59 million at 30 June 2021.

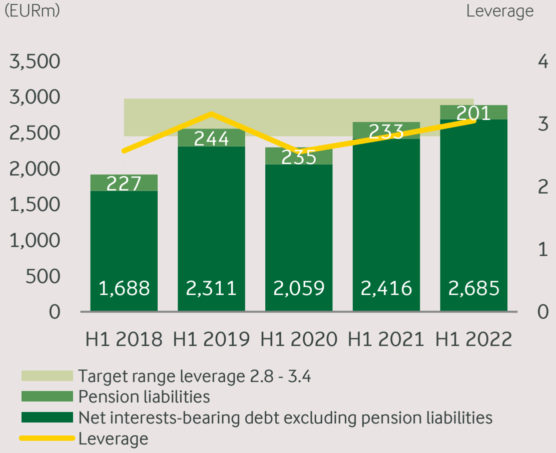
The maturity profile of debt decreased to 4.4 years compared to 5.1 years in the same period last year. Average maturity is affected by lapse of time, refinancing or obtainment of new committed facilities and the level of interest-bearing debt. Average interest costs, excluding pensions, were 1.8 per cent compared to 1.9 per cent in the first half of last year.

The liquidity reserves increased from EUR 503 million at 30 June 2021 to EUR 844 million. The liquidity reserves increased to secure liquidity during uncertain market conditions.

Net interest-bearing debt

(EURm)	H1 2022	H1 2021
Long-term borrowings	2,140	2,189
Short-term borrowings	1,117	783
Securities, cash and cash equivalents	-567	-550
Other interest-bearing assets	-5	-6
Net interest-bearing debt excluding pension liabilities	**2,685**	**2,416**
Pension liabilities	201	233
Net interest-bearing debt including pension liabilities	**2,886**	**2,649**

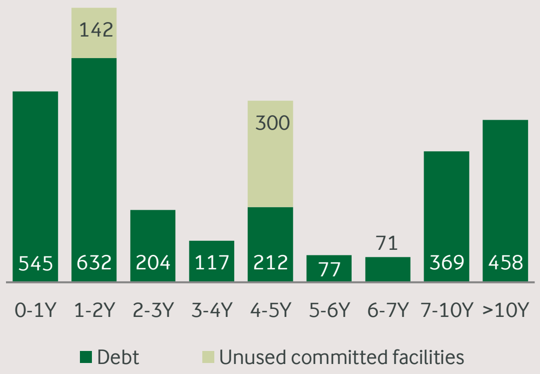
Net interest-bearing debt
(EURm)



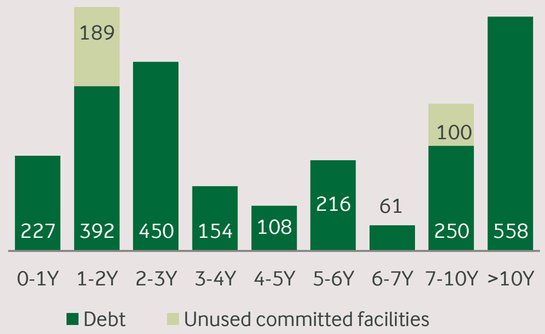
LEVERAGE
3.0
Half-year 2022

LEVERAGE
2.8
Half-year 2021

Maturity of net interest-bearing debt excluding pension liabilities at 30 June 2022
(EURm)



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



Funding

4.1 Funding and pensions

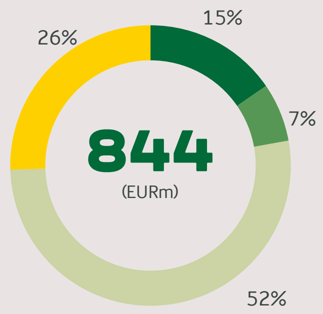
Liquidity reserves

(EURm)	H1 2022	H1 2021
Cash and cash equivalents	130	124
Securities (free cash flow)	57	25
Unutilised committed loan facilities	442	339
Unutilised other loan facilities	215	15
Total	**844**	**503**

