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PARENT COMPANY MANAGEMENT REVIEW

Under section 149 of the Danish Financial Statements Act, the consolidated financial statements of Arla Foods (also referred to as the 'Group') represent an extract of Arla's complete annual report. This annual report of the parent company is an integrated part of the full annual report. This contains the statement from the Board of Directors and the Executive Directors as well as the independent auditor's report.

The financial statements for the parent company show the financial position, the result and the cash flow of Arla Foods amba on a non-consolidated basis for the financial year 1 January to 31 December 2019.

Principal activities

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

This structure ensures that all owners receive milk payments in compliance with common guidelines and exercise influence according to the owner democracy, including elections of the Board of Representatives and the Board of Directors, in accordance with the Articles of Association.

Arla Foods amba operates as the head office for the Group, in addition to conducting its primary dairy activities.

Performance

The milk price delivered to our farmers owners increased by 1.5 per cent despite a declining European dairy market resulting in a performance price of 36.9 EUR-cent/kg.

Revenue decreased by 1.5 per cent to EUR 7,576 million, compared to EUR 7,695 million last year.

EBIT amounted to EUR 119 million compared to EUR 214 million last year mainly driven by lower earnings from group internal sales and increased administration costs. The latter is a result of a change in principles of recharges between Arla Foods amba and its subsidiaries.

In 2019 the parent company incurred a gain due to a reversal of impairment on investment in subsidiaries. The gain incurred amounted to EUR 26 million compared to a loss of EUR 82 million last year.

Financial income and expenses decreased by EUR 74 million mainly driven by lower dividends received from subsidiaries. Dividends received amounted to EUR 11 million compared to EUR 89 million last year.

Profit for the year decreased to EUR 153 million compared to EUR 215 million last year.

Due to the cooperative setup the result for the parent company is dependent on the prepaid milk price and the performance of the Group. For 2020 the company anticipates a result in line with the 2019 result depending on the development of results in other group companies.

**Draft for Board of Representatives
27 February 2020**

INCOME STATEMENT

(EURm)	Note	2019	2018*
Revenue	1.1	7,576	7,695
Production costs	1.2	-6,728	-6,781
Gross profit		848	914
Sales and distribution costs	1.2	-414	-463
Administration costs	1.2	-260	-199
Other operating income	1.3	13	9
Other operating costs	1.3	-68	-47
Earnings before interest and tax (EBIT)		119	214
Impairment of investments in subsidiaries	3.3	-	-82
Reversal of impairments in subsidiaries	3.3	26	-
Financial income	4.1	49	109
Financial costs	4.1	-33	-19
Profit before tax		161	222
Tax	5.1	-8	-7
Profit for the year		153	215

* Not restated following implementation of IFRS 16. See more details in note 5.6.

COMPREHENSIVE INCOME

(EURm)	2019	2018
Profit for the year	153	215
Other comprehensive income		
Items that may be reclassified subsequently to the income statement		
Value adjustment of hedging instruments	-10	-11
Adjustments related to foreign currency translation	-3	-12
Other comprehensive income, net of tax	-13	-23
Total comprehensive income	140	192

PROFIT APPROPRIATION

(EURm)	2019	2018
Profit for the year	153	215
<i>Proposed profit appropriation:</i>		
Supplementary payment for milk	124	287
Interest on contributed capital	3	3
Total supplementary payment	127	290
<i>Transferred to equity:</i>		
Capital account	-177	-100
Reserve for special purposes	123	-
Contributed capital	61	-
Reserve for development costs	19	25
Total transferred to equity	26	-75
Appropriated profit	153	215

BALANCE SHEET

(EURm)	Note	2019	2018*
Assets			
Non-current assets			
Intangible assets and goodwill	3.1	267	192
Property, plant, equipment and right of use assets	3.2	828	687
Investments in subsidiaries	3.3	1,236	1,211
Investments in associates	3.3	246	246
Subordinated loans to subsidiaries	3.3	401	390
Total non-current assets		2,978	2,726
Current assets			
Inventory	2	309	313
Trade receivables	2	180	184
Amounts owed by subsidiaries		731	1,001
Amounts owed by associates		-	9
Derivatives		5	21
Other receivables		102	85
Securities	4.2	182	190
Cash and cash equivalents	4.2	-	2
Total current assets		1,509	1,805
Total assets		4,487	4,531

* Not restated following implementation of IFRS 16. See more details in note 5.6.

