

Arla Foods Finance A/S

Sønderhøj 14

8260 Viby J

VAT No. 89622816

Annual Report 2017

The Annual Report was presented and
adopted at the Annual General Meeting of
the Company on 15 May 2018

Jonas Buur
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 2017 - 31 December 2017.

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 2017 and of the results of the Company's operations for the financial year 1 January 2017 - 31 December 2017.

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, 15 May 2018

Executive Board

Jesper Mellekjær
CEO

Board of Directors

Peder Tuborgh
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 1 January 2017 - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. 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 December 2017 and of the results of the Company's operations for the financial year 1 January 2017 - 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities 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 determines is 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 liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

- * Identify and assess the risks of material misstatement of 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Independent Auditor's Report

- * 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.
- * Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- * Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may 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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- * Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent 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 that 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 assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility 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 our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Aarhus, 15 May 2018

Ernst & Young

Godkendt Revisionspartnerselskab

VAT-no. 30700228

Morten Friis

State Authorised Public Accountant

MNE-no.: mne32732

Arla Foods Finance A/S

Company details

Company	Arla Foods Finance A/S Sønderhøj 14 8260 Viby J
Telephone	89381000
VAT No.	89622816
Registered office	Aarhus
Financial year	1 January 2017 - 31 December 2017
Supervisory Board	Peder Tuborgh, Chairman Natalie Knight John Duus Andresen
Executive Board	Jesper Mellekjær, CEO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25 8000 Aarhus C VAT-no.: 30700228

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. In addition the company also performs hedging transactions for the Arla Foods Group on interest rates and energy, related to the Groups commercial business.

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 01-01-2017 - 31-12-2017 shows a result of K DKK 60.491 and the Balance Sheet at 31-12-2017 a balance sheet total of K DKK 16.399.869 and an equity of K DKK 470.451, which exceeds expectations for the year, mainly driven by positive unrealised value adjustments on securities and financial instruments.

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 positive but substantial lower compared to 2017 due to lower value adjustment expectations on securities.

Key Figures and Financial Ratios

K DKK

The development in the Company's key figures and financial ratios can be described as follows:

	2017	2016	2015	2014	2013
Financial income and costs, net	85.033	-3.057	83.289	15.025	31.724
Gross profit	84.087	-3.832	82.778	14.317	31.181
Profit for the year	60.491	4.252	61.148	18.764	33.504
Total assets	16.399.869	15.763.310	14.611.474	12.583.728	9.836.309
Total equity	470.451	378.863	448.838	401.349	453.459
Return on equity (ROE) (%)	14,24	1,03	14,38	4,39	7,84
Solvency ratio (%)	2,87	2,40	3,07	3,19	4,61

Return on equity (ROE) (%) = 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 2017 has been presented in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Company has decided not to include a 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.

The Company is a wholly-owned subsidiary of AF A/S, Viby J, and is included in the consolidated financial statements of Arla Foods amba, VAT-no. 25313763. The consolidated financial statements are available at the following address: Arla Foods amba, Sønderhøj 14, DK-8260 Viby J.

Foreign currency transactions

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 as Financial Income and Financial Costs.

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.

Income from equity investments in group enterprises

Income from equity investments 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 group enterprises

Investments in group enterprises are measured by the equity method at the proportionately owned share of the equity of the enterprises plus any consolidated goodwill, less intercompany profit. Land in subsidiaries is measured at cost. Enterprises with negative equity are measured at 0. Amounts beyond this are recognised in the provisions item, 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 costs 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 interest costs over the term of the loan.

Other liabilities are measured at amortised cost which usually corresponds to the nominal value.

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 prepaid taxes.

Arla Foods Finance A/S

Income Statement

K DKK

	Note	2017	2016
Financial income	1	246.552	216.201
Financial costs	2	-161.519	-219.258
Other external costs	3	-946	-775
Gross profit		84.087	-3.832
Income from investments in group enterprises		-447	-232
Profit before tax		83.640	-4.064
Tax	4	-23.149	8.316
Profit		60.491	4.252
Profit appropriation	5		
Retained earnings		60.491	4.252
Distribution of profit		60.491	4.252