Exchange rates

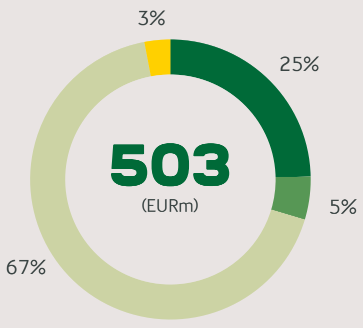
	Closing rate			Average rate		
	H1 2022	H1 2021	Change	H1 2022	H1 2021	Change
EUR/GBP	0.861	0.860	-0.2%	0.842	0.868	3.1%
EUR/SEK	10.685	10.147	-5.0%	10.482	10.129	-3.4%
EUR/DKK	7.440	7.436	0.0%	7.440	7.437	0.0%
EUR/USD	1.044	1.190	14.0%	1.092	1.205	10.3%
EUR/SAR	3.930	4.464	13.6%	4.096	4.520	10.3%

Liquidity reserves, H1 2022



- Cash and cash equivalents
- Securities (free cash flow)
- Unutilised committed loan facilities
- Unutilised other loan facilities

Liquidity reserves, H1 2021



- Cash and cash equivalents
- Securities (free cash flow)
- Unutilised committed loan facilities
- Unutilised other loan facilities

Pension liabilities

(EURm)	H1 2022	H1 2021
Present value of funded liabilities	1,319	1,692
Fair value of plan assets	-1,213	-1,524
Deficit of funded plans	**106**	**168**
Present value of unfunded liabilities	5	6
Net pension liabilities recognised on the balance sheet	**111**	**174**
Presented as:		
Pension assets	-90	-59
Pension liabilities	201	233
Net pension liabilities	**111**	**174**

Funding

4.1 Funding and pensions

Assumptions for the actuarial calculations

	H1 2022	H1 2021
	%	%
Discount rate assumptions		
Discount rate, Sweden	3.5	1.9
Discount rate, UK	3.9	2.0
Inflation assumptions		
Inflation (CPI), Sweden	3.1	1.9
Inflation (CPI), UK	2.5	2.5
Mortality assumptions		
Life expectancy in years at age 65:		
Male in the UK	21.0	21.0
Female in the UK	23.0	23.0
Male in Sweden	22.0	22.0
Female in Sweden	24.0	24.0

Accounting policies

5.1 General accounting principles

Basis for preparation

The condensed interim consolidated report is prepared according to the same accounting policies as applied in the consolidated annual report for 2021.

The condensed Interim consolidated financial statements are prepared in million EUR with rounding.

Condensed interim 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 the 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 amba (parent company) and the subsidiaries in which the pa-rent 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 associates. A significant influence is typically obtained by holding or having at the group's disposal, directly or indirectly, more than 20 per cent, but less than 50 per cent, of the voting rights in an entity.

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 own-ed 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.

The consolidated financial statements are prepared on a historical cost basis, except for certain items with alternative measurement bases, which are identified in these accounting policies. Some reclassifications have been carried out compared to previously. These, however, have no impact on the net profit or loss or the equity.

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 has transactions 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 rate 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 year-end exchange rate. The revenue, costs and share of the net profit or loss for the year are translated into EUR using the average monthly exchange rate if this does not differ materially from the transaction date rate. Exchange rate differences are recognised in other comprehensive income and accumulated in the translation reserve.

On partial divestment of associates and joint ventures, the re-levant proportional amount of the cumulative foreign currency translation adjustment reserve is transferred to the net profit or loss for the year, along with any gains or losses related to the divestment. Any repayment of outstanding balances considered part of the net investment is not in itself considered to be a partial divestment of the subsidiary.