(EURm)	Note	2019	2018*
Equity and liabilities			
Equity			
Common capital		1,419	1,477
Individual capital		498	456
Other equity accounts		93	87
Proposed supplementary payments to owners		127	290
Total equity		2,137	2,310
Liabilities			
Non-current liabilities			
Loans	4.2	646	484
Total non-current liabilities		646	484
Current liabilities			
Loans	4.2	197	194
Trade and other payables		560	570
Amounts owed to subsidiaries		770	821
Derivatives		46	36
Other current liabilities	4.2	118	98
Deferred income		13	18
Total current liabilities		1,704	1,737
Total liabilities		2,350	2,221
Total equity and liabilities		4,487	4,531

EQUITY

	Common capital		Individual capital				Other equity accounts			Total
	Capital account	Reserve for special purposes	Contributed individual capital	Delivery-based owner certificates	Injected individual capital	Proposed supplementary payment	Reserve for value adjustment of hedging instruments	Reserve for foreign exchange adjustments	Reserve for development costs	
(EURm)										
Equity at 1 January 2019	591	886	222	72	162	290	-27	-3	117	2,310
Profit for the year	-177	123	61	-	-	127	-	-	19	153
Other comprehensive income	-	-	-	-	-	-	-10	-3	-	-13
Total comprehensive income	-177	123	61	-	-	127	-10	-3	19	140
Capital issued to new owners	-	-	-	-	-	-	-	-	-	-
Payments to owners	-	-	-11	-4	-9	-	-	-	-	-24
Supplementary payment related to 2018	-	-	-	-	-	-289	-	-	-	-289
Foreign exchange adjustments	-4	-	-1	-	6	-1	-	-	-	-
Total transactions with owners	-4	-	-12	-4	-3	-290	-	-	-	-313
Equity at 31 December 2019	410	1,009	271	68	159	127	-37	-6	136	2,137
Equity at 1 January 2018	677	886	243	79	180	127	-16	9	92	2,277
Profit for the year	-100	-	-	-	-	290	-	-	25	215
Other comprehensive income	-	-	-	-	-	-	-11	-12	-	-23
Total comprehensive income	-100	-	-	-	-	290	-11	-12	25	192
Capital issued to new owners	-	-	-	-	-	-	-	-	-	-
Payments to owners	-	-	-17	-6	-15	-	-	-	-	-38
Supplementary payment related to 2017	-	-	-	-	-	-121	-	-	-	-121
Foreign exchange adjustments	14	-	-4	-1	-3	-6	-	-	-	-
Total transactions with owners	14	-	-21	-7	-18	-127	-	-	-	-159
Equity at 31 December 2018	591	886	222	72	162	290	-27	-3	117	2,310

Refer to the Group consolidated financial statements for an explanation of the characteristics of each equity account, except "Reserve for development costs" which is explained in Note 5.6.

CASH FLOW

(EURm)	Note	2019	2018
EBIT		119	214
Depreciation, amortisation and impairment losses		161	141
Change in net working capital		219	-117
Change in other receivables and other current liabilities		-7	-44
Dividends received		11	89
Interest paid		-30	-17
Interest received		23	20
Tax paid		-9	-8
Cash flow from operating activities		487	278
Investment in intangible fixed assets	3.1	-124	-51
Investment in property, plant and equipment	3.2	-176	-176
Operating investing activities		-300	-227
<i>Free operating cash flow</i>		<i>187</i>	<i>51</i>

