

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 weighed in 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 get 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.

Developments of the year

The EU milk quota system was abolished in 2015 which led to increased milk supply adding pressure on the global dairy industry already affected by low market growth due to the Chinese slowdown in demand and the Russian embargo. These Difficult market conditions resulted in a low milk price and a decline in revenue from EUR 7.5 billion in 2014 to EUR 7.1 billion in 2015.

Profit for the year amounted to EUR 0.2 billion (EUR 0.3 billion in 2014). Investments in subsidiaries have been impaired by EUR 0.3 billion (EUR 0.1 billion in 2014). Dividends from subsidiaries and associates of EUR 0.1 billion (EUR 0.1 billion in 2014) have been recognised in the income statement.

Full ownership of the Lurpak® and Cocio® trademarks were acquired from the subsidiaries Mejeriforeningen og Cocio Chokolademælk A/S.

Outlook

The dairy market remains very unpredictable but with continued focus on increasing the sale of milk to existing and new customers in the retail and food service sectors as well as streamlining operations, Arla will be more resilient to volatility in the market.

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

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Please see the accounting policies in the Consolidated Financial Statements and Note 3.3.

Parent Company **Income Statement** **1 January - 31 December**

(EURm)	NOTE	2015	2014
Revenue	1.1	7,104	7,520
Production costs	1.2-1.4	-6,063	-6,689
Gross profit		1,041	831
Sales and distribution costs	1.2-1.4	-418	-377
Administration costs	1.2-1.4	-160	-154
Other operating income and costs	1.5	-45	-14
Earnings before interest and tax (EBIT)		418	286
Specification:			
Earnings before interest, tax, depreciation and amortisation (EBITDA)		537	390
Depreciation, amortisation and impairment losses	1.4	-119	-104
Earnings before interest and tax (EBIT)		418	286
Impairment of investments in subsidiaries	3.3	-277	-50
Financial income and costs	4.1	117	101
Profit before tax		258	337
Tax	5.1	-10	-1
Profit for the year		248	336

Parent Company **Statement of Comprehensive Income** **1 January - 31 December**

(EURm)	NOTE	2015	2014
Profit for the year		248	336
Other comprehensive income			
Items that may be reclassified subsequently to the income statement:			
Value adjustment of hedging instruments		25	-50
Foreign exchange adjustments		-1	2
Other comprehensive income, net of tax		24	-48
Total comprehensive income		272	288

Parent Company **Balance Sheet**

31 December

(EURm)	NOTE	2015	2014
ASSETS			
Non-current assets			
Intangible assets	3.1	159	82
Property, plant and equipment	3.2	623	640
Investments in subsidiaries	3.3	760	874
Investments in associates	3.3	295	262
Subordinated loans to subsidiaries	3.3	582	607
Total non-current assets		2,419	2,465
Current assets			
Inventories	2.1	263	250
Trade receivables	2.2	193	177
Amounts owed by subsidiaries		773	947
Amounts owed by associates		10	2
Derivatives		24	11
Other receivables		42	41
Securities		194	188
Cash at bank and in hand		-	1
Total current assets		1,499	1,617
TOTAL ASSETS		3,918	4,082
EQUITY AND LIABILITIES			
EQUITY			
Equity before proposed supplementary payments to owners		2,141	1,996
Proposed supplementary payments to owners		113	104
Total equity		2,254	2,100
LIABILITIES			
Non-current liabilities			
Loans	4.2	284	524
Total non-current liabilities		284	524
Current liabilities			
Loans	4.2	485	388
Trade payables		404	506
Amounts owed to subsidiaries		298	311
Provisions		-	2
Derivatives		79	101
Current tax		1	-
Other current liabilities		90	132
Deferred income		23	18
Total current liabilities		1,380	1,458
Total liabilities		1,664	1,982
TOTAL EQUITY AND LIABILITIES		3,918	4,082

Parent Company **Changes in Equity** **1 January - 31 December**

(EURm)	CAPITAL ACCOUNT	DELIVERY-BASED OWNER CERTIFICATES	CONTRIBUTED CAPITAL	RESERVE FOR SPECIAL PURPOSES	RESERVE FOR VALUE ADJUSTMENT OF HEDGING INSTRUMENTS	RESERVE FOR FOREIGN EXCHANGE ADJUSTMENTS	PROPOSED SUPPLEMENTARY PAYMENTS TO OWNERS	TOTAL
Equity at 1 January 2015	1,145	99	387	431	-63	-3	104	2,100
Profit for the year	-37	-	31	141	-	-	113	248
Other comprehensive income	-	-	-	-	25	-1	-	24
Total comprehensive income	-37	-	31	141	25	-1	113	272
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	-
Total transactions with owners	-13	-5	4	-	-	-	-104	-118
Equity at 31 December 2015	1,095	94	422	572	-38	-4	113	2,254