Accounting policies

5.2 Accounting policies

Equity

Common capital

Recognised in the capital account are technical items such as actuarial gains or losses on defined benefit pension schemes, effects from disposals and acquisitions of non-controlling interests in subsidiaries and exchange rate differences in equity instruments issued to owners. Furthermore, the capital account is impacted by agreed contributions from new owners of the cooperative.

Recognised in the reserve for special purposes is the annual profit appropriation to common capital. It may, upon the Board of Director's proposal, be applied by the Board of Representatives for the full or partial offsetting of material extraordinary losses or impairment in accordance with article 20.1(iii) of the Articles of Association.

Individual capital

Individual capital instruments are regulated in article 20 of the Articles of Association and the general membership terms. Equity instruments issued as contributed individual capital relate to amounts transferred as part of the annual profit appropriation. The individual balances carry interest at CIBOR 12 months + 1.5 per cent that are approved and paid out together with the supplementary payment in connection with the annual profit appropriation.

Delivery-based owner certificates are equity instruments issued to the original Danish and Swedish owners. Issue of these instruments ceased in 2010.

Injected individual capital are equity instruments issued in connection with cooperative mergers and when new owners enter the cooperative.

Balances on delivery-based owner certificates and injected individual capital instruments carry no interest.

Balances on contributed individual capital, delivery-based owner certificates and on injected individual capital can be paid out over three years upon termination of membership to Arla Foods amba in accordance with the Articles of Association, subject to the Board of Representatives' approval. Ba-lances are denominated in the currency relevant to the country in which owners are registered. Foreign currency translation adjustments are calculated annually and the effect is transferred to the capital account.

Proposed supplementary payment to owners is recognised separately in equity until it is paid out.

Other equity accounts

Reserve for value adjustments of hedging instruments comprises the fair value adjustment of derivatives classified as and meeting the conditions for hedging of future cash flows where the hedged transaction has not yet been realised.

Reserve for fair value adjustments through OCI comprises the fair value adjustments of mortgage credit bonds classified as financial assets measured at fair value through other comprehensive income.

Reserve for foreign currency translation adjustments comprises foreign currency translation differences arising during the translation of the financial statements of foreign companies, including value adjustments relating to assets and liabilities that constitute part of the group's net investment and value adjustments relating to hedging transactions securing the group's net investment.

The non-impairment clause in the Articles of Association defines that no payment may be made by Arla Foods amba to owners that impairs the sum of the capital account and equity accounts prescribed by law and IFRS. The non-impairment clause is assessed on the basis of the most recent annual report presented under IFRS. Individual capital accounts and reserve for special purposes are not covered by the non-impairment clause.

Non-controlling interests

Subsidiaries are fully recognised in the consolidated financial statements. Non-controlling interests' share of the results for the year and of the equity in subsidiaries is recognised as part of the consolidated results and equity, respectively, but is listed separately.

On initial recognition, non-controlling interests are measured at either the fair value of the equity interest or the proportional share of the fair value of the acquired companies' identified assets, liabilities and contingent liabilities. The measurement of non-controlling interests is selected on a transactional basis.

Milk payment to owners

The on-account settlement of owner milk is recognised as a production cost in the income statement. The supplementary payment is based on the result for the year as part of the profit appropriation. The supplementary payment is recognised as a reserve on the equity statement until approved by the Board of Representatives, based on a recommendation by the Board of Directors.

Cash flow

The consolidated cash flow statement is presented according to the indirect method, with cash flow from operating activities determined by adjusting EBITDA for the effects of non-cash items such as undistributed results in joint ventures and associates, changes in working capital items and other non-cash items.

Revenue

Revenue is recognised when a contract exists with a customer for the production and transfer of dairy products across various product categories and geographical regions. Revenue per commercial segment or market is based on the group's internal financial reporting practices.