(EURm)	Note	2019	2018
Investment in subsidiaries	3.3	-	-86
Issuance/repayment of subordinated loans		1	241
Financial investing activities		1	155
Cash flow from investing activities		-299	-72
<i>Free cash flow</i>		<i>188</i>	<i>206</i>
Supplementary payment regarding the previous financial year		-289	-121
Paid out from equity regarding terminated membership contracts		-24	-38
Payment of lease debt		-17	-
Change in non-current liabilities		132	200
Change in current liabilities		1	-253
Net change in marketable securities		7	8
Cash flow from financing activities		-190	-204
Net cash flow		-2	2
Cash and cash equivalents at 1 January		2	-
Cash and cash equivalents at 31 December		-	2

NOTE 1.1 REVENUE

(EURm)	Internal sales of goods	External sales of goods	Total revenue
2019			
Raw milk	2,739	70	2,809
Milk, yoghurt, powder and cooking	538	860	1,398
Cheese	886	718	1,604
Butter, spreads and margarine	864	265	1,129
Other	104	532	636
Total	5,131	2,445	7,576
2018			
Raw milk	2,696	32	2,728
Milk, yoghurt, powder and cooking	531	840	1,371
Cheese	946	724	1,670
Butter, spreads and margarine	1,067	273	1,340
Other	63	523	586
Total	5,303	2,392	7,695

NOTE 1.2 COSTS

(EURm)	2019	2018*
Research and development costs are included in sales and distribution costs and amounts to EUR 26 million, compared to EUR 22 million last year.		
Operational costs split by functions		
Production costs	6,728	6,781
Sales and distribution costs	414	463
Administration costs	260	199
Total	7,402	7,443
<i>Specification:</i>		
Weighed-in raw milk	4,321	4,283
Other production materials**	1,794	1,838
Staff costs	479	466
Transportation costs	125	178
Marketing costs	91	157
Depreciation, amortisation and impairment	161	141
Other costs***	431	380
Total	7,402	7,443
<i>**Other production materials includes packaging, additives, consumables and changes in inventory</i>		
<i>***Other costs mainly includes maintenance, utilities and IT</i>		
Staff costs		
Wages, salaries and remuneration	442	430
Pensions	35	34
Other social security costs	2	2
Total staff costs	479	466
<i>Staff costs relate to:</i>		
Production costs	310	295
Sales and distribution costs	56	59
Administration costs	113	112
Total staff costs	479	466
Average number of full-time employees	5,511	5,590

* Not restated following implementation of IFRS 16. See more details in note 5.6.

NOTE 1.2 COSTS (CONTINUED)

Depreciation, amortisation and impairment (EURm)	2019	2018
Intangible assets, amortisation	51	49
Property, plant and equipment including right of use assets, depreciation	110	92
Total depreciation, amortisation and impairment	161	141
<i>Depreciation, amortisation and impairment losses relate to:</i>		
Production costs	100	90
Sales and distribution costs	29	24
Administration costs	32	27
Total depreciation, amortisation and impairment	161	141

NOTE 1.3 OTHER OPERATING INCOME AND COSTS

(EURm)	2019	2018
Financial instruments	3	7
Other items	10	2
Total other operating income	13	9
Financial instruments	27	21
Other items	41	26
Total other operating costs	68	47

NOTE 2 NET WORKING CAPITAL

Net working capital (EURm)	2019	2018
Inventory	309	313
Trade receivables	180	184
Amounts owed by subsidiaries	518	1,001
Amounts owed by associated	-	9
Trade and other payables	-560	-570
Amounts owed to subsidiaries	-68	-340
Net working capital	379	597

Amounts owed by subsidiaries and amounts owed to subsidiaries are stated excluding interest-bearing items which is included in note 4.2

Inventory (EURm)	2019	2018
Inventory before write-downs	311	320
Write-downs	-2	-7
Total inventory	309	313
Raw materials and consumables	112	108
Work in progress	99	97
Finished goods and goods for resale	98	108
Total inventory	309	313

Trade receivables (EURm)	2019	2018
Trade receivables before provision for expected losses	181	185
Provision for expected losses	-1	-1
Total trade receivables	180	184

