

# Parent Company Management Review

## Principal activities

Arla Foods amba operates dairy activities in Denmark and purchases milk from the company's owners in seven countries. Milk collected outside Denmark is resold to foreign subsidiaries in the Arla Foods Group.

This structure ensures that all owners receive milk payments according to common guidelines and that they exercise influence in the owner democracy, including election to the Board of Representatives and the Board of Directors, in accordance with the rules laid down in the statutes and merger agreements.

## Performance

2016 was a challenging and highly volatile year for Arla Foods amba resulting in a decline in revenue from EUR 7,104 million in 2015 to EUR 6,620 million in 2016. This was primarily caused by reduced prices on raw milk sold internally in the Arla Foods group.

Profit for the year amounted to EUR 70 million (EUR 248 million in 2015). The decline in revenue was not fully offset by the reduced cost of raw milk. Investments in subsidiaries were impaired by EUR 162 million (EUR 277 million in 2015). Dividends from subsidiaries and associates of EUR 44 million (EUR 96 million in 2015) were recognised in the income statement.

## Outlook

Entering 2017 Arla is in a strong position to capture the full potential of the recent market improvement. High volatility in the dairy market will continue to influence performance also in the coming years.

For more details, please see the Management Review in the Consolidated Financial Statements.

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*For a description of the accounting policies reference is made to Note 3.3 and the Consolidated Financial Statements.*

# Parent Company Income Statement

## 1 January - 31 December

(EURm)	Note	2016	2015
Revenue	1.1	6,620	7,104
Production costs	1.2-1.4	-5,723	-6,063
<b>Gross profit</b>		<b>897</b>	<b>1,041</b>
Sales and distribution costs	1.2-1.4	-496	-418
Administration costs	1.2-1.4	-205	-160
Other operating income and costs	1.5	24	-45
<b>Earnings before interest and tax (EBIT)</b>		<b>220</b>	<b>418</b>
<i>Specification:</i>			
Earnings before interest, tax, depreciation and amortisation (EBITDA)		339	537
Depreciation, amortisation and impairment losses	1.4	-119	-119
<b>Earnings before interest and tax (EBIT)</b>		<b>220</b>	<b>418</b>
Impairment of investments in subsidiaries	3.3	-162	-277
Financial income and costs	4.1	22	117
<b>Profit before tax</b>		<b>80</b>	<b>258</b>
Tax	5.1	-10	-10
<b>Profit for the year</b>		<b>70</b>	<b>248</b>

Reference to Profit appropriation below Changes in Equity.

# Parent Company

## Statement of Comprehensive Income

(EURm)	Note	2016	2015
<b>Profit for the year</b>		<b>70</b>	<b>248</b>
<b>Items that may be reclassified subsequently to the income statement</b>			
Value adjustment of hedging instruments		-24	25
Foreign exchange adjustments		15	-1
<b>Other comprehensive income, net of tax</b>		<b>-9</b>	<b>24</b>
<b>Total comprehensive income</b>		<b>61</b>	<b>272</b>

# Parent Company Balance Sheet

## 31 December

(EURm)	Note	2016	2015
<b>Assets</b>			
<b>Non-current assets:</b>			
Intangible assets	3.1	182	159
Property, plant and equipment	3.2	610	623
Investments in subsidiaries	3.3	1,172	760
Investments in associates	3.3	295	295
Subordinated loans to subsidiaries	3.3	579	582
<b>Total non-current assets</b>		<b>2,838</b>	<b>2,419</b>
<b>Current assets:</b>			
Inventories	2.1	253	263
Trade receivables	2.2	170	193
Amounts owed by subsidiaries	4	685	773
Amounts owed by associates	4	6	10
Derivatives	4	8	24
Other receivables		39	42
Securities	4	193	194
Cash at bank and in hand		-	-
<b>Total current assets</b>		<b>1,354</b>	<b>1,499</b>
<b>Total assets</b>		<b>4,192</b>	<b>3,918</b>
<b>Equity and liabilities</b>			
<b>Equity:</b>			
Equity before proposed supplementary payments to owners		2,066	2,141
Proposed supplementary payments to owners		124	113
<b>Total equity</b>		<b>2,190</b>	<b>2,254</b>
<b>Liabilities</b>			
<b>Non-current liabilities:</b>			
Loans	4	281	284
<b>Total non-current liabilities</b>		<b>281</b>	<b>284</b>
<b>Current liabilities:</b>			
Loans	4	214	485
Trade payables	4	438	404
Amounts owed to subsidiaries	4	882	298
Derivatives	4	79	79
Current tax		-	1
Other current liabilities		87	90
Deferred income		21	23
<b>Total current liabilities</b>		<b>1,721</b>	<b>1,380</b>
<b>Total liabilities</b>		<b>2,002</b>	<b>1,664</b>
<b>Total equity and liabilities</b>		<b>4,192</b>	<b>3,918</b>

