

Arla Foods Finance A/S

Sønderhøj 14, 8260 Viby J

CVR-no. 89 52 28 16

Annual report for 2015

The annual report was presented and adopted by the annual general meeting of shareholders on *27/4 2016*

Udo Wittaly

Chairman



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Statement by the Board of Directors and the Executive Board

The Executive Board has today considered and approved the annual report of Arla Foods Finance A/S for the financial year 1 January - 31 December 2015.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31 December 2015 and of the results of its operations for the financial year 1 January - 31 December 2015.

Further, in our opinion, the Management's review gives a fair presentation of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Aarhus, 27 April 2016

Executive Board



Jesper Møllekjær
CEO

Board of Directors



Povl Krogsgaard
Chairman



John Duus Andresen

Independent auditors' report

To the shareholders of Arla Foods Finance A/S

Independent auditors' report on the financial statements

We have audited the financial statements of Arla Foods Finance A/S for the financial year 1 January - 31 December 2015. The financial statements comprise accounting policies, income statement, balance sheet and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation.

This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Company's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2015 and of the results of its operations for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Aarhus, 27 April 2016
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR-no. 30.70 02 28



Morten Friis
State Authorised Public Accountant



Kim R. Mortensen
State Authorised Public Accountant

Arla Foods Finance A/S

Company details

Company	Arla Foods Finance A/S Sønderhøj 14 8260 Viby J
Telephone	+45 89 38 10 00
CVR-no.	89 62 28 16
Domicile	Aarhus
Financial year	1 January - 31 December 2015
Board of Directors	Povl Krogsgaard, Chairman John Duus Andresen
Executive Board	Jesper Mellemkjær, CEO
Auditor	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25 DK 8100 Aarhus C CVR-no. 30 70 02 28

Management's review

Principal activities of the Company

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 finances

In the financial year 1 January - 31 December 2015, Arla Foods Finance A/S realised a profit of DKK 61,148 thousand, a balance sheet total of DKK 14.611.474 thousand and equity of DKK 448,838 thousand at 31 December 2015.

As of the middle of the financial year, the Company sold a 29% stake in K/S Danske Immobilien with an after-tax profit of DKK 17,955 thousand, which has been recognised in the financial income.

Events after the balance sheet date

No events have occurred after the balance sheet date considerably affecting the financial position of the Company.

Financial highlights

The financial highlights of the Company developed as follows:

	2015	2014	2013	20112	2011
Financial income and financial expenses, net	83,289	15,025	31,724	35,153	26,806
Net profit for the year	61,148	18,764	33,504	35,177	31,171
Total assets	14,611,474	12,583,728	9,836,309	8,343,534	3,478,167
Total equity	448,838	401,349	453,459	401,130	370,371
Return on equity (ROE) (%)	14.38	4.39	7.84	9.12	8.70
Solvency ratio (%)	3.07	3.19	4.61	4.81	10.60

Arla Foods Finance A/S

Accounting policies

Reporting class

The annual report of Arla Foods Finance A/S for 2015 has been prepared in accordance with the provisions applying to reporting class B enterprises under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Consolidation

The Company qualifies for not preparing consolidated financial statements; accordingly, these have not been prepared.

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/s. The consolidated financial statements are available at the following address: Arla Foods a/s, Sønderhøj 14, DK-8260 Viby J.

Foreign currency translation

Transactions in foreign currencies are translated into Danish kroner at the exchange rates at the date of transaction. Monetary assets and liabilities denominated in foreign currency are translated into Danish kroner at the exchange rates at the balance sheet date. Realised and unrealised foreign exchange gains and losses are recognised in the income statement as financial income or financial expenses.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value.

Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of fair value of recognised assets and liabilities are recognised in the income statement including any changes in the fair value of hedged assets and liabilities.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets and liabilities are recognised in other receivables or other payables and in equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the forecast transaction results in income or expenses, amounts previously recognised in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement on a regular basis.

Income statement

Other external expenses

Other external costs comprise administrative expenses.

Accounting policies

Income from investments in group enterprises and associates

Income from investments comprises the proportionate share of profit/loss after tax and any adjustment of intra-group profits/losses and less amortisation of group goodwill.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts attributable to the financial year.

