2015

CONSOLIDATED ANNUAL REPORT

Navigating through **a difficult market**

Arla

2015 in short

With market shares gained in most of our markets, a much more profitable mix of products and more efficient operations, **the Arla of today is an even more solid business** than when we entered 2015.

Peder Tuborgh, CEO

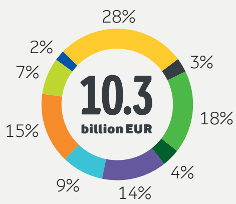
Performance price

Revenue development

-3.3%

Branded growth
+ 3.4%

Revenue



- Consumer UK
- Consumer Finland
- Consumer Central Europe
- Arla Foods Ingredients
- Consumer Sweden
- Consumer Denmark
- Consumer International
- Global Categories and Operations
- Others

Milk volume

Milk volume development
+ 4.6%

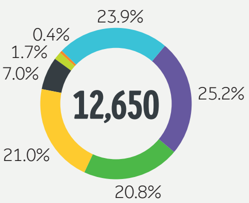
CONTENT

Project management: Group Finance, Arla. Copy, design and production: We Love People. Translation: TextMinded.
Photos: Mikkel Bache, Jens Bangsbo, Stephanie Gongdon Barnes and Arla. Printer: Scanprint A/S.

The consolidated annual report is published in Danish, Swedish, German, French and English. Only the original Danish text is legally binding. The translation has been prepared for practical reasons.

Financial statement for the parent company
Under section 149 of the Danish Financial Statements Act, this consolidated annual report represents an extract of the Company's complete annual report. In order to make this report more manageable and user-friendly, the Arla Foods Group has decided to publish a consolidated annual report without the financial statements for the parent company, Arla Foods amba. The annual report for the parent company is an integrated part of the full annual report and is available at www.arlafoods.dk. Profit sharing and supplementary payment from the parent company are set out in the equity section of the consolidated annual report. The full annual report contains the statement from the Board of Directors and the Executive Board as well as the independent auditor's report.