# Parent Company Changes in Equity

## 1 January - 31 December

(EURm)	Capital account	Delivery-based owner certificates	Contributed capital	Reserve for development costs	Reserve for special purposes	Reserve for value adjustment of hedging instruments	Reserve for foreign exchange adjustments	Proposed supplementary payments to owners	Total
<b>Equity at 1 January 2016</b>	<b>1,094</b>	<b>94</b>	<b>422</b>	<b>-</b>	<b>573</b>	<b>-38</b>	<b>-4</b>	<b>113</b>	<b>2,254</b>
Profit for the year	-332	-	30	55	193	-	-	124	70
Other comprehensive income	-	-	-	-	-	-24	15	-	-9
<b>Total comprehensive income</b>	<b>-332</b>	<b>-</b>	<b>30</b>	<b>55</b>	<b>193</b>	<b>-24</b>	<b>15</b>	<b>124</b>	<b>61</b>
Capital issued to new owners	-	-	5	-	-	-	-	-	5
Payments to owners	-	-6	-16	-	-	-	-	-	-22
Supplementary payments to owners	-	-	-	-	-	-	-	-108	-108
Foreign exchange adjustments	31	-1	-25	-	-	-	-	-5	-
<b>Total transactions with owners</b>	<b>31</b>	<b>-7</b>	<b>-36</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-113</b>	<b>-125</b>
<b>Equity at 31 December 2016</b>	<b>793</b>	<b>87</b>	<b>416</b>	<b>55</b>	<b>766</b>	<b>-62</b>	<b>11</b>	<b>124</b>	<b>2,190</b>
<b>Equity at 1 January 2015</b>	<b>1,145</b>	<b>99</b>	<b>387</b>	<b>-</b>	<b>431</b>	<b>-63</b>	<b>-3</b>	<b>104</b>	<b>2,100</b>
Profit for the year	-38	-	31	-	142	-	-	113	248
Other comprehensive income	-	-	-	-	-	25	-1	-	24
<b>Total comprehensive income</b>	<b>-38</b>	<b>-</b>	<b>31</b>	<b>-</b>	<b>142</b>	<b>25</b>	<b>-1</b>	<b>113</b>	<b>272</b>
Capital issued to owners	-	-	5	-	-	-	-	-	5
Payments to owners	-	-6	-12	-	-	-	-	-	-18
Supplementary payments to owners	-	-	-	-	-	-	-	-105	-105
Foreign exchange adjustments	-13	1	11	-	-	-	-	1	-
<b>Total transactions with owners</b>	<b>-13</b>	<b>-5</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-104</b>	<b>-118</b>
<b>Equity at 31 December 2015</b>	<b>1,094</b>	<b>94</b>	<b>422</b>	<b>-</b>	<b>573</b>	<b>-38</b>	<b>-4</b>	<b>113</b>	<b>2,254</b>
<b>Profit appropriation</b> (EURm)							<b>2016</b>		<b>2015</b>
<b>Profit for the year</b>							<b>70</b>		<b>248</b>
Supplementary payment for milk							121		110
Interest on contributed capital							3		3
<b>Total supplementary payment</b>							<b>124</b>		<b>113</b>
Capital account							-332		-37
Reserve for development costs							55		-
Reserve for special purposes							193		141
Contributed capital							30		31
<b>Total transferred to equity</b>							<b>-54</b>		<b>135</b>
<b>Total appropriated profit</b>							<b>70</b>		<b>248</b>

Reference to Consolidated Financial Statements.