NOTE 3.1 INTANGIBLE ASSETS AND GOODWILL

(EURm)	Goodwill	Licenses and trade-marks	IT and other development projects	Total
2019				
Cost at 1 January	-	28	358	386
Additions	-	-	46	46
Merger and acquisitions	80	-	-	80
Disposals	-	-	-12	-12
Cost at 31 December	80	28	392	500
Amortisation and impairment at 1 January	-	-8	-186	-194
Amortisation for the year	-	-2	-49	-51
Amortisation on disposals	-	1	11	12
Amortisation and impairment at 31 December	-	-9	-224	-233
Carrying amount at 31 December	80	19	168	267
2018				
Cost at 1 January	-	28	313	341
Additions	-	-	51	51
Disposals	-	-	-6	-6
Cost at 31 December	-	28	358	386
Amortisation and impairment at 1 January	-	-6	-145	-151
Amortisation for the year	-	-2	-47	-49
Amortisation on disposals	-	-	6	6
Amortisation and impairment at 31 December	-	-8	-186	-194
Carrying amount at 31 December	-	20	172	192

NOTE 3.2 PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS

(EURm)	Land and buildings	Plant and machinery	Fixture and fitting, tools and equipment	Assets in course of construction	Total
2019					
Cost at 1 January	451	1,204	100	122	1,877
Change in accounting policies	26	2	17	-	45
Restated cost at 1 January	477	1,206	117	122	1,922
Additions	29	47	14	118	208
Transferred from assets under construction	11	37	4	-52	-
Disposals	-4	-42	-9	-	-55
Cost at 31 December	513	1,248	126	188	2,075
Depreciation and impairment at 1 January	-265	-855	-70	-	-1,190
Depreciation for the year	-12	-81	-17	-	-110
Depreciation on disposals	3	42	8	-	53
Depreciation and impairment at 31 December	-274	-894	-79	-	-1,247
Carrying amount at 31 December	239	354	47	188	828
Right of use assets included in the carrying amount	40	3	18	-	61
2018*					
Cost at 1 January	439	1,121	91	52	1,703
Additions	11	51	7	107	176
Transferred from assets under construction	2	33	2	-37	-
Disposals	-1	-1	-	-	-2
Cost at 31 December	451	1,204	100	122	1,877
Depreciation and impairment at 1 January	-253	-786	-61	-	-1,100
Depreciation for the year	-13	-70	-9	-	-92
Depreciation on disposals	1	1	-	-	2
Depreciation and impairment at 31 December	-265	-855	-70	-	-1,190
Carrying amount at 31 December	186	349	30	122	687
Of which assets held under a finance lease	3	11	2	2	18

* Not restated following implementation of IFRS 16. See more details in note 5.6.

NOTE 3.2 PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS (CONTINUED)

Right of use assets (EURm)	Land and building	Plant and machinery	Fixture and fitting, tools and equipment	Total
2019				
Change in accounting policy	26	2	17	45
Additions	21	2	9	32
Depreciation and impairment for the year	-7	-1	-8	-16
Carrying amount at 31 December	40	3	18	61

Total cash outflow from right of use assets amounted to EUR 28 million. This comprised, lease debt payments of EUR 17 million, non-capitalised short-term and low value lease costs of EUR 9 million and interest expenses on lease liabilities of EUR 2 million.

NOTE 3.3 INVESTMENTS AND SUBORDINATED LOANS

(EURm)	Investments in subsidiaries	Investments in associates	Subordinat- ed loans to subsidiaries
2019			
Cost at 1 January	2,000	246	469
Additions	-	-	1
Disposals	-1	-	-
Cost at 31 December	1,999	246	470
Adjustments at 1 January	-789	-	-79
Exchange rate adjustments	-	-	10
Reversal of impairment in investments in subsidiaries	26	-	-
Adjustments at 31 December	-763	-	-69
Carrying amount at 31 December	1,236	246	401

The parent company incurred a gain due to reversal of impairment on investment in Arla Foods Deutschland GmbH. The gain incurred amounted to EUR 26 million as a result of improved earnings in 2019 and future outlook.