Revenue is recognised in the income statement when a performance obligation is satisfied, at the price allocated to that performance obligation. This is defined as the point in time when control of the products has been transferred to the buyer, the amount of revenue can be measured reliably and collection is probable. The transfer of control to customers takes place according to trade agreement terms, i.e. the Incoterms, and can vary depending on the customer or specific trade.

Revenue comprises invoiced sales for the year less customer-specific payments, such as sales rebates, cash discounts, listing fees, promotions, VAT and duties. Contracts with customers can contain various types of discounts. Historical experience is used to estimate discounts, in order to correctly recognise revenue.

Furthermore, revenue is only recognised when it is highly probable that a material reversal in the amount of revenue will not occur. This is generally the case when control of the product is transferred to the customer, also taking into consideration the level of rebates.

The vast majority of all contracts have short payment terms with an average of 35 days. Therefore, an adjustment of the transaction price with regard to a financing component in the contracts with customers is not required.

Operational costs

Production costs

Production costs cover direct and indirect costs related to production, including volume movements in inventory and related inventory revaluation. Direct costs comprise purchase of milk from owners, inbound transport costs, packaging, additives, consumables, energy and variable salaries directly related to production. Indirect costs comprise other costs related to production of goods, including depreciation and impairment losses on production-related materials and other supply chain related costs. The purchase of milk from cooperative owners is recognised at prepaid prices for the accounting period and therefore does not include the supplementary payment, which is classified as distributions to owners and recognised directly in equity.

Sales and distribution costs

Costs relating to sales staff, the write-down of receivables, sponsorships, research and development, depreciation and impairment losses are recognised as sales and distribution costs. Sales and distribution costs also include marketing expenses relating to investment in the group's brands, such as the development of marketing campaigns, advertisement, exhibits, and others.

Administration costs

Administration costs relate to management and administration, including administrative staff, office premises and office costs, as well as depreciation and impairment.

Financial income and expenses

Financial income and financial costs as well as capital gains and losses are recognised in the income statement at amounts that can be attributed to the year. Financial items comprise realised and unrealised value adjustments of securities and currency adjustments of financial assets and financial liabilities, as well as the interest portion of financial lease payments. Additionally, realised and unrealised gains and losses on derivatives not classified as hedging contracts are included. Borrowing costs from general borrowing, or loans that directly relate to the acquisition, construction or development of qualified assets are attributed to the costs of such assets and are therefore not included in financial costs.

Capitalisation of interest was performed by using an interest rate matching the group's average external interest rate in 2022. Financial income and financial costs relating to financial assets and financial liabilities were recognised using the effective interest method

Net working capital, other receivables and current liabilities

Inventory

Inventories are measured at the lower of cost or net realisable value, calculated on a first-in, first-out basis. The net realisable value is established taking into account inventory marketability and an estimate of the selling price, less completion costs and costs incurred to execute the sale.

The cost of raw materials, consumables and commercial goods includes the purchase price plus delivery costs. The prepaid milk price to Arla's owners is used as the purchase price for owner milk.

The cost of work in progress and manufactured goods also includes an appropriate share of production overheads, including depreciation, based on the normal operating capacity of the production facilities.

Trade receivables

Trade receivables are recognised at the invoiced amount less expected losses in accordance with the simplified approach for amounts considered irrecoverable (amortised cost). Expected losses are measured as the difference between the carrying amount and the present value of anticipated cash flows.

Expected losses are assessed for major individual receivables or in groups at portfolio level, based on the receivables' age and maturity profile as well as historical records of losses. Calculated expected losses are adjusted for specific significant negative developments in geographical areas.

Trade and other payables

Trade payables are measured at amortised cost, which usually corresponds to the invoiced amounts.

Other receivables and other current liabilities

Other receivables and other current liabilities are measured at amortised cost usually corresponding to the nominal amount.

Intangible assets

Goodwill

Goodwill represents the premium paid by Arla above the fair value of the net assets of an acquired company. On initial recognition, goodwill is recognised at cost. Goodwill is not amortised, but is subsequently measured at cost less any accumulated impairment. The carrying amount of goodwill is allocated to the group's cash-generating units that follow the management structure and internal financial reporting. Cash-generating units are the smallest group of assets which can generate independent cash inflows.