Owners



Denmark
Sweden
Germany
UK
Belgium
Luxembourg
The Netherlands

Development in owners -5.7%

Profit

295 million EUR

2.8%* of revenue

** Based on profit allocated to owners of Arla Foods amba*

Equity

2.1 billion EUR

Equity ratio **31%**

Net interest-bearing debt

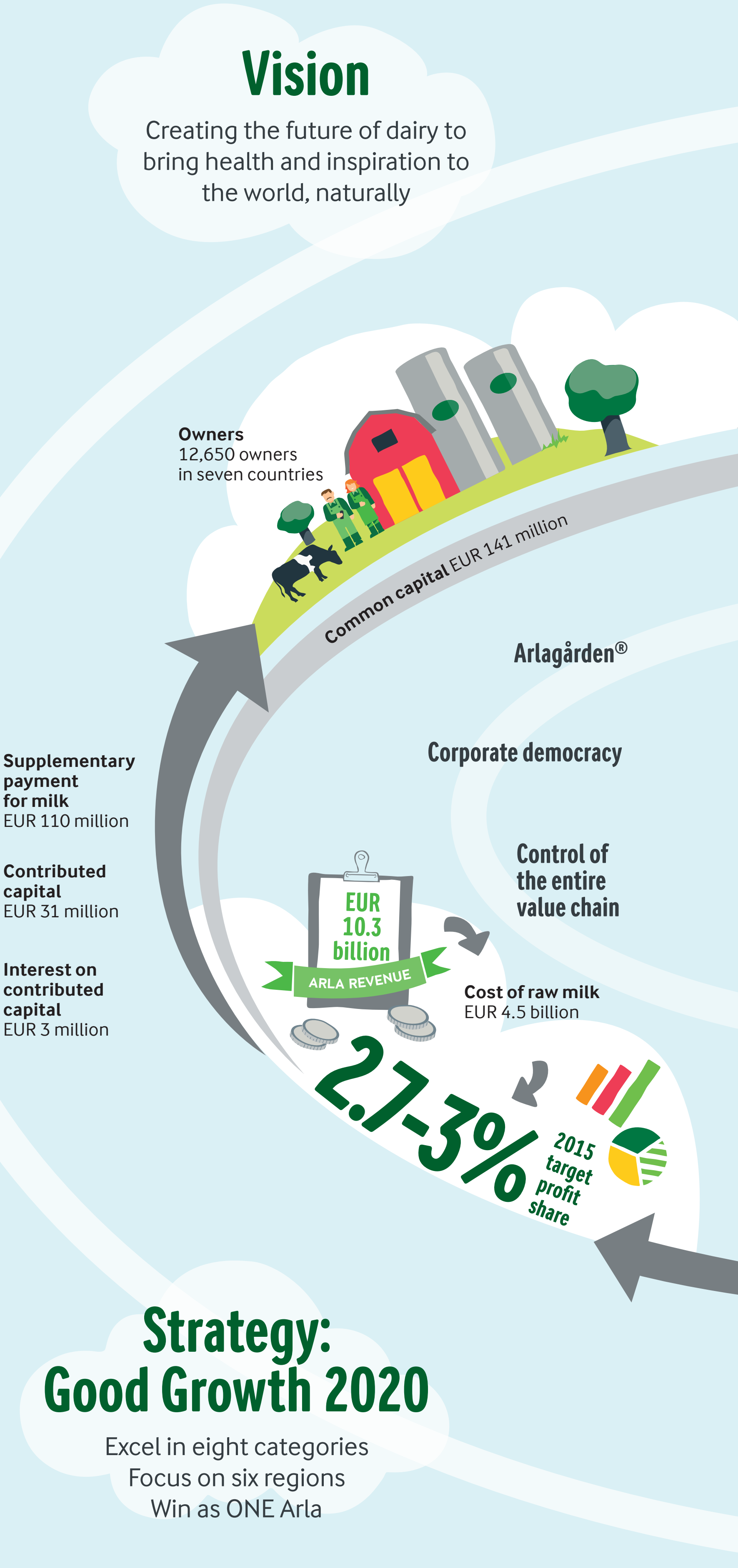
2.5 billion EUR

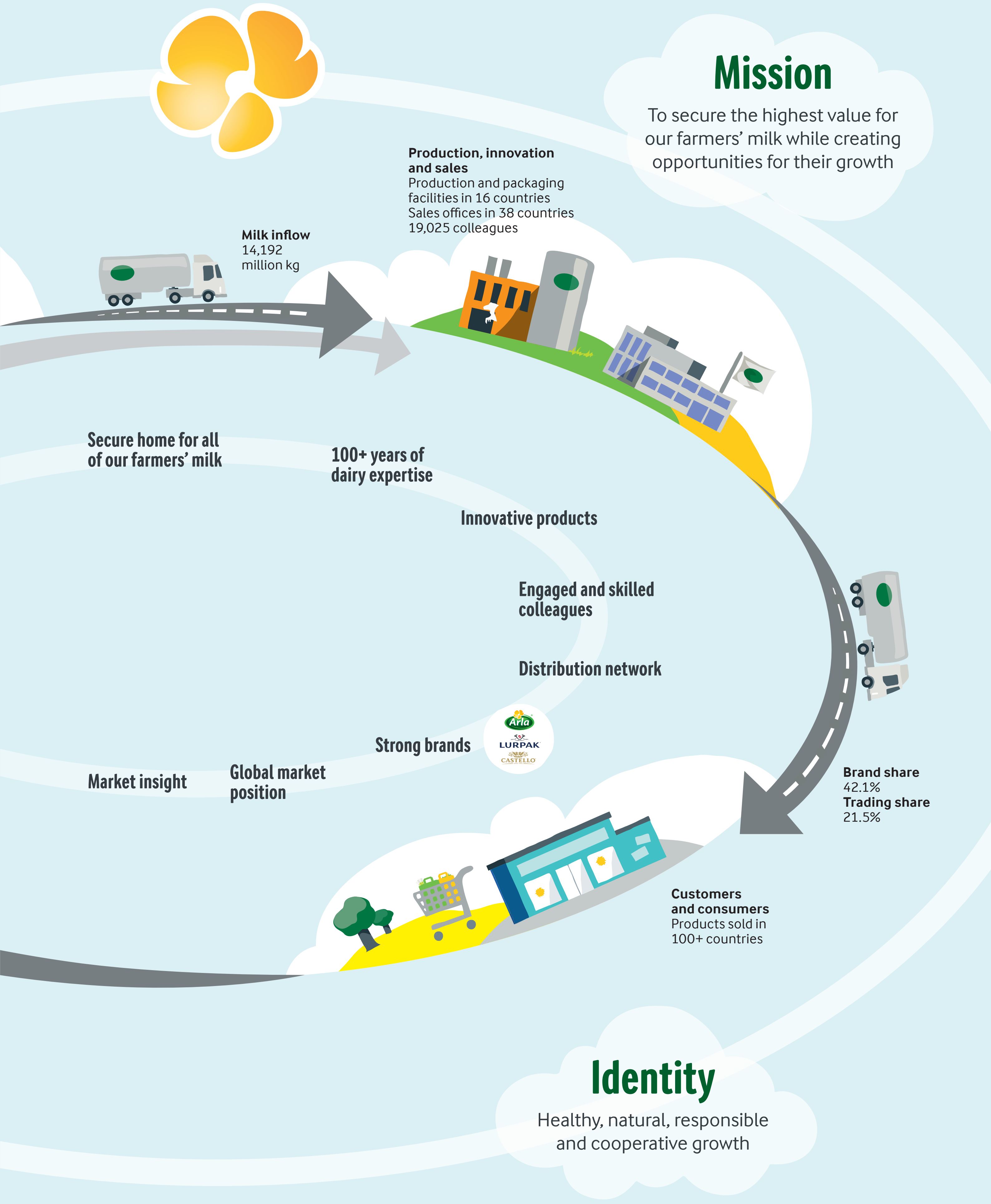
Leverage

3.3

Value **creation**

Arla is a farmer-owned cooperative. Rooted in our mission and driven by our new strategy, Good Growth 2020, our main objective is to secure the highest value for our farmers' milk. Creating value for our farmers' milk is embedded throughout the value chain - from the cow to the consumer. We operate our entire value chain with a continuous focus on efficiency and optimising our raw material, capital and human resources.




Mission
To secure the highest value for our farmers' milk while creating opportunities for their growth
Milk inflow
14,192
million kg
Production, innovation and sales
Production and packaging facilities in 16 countries
Sales offices in 38 countries