NOTE 3.3 INVESTMENTS AND SUBORDINATED LOANS (CONTINUED)

(EURm)	Investments in subsidiaries	Investments in associates	Subordinat- ed loans to subsidiaries
2018			
Cost at 1 January	1,894	266	710
Additions	86	-	10
Disposals	-	-	-251
Reclassifications	20	-20	-
Cost at 31 December	2,000	246	469
Adjustments at 1 January	-707	-	-77
Exchange rate adjustments	-	-	-2
Impairment	-82	-	-
Adjustments at 31 December	-789	-	-79
Carrying amount at 31 December	1,211	246	390

In 2018, the investment in Arla Foods Deutschland GmbH was written down by EUR 82 million to the recoverable amount, as a result of an operating loss in this entity.

Transactions with subsidiaries (EURm)	2019	2018
Sale of goods	5,131	5,303
Purchase of distribution services	-7	-59
Sale of administration services	-9	56
Royalty from subsidiaries	10	1
Interest from subsidiaries	19	19
Dividends from subsidiaries	11	89

Transactions with associates

Refer to the Group consolidated financial statements.

NOTE 4.1 FINANCIAL INCOME AND FINANCIAL COSTS

Financial risks are managed by Group Treasury. Refer to Note 4 in the Group consolidated financial statements for a description of the objectives, policies and processes for measuring and managing the exposure to financial risks. Specifications relevant to the parent company can be found below.

(EURm)	2019	2018*
Interest, securities	1	1
Dividends from subsidiaries	11	89
Gain from divestment of associates	2	-
Interest from subsidiaries	19	19
Foreign exchange gains	10	-
Fair value adjustment	6	-
Total financial income	49	109
Interest costs on financial instruments and lease liabilities measured at amortised cost	-28	-19
Foreign exchange losses	-1	-2
Interest to subsidiaries	-2	-
Interest transferred to property, plant and equipment	3	2
Fair value adjustments	-5	-
Total financial costs	-33	-19
Net financial income	16	90

* Not restated following implementation of IFRS 16. See more details in note 5.6.

NOTE 4.2 INTEREST-BEARING DEBT

Net interest-bearing debt (EURm)	2019	2018*
Securities	-182	-190
Cash	-	-2
Subordinated loans to subsidiaries and other interest-bearing assets	-614	-592
Long-term borrowings	646	484
Short-term borrowings	911	888
Net interest-bearing debt	761	588
Borrowings (EURm)		
Mortgage credit institutions	283	272
Bank borrowings	316	212
Lease liabilities	47	-
Total non-current borrowings	646	484
Current borrowing from subsidiaries	702	481
Bank borrowings	184	193
Lease liabilities	13	1
Other current borrowings	12	12
Total current borrowings	911	687
Total interest-bearing borrowings	1,557	1,171

Amounts owed to subsidiaries was EUR 770 million, compared to EUR 821 last year, of which EUR 702 million, versus EUR 481 million last year, was interest-bearing and therefore included in net interest-bearing debt as current borrowings.

* Not restated following implementation of IFRS 16. See more details in note 5.6.

NOTE 4.2 INTEREST-BEARING DEBT (CONTINUED)

Table 4.2 Cash flow, net interest-bearing debt
(EURm)

	Cash flow		Non-cash changes				31 December
	1 January	Included in financing activities	Acquisitions	Reclasses	Foreign exchange movements	Fair value changes	
2019							
Long-term borrowings	517	103	10	-1	2	15	646
Short-term borrowings	898	12	-	1	-	-	911
Total interest-bearing debt	1,415	115	10	-	2	15	1,557
Subordinated loans	-390	-1	-	-	-	-10	-401
Amounts owed by subsidiaries	-202	-10	-	-	-1	-	-213
Securities and other interest-bearing receivables	-188	6	-	-	-	-	-182
Cash	-2	2	-	-	-	-	-
Net interest-bearing debt	588	157	10	-	1	5	761
2018*							
Long-term borrowings	274	200	-	5	4	1	484
Short-term borrowings	1,147	-253	1	-5	-4	-	886
Total interest-bearing debt	1,421	-53	1	-	-	1	1,370
Subordinated loans	-633	241	-	-	2	-	-390
Amounts owed by subsidiaries	-202	-	-	-	-	-	-202
Securities and other interest-bearing receivables	-199	8	-	-	3	-	-188
Cash	-	2	-5	-	1	-	-2
Net interest-bearing debt	387	198	-4	-	6	1	588

* Not restated following implementation of IFRS 16. See more details in note 5.6.