Financial items primarily include interest on intra-group balances, interest on bank loans and overdrafts as well as realised and unrealised value adjustments/exchange rate adjustments of securities and foreign currency loans.

Financial instruments are measured at market value at the balance sheet date. Both realised and unrealised adjustments are recognised in the income statement. Financial instruments comprise forward exchange transactions and repurchase transactions in particular.

Tax for the year

Tax on profit/loss for the year comprises current tax on the expected taxable income for the year and adjustment of deferred tax for the year less the share of tax for the year relating to equity movements. Current and deferred tax relating to equity movements. The Company and the Danish group enterprises are jointly taxed. The Danish corporation tax is allocated between profitable and loss-making Danish companies in proportion to their taxable income (full absorption).

Balance sheet

Investments in group enterprises and associates

Investments in group enterprises and associates are measured in accordance with the equity method at the proportionate share of the enterprises' equity plus group goodwill, if any, less intra-group profits and negative goodwill. Enterprises with negative equity are measured at DKK 0, as the corresponding proportionate share of the negative value is set off against any receivables. Any additional amounts are recognised as provisions if the Company has a legal or constructive obligation to cover the deficit.

Receivables

Receivables are measured at amortised cost. Receivables are recognised less write-downs for bad debt losses.

Other securities and investments recognised as current assets

Other securities and investments, etc., are measured at fair value at the balance sheet date. Other securities are measured at an approximate fair value.

Financial liabilities

Financial liabilities comprising bond loans and other amounts owed to credit institutions are recognised at the date of borrowing at cost, corresponding to the proceeds received less transaction costs paid. In subsequent periods, financial liabilities are measured at amortised cost. Other liabilities are measured at amortised cost.

Accounting policies

Current tax liabilities

Current tax payable and receivable is recognised in the balance sheet as computed tax on the expected taxable income adjusted for tax in respect of previous years' taxable income and corporation tax paid in advance.

Definition of financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios".

$$\text{Return on equity (ROE) (\%)} = \frac{\text{Net profit for the year}}{\text{Average equity}}$$

$$\text{Solvency ratio (\%)} = \frac{\text{Total equity} \times 100}{\text{Total equity and liabilities}}$$

Arla Foods Finance A/S

Income statement

DKK '000

	Note	2015	2014
Other external costs	1	-511	-708
Profit before tax		-511	-708
Income from investments in group enterprises and associates		277	11,534
Other financial income from associates		220,534	194,355
Financial income	2	57,609	4,311
Financial expenses	3	-194,854	-183,641
Profit before tax		83,055	25,851
Tax on profit for the year	4	-21,907	-7,087
Profit for the year		61,148	18,764
Proposed profit appropriation			
Net revaluation reserve according to the equity method		0	11,534
Retained earnings		61,148	7,230
		61,148	18,764

Arla Foods Finance A/S

Balance sheet at 31 December 2015

DKK '000

	Note	2015	2014
Assets			
Investments in group enterprises	5,6	14,644	14,367
Investments in associates	7	0	91,584
Investments		<u>14,644</u>	<u>105,951</u>
Non-current assets		<u>14,644</u>	<u>105,951</u>
Receivables from group enterprises		11,827,279	11,562,202
Other receivables		430,661	230,234
Total receivables		<u>12,257,940</u>	<u>11,792,436</u>
Other securities and investments	8	2,313,825	606,517
Securities and investments		<u>2,313,825</u>	<u>606,517</u>
Cash and bank in hand		25,065	78,824
Current assets		<u>14,596,830</u>	<u>12,477,777</u>
Assets		<u>14,611,474</u>	<u>12,583,728</u>

Arla Foods Finance A/S

Balance sheet at 31 December 2015

DKK '000

	Note	2015	2014
Equity and liabilities			
Share capital		1,000	1,000
Net revaluation reserve according to the equity method		0	20,291
Hedging instruments		-74,222	-60,563
Retained earnings		522,060	440,621
Equity	9	<u>448,838</u>	<u>401,349</u>
Other payables in connection with the issue of bonds		2,459,145	2,332,032
Payables to credit institutions, etc.		3,773,278	2,211,469
Non-current liabilities	10	<u>6,232,423</u>	<u>4,543,501</u>
Payables to credit institutions etc.		4,743,208	3,262,452
Trade payables		82	106
Payables to group enterprises		2,726,533	4,027,074
Corporation tax payable		27,429	0
Other payables		432,961	349,246
Current liabilities		<u>7,930,213</u>	<u>7,638,878</u>
Financial liabilities		<u>14,162,636</u>	<u>12,182,379</u>
Equity and liabilities		<u>14,611,474</u>	<u>12,583,728</u>
Contingent liabilities	11		
Related parties	12		

Notes to the financial statements

DKK '000

1 Other external costs

In 2015, as in previous years, the Company had no employees. No remuneration was paid to the Board of Directors and the Executive Board during the financial year.