19,025 colleagues
Secure home for all of our farmers' milk
100+ years of dairy expertise
Innovative products
Engaged and skilled colleagues
Distribution network
Strong brands
Global market position
Market insight
Brand share
42.1%
Trading share
21.5%
Customers and consumers
Products sold in 100+ countries
Identity
Healthy, natural, responsible and cooperative growth

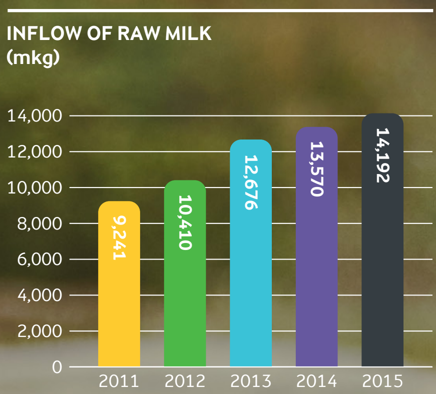
OUR BUSINESS REVIEW

We illustrate our business model as a milk wheel. We strive to keep the wheel turning by continuously seeking growth opportunities worldwide while streamlining our business internally.

OUR BUSINESS REVIEW

Change and **challenges**

Åke Hantoft, Chairman of the Board of Directors



Two factors have defined the dairy industry in 2015. Firstly, it was a year in which general market conditions resulted in a low milk price, which in turn led to a very tough situation for all dairy farmers - not only those in Arla. Secondly, it has been a challenge for our farmers to maintain a viable financial situation and unfortunately some have been forced to leave the industry.