Impairment test

Impairment occurs when the carrying amount of an asset is greater than its recoverable amount through either use or sale. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use (a cash generating unit) that are largely independent of the cash inflows of other assets or cash-generating units. For goodwill which does not generate largely independent cash inflows, impairment tests are prepared at the level where cash flows are considered to be generated largely independently.

The group of cash-generating units is determined based on the management structure and internal financial reporting. The structure of cash-generating units is revised yearly. The carrying amount of goodwill is tested for impairment together with other non-current assets in the cash-generating unit to which the goodwill is allocated. The recoverable amount of goodwill is recognised as the present value of the expected future net cash flows from the group of cash-generating units to which the goodwill is allocated, discounted using a pre-tax discount rate that reflects the current market assessment of the time value of money and risks specific to the asset or cash-generating unit.

The carrying amount of other non-current assets is assessed annually against its recoverable amount to determine whether there is any indication of impairment. Any impairment of goodwill is recognised as a separate item in the income statement and cannot be reversed.

The recoverable amount of other non-current assets is the higher value of the asset's value in use and its market value, i.e. fair value, less expected disposal costs. The value in use is calculated as the present value of the estimated future net cash flows from the use of the asset or the group of cash-generating units to which the asset belongs.

An impairment loss on other non-current assets is recognised in the income statement under production costs, selling and distribution costs or administration costs, respectively. Impairment recognised can only be reversed to the extent that the assumptions and estimates that led to the impairment have changed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Licences and trademarks

Licences and trademarks are initially recognised at cost. The cost is subsequently amortised on a straight-line basis over their expected useful lives.

IT and other development projects

Costs incurred during the research or exploration phase in carrying out general assessments of requirements and available technologies are expensed as incurred. Directly attributable costs incurred during the development stage for IT and other development projects relating to the design, programming, installation and testing of projects before they are ready for commercial use are capitalised as intangible assets. Such costs are only capitalised provided the expenditure can be measured reliably, the project is technically, and commercially viable, future economic benefits are probable, and the group intends to and has sufficient resources to complete and use the asset. IT and other development projects are amortised on a straight-line basis over five to eight years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Assets under construction, land and decommissioned plants are not depreciated.

Cost

Cost comprises the acquisition price as well as costs directly associated with an asset until the asset is ready for its intended use. For self-constructed assets, cost comprises direct and indirect costs relating to materials, components, payroll and the borrowing costs from specific and general borrowing that directly concerns the construction of assets. If significant parts of an item of property, plant and equipment have different useful lives, they are recognised as separate items (major components) and depreciated separately. When component parts are replaced, any remaining carrying amount of replaced parts is removed from the balance sheet and recognised as an accelerated depreciation charge in the income statement. Subsequent expenditure items of property, plant and equipment are only recognised as an addition to the carrying amount of the item, when it is likely that incurring the cost will result in financial benefits for the group. Other costs such as general repair and maintenance are recognised in the income statement when incurred.

Depreciation

Depreciation aims to allocate the cost of the asset, less any amounts estimated to be recoverable at the end of its expected use, to the periods in which the group obtains benefits from its use. Property, plant and equipment are depreciated on a straight-line basis from the time of acquisition, or when the asset is available for use based on an assessment of the estimated useful life. The depreciation base is measured taking into account the residual value of the asset, being the estimated value the asset can generate through sale or scrappage at the balance sheet date if the asset was of the age and in the condition expected at the end of its useful life, and reduced by any impairment made. The residual value is determined at the date of acquisition and is reviewed annually. Depreciation ceases when the carrying amount of an item is lower than the residual value, or when an item is decommissioned. Changes during the depreciation period or in the residual value are treated as changes to accounting estimates, the effect of which is adjusted only in current and future periods. Depreciation is recognised in the income statement in production costs, selling and distribution costs or administration costs.