# Parent Company Cash Flow Statement

## 1 January - 31 December

(EURm)	Note	2016	2015
EBITDA		339	537
Change in working capital		86	-39
Dividends received		44	96
Interest paid		-57	-21
Interest received		35	42
Tax paid		-11	-9
<b>Cash flow from operating activities</b>		<b>436</b>	<b>606</b>
Investment in intangible fixed assets	3.1	-55	-82
Investment in property, plant and equipment	3.2	-75	-95
Sale of property, plant and equipment		1	4
<b>Operating investing activities</b>		<b>-129</b>	<b>-173</b>
Free operating cash flow		307	433
Investment in subsidiaries		-574	-202
Investment in associates		-	-31
Issuance/repayment of subordinated loans		-32	66
<b>Financial investing activities</b>		<b>-606</b>	<b>-167</b>
<b>Cash flow from investing activities</b>		<b>-735</b>	<b>-340</b>
Free cash flow		-299	266
<b>Cash flows from financing activities:</b>			
Supplementary payment to owners		-108	-105
Paid in funds from owners		-	5
Paid out to owners		-22	-18
Change in non-current liabilities		-3	-240
Change in current liabilities		431	97
Net change in marketable securities		1	-6
<b>Cash flow from financing activities</b>		<b>299</b>	<b>-267</b>
<b>Net cash flow</b>		<b>-</b>	<b>-1</b>
Cash and cash equivalents at 1 January		-	1
<b>Cash and cash equivalents at 31 December</b>		<b>-</b>	<b>-</b>

# Note 1 Operating Profit

## Note 1.1 Revenue

(EURm)

	Internal sales of goods	External sales of goods	Total revenue
<b>2016</b>			
Raw milk	2,216	151	2,367
Milk, yoghurt, powder and cooking (MYPC)	268	945	1,213
Cheese	812	584	1,396
Butter, spreads and margarine (BSM)	974	170	1,144
Other	74	426	500
<b>Total</b>	<b>4,344</b>	<b>2,276</b>	<b>6,620</b>
<b>2015</b>			
Raw milk	2,613	126	2,739
Milk, yoghurt, powder and cooking (MYPC)	257	943	1,200
Cheese	783	621	1,404
Butter, spreads and margarine (BSM)	1,023	169	1,192
Other	93	476	569
<b>Total</b>	<b>4,769</b>	<b>2,335</b>	<b>7,104</b>

## Note 1.2 Costs

(EURm)

	2016	2015
Production costs	-5,723	-6,063
Sales and distribution costs	-496	-418
Administration costs	-205	-160
<b>Total costs</b>	<b>-6,424</b>	<b>-6,641</b>
Cost of raw milk	-3,502	-3,923
Staff costs	-427	-406
Depreciation, amortisation and impairment losses	-119	-119
Other costs	-2,376	-2,193
<b>Total costs</b>	<b>-6,424</b>	<b>-6,641</b>

## Note 1.3 Staff costs

(EURm)

	2016	2015
Wages, salaries and remuneration	-392	-372
Pensions	-33	-33
Other social security costs	-2	-1
<b>Total staff costs</b>	<b>-427</b>	<b>-406</b>
Production costs	-280	-263
Sales and distribution costs	-44	-53
Administration costs	-103	-90
<b>Total staff costs</b>	<b>-427</b>	<b>-406</b>
Average number of full time employees	5,299	5,351

**Note 1.4 Depreciation, amortisation and impairment losses**

(EURm)	2016	2015
Intangible assets, amortisation	-32	-24
Property, plant and equipment, depreciation	-87	-95
<b>Total depreciation, amortisation and impairment losses</b>	<b>-119</b>	<b>-119</b>
Depreciation, amortisation and impairment losses relate to:		
Production costs	-93	-92
Sales and distribution costs	-2	-3
Administration costs	-24	-24
<b>Total depreciation, amortisation and impairment losses</b>	<b>-119</b>	<b>-119</b>

**Note 1.5 Other operating income and costs**

(EURm)	2016	2015
Financial instruments	35	-
Other items	3	14
<b>Total other operating income</b>	<b>38</b>	<b>14</b>
Financial instruments	-	-51
Other items	-14	-8
<b>Total other operating costs</b>	<b>-14</b>	<b>-59</b>
Net other operating income and costs	24	-45