2015 was also the year when the EU milk quota system was abolished. It happened at a time when milk prices were unsustainably low and demand in some parts of the world was slowing down. Despite this, it was positive news because it means that milk production on our individual farms is no longer limited by quotas. Since April, many Arla farmers have increased their milk production, resulting in an increase in Arla's milk intake of 4.6 per cent in 2015. We have upheld the commitment we made to our owners and have collected, processed and marketed this additional volume without restrictions and at a price that is, overall, competitive against our peers.

The security this provides us as farmers is incredibly valuable and it is fundamental to how we in Arla interpret the cooperative model: Same opportunities, same rights and same obligations for all owners. Same milk price for the same milk as well as one owner and one vote. These are the values that our predecessors committed to in the 1880s, when they founded our cooperative.

REVISITING OUR COOPERATIVE VALUES

Some of these values were challenged in 2015. From farmer to farmer, in member meetings, in the Board of Representatives and in the Board of Directors we have had fundamental discussions about them. I believe discussions like these strengthen our cooperative. They test our values and democracy and this helps us to develop. We will take this even further during 2016 when the Board of Directors will devote time to revisiting our cooperative principles and establishing an owner strategy dedicated to bringing our joint European cooperative into the future.

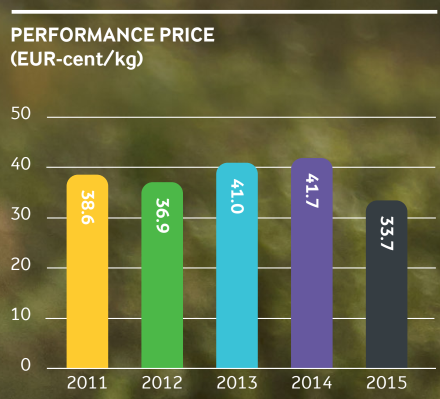
SPOTLIGHT ON ARLA FARMERS

In 2015, several retailers introduced initiatives to support Arla farmers. We also saw Arla telling consumers that we, the dairy farmers, are owners of Arla and share the profit generated from the sales of Arla's products, irrespective of the market in which they are sold. Our farmer-owned story is being well received by consumers, they like the idea of a one-for-all and all-for-one cooperative. Campaigns have been launched in several European and international markets and more markets will follow. It is encouraging to see Arla promoting milk as a healthy product that consumers can trust and that products are produced in a responsible way. However, it is also an obligation. It puts the spotlight on us as farmers and further increases our everyday responsibility on farm - taking good care of our cows and of the milk. In 2015, our Arlagården® quality assurance programme was rolled out in The Netherlands and the UK. It now covers all Arla farms in the seven owner countries. It is a strong asset for our company today and it will increase in importance in the future.

2016 will hopefully be the year in which we see improvements in the global market. With a new strategy designed to add value to our increasing raw milk volumes through profitable products and market positions, I believe that we have the right plan in place to address opportunities and challenges in a continuingly unpredictable dairy market.

Arla has become more resilient in the **tough market**

Peder Tuborgh, CEO



There is no doubt that 2015 has been a very difficult year for dairy farmers. No longer limited by the EU milk quota system, the increased milk supply from European dairy farmers added to the pressure on the global dairy industry, which was already severely affected by low market growth, the Chinese slowdown in demand and the Russian embargo. It has affected the whole global dairy industry.

In Arla, the situation has led to a decline in revenue from EUR 10.6 billion in 2014 to EUR 10.3 billion in 2015. Our profit is also slightly lower. Not only because our revenue decreased, but because the Board of Directors agreed to reduce the profit expectation. This reduction was made in favour of a higher prepaid milk price to help our owners in their very difficult financial situation.

Prior to the start of 2015, we knew the year would be tough and our plan was to minimise the impact of the low price level in the market by pursuing two agendas: One being to increase our share of products in retail and foodservice and the other to reduce our costs. Focusing relentlessly on delivering according to these agendas enabled us to maintain a competitive milk price compared to our peers.

