

Arla Foods Finance A/S

Sønderhøj 14

8260 Viby J

CVR No. 89622816

Annual Report 2016

The Annual Report was presented and
adopted at the Annual General Meeting of
the Company on 29 May 2017



Udo Witzky
Chairman

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Management's Statement

Today, Management has considered and adopted the Annual Report of Arla Foods Finance A/S for the financial year 1 January 2016 - 31 December 2016.

The Annual Report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January 2016 - 31 December 2016.

In our opinion, the Management's Review includes a true and fair account of the matters addressed in the review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Aarhus, 29 May 2017

Executive Board



Jesper Mellekjær
CEO

Board of Directors



Povl Krogsgaard
Chairman



Natalie Knight



John Duus Andresen

Independent Auditor's Report

To the shareholders of Arla Foods Finance A/S

Opinion

We have audited the financial statements of Arla Foods Finance A/S for the financial year 01-01-2016 - 31-12-2016, which comprise accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31-12-2016 and of the results of the Company's operations and cash flows for the financial year 01-01-2016 - 31-12-2016 in accordance with the Danish Financial Statements Act.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibility under those standards and requirements are further described in our auditors' report under "Auditors' responsibility for the audit of the financial statements". As required by the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, we are independent of the Company, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management considers necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern; disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting in preparing the financial statements unless Management either intends to either liquidate the Company or suspend operations, or has no realistic alternative but to do so.

The auditor's responsibility for the audit of the financial statements

Our responsibility is to obtain reasonable assurance as to whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is no guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect material misstatements. Misstatements can arise from fraud or error and can be considered material if it would be reasonable to expect that these - either individually or collectively - could influence the economic decisions taken by the users of financial statements on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain an attitude of professional skepticism throughout the audit. We also:

- * Identify and assess the risk of material misstatements in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- * Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Independent Auditor's Report

- * Evaluate whether the accounting policies used are appropriate and whether the accounting estimates and the related disclosures made by Management are reasonable.
- * Conclude on whether Management's use of the going concern basis of accounting in preparing the financial statements is appropriate and, based on the audit evidence obtained, conclude on whether a material uncertainty exists relating to events or conditions, which could cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may imply that the Company can no longer remain a going concern.
- * Evaluate the overall presentation, structure and contents of the financial statements, including note disclosures, and whether the financial statements reflect the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control which we identify during our audit.

Statement on Management's Review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of opinion providing assurance regarding the Management's review.

Our responsibility in connection with our audit of the financial statements is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or with the knowledge we have gained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review meets the disclosure requirements in the Danish Financial Statements Act.

Based on our procedures, we are of the opinion that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements in the Danish Financial Statements Act. In our opinion, the Management's review is not materially misstated.

Aarhus, 29-05-2017

Ernst & Young

Godkendt Revisionspartnerselskab

CVR-no. 30700228



Morten Friis

State Authorised Public Accountant



Kim R. Mortensen

State Authorised Public Accountant

Arla Foods Finance A/S

Company information

Company	Arla Foods Finance A/S Sønderhøj 14 8260 Viby J
Telephone	89381000
CVR No.	89622816
Registered office	Aarhus
Financial year	1 January 2016 - 31 December 2016
Board of Directors	Povl Krogsgaard, Chairman Natalie Knight John Duus Andresen
Executive Board	Jesper Mellekjær, CEO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25 8100 Aarhus C CVR-no.: 30700228

Arla Foods Finance A/S

Management's Review

The Company's principal activities

Arla Foods Finance A/S is responsible for the overall liquidity and currency management for a number of companies in the Arla Foods Group.

The objective is to reduce the Group's bank charges in the form of interest and fees, one of the means being to reduce the total cash outflow and the need for credit lines for cash management.

Furthermore, the Company is engaged in small-scale financial investments.

Development in activities and financial matters

The Company's Income Statement of the financial year 01-01-2016 - 31-12-2016 shows a result of K DKK 4.252 and the Balance Sheet at 31-12-2016 a balance sheet total of K DKK 15.763.310 and an equity of K DKK 378.863.

Post financial year events

After the end of the financial year, no events have occurred which may change the financial position of the entity substantially.

Expectations for the future

The result of the Company's operations next year is expected to be in line with 2016.

Key Figures and Financial Ratios

K DKK

The Company's key figures and financial ratios developed as follows:

	2016	2015	2014	2013	2012
Financial income and costs, net	-3.057	83.289	15.025	31.724	35.153
Profit	4.252	61.148	18.764	33.504	35.177
Assets	15.763.310	14.611.474	12.583.728	9.836.309	8.343.534
Equity	378.863	448.838	401.349	453.459	401.130
Return on equity (%)	1,03	14,38	4,39	7,84	9,12
Solvency ratio (%)	2,40	3,07	3,19	4,61	4,81

Return on equity (%) = Profit for the year X 100 / Average equity

Solvency ratio (%) = Total equity X 100 / Total equity and liabilities

Accounting Policies

Reporting Class

The Annual Report of Arla Foods Finance A/S for 2016 has been presented in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

With effect from 1 January 2016 the Company implemented law number 738 of 1 June 2015, which did not result in changes to recognition and measurement, but only a few new and changed presentation and disclosure requirements.