## Note 2 Net Working Capital

### Note 2.1 Inventory

(EURm)	2016	2015
Inventory, gross	257	273
Write-downs	-4	-10
<b>Total inventory</b>	<b>253</b>	<b>263</b>
Raw materials and consumables	102	121
Work in progress	67	57
Finished goods and goods for resale	84	85
<b>Total inventory</b>	<b>253</b>	<b>263</b>

### Note 2.2 Trade receivables

(EURm)	2016	2015
Trade receivables before provisions for bad debts	171	195
Write-downs for bad debts	-1	-2
<b>Total trade receivables, net</b>	<b>170</b>	<b>193</b>
Write-down for bad debts at 1 January	2	3
Write-downs used	-1	-1
<b>Write-down for bad debts at 31 December</b>	<b>1</b>	<b>2</b>



## Note 3 Capital employed

### Note 3.1 Intangible assets

(EURm)	Licenses and trademarks etc.	IT and product development	Total
<b>2016</b>			
Cost at 1 January	28	219	247
Additions	-	55	55
Disposals	-	-10	-10
<b>Cost at 31 December</b>	<b>28</b>	<b>264</b>	<b>292</b>
Amortisation and impairment losses at 1 January	-2	-86	-88
Amortisation for the year	-2	-30	-32
Amortisation on disposals	-	10	10
<b>Amortisation and impairment losses at 31 December</b>	<b>-4</b>	<b>-106</b>	<b>-110</b>
<b>Carrying amount at 31 December</b>	<b>24</b>	<b>158</b>	<b>182</b>
<b>2015</b>			
Cost at 1 January	-	153	153
Additions	22	60	82
Reclassification	6	13	19
Disposals	-	-7	-7
<b>Cost at 31 December</b>	<b>28</b>	<b>219</b>	<b>247</b>
Amortisation and impairment losses at 1 January	-	-71	-71
Amortisation for the year	-2	-22	-24
Amortisation on disposals	-	7	7
<b>Amortisation and impairment losses at 31 December</b>	<b>-2</b>	<b>-86</b>	<b>-88</b>
<b>Carrying amount at 31 December</b>	<b>26</b>	<b>133</b>	<b>159</b>

### Note 3.2 Property, plant and equipment

(EURm)	Land and buildings	Plant and machinery	Fixture and fitting, tools and equipment	Assets in course of construction	Total
<b>2016</b>					
Cost at 1 January	404	1,034	65	46	1,549
Additions	-	19	3	53	75
Transferred from assets under construction	2	25	9	-36	-
Disposals	-	-2	-1	-	-3
<b>Cost at 31 December</b>	<b>406</b>	<b>1,076</b>	<b>76</b>	<b>63</b>	<b>1,621</b>
Depreciation and impairment losses at 1 January	-233	-649	-44	-	-926
Depreciation for the year	-9	-70	-9	-	-88
Depreciation of disposals	-	2	1	-	3
<b>Depreciation and impairment losses at 31 December</b>	<b>-242</b>	<b>-717</b>	<b>-52</b>	<b>-</b>	<b>1,011</b>
<b>Carrying amount at 31 December</b>	<b>164</b>	<b>359</b>	<b>24</b>	<b>63</b>	<b>610</b>
Of which assets held under finance lease	8	16	1	-	25
<b>2015</b>					
Cost at 1 January	383	996	56	50	1,485
Additions	-	-	-	95	95
Transferred from assets under construction	23	65	11	-99	-
Reclassification	-	-13	-	-	-13
Disposals	-2	-14	-2	-	-18
<b>Cost at 31 December</b>	<b>404</b>	<b>1,034</b>	<b>65</b>	<b>46</b>	<b>1,549</b>
Depreciation and impairment losses at 1 January	-217	-590	-38	-	-845
Depreciation for the year	-17	-71	-7	-	-95
Depreciation of disposals	1	12	1	-	14
<b>Depreciation and impairment losses at 31 December</b>	<b>-233</b>	<b>-649</b>	<b>-44</b>	<b>-</b>	<b>-926</b>
<b>Carrying amount at 31 December</b>	<b>171</b>	<b>385</b>	<b>21</b>	<b>46</b>	<b>623</b>
Of which assets held under finance lease	9	15	2	-	26

### Note 3.3 Investments and subordinated loans



#### Accounting policies

*Dividends from subsidiaries and associates*  
Dividends from subsidiaries and associates are recognized in the income statement.