INCREASING OUR RETAIL SHARE

Despite the lower demand in most of our markets, we set out to sell more products in the retail and foodservice sector equal to a volume increase of 500 million kg extra milk - and we succeeded. We proactively increased our marketing spend by 25 per cent which resulted in stronger positions and brands. In particular, I am pleased to see that the Arla® brand has strengthened its 'Healthy, Natural Goodness' position. Our owners have been, and will be, an important element in building the Arla® brand as our surveys show that awareness of our farmer ownership increases consumers' trust in Arla.

REDUCING OUR COSTS

In 2015, all functions and business groups across Arla were obliged to adhere to a capacity cost freeze. Furthermore, we delivered on our long-term efficiency programmes. Through a wide range of initiatives from 2012 to 2015, including reduced spending, efficiency improvements and continuous adjustment of the organisation, we achieved our savings goal of EUR 330 million. We have set a new target of delivering additional savings of EUR 400 million from 2016 to 2020. At 31 December 2015 leverage was 3.3 and we managed to meet our long-term objective of 2.8 - 3.4.

Delivering consistently against the two agendas has significantly improved the strength of our business. With market shares gained in most of our markets, a much more profitable mix of products and more efficient operations, the Arla of today is an even more solid business than when we entered 2015.

FACING A PARADIGM SHIFT

This is an important foundation as we are now facing a paradigm shift in Arla. Going forward, our focus will, to a lesser extent, be about building the milk pool through mergers and acquisitions. With increasing volumes of milk coming from our current owners, we need to focus even more on organic growth within our existing business. During the past years, we have carefully prepared Arla for this situation and our new strategy 'Good Growth 2020' is designed to address this.

We have an extremely difficult task ahead of us in 2016 as global milk supply still exceeds demand and our main markets currently show little or no growth. We hope for a turn in the second half of 2016, however, the market remains very unpredictable. One thing we do know is that Arla stands stronger. So, even though we expect the beginning of 2016 to be as tough as 2015, we have become more resilient to the volatility in the market.

Seven essential priorities for Arla

Our seven essentials reflect Arla's business priorities for the year. These goals support the longer term view we take in our strategy. In order to deliver strong results for our owners and ensure that we progress in accordance with Arla's strategic plan, the Executive Management Group prepare the seven essential priorities each year, which are then approved by the Board of Directors.

Arla's growth agenda has, to a great extent, been driven by mergers and acquisitions and going forward our growth agenda is driven by good local partnerships and a willingness to seize opportunities as they arise. A traditional budget, which is static and discourages investment, does not have the flexibility to support this agenda.

In an increasingly volatile world, budgets are outdated the moment they are entered into a spreadsheet. Relative targets are far more suitable for managing change. At Arla, we have therefore substituted the traditional budget with rolling forecasts and stretched targets. These concepts are based on the idea that success is fundamentally about achieving more ambitious goals and performing significantly better than the previous year.

The concept of seven essential goals has its roots in this philosophy. They express business priorities one year at a time. They break long-term strategies into short-term goals and create a year-on-year foundation for improved performance within Arla.

Our seven essential priorities break down our long-term strategy into short-term priorities for the year. They are supplemented by financial targets. Our seven essentials and long-term strategy are both rooted in our vision and mission, which define our overall direction and purpose.

Seven essential priorities for 2015

In 2015, our seven essentials focused on moving additional milk into value added products in order to increase profitability. We knew that it would be a very challenging year and our volume agenda and efficiency programmes were central to how we addressed the situation. We had a plan for 2015 - and we followed it.

Volume is king in retail and foodservice

Increase retail and foodservice volumes by **300 - 500 million kg** of milk. Reduce the amount of milk procured from non-owners.

Result

We have successfully increased retail and foodservice volumes by approximately 500 million kg of milk. Furthermore, the amount of milk procured from non-owners has decreased by 5.6 per cent.

Read more about our volume agenda on page 12

Grow volumes in Consumer International and secure profitability in Arla Foods Ingredients

Implement accelerated Consumer International growth plan to increase volumes. Deliver a minimum of two mergers or acquisitions in growth markets and Arla Foods Ingredients.