Right of use assets

Leases are typically agreed for a fixed duration, but may have an option to extend at a future date. All leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

A lease liability is initially measured on a present value basis, which comprises the net present value of the following:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments based on an index or a rate
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the group is reasonably certain to exercise that exit option.

The lease payments are discounted using an incremental borrowing rate, being the rate that the group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The corresponding right of use asset is measured at cost comprising the following:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and restoration costs.

The right of use asset is subsequently depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In addition, the value of the right of use asset is adjusted for certain remeasurements of the lease liability.

Each lease payment comprises a reduction of the lease liability and a finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Short-term leases and leases of low-value assets are recognised as an expense in the income statement. Short-term leases have a lease term of less than one year. Low-value assets have an individual value of less than EUR 5 thousand.

Associates and joint ventures

Investments in which Arla has a significant but not controlling influence are classified as associates. Investments in which Arla has joint control are classified as joint ventures.

The proportionate share of the net profit or loss in associates and joint ventures is recognised in the consolidated income statement, after elimination of the proportionate share of unrealised inter-company profits or losses.

Investments in associates and joint ventures are recognised according to the equity method and measured at the proportionate share of the entities' net asset values, calculated in accordance with Arla's accounting policies. The proportionate share of unrealised inter-company profits and the carrying amount of goodwill is added, whereas the proportionate share of unrealised inter-company losses is deducted. Dividends received from associates and joint ventures reduce the value of the investment.

For investments held in listed companies, computation of Arla's share of profit and equity is based on the latest published financial information of the company, other publicly available information on the company's financial development, and the effect of revalued net assets.

Investments in associates and joint ventures with negative net asset values are measured at zero. If Arla has a legal or constructive obligation to cover a loss in the associate or joint venture, the loss is recognised under provisions. Any amounts owed by associates and joint ventures are written down to the extent that the amount owed is deemed irrecoverable.

An impairment test is performed when there are indications of impairment, such as significant adverse changes in the environment in which the equity accounted investee operates, or a significant or prolonged decline in the fair value of the investment below its carrying amount.

Where the equity-accounted investment is considered to be an integral part of a cash-generating unit (CGU), the impairment test is performed at the CGU level, using expected future net cash flows of the CGU. An impairment loss is recognised when the recoverable amount of the equity-accounted investment (or CGU) becomes lower than the carrying amount. The recoverable amount is defined as the higher of value in use and fair value less costs to sell of the equity accounted investment (or CGU).

Financial instruments

Financial instruments are recognised at the date of trade. The group ceases to recognise financial assets when the contractual rights to the underlying cash flows either cease to exist or are transferred to the purchaser of the financial asset, and substantially all risk and reward related to ownership are also transferred to the purchaser.

Financial assets and liabilities are offset, and the net amount is presented in the balance sheet when, and only when, the group obtains a legal right of offsetting and either intends to offset or settle the financial asset and the liability simultaneously.

Financial assets

Financial assets are classified at initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income or fair value through the income statement.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and how these are managed.

Financial assets where the group intends to collect the contractual cashflow are classified and measured at amortised cost.

Financial assets that are part of liquidity management are classified and measured at fair value through other comprehensive income. All other financial assets are classified and measured at fair value through the income statement.

Financial assets measured at amortised cost

Financial assets measured at amortised cost consist of readily available cash at bank and deposits, together with exchange-listed debt securities with an original maturity of three months or less, which have an insignificant risk of change in value and can be readily converted to cash or cash equivalents.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income consist of mortgage credit bonds, which correspond in part to raised mortgage debt.

Financial assets are measured on initial recognition at fair value plus transaction costs. The financial assets are subsequently measured at fair value with adjustments made in other comprehensive income and accumulated in the fair value reserve in equity.