#### *Participating interests in subsidiaries and associates*

Participating interests in subsidiaries and associates are measured at cost. If there are indications of impairment, an impairment test is performed. If the carrying amount exceeds the recoverable amount, it will be written down to the recoverable amount.

(EURm)	Investments in subsidiaries	Investments in associates	Subordinated loans to subsidiaries
<b>2016</b>			
Cost at 1 January	1,120	293	616
Additions	574	-	62
Disposals	-	-	-30
Other adjustments	-	2	-
<b>Cost at 31 December</b>	<b>1,694</b>	<b>295</b>	<b>648</b>
Adjustments at 1 January	-360	2	-34
Exchange rate adjustments	-	-	-35
Impairment	-162	-	-
Other adjustments	-	-2	-
<b>Adjustments at 31 December</b>	<b>-522</b>	<b>-</b>	<b>-69</b>
<b>Carrying amount at 31 December</b>	<b>1,172</b>	<b>295</b>	<b>579</b>
<b>2015</b>			
Cost at 1 January	924	262	682
Additions	202	31	-
Reclassification	-6	-	-
Disposals	-	-	-66
<b>Cost at 31 December</b>	<b>1,120</b>	<b>293</b>	<b>616</b>
Adjustments at 1 January	-50	-	-75
Exchange rate adjustments	-	2	17
Impairment	-277	-	-
Other adjustments	-33	-	24
<b>Adjustments at 31 December</b>	<b>-360</b>	<b>2</b>	<b>-34</b>
<b>Carrying amount at 31 December</b>	<b>760</b>	<b>295</b>	<b>582</b>

The investment in Arla Foods Deutschland GmbH has been written down by EUR 160 million to the recoverable amount. The impairment of the investment in Arla Foods Deutschland GmbH is due to operating loss.

Reference to the Group chart in the Consolidated Financial Statements.

#### Transactions with subsidiaries

(EURm)

	2016	2015
Sale of goods	4,344	4,769
Purchase of distribution services	-48	-50
Sale of administration services	69	83
Royalty from subsidiaries	1	4
Interest from subsidiaries	31	35
Dividends from subsidiaries	44	96

#### Transactions with associates

Reference to Consolidated Financial Statements.

## Note 4 Funding

### Note 4.1 Financial income and costs

(EURm)	2016	2015
Interest, securities	1	2
Dividends from subsidiaries	44	96
Interest from subsidiaries	31	35
Foreign exchange gains (net)	-	4
Fair value adjustment	3	1
<b>Total financial income</b>	<b>79</b>	<b>138</b>
Financial costs on financial instruments measured at amortised cost	-18	-23
Foreign exchange losses (net)	-41	-
Interest transferred to property, plant and equipment	2	2
<b>Total financial costs</b>	<b>-57</b>	<b>-21</b>
<b>Net financial income</b>	<b>22</b>	<b>117</b>

### Note 4.2 Net Interest-Bearing Debt

#### Note 4.2.a Borrowings

(EURm)	2016	2015
Mortgage credit institutions	271	270
Bank borrowings	8	9
Finance lease liabilities	-	1
Other non-current borrowings	2	4
<b>Total long-term borrowings</b>	<b>281</b>	<b>284</b>
Current borrowing from subsidiary	702	-
Issued bonds	-	164
Bank borrowings	195	194
Commercial papers	4	115
Finance lease liabilities	1	1
Other current borrowings	14	11
<b>Total short-term borrowings</b>	<b>916</b>	<b>485</b>
<b>Total interest-bearing borrowings</b>	<b>1,197</b>	<b>769</b>

#### Note 4.2.b Net interest-bearing debt

(EURm)	2016	2015
Cash at bank and in hand	-	-
Securities	-193	-194
Current liabilities	916	485
Non-current liabilities	281	284
<b>Net interest-bearing debt</b>	<b>1,004</b>	<b>575</b>

Of EUR 882 million owed to subsidiaries EUR 702 million is interest bearing and therefore included in net interest-bearing debt as current liabilities.

