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
Contents

Management’s Statement 3
Independent Auditor’s Report 4
Company Information 6
Management’s Review 7
Key Figures and Financial Ratios 8
Accounting Policies 9
Income Statement 11
Balance Sheet 12
Statement of changes in Equity 14
Notes 15
Management's Statement


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 Mellemkjær
CEO

Board of Directors

Peder Tuborgh  Natalie Knight  John Duus Andresen
Chairman
Arla Foods Finance A/S

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.
Arla Foods Finance A/S

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
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 Mellemkjær, CEO

Auditors:
Ernst & Young
Godkendt Revisionspartnerselskab
Værkmestergade 25
8000 Aarhus C
VAT-no.: 30700228
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 Group's 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.
The development in the Company's key figures and financial ratios can be described as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial income and costs, net</td>
<td>85.033</td>
<td>-3.057</td>
<td>83.289</td>
<td>15.025</td>
<td>31.724</td>
</tr>
<tr>
<td>Gross profit</td>
<td>84.087</td>
<td>-3.832</td>
<td>82.778</td>
<td>14.317</td>
<td>31.181</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>60.491</td>
<td>4.252</td>
<td>61.148</td>
<td>18.764</td>
<td>33.504</td>
</tr>
<tr>
<td>Total assets</td>
<td>16.399,869</td>
<td>15.763,310</td>
<td>14.611,474</td>
<td>12.583,728</td>
<td>9.836,309</td>
</tr>
<tr>
<td>Total equity</td>
<td>470,451</td>
<td>378,863</td>
<td>448,838</td>
<td>401,349</td>
<td>453,459</td>
</tr>
<tr>
<td>Return on equity (ROE) (%)</td>
<td>14,24</td>
<td>1,03</td>
<td>14,38</td>
<td>4,39</td>
<td>7,84</td>
</tr>
<tr>
<td>Solvency ratio (%)</td>
<td>2,87</td>
<td>2,40</td>
<td>3,07</td>
<td>3,19</td>
<td>4,61</td>
</tr>
</tbody>
</table>

Return on equity (ROE) (%) = Profit for the year X 100 / Average equity
Solvency ratio (%) = Total equity X 100 / Total equity and liabilities
Arla Foods Finance A/S

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.
Arla Foods Finance A/S

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

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial income</td>
<td>1</td>
<td>246.552</td>
</tr>
<tr>
<td>Financial costs</td>
<td>2</td>
<td>-161.519</td>
</tr>
<tr>
<td>Other external costs</td>
<td>3</td>
<td>-946</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td></td>
<td>84.087</td>
</tr>
<tr>
<td>Income from investments in group enterprises</td>
<td></td>
<td>-447</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td></td>
<td>83.640</td>
</tr>
<tr>
<td>Tax</td>
<td>4</td>
<td>-23.149</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td></td>
<td>60.491</td>
</tr>
</tbody>
</table>

**Profit appropriation**

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained earnings</td>
<td></td>
<td>60.491</td>
</tr>
<tr>
<td>Distribution of profit</td>
<td></td>
<td>60.491</td>
</tr>
</tbody>
</table>
## Balance Sheet as of 31 December

### K DKK

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in group enterprises</td>
<td>6, 7</td>
<td>13.965</td>
</tr>
<tr>
<td>Investments in group enterprises</td>
<td></td>
<td>13.965</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td>13.965</td>
</tr>
<tr>
<td>Receivables from group enterprises</td>
<td></td>
<td>14.005.155</td>
</tr>
<tr>
<td>Corporation tax</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Other receivables</td>
<td></td>
<td>72.033</td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td>14.077.188</td>
</tr>
<tr>
<td>Securities and other short-term investments</td>
<td>8</td>
<td>2.288.940</td>
</tr>
<tr>
<td>Current investments</td>
<td></td>
<td>2.288.940</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td></td>
<td>19.776</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td>16.385.904</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td>16.399.869</td>
</tr>
</tbody>
</table>
## Balance Sheet as of 31 December

### K DKK

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Contributed capital</strong></td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>Retained earnings</strong></td>
<td>469,451</td>
<td>377,863</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td><strong>470,451</strong></td>
<td><strong>378,863</strong></td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Loans related to issuance of bonds</td>
<td>1,890,940</td>
<td>3,115,406</td>
</tr>
<tr>
<td>Loans from credit institutions etc.</td>
<td>1,140,039</td>
<td>321,597</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td><strong>3,030,979</strong></td>
<td><strong>3,437,003</strong></td>
</tr>
<tr>
<td>Loans related to issuance of bonds</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Loans from credit institutions etc.</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>0</td>
<td>204</td>
</tr>
<tr>
<td>Payables to group enterprises</td>
<td>6,690,514</td>
<td>6,103,993</td>
</tr>
<tr>
<td>Corporation tax payable</td>
<td>31,014</td>
<td>0</td>
</tr>
<tr>
<td>Other payables</td>
<td>803,683</td>
<td>932,802</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td><strong>12,898,439</strong></td>
<td><strong>11,947,444</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td><strong>15,929,418</strong></td>
<td><strong>15,384,447</strong></td>
</tr>
<tr>
<td><strong>Liabilities and equity</strong></td>
<td><strong>16,399,869</strong></td>
<td><strong>15,763,310</strong></td>
</tr>
</tbody>
</table>

Warranties 10
Deferred tax assets and contingent liabilities 11
Related parties 12
Arla Foods Finance A/S

**Statement of changes in Equity**

**K DKK**

<table>
<thead>
<tr>
<th></th>
<th>Contributed capital</th>
<th>Retained earnings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity 1 January 2017</td>
<td>1.000</td>
<td>377.863</td>
<td>378.863</td>
</tr>
<tr>
<td>Net adjustments of hedging instruments</td>
<td>56.868</td>
<td>56.868</td>
<td>56.868</td>
</tr>
<tr>
<td>Tax on hedging instruments</td>
<td>-25.771</td>
<td>-25.771</td>
<td>-25.771</td>
</tr>
<tr>
<td>Profit</td>
<td>60.491</td>
<td></td>
<td>60.491</td>
</tr>
<tr>
<td><strong>Equity 31 December 2017</strong></td>
<td><strong>1.000</strong></td>
<td><strong>469.451</strong></td>
<td><strong>470.451</strong></td>
</tr>
</tbody>
</table>

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.
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

7. Disclosure about group enterprises

<table>
<thead>
<tr>
<th>Name</th>
<th>Registered office</th>
<th>Share held in %</th>
<th>Equity</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kingdom Food Products ApS</td>
<td>Aarhus</td>
<td>100,00</td>
<td>6.361</td>
<td>-120</td>
</tr>
<tr>
<td>Ejendomsanpartsselskabet St. Ravnsbjerg</td>
<td>Aarhus</td>
<td>100,00</td>
<td>7.604</td>
<td>-327</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>13,965</td>
<td>-447</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th></th>
<th>Due within 1 year</th>
<th>Due after 1 year</th>
<th>Due after 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans related to issuance of bonds</td>
<td>2,718,202</td>
<td>1,890,940</td>
<td>0</td>
</tr>
<tr>
<td>Loans from credit institutions etc.</td>
<td>2,655,026</td>
<td>1,140,039</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td><strong>5,373,228</strong></td>
<td><strong>3,030,979</strong></td>
<td><strong>0</strong></td>
</tr>
</tbody>
</table>

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 have been conducted at market conditions. In respect of act 98 C 7.1 no further is disclosed in this matter.