Interest income, impairment and foreign currency translation adjustments of debt instruments are recognised in the income statement on a continuous basis under financial income and financial costs. In connection with the sale of financial assets classified at fair value through other comprehensive income, accumulated gains or losses, previously recognised in the fair value reserve, are recycled to financial income and financial costs.

Financial assets measured at fair value through profit or loss

Securities classified at fair value through the income statement consist primarily of listed securities which are monitored, measured and reported continuously, in accordance with the group's treasury and funding policy. Changes in fair value are recognised in the income statement under financial income and financial costs.

Liabilities

Debt to mortgage credit and credit institutions, as well as issued bonds, are measured at the trade date upon first recognition at fair value plus transaction costs. Subsequently, liabilities are measured at amortised cost with the difference between loan proceeds and the nominal value recognised in the income statement over the expected life of the loan.

Capitalised residual lease obligations related to leases are recognised under liabilities and measured at amortised cost. Other financial liabilities are measured at amortised cost. For details on pension liabilities, refer to Note 4.7.

Derivatives

Derivatives are recognised from the trade date and measured in the financial statements at fair value. Positive and negative fair values of derivatives are recognised as separate items in the balance sheet.

Fair value hedging

Changes in the fair value of derivatives which meet the criteria for hedging the fair value of recognised assets and liabilities, are recognised alongside changes in the value of the hedged asset or the hedged liability for the portion that is hedged.

Cash flow hedging

Changes in the fair value of derivatives that are classified as hedges of future cash flows and effectively hedge changes in future cash flows, are recognised in other comprehensive income as a reserve for hedging transactions under equity until the hedged cash flows impact the income statement. The reserve for hedging instruments under equity is presented net of tax. The cumulative gains or losses from hedging transactions that are retained in equity are reclassified and recognised under the same item as the basic adjustment for the hedged item. The accumulated change in value recognised in other comprehensive income is recycled to the income statement once the hedged cash flows affect the income statement or are no longer likely to be realised. For derivatives that do not meet the criteria for classification as hedging instruments, changes in fair value are recognised as they occur in the income statement, under financial income and costs.

Pension liabilities

Pension liabilities and similar non-current liabilities

The group has post-employment pension plan arrangements with a significant number of current and former employees. The post-employment pension plan agreements take the form of defined benefit plans and defined contribution plans.

Defined contribution plans

For defined contribution plans, the group pays fixed contributions to independent pension companies. The group has no obligation to make supplementary payments beyond those fixed payments, and the risk and reward of the value of the pension plan therefore rests with plan members, and not the group. Contributions to defined contribution plans are expensed in the income statement as incurred.

Defined benefit plans

Defined benefit plans are characterised by the group's obligation to make specific payments from the date the plan member is retired, depending on, for example, the member's seniority and final salary. The group is subject to the risks and rewards associated with the uncertainty whether the return generated by the assets will meet the pension liability, which are affected by assumptions concerning mortality and inflation.

The group's net liability is the amount presented in the balance sheet as pension liability.

The net liability is calculated separately for each defined benefit plan. The net liability is the amount of future pension benefits that employees have earned in current and prior periods (i.e. the liability for pension payments for the portion of the employee's estimated final salary earned at the balance sheet date) discounted to a present value (the defined benefit liability), less the fair value of assets held separately from the group in a plan fund.

The group uses qualified actuaries to annually calculate the defined benefit liability using the projected unit credit method.

The balance sheet amount of the net liability is impacted by remeasurement, which includes the effect of changes in assumptions used to calculate the future liability (actuarial gain and losses) and the return generated on plan assets (excluding interest). Remeasurements are recognised in other comprehensive income.

Interest cost for the period is calculated using the discounted rate used to measure the defined benefit liability at the start of the reporting period applied to the carrying amount of the net liability, taking into account changes arising from contributions and benefit payments. The net interest cost and other costs relating to defined benefit plans are recognised in the income statement.