NOTE 4.2 INTEREST-BEARING DEBT (CONTINUED)

Net interest-bearing debt, maturity
(EURm)

	Total	2020	2021	2022	2023	2024	2025	2026	2027-2029	After 2029
2019										
DKK	631	301	18	18	16	15	62	19	54	128
EUR	197	-9	2	2	102	100	-	-	-	-
GBP	-188	-188	-	-	-	-	-	-	-	-
SEK	-	-	-	-	-	-	-	-	-	-
Other	121	10	-	-	-	111	-	-	-	-
Total	761	114	20	20	118	226	62	19	54	128
2018*										
Total	525	249	2	17	20	20	19	23	45	130
DKK	525	249	2	17	20	20	19	23	45	130
EUR	89	-11	-	-	-	100	-	-	-	-
GBP	-180	-180	-	-	-	-	-	-	-	-
SEK	27	27	-	-	-	-	-	-	-	-
Other	127	19	-	-	-	-	108	-	-	-
Total	588	104	2	17	20	120	127	23	45	130

* Not restated following implementation of IFRS 16. See more details in note 5.6.

NOTE 4.3 FINANCIAL RISKS

Liquidity reserves
(EURm)

	2019	2018
Unutilised committed loan facilities	355	434
Other unutilised loan facilities	97	86
Total	452	520

NOTE 4.3 FINANCIAL RISKS (CONTINUED)

Gross financial liabilities (EURm)

	Carrying amount	Non-discounted contractual cash flows										
		Total	2020	2021	2022	2023	2024	2025	2026	2027-2029	After 2029	
31 December 2019												
Borrowings from subsidiaries	702	702	702	-	-	-	-	-	-	-	-	-
Mortgage credit institutions	283	286	-	8	11	11	11	60	16	47	122	
Credit institutions	512	512	196	2	1	101	211	1	-	-	-	
Lease liabilities	60	60	13	11	8	6	4	3	2	7	6	
Interest expense - interest-bearing debt	-	33	3	3	3	3	2	2	2	4	11	
Trade and other payables	560	560	560	-	-	-	-	-	-	-	-	
Derivative instruments	46	46	30	6	5	4	1	-	-	-	-	
Total	2,163	2,199	1,504	30	28	125	229	66	20	58	139	

	Carrying amount	Non-discounted contractual cash flows									
		Total	2019	2020	2021	2022	2023	2024	2025	2026-2028	After 2028
31 December 2018*											
Borrowings from subsidiaries	821	821	821	-	-	-	-	-	-	-	-
Mortgage credit institutions	272	276	-	-	17	19	19	20	24	45	132
Credit institutions	212	212	4	2	1	1	100	104	-	-	-
Interest expense - interest-bearing debt	-	29	3	3	3	2	2	2	2	3	9
Trade and other payables	368	368	368	-	-	-	-	-	-	-	-
Derivative instruments	36	36	18	6	5	4	3	-	-	-	-
Total	1,709	1,742	1,214	11	26	26	124	126	26	48	141

* Not restated following implementation of IFRS 16. See more details in note 5.6.