Equity at 1 January 2014	1,103	107	323	261	-13	-5	121	1,897
Profit for the year	23	-	39	170	-	-	104	336
Other comprehensive income	-	-	-	-	-50	2	-	-48
Total comprehensive income	23	-	39	170	-50	2	104	288
Capital issued to new owners	23	-	24	-	-	-	-	47
Payments to owners	-	-6	-4	-	-	-	-	-10
Supplementary payments to owners	-	-	-	-	-	-	-122	-122
Foreign exchange adjustments	-4	-2	5	-	-	-	1	-
Total transactions with owners	19	-8	25	-	-	-	-121	-85
Equity at 31 December 2014	1,145	99	387	431	-63	-3	104	2,100

Profit appropriation

(EURm)	2015	2014
Profit for the year	248	336
Proposed profit appropriation:		
Supplementary payment for milk	110	101
Interest on contributed capital	3	3
Total supplementary payment	113	104
Transferred to equity:		
Capital account	-37	23
Reserve for special purposes	141	170
Contributed capital	31	39
Total transferred to equity	135	232
Total appropriated profit	248	336

Reference to Consolidated Financial Statements.

Parent Company **Cash Flow Statement**

1 January - 31 December

(EURm)	NOTE	2015	2014
EBITDA		537	390
Change in working capital		-39	-99
Other operating items without cash impact		-	-1
Dividends received		96	72
Interest paid		-21	-21
Interest received		42	50
Tax paid		-9	-2
Total cash flow from operating activities		606	389
Investment in intangible fixed assets	3.1	-82	-41
Investment in property, plant and equipment	3.2	-95	-120
Sale of property, plant and equipment		4	3
Total operating investing activities		-173	-158
Free operating cash flow		433	231
Investment in subsidiaries		-202	-102
Investment in associates		-31	-12
Repayment of subordinated loans		66	10
Total financial investing activities		-167	-104
Total cash flow from investing activities		-340	-262
Total free cash flow		266	127
Cash flows from financing activities:			
Supplementary payment to owners		-105	-122
Paid in funds from owners		5	47
Paid out to owners		-18	-10
Change in non-current liabilities		-240	-7
Change in current liabilities		97	-19
Net change in marketable securities		-6	-22
Total cash flow from financing activities		-267	-133
Net cash flow		-1	-6
Cash and cash equivalents at 1 January		1	7
Cash and cash equivalents at 31 December		-	1

Note 1 Operating Profit

NOTE 1.1 REVENUE SPLIT BY PRODUCT CATEGORIES

(EURm)	INTERNAL	EXTERNAL	TOTAL
2015			
Raw milk	2,613	126	2,738
Fresh dairy products	198	635	833
Cheese	783	621	1,404
Butter and spreads	1,023	169	1,192
Milk powder	90	783	873
Whey products	62	1	63
Total	4,769	2,335	7,104
2014			
Raw milk	2,901	70	2,971
Fresh dairy products	166	650	816
Cheese	837	652	1,489
Butter and spreads	947	193	1,140
Milk powder	50	976	1,026
Whey products	77	1	78
Total	4,978	2,542	7,520

NOTE 1.2 COSTS

(EURm)	2015	2014
Production costs	-6,063	-6,689
Sales and distribution costs	-418	-377
Administration costs	-160	-154
Total	-6,641	-7,220
Costs relate to:		
Cost of raw milk	-3,923	-4,559
Staff costs	-406	-394
Depreciation, amortisation and impairment losses	-119	-104
Other costs	-2,193	-2,163
Total	-6,641	-7,220

NOTE 1.3 STAFF COSTS

(EURm)	2015	2014
Wages, salaries and remuneration	-372	-360
Pensions	-33	-32
Other social security costs	-1	-2
Total staff costs	-406	-394
Staff costs relate to:		
Production costs	-263	-260
Sales and distribution costs	-53	-47
Administration costs	-90	-87
Total staff costs	-406	-394
Average number of full time employees	5,351	5,307

NOTE 1.4 DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES

(EURm)

2015**2014**

Intangible assets, amortisation	-24	-17
Property, plant and equipment, depreciation	-95	-87
Total depreciation, amortisation and impairment losses	-119	-104

Depreciation, amortisation and impairment losses relate to:

Production costs	-92	-86
Sales and distribution costs	-3	-3
Administration costs	-24	-15
Total depreciation, amortisation and impairment losses	-119	-104

NOTE 1.5 OTHER OPERATING INCOME AND COSTS**Note 1.5.a. Other operating income**

(EURm)

2015**2014**

Insurance proceeds	-	8
Sale of electricity	1	1
Other items	13	9
Total other operating income	14	18

Note 1.5.b. Other operating cost

(EURm)

2015**2014**

Loss on disposal of intangible assets and property, plant and equipment	-	-1
Financial instruments	-51	-25
Other items	-8	-6
Total other operating costs	-59	-32

Reference to Consolidated Financial Statements.