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

	<u>2015</u>	<u>2014</u>
2 Financial income		
Profit after tax on sale of stake in K/S Danske Immobilien	17,955	0
Other financial income	<u>39,654</u>	<u>4,311</u>
	<u>57,609</u>	<u>4,311</u>
3 Financial expenses		
Financial expenses relating to group enterprises	2,501	4,470
Other financial expenses	<u>192,353</u>	<u>179,171</u>
	<u>194,854</u>	<u>183,641</u>
4 Tax on profit for the year		
Current tax for the year	28,371	7,997
Adjustment to tax relating to previous year	<u>-6,464</u>	<u>-910</u>
	<u>21,907</u>	<u>7,087</u>
5 Investments in group enterprises		
Cost, beginning	<u>21,810</u>	<u>21,810</u>
Cost at year end	<u>21,810</u>	<u>21,810</u>
Value adjustments, beginning	-7,443	-8,094
Changes due to merger/liquidation	0	32
Reversal of previous years' depreciation and write-downs	<u>277</u>	<u>619</u>
Value adjustments at year end	<u>-7,166</u>	<u>-7,443</u>
Carrying amount at 31 December	<u>14,644</u>	<u>14,367</u>
6 Investments in group enterprises and associates		
Group enterprises		
Name	Domicil	Share in %
Kingdom Food Products ApS	Aarhus	100.00
Ejendomsanpartsselskabet St. Ravnsbjerg	Aarhus	100.00

Notes to the financial statements

DKK '000

7 Investments in associates

	2015	2014
Cost, beginning	52,094	52,094
Disposals during the year	-39,664	0
Transfer to other securities and investments	-12,430	0
Cost at year end	0	52,094
Value adjustments, beginning	39,490	33,571
Foreign exchange adjustments and fair value adjustments of hedging	0	-4,996
Profit for the year	0	10,915
Reversal of revaluations on assets sold	-36,343	0
Transfer to other securities and investments	-3,147	0
Value adjustments at year end	0	39,490
Carrying amount at 31 December	0	91,584

As of the middle of the financial year, the Company sold a 29% stake in K/S Danske Immobilien with an after-tax profit of DKK 17,955 thousand, which is recognised in the financial income. The fair value of the remaining 6% stake has been recognised under other securities and investments.

8 Other securities and investments

At 31 December 2015, the Company had entered into repurchase agreements collateralised by bonds with a carrying amount of DKK 2,297 million as against DKK 565 million at 31 December 2014. The repurchase financing is included under bank loans, etc.

9 Equity

	Share capital	Reserve for net revaluation acc. to the equity method	Hedging instruments	Retained earnings	Total
Equity, beginning	1,000	20,291	-60,563	440,621	401,349
Dissolved reserve in conjunction with sale of associated investment		-20,291		20,291	0
Proposed profit				61,148	61,148
Value adjustments of hedging instruments			-13,659		-13,659
Tax on value adjustments of hedging instruments			0		0
	1,000	0	-74,222	522,060	448,838

The Company's share capital is divided into shares of DKK 1,000 or multiples thereof. The share capital has remained unchanged over the past five years.

Notes to the financial statements

DKK '000

10 Non-current liabilities

	<u>Payable after 1 year</u>	<u>Payable within 1 year</u>	<u>Payable after 5 years</u>
Other payables in connection with the issue of bonds	2,459,145		
Payables to credit institutions, etc.	3,773,278	4,743,208	116,857
	<u>6,232,423</u>	<u>4,743,208</u>	<u>116,857</u>

11 Contingent assets and liabilities

Together with the other companies included in the joint taxation, the Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes within the joint taxation unit.

12 Related parties

These balances represent the sum of the respective amounts owed by and to the companies in the Arla Foods Group, participating in the cash pool system.