NOTE 4.3 FINANCIAL RISKS (CONTINUED)

Currency risk (EURm)

Currency risk 31 December 2019	EUR/DKK	USD/DKK*	GBP/DKK	SEK/DKK	SAR/DKK
Applied sensitivity	1%	5%	5%	5%	5%
Impact on profit or loss	-3	11	2	-1	-8
Impact on OCI	-	-14	-16	-	-1

Currency risk 31 December 2018	EUR/DKK	USD/DKK*	GBP/DKK	SEK/DKK	SAR/DKK
Applied sensitivity	1%	5%	5%	5%	5%
Impact on profit or loss	-5	8	3	2	-8
Impact on OCI	-	-19	-14	-	-

* Incl. AED

NOTE 4.4 DERIVATIVE FINANCIAL INSTRUMENTS

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 in the income statement				Later than 2023
				2020	2021	2022	2023	
2019								
Currency contracts		-14	-14	-14	-	-	-	-
Interest rate contracts		-23	-23	-7	-6	-5	-4	-1
Hedging of future cash flows		-37	-37	-21	-6	-5	-4	-1

	(EURm)	Carrying value	Fair value recognised in OCI	Expected recognition in the income statement				Later than 2022
				2019	2020	2021	2022	
2018								
Currency contracts		-2	-2	-2	-	-	-	-
Interest rate contracts		-25	-25	-7	-6	-5	-4	-3
Hedging of future cash flows		-27	-27	-9	-6	-5	-4	-3

NOTE 4.5 FINANCIAL INSTRUMENTS

Categories of financial instruments (EURm)	2019	2018
Derivatives	4	17
Shares	3	6
Financial assets measured at fair value through income statement	7	23
Securities	3	190
Financial assets measured at fair value through other comprehensive income	3	190
Derivative assets used as hedging instruments	1	4
Subordinated loans to subsidiaries	401	390
Trade receivables	180	184
Other receivable	102	85
Amounts owed by subsidiaries	731	1,001
Amounts owed by associates	-	9
Cash	-	2
Financial assets measured at amortised cost	1,414	1,671
Derivatives	8	5
Financial liabilities measured at fair value through the income statement	8	5
Derivative liabilities used as hedging instruments	38	31
External long-term borrowings	646	484
External short-term borrowings	209	194
Trade payables and other payables	560	570
Amounts owed to subsidiaries	770	821
Financial liabilities measured at amortised cost	2,185	2,069

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

NOTE 4.5 FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy – carrying amount (EURm)	Level 1	Level 2	Level 3	Total
31 December 2019				
<i>Financial assets</i>				
Bonds	182	-	-	182
Shares	3	-	-	3
Derivatives	-	5	-	5
Total financial assets	185	5	-	190
<i>Financial liabilities</i>				
Derivatives	-	46	-	46
Total financial liabilities	-	46	-	46
31 December 2018				
<i>Financial assets</i>				
Bonds	190	-	-	190
Shares	6	-	-	6
Derivatives	-	21	-	21
Total financial assets	196	21	-	217
<i>Financial liabilities</i>				
Derivatives	-	36	-	36
Total financial liabilities	-	36	-	36

NOTE 4.6 TRANSFER OF FINANCIAL ASSETS

(EURm)	Carrying value	Notional value	Fair value
31 December 2019			
Mortgage bonds	182	177	182
Repurchase liability	182	177	182
Net position	-	-	-
31 December 2018			
Mortgage bonds	190	184	190
Repurchase liability	190	184	190
Net position	-	-	-

NOTE 5.1 TAX

Tax in the income statement (EURm)	2019	2018
Tax on taxable equity (cooperative tax)	7	6
Adjustments regarding previous years, actual tax	1	1
Total tax in the income statement	8	7
Calculation of effective tax rate		
Statutory corporate income tax rate in Denmark	22.0%	22.0%
Adjustment for cooperative tax	-17.4%	-18.9%
Adjustment regarding previous years	0.5%	0.2%
Effective tax rate	5.1%	3.3%

NOTE 5.2 FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES

(EURm)	2019	2018
Statutory audit	0.6	0.6
Tax assistance	0.5	0.6
Other services	0.2	0.2
Total fees to auditors	1.3	1.4

NOTE 5.3 MANAGEMENT REMUNERATION AND TRANSACTIONS

Refer to the Group consolidated financial statements.