Note 2 **Net Working Capital**

NOTE 2.1 INVENTORY 2015 2014 (EURm)

Inventory, gross	273	259
Write-downs	-10	-9
Total inventory	263	250

Raw materials and consumables	121	110
Work in progress	57	49
Finished goods and goods for resale	85	91
Total inventory	263	250

NOTE 2.2 TRADE RECEIVABLES 2015 2014 (EURm)

Trade receivables before provisions for bad debts	195	180
Write-downs for bad debts	-2	-3
Total trade receivables, net	193	177

Write-down for bad debts at 1 January	3	4
Write-downs used	-1	-1
Write-down for bad debts at 31 December	2	3

Note 3 Other Operating Assets and Liabilities

NOTE 3.1 INTANGIBLE ASSETS (EURm)	2015 LICENSES AND TRADEMARKS ETC.	2015 IT AND PRODUCT DEVELOPMENT	2014 IT DEVELOPMENT
Cost at 1 January	0	153	149
Additions	22	60	41
Reclassification	6	13	-
Disposals	-	-7	-37
Cost at 31 December	28	219	153
Amortisation and impairment losses at 1 January	-	-71	-91
Amortisation for the year	-2	-22	-17
Amortisation on disposals	-	7	37
Amortisation and impairment losses at 31 December	-2	-86	-71
Carrying amount at 31 December	26	133	82

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
2015					
Cost at 1 January	383	996	56	50	1,485
Additions	-	-	-	95	95
Transferred from assets in course of construction	23	65	11	-99	-
Reclassification	-	-13	-	-	-13
Disposals	-2	-14	-2	-	-18
Cost at 31 December	404	1,034	65	46	1,549
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
Depreciation and impairment losses at 31 December	-233	-649	-44	-	-926
Carrying amount at 31 December	171	385	21	46	623
Of which assets held under finance lease	9	15	2	-	22

2014					
Cost at 1 January	378	894	46	63	1,381
Additions	-	-	-	120	120
Transferred from assets in course of construction	5	118	10	-133	-
Disposals	-	-16	-	-	-16
Cost at 31 December	383	996	56	50	1,485
Depreciation and impairment losses at 1 January	-201	-540	-31	-	-772
Depreciation for the year	-16	-64	-7	-	-87
Depreciation of disposals	-	14	-	-	14
Depreciation and impairment losses at 31 December	-217	-590	-38	-	-845
Carrying amount at 31 December	166	406	18	50	640
Of which assets held under finance lease	9	12	3	-	24

NOTE 3.3 INVESTMENTS AND SUBORDINATED LOANS**Accounting policies**

Further to the group accounting policies the following policies apply to the parent company.

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
2015			
Cost at 1 January	924	262	682
Additions	202	31	-
Reclassification	-6	-	-
Disposals	-	-	-66
Cost at 31 December	1,120	293	616
Adjustments at 1 January	-50	-	-75
Exchange rate adjustments	-	2	17
Impairment	-277	-	-
Other adjustments	-33	-	24
Adjustments at 31 December	-360	2	-34
Carrying amount at 31 December	760	295	582
2014			
Cost at 1 January	822	250	692
Additions	103	12	-
Disposals	-1	-	-10
Cost at 31 December	924	262	682
Adjustments at 1 January	-	-	-86
Exchange rate adjustments	-	-	11
Impairment	-50	-	-
Adjustments at 31 December	-50	-	-75
Carrying amount at 31 December	874	262	607

The investments in Arla Foods Deutschland GmbH and Mejeriforeningen have been written down by EUR 277 million to the recoverable amounts. The impairment of the investment in Arla Foods Deutschland GmbH is due to operating loss while the impairment of the investment in Mejeriforeningen is triggered by significant dividends from Mejeriforeningen in 2015.

Reference to the Group Chart in the Consolidated Financial Statements.