The net liability primarily covers defi-ned benefit plans in the UK and Sweden.

Tax

Tax in the income statement

Tax in the income statement comprises current tax and adjustments to deferred tax. Tax is recognised in the income statement, except to the extent that it relates to a business combination or items (income or costs) recognised directly in other comprehensive income.

Current tax

Current tax is assessed based on tax legislation for entities in the group subject to cooperative or income taxation. Cooperative taxation is based on the capital of the cooperative, while income tax is assessed based on the company's taxable income for the year. Current tax liabilities comprises the expected tax payable/receivable on the taxable income or loss for the year, any adjustment to the tax payable or receivable in respect of previous years and tax paid on account. Current tax liabilities are disclosed as part of Other current liabilities.

Deferred tax

Deferred tax is measured in accordance with the balance sheet liability method for all temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognised on temporary differences on initial recognition of goodwill, or arising at the acquisition date of an asset or liability without affecting either the profit or loss for the year or taxable income, except for those arising from M&A activities.

Deferred tax is determined by applying tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Changes in deferred tax assets and liabilities due to changes in the tax rate are recognised in the income statement except for items recognised in other comprehensive income.

Deferred tax assets, including the value of tax losses carried forward, are recognised under other non-current assets at the value at which they are expected to be used, either by elimination in the tax of future earnings or by offsetting against deferred tax payable in companies within the same legal tax entity or jurisdiction.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

STATEMENT BY THE BOARD OF DIRECTORS AND EXECUTIVE BOARD

Today, the Board of Directors and the Executive Board discussed and approved the consolidated half-year report of Arla Foods group for the period 1 January to 30 June 2022. The half-year report was prepared in accordance with the accounting principles included on page 32 to 37.

It is our opinion that the condensed interim consolidated financial statements give a true and fair view of the group's financial position as of 30 June 2022 and of the results of the group's activities and cash flows for the period 1 January to 30 June 2022.

In our opinion, the management's review of the half-year report includes a true and fair view of the developments of the group's financial position, activities, financial matters, results and cash flows for the period.

We hereby approve the half-year report for the period 1 January to 30 June 2022.

Aarhus, 29 August 2022

Peder Tuborgh
CEO

Peter Giørtz-Carlsen
Executive Board Member

Jan Toft Nørgaard
Chairman

Manfred Graff
Vice Chairman

René Lund Hansen

Daniel Halmsjö

Arthur Fearnall

Gustav Kämpe

Marita Wolf

Bjørn Jepsen

Steen Nørgaard Madsen

Nana Bule

Jørn Kjær Madsen

Johnnie Russell

Florence Rollet

Marcel Goffinet

Simon Simonsen

Inger-Lise Sjöström

Grant Cathcart
Employee representative

Ib Bjerglund Nielsen
Employee representative

Anders Olsson
Employee representative

GLOSSARY

Arlagarden® is the name of our quality assurance programme.

CAPEX is an abbreviation of capital expenditure.

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 of equity, excluding minority interests, to 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.

Leverage is the ratio of net interest-bearing debt inclusive of pension liabilities, to 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.

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 of profit for the period allocated to owners of Arla Foods, to 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.

Other comprehensive income includes revenues, expenses, gains and losses that have yet to be realized and are excluded from net income on an income statement.

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.

Share of milk solids sold through Global Industry Sales 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.

Project management and copy: Group Accounting, Arla. Design: Omnidocs.
Translation: Semantix. Photos: Arla, Jens Bangsbo and Kristian Holm.

CORPORATE CALENDAR

Financial reports and major events

AUGUST 30, 2022
Publication of the Half-Year Report 2022

OCTOBER 5-6, 2022
Meeting of the Board of Representatives

FEBRUARY 9, 2023
Announcement of the 2022 results

FEBRUARY 22-23, 2023
Meeting of the Board of Representatives

FEBRUARY 23, 2023
Publication of the Annual Report 2022

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