NOTE 5.4 CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIES

(EURm)	2019	2018
Guarantee commitments	1,590	1,298
Operating rent and lease commitments	64	82
Commitments in relation to agreements on the purchase of property, plant and equipment	48	38

Arla Foods amba is party to a small number of lawsuits, disputes, etc. Management believe that the outcome of these lawsuits will not significantly impact the company's financial position beyond what is recognised in the financial statements.

NOTE 5.5 EVENTS AFTER THE BALANCE SHEET DATE

Refer to the Group consolidated financial statements.

NOTE 5.6 GENERAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The financial statements of Arla Foods amba have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Danish Financial Statements Act (large class C).

The financial statements are presented in EUR in alignment with the groups presentation currency. Arla Foods amba's functional currency is DKK.

With the exception of the accounting policies described below, the accounting policies for Arla Foods amba are identical to the Group's consolidated financial statements.

Dividends from subsidiaries and associates

Dividends from subsidiaries and associates are recognised in the income statement as a financial item when declared.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured at cost. An impairment test is performed, if indications of impairment arise, for example loss-making, declines in market values, among others and if the carrying amount exceeds the recoverable amount, it will be written down to the recoverable amount. Impairment losses, as well as gains and losses on disposal, are classified as financial items.

Reserve for development costs

The equity reserve for developments projects capitalised in 2016 and onwards is non-distributable. The reserve will be reversed as the capitalised development projects are expensed.

Significant accounting estimates and judgements

Valuation of certain assets and liabilities at the reporting date requires estimates of how future events will develop. The significant estimates relate to:

- Inventory, refer to Note 2.1 in the Group consolidated financial statements
- Receivables, refer to Note 2.1 in the Group consolidated financial statements
- Property, plant and equipment, refer to Note 3.2 in the Group consolidated financial statements
- Joint ventures and associates, refer to Note 3.3 in the Group consolidated financial statements
- Investments in Group companies: Recoverable amounts of investments in Group companies that are directly owned by Arla Foods amba are continuously monitored and tested for impairment if indicators of such exist. The most important parameters in an impairment test for a specific subsidiary is expected future free cashflow in the subsidiary, cashflow in underlying subsidiaries, as well as assumptions on discount rates. Expectations for these are based on the same expectations as outlined in Note 3.1 in the Group consolidated financial statements
- Leases, refer to Note 5.6 in the Group consolidated financial statements.

NOTE 5.6 GENERAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Some reclassifications have been carried out compared to previously. These, however, have no impact on the net profit or the equity.

Adoption of new or amended IFRS

Refer to the Group consolidated financial statements for a description of new and amended IFRS.

Impact on the financial statements

The implementation of IFRS 16 has had a significant impact on the financial statements of Arla Foods amba. The capitalised right of use assets on the balance sheet as at 1 January 2019 amounts to EUR 63 million as specified below.

Impact on balance sheet and contingent liabilities 1 January 2019 (EURm)

Operating lease commitments disclosed as contingent liabilities 31 December 2018	82
Operating lease commitments 31 December 2018, not subject to IFRS 16	-37
Adjusted balance sheet 1 January 2019 due to change in accounting policies	45
Financial lease liabilities recognised on balance sheet 31 December 2018	18
Right of use assets on balance sheet 1 January 2019	63

Contingent liabilities related to lease contracts at 31 December 2018 were discounted by the groups incremental discount rate between 1,75 per cent and 7,50 per cent. Correspondingly net interest-bearing debt increased by EUR 45 million at 1 January 2019.

Consequently, the adoption of IFRS 16 had no effect on equity at 1 January 2019.

The impact on the income statement from adoption of IFRS 16 was a reduction in operating costs of EUR 18

million and a corresponding increase in depreciations of EUR 17 million and interests of EUR 1 million. The impact on EBITDA was an increase of 6 per cent, while net profit and EBIT was virtually unchanged.

Leverage was not significantly affected.

The impact on the cash flow statement was an increase in cash flow from operating activities of EUR 17 million and a corresponding change in cash flow from financing activities.

NOTE 5.7 GROUP COMPANIES

Refer to the Group consolidated financial statements.