Balance Sheet as of 31 December

K DKK

	Note	2017	2016
Investments in group enterprises	6, 7	13.965	14.412
Investments in group enterprises		13.965	14.412
Non-current assets		13.965	14.412
Receivables from group enterprises		14.005.155	13.205.725
Corporation tax		0	22.181
Other receivables		72.033	221.309
Receivables		14.077.188	13.449.215
Securities and other short-term investments	8	2.288.940	2.278.744
Current investments		2.288.940	2.278.744
Cash at bank and in hand		19.776	20.939
Current assets		16.385.904	15.748.898
Assets		16.399.869	15.763.310

Arla Foods Finance A/S

Balance Sheet as of 31 December

K DKK

	Note	2017	2016
Contributed capital		1.000	1.000
Retained earnings		469.451	377.863
Equity		470.451	378.863
Loans related to issuance of bonds	9	1.890.940	3.115.406
Loans from credit institutions etc.	9	1.140.039	321.597
Non-current liabilities		3.030.979	3.437.003
Loans related to issuance of bonds	9	2.718.202	823.180
Loans from credit institutions etc.	9	2.655.026	4.087.265
Trade payables		0	204
Payables to group enterprises		6.690.514	6.103.993
Corporation tax payable		31.014	0
Other payables		803.683	932.802
Current liabilities		12.898.439	11.947.444
Liabilities		15.929.418	15.384.447
Liabilities and equity		16.399.869	15.763.310
Warranties	10		
Deferred tax assets and contingent liabilities	11		
Related parties	12		

Statement of changes in Equity

K DKK

	Contributed capital	Retained earnings	Total
Equity 1 January 2017	1.000	377.863	378.863
Net adjustments of hedging instruments		56.868	56.868
Tax on hedging instruments		-25.771	-25.771
Profit		60.491	60.491
Equity 31 December 2017	1.000	469.451	470.451

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

	2017	2016
1. Financial income		
Financial income from group enterprises	185.543	173.616
Other financial income	61.009	42.585
	246.552	216.201

2. Financial expenses		
Financial costs to group enterprises	43.267	37.324
Other financial costs	118.252	181.934
	161.519	219.258

3. Other external costs

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

A management fee is paid to Arla Foods amba for providing administrative support to the Company.

4. Tax

Current income taxes	18.681	-1.009
Adjustment regarding tax previous years	4.468	-7.307
	23.149	-8.316

5. Distribution of profit

Retained earnings	60.491	4.252
	60.491	4.252

6. Investments in group enterprises

Cost at the beginning of the year	21.810	21.810
Cost at the end of the year	21.810	21.810

Value adjustments at the beginning of the year	-7.398	-7.166
Result in subsidiaries	-447	-232
Value adjustments at the end of the year	-7.845	-7.398

Carrying amount at the end of the year	13.965	14.412
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7. Disclosure about group enterprises

Name	Registered office	Share held in %	Equity	Profit
Kingdom Food Products ApS	Aarhus	100,00	6.361	-120
Ejendomsanpartsselskabet St. Ravnsbjerg	Aarhus	100,00	7.604	-327
			13.965	-447

Notes

K DKK

8. Securities and other short-term investments

The Company has repurchase agreements collateralised by bonds with a carrying amount of DKK 2,273 million at 31 December 2017 against 2,266 million at 31 December 2016. The repurchase financing is disclosed as loans.

9. Loans

	Due within 1 year	Due after 1 year	Due after 5 years
Loans related to issuance of bonds	2.718.202	1.890.940	0
Loans from credit institutions etc.	2.655.026	1.140.039	0
	<u>5.373.228</u>	<u>3.030.979</u>	<u>0</u>

10. Warranties

Per 31 December 2017 the Company has warranties amounting to K DKK 14.405.

11. Deferred tax assets and contingent liabilities

Per 31 December 2017 the Company has a deferred tax asset amounting to K DKK 11.393 which is not recognised in the balance sheet due to uncertainties of the time of use. The Company is jointly taxed with the other enterprises in the Danish joint taxation group and is jointly and severally liable for the taxes that concern the joint taxation.

12. Related parties

Related parties to Arla Foods Finance A/S are the Company's Management and enterprises within the Arla Foods Group.

Parties exercising control:

AF A/S, Viby J holds 100 % of share capital in the company.

Related party transactions:

Arla Foods Finance A/S has been engaged in transactions with enterprises in the Arla Foods Group participating in the Group cash pool setup.

All transactions between related parties in the year has been conducted at market conditions. In respect of act 98 C 7.1 no further is disclosed in this matter.