Transactions with subsidiaries

(EURm)

	2015	2014
Sale of goods	4,769	4,978
Purchase of distribution services	-50	-37
Sale of administration services	83	77
Royalty from subsidiaries	4	4
Interest from subsidiaries	35	39
Dividends from subsidiaries	96	72

Transactions with associates

Reference to Consolidated Financial Statements.

Note 4 Financial Matters

NOTE 4.1 FINANCIAL INCOME AND COSTS

(EURm)

2015

2014

Financial income:

Interest, securities	2	2
Dividends from subsidiaries	96	72
Interest from subsidiaries	35	39
Foreign exchange gains (net)	4	8
Fair value adjustment	1	1
Total financial income	138	122

Financial costs:

Financial costs on financial instruments measured at amortised cost	-23	-26
Interest transferred to property, plant and equipment	2	5
Total financial costs	-21	-21

Net financial income**117****101**

NOTE 4.2 NET INTEREST-BEARING DEBT

Note 4.2.a Borrowings

(EURm)

2015

2014

Long-term borrowings:

Issued bonds	-	159
Mortgage credit institutions	270	348
Bank borrowings	9	10
Finance lease liabilities	1	2
Other non-current borrowings	4	5
Total	284	524

Short-term borrowings:

Issued bonds	164	-
Mortgage credit institutions	-	2
Bank borrowings	194	189
Commercial papers	115	194
Finance lease liabilities	1	1
Other current borrowings	11	2
Total	485	388

Total long-term and short-term borrowings**769****912****Note 4.2.b Net interest-bearing debt**

(EURm)

2015

2014

Cash at bank and in hand	-	-1
Securities	-194	-188
Current liabilities	485	388
Non-current liabilities	284	524
Net interest-bearing debt	575	723

Note 4.2.c Net interest-bearing debt, maturity

(EURm)

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

31 December 2014	TOTAL	2015	2016	2017	2018	2019	2020	2021	2022- 2024	AFTER 2024
DKK	371	5	18	16	14	13	13	21	70	201
EUR	-	-	-	-	-	-	-	-	-	-
SEK	352	194	158	-	-	-	-	-	-	-
Total	723	199	176	16	14	13	13	21	70	201

NOTE 4.3 FINANCIAL RISKS**Financial risk management**

Financial risks are an inherent part of Arla 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. Arla Financial Management is described in the consolidated report in Note 5.3.

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. Arla Liquidity management is described in the consolidated report in Note 5.3.a.

Assumptions:

The contractual cash flows are based on:

- the earliest possible date at which Arla can be required to settle the financial liability
- the interest rate cash flows are based on contractual interest rate. Floating interest rate payments have been determined using the current floating rate for each tenure at the reporting date.

Note 4.3.a Liquidity reserves

(EURm)

	2015	2014
Cash refunds	-	1
Securities (free cash flow)	-	2
Unutilised committed loan facilities	333	322
Other unutilised loan facilities	103	401
Total	436	726

Note 4.3.b Gross Financial liabilities

(EURm)

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	-	-
Total	1,251	1,322	949	30	27	18	13	19	20	60	186	

31 December 2014	CARRYING VALUE	TOTAL	Non-discounted contractual cash flows								2022- 2024	AFTER 2024	
			2015	2016	2017	2018	2019	2020	2021				
Issued bonds	159	158	-	158	-	-	-	-	-	-	-	-	-
Mortgage credit institutions	350	360	3	12	13	13	13	13	20	70	203	-	-
Credit institutions	412	412	395	6	5	3	2	1	-	-	-	-	-
Interest expense - interest bearing debt	-	51	11	7	4	3	3	3	3	7	10	-	-
Trade payables etc.	817	817	817	-	-	-	-	-	-	-	-	-	-
Derivative instruments	101	160	58	27	18	17	14	8	8	10	-	-	-
Total	1,839	1,958	1,284	210	40	36	32	25	31	87	213		

Note 4.3.c Currency risks

The currency risks primarily arise from transaction risks in the form of future commercial payments. Arla risk management policies are described in Note 5.3.c in the consolidated group report.

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

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.

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

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

(EURm)

Currency risk 31 December 2015

	EUR/DKK	USD/DKK *)	GBP/DKK	SEK/DKK
Applied sensitivity	1%	5%	5%	5%
Impact on profit or loss	-	-2	-	3
Impact on OCI	-	-23	-10	-

Currency risk 31 December 2014

	EUR/DKK	USD/DKK	GBP/DKK	SEK/DKK
Applied sensitivity	1%	5%	5%	5%
Impact on profit or loss	-	-3	2	3
Impact on OCI	-	-11	-8	-2

*) incl. SAR and AED

Note 4.3.d Interest rate risk

Arla is exposed to interest-rate risks on borrowings, issued bonds and deposits. The risk management policy is described in the consolidated report in Note 5.3.d.