**Note 4.2.c Net interest-bearing debt, maturity**  
(EURm)

<b>31 December 2016</b>	<b>Total</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024- 2026</b>	<b>After 2026</b>
DKK	989	707	10	8	7	14	17	16	51	159
EUR	-	-	-	-	-	-	-	-	-	-
SEK	4	4	-	-	-	-	-	-	-	-
Other	11	11	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,004</b>	<b>722</b>	<b>10</b>	<b>8</b>	<b>7</b>	<b>14</b>	<b>17</b>	<b>16</b>	<b>51</b>	<b>159</b>

<b>31 December 2015</b>	<b>Total</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023- 2025</b>	<b>After 2025</b>
DKK	285	7	7	6	6	14	16	15	52	162
EUR	-	-	-	-	-	-	-	-	-	-
SEK	279	279	-	-	-	-	-	-	-	-
Other	11	11	-	-	-	-	-	-	-	-
<b>Total</b>	<b>575</b>	<b>297</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>14</b>	<b>16</b>	<b>15</b>	<b>52</b>	<b>162</b>

## Note 4.3 Financial risks

### Financial risk management

Financial risks are an inherent part of Arla's operating activities and hence, Arla's yearly profit is impacted by the developments in currencies, interest rates and certain types of commodities. Both the Global and national financial and commodity markets remain volatile and thus, it is critical for Arla to have a well implemented financial risk management system in order to protect farmers against short term market volatilities while at the same time achieving the

highest possible milk price. Financial Risk Management is described in the consolidated report in Note 4.3.

Arla manages liquidity risk by ensuring the availability of sufficient operating liquidity and credit facilities for operations. Any major acquisitions or investments are funded separately. Liquidity Risk Management is described in the consolidated report in Note 4.3.1.

### Note 4.3.a Liquidity reserves

(EURm)

	<b>2016</b>	<b>2015</b>
Unutilised committed loan facilities	666	333
Other unutilised loan facilities	180	103
<b>Total</b>	<b>846</b>	<b>436</b>

**Note 4.3.b Gross Financial liabilities**

(EURm)

31 December 2016	Carrying value	Non-discounted contractual cash flows										
		Total	2017	2018	2019	2020	2021	2022	2023	2024-2026	After 2026	
Borrowings from subsidiaries	702	702	702	-	-	-	-	-	-	-	-	-
Mortgage credit institutions	271	277	-	5	5	6	14	16	16	52	163	
Credit institutions	224	224	214	4	2	2	1	1	-	-	-	
Interest expense - interest bearing debt	-	35	3	2	2	2	2	2	2	5	15	
Trade payables etc.	438	438	438	-	-	-	-	-	-	-	-	
Derivative instruments	79	79	45	11	9	5	4	3	2	0	0	
<b>Total</b>	<b>1,714</b>	<b>1,755</b>	<b>1,402</b>	<b>22</b>	<b>18</b>	<b>15</b>	<b>21</b>	<b>22</b>	<b>20</b>	<b>57</b>	<b>178</b>	

  

31 December 2015	Carrying value	Non-discounted contractual cash flows									
		Total	2016	2017	2018	2019	2020	2021	2022	2023-2025	After 2025
Issued bonds	164	164	164	-	-	-	-	-	-	-	-
Mortgage credit institutions	270	278	-	-	5	6	6	13	16	53	179
Credit institutions	335	368	331	19	12	3	2	1	-	-	-
Interest expense - interest bearing debt	-	30	6	2	2	2	2	2	2	5	7
Trade payables etc.	403	403	403	-	-	-	-	-	-	-	-
Derivative instruments	79	79	45	9	8	7	3	3	2	2	-
<b>Total</b>	<b>1,251</b>	<b>1,322</b>	<b>949</b>	<b>30</b>	<b>27</b>	<b>18</b>	<b>13</b>	<b>19</b>	<b>20</b>	<b>60</b>	<b>186</b>

**Note 4.3.c Currency risks**

The currency risks primarily arise from transaction risks in the form of future commercial payments. Currency Risk Management is described in Note 4.3.2 in the consolidated group report.

The aggregate currency exposure is composed of all assets and liabilities denominated in foreign

currencies, and economic hedged projected cash flows for unrecognised firm commitments, and anticipated transactions.

The sensitivity below presents the impact before tax of a reasonable change in the currency rates. The sensitivity analysis only include currency exposures

arising from financial instruments and thus, the analysis does not include the hedged commercial transactions. The applied change in the exchange rate is based on the historical currency fluctuations and the sensitivity analysis assumes unchanged interest rate levels.