Except for the above the accounting policies applied remain unchanged from last year.

The Company has decided not to include an cash flow statement due to Danish Financial Statements Act §86, 4.

Consolidated Financial Statements

The Company meets the conditions for not preparing Consolidated Financial Statements which is why these have been omitted.

The Company is a wholly-owned subsidiary of AF A/S, Viby J, and is included in the consolidated financial statements of Arla Foods a.m.b.a. The consolidated financial statements are available at the following address: Arla Foods a.m.b.a, Sønderhøj 14, DK-8260 Viby J.

Translation policies

Transactions in foreign currencies are translated into DKK at the exchange rate prevailing at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into DKK based on the exchange rates prevailing at the balance sheet day. Realised and unrealised foreign exchange gains and losses are included in the Income Statement under Financial Income and Expenses.

Derivative financial instruments

Derivative financial instruments are measured at cost and subsequently at fair value at initial recognition in the Balance Sheet. Positive and negative fair values of derivative financial instruments are included in other receivables and other payables, respectively.

Changes in the fair value of derivative financial instruments classified as and fulfilling the criteria for hedging the fair value of a recognised asset or liability are recognised in the Income Statement together with any changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments classified as and fulfilling the conditions for hedging future assets and liabilities are recognised in other receivables or other payables and in equity. In the event that the future transaction results in the recognition of assets or liabilities, any amounts previously recognised in equity will be transferred to the cost of the asset or the liability, respectively. In the event that the future transaction results in income or expenses, any amounts previously recognised in equity will be transferred to the Income Statement in the period in which the hedged item affects the Income Statement.

For derivative financial instruments that do not fulfil the conditions for treatment as hedging instruments, changes in the fair value will continually be recognised in the Income Statement.

Accounting Policies

Income Statement

Financial income and costs

Financial income and costs are recognised in the Income Statement with the amounts that concern the financial year. Financial income and costs include interest, realised and unrealised capital gains and losses regarding securities, debt and foreign currency transactions, dividends received from other equity investments, amortisation of financial assets and liabilities as well as surcharges and allowances under the tax repayment scheme.

Other external costs

Other external costs comprise expenses regarding administration.

Result in subsidiaries

Result in subsidiaries comprises the proportionate share of profit/loss after tax and any adjustment of internal profit/loss and less amortisation of consolidated goodwill.

Tax

Tax on net profit/loss for the year comprises current tax on expected taxable income of the year and the year's adjustment of deferred tax less the part of the tax of the year that relates to changes in equity. Current and deferred tax regarding changes in equity is recognised directly in equity. The Company and the Danish group enterprises are taxed jointly. The Danish income tax is distributed between profit- and loss-making Danish enterprises in relation to their taxable income (full distribution).

Balance Sheet

Investments in subsidiaries

Investments in subsidiaries are measured by the equity method at the proportionately owned share of the equity of the enterprises plus any consolidated goodwill, less intercompany profit and negative goodwill. Land in subsidiaries is measured at cost. Enterprises with negative equity are measured at 0 as the negative value corresponding to the proportionate share is offset against receivables, if any. Amounts beyond this are recognised as provisions, if there is a legal or actual obligation to cover the negative balance.

Receivables

Receivables are measured at amortised cost. The value is reduced by write-downs for expected bad debts.

Securities and other short-term investments

Securities are measured at fair value at the balance sheet date. Other short-term investments are measured at estimated fair value.

Financial liabilities

Fixed-rate loans such as mortgage loans and loans from credit institutions are recognised initially at the proceeds received less transaction expenses incurred. In subsequent periods, loans are measured at amortised cost so that the difference between the proceeds and the nominal value is recognised in the Income Statement as an interest expense over the term of the loan. Other liabilities are measured at amortised cost.

Current tax

Current tax liabilities and current tax receivables are recognised in the Balance Sheet as calculated tax on the expected taxable income for the year, adjusted for tax on taxable income for previous years as well as for tax prepaid.