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.

Fair value sensitivity

A change in interest rates will impact the fair value of Arla's interest rate derivative instruments and 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. Arla's risk management policies are described in Note 5.3.f.

The maximum exposure to credit risk is approximately equal to the carrying value as at 31 December 2015 and 2014.

Further information on trade receivables is provided in Note 2.2.

NOTE 4.4 DERIVATIVE FINANCIAL INSTRUMENTS**Fair value of hedge instruments not qualifying for hedge accounting (economic hedge)**

When hedging fair value that does not meet the criteria for hedge accounting, recognition at fair value takes place in the balance sheet and value adjustments are recognised in the income statement as financial items.

Arla uses currency option strategies, which are hedging forecast sales and purchases. These option strategies does not qualify for hedge accounting and hence, 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 outflow of foreign currency cash flows.

Note 4.4.a 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)

Expected recognition

	FAIR VALUE		Expected recognition				
	CARRYING VALUE	RECOGNISED IN OCI	2016	2017	2018	2019	LATER THAN 2019
2015							
Currency contracts	9	9	9	-	-	-	-
Interest rate contracts	-33	-33	-5	-7	-7	-5	-9
Commodity contracts	-15	-15	-15	-	-	-	-
	CARRYING VALUE	RECOGNISED IN OCI	2015	2016	2017	2018	LATER THAN 2018
2014							
Currency contracts	-10	-10	-10	-	-	-	-
Interest rate contracts	-41	-41	-5	-6	-7	-7	-16
Commodity contracts	-12	-12	-8	-4	-	-	-

NOTE 4.5 FINANCIAL INSTRUMENTS DISCLOSED**Note 4.5.a Categories of financial instruments**

(EURm)

	2015	2014
Available for sale financial assets	194	187
Loans and receivables	1,365	1,556
Financial assets measured at fair value through profit or loss	30	16
Financial liabilities measured at fair value through profit or loss	79	101
Financial liabilities measured at amortised cost	1,471	1,729

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

Note 4.5.b Fair value hierarchy – Accounting value

The table below shows the classification of financial instruments that are measured at fair value according to the following 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 a significant non-observable market data.

(EURm)

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

31 December 2014	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<i>Financial assets</i>				
Bonds	187	-	-	187
Shares	5	-	-	5
Derivatives	-	11	-	11
Total financial assets	192	11	-	203
<i>Financial liabilities</i>				
Issued bonds	-	159	-	159
Mortgage credit institutions	350	-	-	350
Derivatives	-	101	-	101
Total financial liabilities	350	260	-	610

Methods and assumptions applied when measuring fair values of financial instruments:*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.

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
31 December 2015			
Mortgage bonds	194	198	194
Repurchase liability	194	198	194
Net position	-	-	-

	CARRYING VALUE	NOTIONAL VALUE	FAIR VALUE
31 December 2014			
Mortgage bonds	187	194	187
Repurchase liability	186	194	186
Net position	1	-	1

Note 5 Other Areas**NOTE 5.1 TAX**

Note 5.1.a Tax in the income statement
(EURm)

	2015	2014
Tax on taxable equity (cooperative tax)	-8	-5
Adjustments regarding previous years, actual tax	-2	4
Total tax in the income statement	-10	-1

Note 5.1.b Calculation of effective tax rate

	2015	2014
Statutory corporate income tax rate in Denmark	23.5%	24.5%
Adjustment for cooperative tax	-20.4%	-23.0%
Adjustment regarding previous years	0.8%	-1.2%
Effective tax rate	3.9%	0.3%

NOTE 5.2 FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES

(EURm)	2015	2014
Statutory audit	-0.3	-0.4
Tax assistance	-0.1	-0.1
Other services	-0.2	-0.1
Total fees to auditors	-0.6	-0.6

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.

Note 5.3.a Management remuneration

Reference to Consolidated Financial Statements.

Note 5.3.b Transactions with the Board of Directors

Reference to Consolidated Financial Statements.

NOTE 5.4 CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIES

(EURm)	2015	2014
Surety and guarantee commitments	1,456	1,609
0-1 year	8	8
1-5 years	15	14
Over 5 years	12	14
Operating rent commitments	35	36
0-1 year	9	10
1-5 years	11	10
Over 5 years	-	-
Operating lease commitments	20	20
Commitments in relation to agreements on the purchase of property, plant and equipment	46	59
Other guarantees and commitments	6	6

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.