(EURm)

Currency risk 31 December 2016	EUR/DKK	USD/DKK*	GBP/DKK	SEK/DKK	SAR/DKK
Applied sensitivity	1%	5%	5%	5%	5%
Impact on profit or loss	-1	4	-2	-2	-1
Impact on OCI	-	-18	-8	-	-5

  

Currency risk 31 December 2015	EUR/DKK	USD/DKK*	GBP/DKK	SEK/DKK	SAR/DKK
Applied sensitivity	1%	5%	5%	5%	5%
Impact on profit or loss	-	-3	-	3	1
Impact on OCI	-	-21	-10	-	-2

\* incl. AED

**Note 4.3.d Interest rate risk**

Arla is exposed to interest-rate risks on borrowings, issued bonds and deposits. The Interest Rate Risk Management is described in the consolidated report in Note 4.3.3.

**Fair value sensitivity**

A change in interest rates will impact the fair value of Arla's interest rate derivative instruments and debt

instruments measured at either fair value through profit or loss or other comprehensive income.

**Cash flow sensitivity**

A change in interest rates will impact the interest rate payments on Arla's unhedged floating rate debt.

**Note 4.3.e Credit risk**

Arla's exposure towards credit risk arises from its operating activities and its financial contracts with financial institutions. Credit Risk Management is described in the consolidated report in Note 4.3.5.

The maximum exposure to credit risk is approximately equal to the carrying amount.

**Note 4.4 Derivative financial instruments****Fair value of hedge instruments not qualifying for hedge accounting (economic hedge)**

Arla uses currency option strategies, which are hedging forecast sales and purchases. These option strategies do not qualify for hedge accounting. Therefore, the fair value adjustment is recognised directly in profit or loss.

Currency swaps are used as part of the daily liquidity management. The objective of the currency swaps is to match the timing of in- and outflows of foreign currency cash flows.

**Hedging of future cash flow from highly probable forecast transactions**

Arla uses forward currency contracts to hedge currency risks regarding expected future revenue and costs.

(EURm)

	Carrying value	Fair value recognised in OCI	Expected recognition					Later than 2020
			2017	2018	2019	2020	2021	
<b>2016</b>								
Currency contracts	-23	-23	-23	-	-	-	-	-
Interest rate contracts	-40	-40	-9	-9	-7	-5	-	-10
Commodity contracts	-	-	-	-	-	-	-	-
<b>2015</b>								
Currency contracts	9	9	9	-	-	-	-	-
Interest rate contracts	-33	-33	-5	-7	-7	-5	-	-9
Commodity contracts	-15	-15	-15	-	-	-	-	-

**Note 4.5 Financial instruments disclosure****Note 4.5.a Categories of financial instruments**

(EURm)

	2016	2015
Available for sale financial assets	193	194
Loans and receivables	1,440	1,558
Financial assets measured at fair value through profit or loss	13	30
Derivatives	79	79
Financial liabilities measured at amortised cost	1,815	1,471

The fair value of financial assets and financial liabilities measured at amortised cost is approximately equal to the carrying amount.

**Note 4.5.b Fair value hierarchy – accounting value***Bonds and shares*

The fair value is determined using the quoted prices in an active market.

*Non-option derivatives*

The fair value is calculated using discounted cash flows models and observable market data. The fair value is determined as a termination price and hence, the value is not adjusted for credit risks.

*Option instruments*

The fair value is calculated using option models and observable market data, such as option volatilities. The fair value is determined as a termination price and hence, the value is not adjusted for credit risks.

*Fair value hierarchy*

Level 1: Fair values measured using unadjusted quoted prices in an active market

Level 2: Fair values measured using valuation techniques and observable market data.

Level 3: Fair values measured using valuation techniques and observable as well as a significant amount of non-observable market data.