Arla Foods Finance A/S

Income Statement

K DKK

	Note	2016	2015
Financial income	1	216.201	278.143
Financial costs	2	-219.258	-194.854
Other external costs	3	-775	-511
Gross result		-3.832	82.778
Result in subsidiaries		-232	277
Profit before tax		-4.064	83.055
Tax	4	8.316	-21.907
Profit		4.252	61.148

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Arla Foods Finance A/S

Balance Sheet as of 31. December

K DKK

	Note	2016	2015
Investments in subsidiaries	5, 6	14.412	14.644
Investments		14.412	14.644
Fixed assets		14.412	14.644
Receivables from group enterprises		13.205.725	11.827.279
Corporation tax receivable		22.181	0
Other receivables		221.309	430.661
Receivables		13.449.215	12.257.940
Securities and other short-term investments	7	2.278.744	2.313.825
Current investments		2.278.744	2.313.825
Cash at bank and in hand		20.939	25.065
Current assets		15.748.898	14.596.830
Assets		15.763.310	14.611.474

Arla Foods Finance A/S

Balance Sheet as of 31. December

K DKK

	Note	2016	2015
Contributed capital		1.000	1.000
Retained earnings		377.863	447.838
Equity		378.863	448.838
Loans related to issuance of bonds		3.115.406	2.459.145
Loans from credit institutions etc.		321.597	3.773.278
Non-current liabilities	8	3.437.003	6.232.423
Loans from credit institutions etc.	8	4.910.445	4.743.208
Trade payables		204	82
Payables to group enterprises		6.103.993	2.726.533
Corporation tax payable		0	27.429
Other payables		932.802	432.961
Current liabilities		11.947.444	7.930.213
Liabilities		15.384.447	14.162.636
Liabilities and equity		15.763.310	14.611.474
Contingent liabilities	9		
Related parties	10		

Arla Foods Finance A/S

Statement of changes in Equity

K DKK

	Contributed capital	Retained earnings	Total
Equity 1 January 2016	1.000	447.838	448.838
Net adjustments of hedging instruments		-95.163	-95.163
Tax on hedging instruments		20.936	20.936
Profit		4.252	4.252
Equity 31 December 2016	1.000	377.863	378.863

The Company's share capital is K DKK 1,000, divided into shares of K DKK 1 or any multiple thereof.

The share capital has remained unchanged for the last 5 years.

Notes

K DKK

	2016	2015
1. Financial income		
Financial income from group enterprises	173.616	220.534
Profit after tax on sale of stake in K/S Danske Immobilien	0	17.955
Other financial income	42.585	39.654
	<u>216.201</u>	<u>278.143</u>

Due to the lower interest level the Company's net financial income and costs are effected by DKK 23 million.

2. Financial costs

Financial costs to group enterprises	37.324	2.501
Other financial costs	181.934	192.353
	<u>219.258</u>	<u>194.854</u>

3. Other external costs

As in previous years the Company had no employees in 2016. The disclosure of remuneration to the Executive Board is omitted due to Danish Financial Statements Act §98b.

Arla Foods amba handles the administration of the Company, for which Arla Foods amba receives a management fee.

4. Tax

Current tax	-1.009	28.371
Adjustment tax previous years	-7.307	-6.464
	<u>-8.316</u>	<u>21.907</u>

5. Investments in subsidiaries

Cost at the beginning of the year	21.810	21.810
Cost at the end of the year	<u>21.810</u>	<u>21.810</u>
Value adjustments at the beginning of the year	-7.166	-7.443
Result in subsidiaries	-232	277
Value adjustments at the end of the year	<u>-7.398</u>	<u>-7.166</u>
Carrying amount at the end of the year	<u>14.412</u>	<u>14.644</u>

6. Disclosure about subsidiaries

Name	Registered office	Share in %
Kingdom Food Products ApS	Aarhus	100,00
Ejendomsanpartsselskabet St. Ravnsbjerg	Aarhus	100,00

Notes

K DKK

7. Securities and other short-term investments

The Company had entered into repurchase agreements collateralised by bonds with a carrying amount of DKK 2,266 million at 31 December 2016 against DKK 2,297 million at 31 December 2015. The repurchase financing is included under loans.

8. Loans

	Due after 1 year	Due within 1 year	Due after 5 years
Loans related to issuance of bonds	3.115.406		
Loans from credit institutions etc.	321.597	4.910.445	43.396
	<u>3.437.003</u>	<u>4.910.445</u>	<u>43.396</u>

9. Contingent liabilities

The Company is jointly taxed with other enterprises in the group and are jointly and severally liable for the taxes that concern the joint taxation.

10. Related parties

Arla Foods Finance' related parties comprise the Company's Management and enterprises within the Arla Foods Group.

Parties exercising control

AF A/S holds the share capital in the company.

Related party transactions

In the year under review, Arla Foods Finance A/S has been engaged in transactions with enterprises in the Arla Foods Group participating in the cash pool system.

11. Profit appropriation

	2016	2015
Retained earnings	4.252	61.148
	<u>4.252</u>	<u>61.148</u>