(EURm)

<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Financial assets</i>				
Bonds	193	-	-	193
Shares	6	-	-	6
Derivatives	-	8	-	8
<b>Total financial assets</b>	<b>199</b>	<b>8</b>	<b>-</b>	<b>207</b>
<i>Financial liabilities</i>				
Mortgage credit institutions	271	-	-	271
Derivatives	-	79	-	79
<b>Total financial liabilities</b>	<b>271</b>	<b>79</b>	<b>-</b>	<b>350</b>

<b>31 December 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Financial assets</i>				
Bonds	194	-	-	194
Shares	5	-	-	5
Derivatives	-	24	-	24
<b>Total financial assets</b>	<b>199</b>	<b>24</b>	<b>-</b>	<b>223</b>
<i>Financial liabilities</i>				
Issued bonds	-	164	-	164
Mortgage credit institutions	270	-	-	270
Derivatives	-	79	-	79
<b>Total financial liabilities</b>	<b>270</b>	<b>243</b>	<b>-</b>	<b>513</b>

## Note 4.6 Transfer of financial assets

Arla has invested in the mortgage bonds underlying its mortgage debt. The reason for investing in the mortgage bonds is that Arla is able to achieve a lower interest rate than the current market interest rate on mortgage debt by entering into a sale and repurchase agreement on the listed Danish mortgage bonds. The net interest rate payable by Arla when financing through this kind of sale and repurchase is the interest rate inherent in the sale and repurchase agreement and the contribution to the mortgage institute.

Due to the repurchase agreement the risks and rewards arising from the ownership of the transferred mortgage bonds have been retained by Arla.

The received proceeds have been recognised as a repurchase liability. If Arla is not able to settle the repurchase liability, the counterparty only has collateral in the transferred mortgage bonds and hence, the counterparty is not able to seek any other form for recourse from Arla.

### Transfer of financial assets

(EURm)

	Carrying value	Notional value	Fair value
<b>31 December 2016</b>			
Mortgage bonds	193	196	193
Repurchase liability	193	196	193
<b>Net position</b>	-	-	-
<b>31 December 2015</b>			
Mortgage bonds	194	198	194
Repurchase liability	194	198	194
<b>Net position</b>	-	-	-

## Note 5 Other Areas

### Note 5.1 Tax

#### Note 5.1.a Tax in the income statement

(EURm)

	2016	2015
Tax on taxable equity (cooperative tax)	-10	-8
Adjustments regarding previous years, actual tax	-	-2
<b>Total tax in the income statement</b>	<b>-10</b>	<b>-10</b>

#### Note 5.1.b Calculation of effective tax rate

	2016	2015
Statutory corporate income tax rate in Denmark	22.0%	23.5%
Adjustment for cooperative tax	-9.5%	-20.4%
Adjustment regarding previous years	0.0%	0.8%
<b>Effective tax rate</b>	<b>12.5%</b>	<b>3.9%</b>



**Note 5.2 Fees to auditors appointed by the Board of Representatives**

(EURm)

**2016****2015**

Statutory audit	-0.3	-0.3
Tax assistance	-0.5	-0.1
Other services	-0.7	-0.2
<b>Total fees to auditors</b>	<b>-1.5</b>	<b>-0.6</b>

**Note 5.3 Management remuneration and transactions**

Remuneration for the Executive Board is proposed by the chairmanship and approved by the Board of Directors. Remuneration for the Board of Directors is approved by the Board of Representatives. Remuneration is negotiated on an annual basis. The Board of Directors and Executive Board exercise a significant influence.

Members of the Board of Directors are paid for milk supplies to Arla Foods amba on equal terms with other members of the company.

*Reference to Consolidated Financial Statements.*

**Note 5.4 Contractual commitments and contingent liabilities**

(EURm)

**2016****2015**

<b>Surety and guarantee commitments</b>	<b>1,115</b>	<b>1,456</b>
0-1 year	16	17
1-5 years	25	26
Over 5 years	9	12
<b>Operating rent and lease commitments</b>	<b>50</b>	<b>55</b>
<b>Commitments in relation to agreements on the purchase of property, plant and equipment</b>	<b>32</b>	<b>46</b>

Arla Foods amba is party to a small number of lawsuits, disputes, etc. The management believes that the outcome of these lawsuits will not significantly impact the company's financial position beyond what is recognised in the balance sheet and/or disclosed in the annual report.

**Note 5.5 Co-operative member's liability**

No co-operative members are personally liable for the parent company's obligations.

**Note 5.6 Events after the balance sheet date**

No events with a significant impact on the business have occurred after the balance sheet date.