Result

Growth in Consumer International is back on track with volume driven revenue growth of 5.8 per cent and a platform has been created for further growth. Successful cooperations have been established in growth markets during the year.

Profitability in Arla Foods Ingredients is under pressure due to decreasing sale prices.

Read more about growing volumes in Consumer International on page 36

Grow butter and spread volumes

Grow Lurpak® and Anchor® butter and spreadable products by **3 - 5 per cent**. Launch Lurpak® in Brazil, Mexico, Australia and Central Europe.

Result

The butter and spreads category is delivering volume driven revenue growth of 5.9 per cent. This is a result of volume driven revenue growth for Lurpak® of 6.1 per cent and volume driven revenue development for Anchor® of -0.3 per cent. Lurpak® is now being sold in Brazil, Mexico, Australia, and Central Europe.

Read more about growing the butter and spread volumes on page 14

Increase profitability in Consumer UK and Consumer Central Europe

Secure increased profitability in Consumer UK through cost savings in supply chain and other market related measures of **EUR 80 - 95 million**. In addition, grow the Arla brand and volume by **5 - 10 per cent**. Secure increased profitability in Consumer Central Europe by further enhancing brands and value added products.

Result

Consumer UK has met its cost savings target of EUR 80 - 95 million and delivered volume driven revenue growth for the Arla brand of 5.1 per cent.

Profitability in Consumer Central Europe is under pressure due to local market conditions. However, in 2015 Consumer Central Europe increased its brand share to 19.5 per cent and implemented several initiatives to increase profitability going forward.

Read more about our progress in Consumer UK and Consumer Central Europe on page 37

Strengthen delivery of efficiency and Net Working Capital programmes

Continue implementation of LEAN, Total Cost of Ownership, Design to Value and structural plans to deliver cost efficiency gains of **EUR 330 million** by the end of 2015 compared to 2012. Freeze capacity costs outside supply chain across Arla with the exception of growth markets. Develop and implement next Net Working Capital plan to deliver **EUR 130 million** cash release in 2015.

Result

In 2015 we delivered cost efficiency gains of EUR 330 million compared to 2012. We have delivered capacity costs outside supply chain at index 102 and have delivered EUR 151 million cash release as a result of our Net Working Capital programme.

Read more about our efficiency and Net Working Capital programmes on page 23

Deliver excellent customer service through effective IT and efficient planning

Improve customer service and track relevant key performance indicators for core market customer delivery performance.

Result

We have improved the stability of our IT system in 2015, however, incidents in April and May affected overall performance.

Grow the Arla® brand volume

Complete the implementation of the new Arla® brand platform globally and increase brand volume by **3 - 5 per cent**.

Result

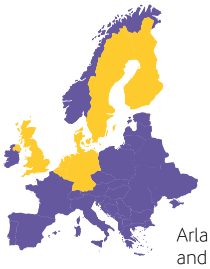
The Arla® brand is performing positively with volume driven revenue growth of 2.1 per cent, however, this is below target. During 2015 we have succeeded in building a solid foundation for the Arla® brand, which is spearheading the new health strategy.

Read more about growing the Arla® brand volume on page 13

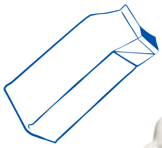
Meeting target
Progress towards target
No progress towards target

Volume is king
in retail and foodservice

Arla has been preparing for the abolition of the EU milk quota system for several years and our volume agenda remains imperative to the business. By constantly growing our brands and launching products in existing as well as new markets, Arla can continue its global growth journey and accommodate our owners' increasing milk volumes while securing profitability in a difficult market. In 2015, we have remained committed to our plan to move additional milk into profitable branded and private label, retail and foodservice products.

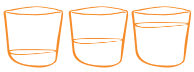


Arla is a cooperative and thereby obliged to handle all of our owners' milk and we are also committed to adding value to it.



Large milk volumes enable scalability and provide the opportunity for innovation, product development and branding.

2015	2014
Inflow of raw milk 14,192 million kg	Inflow of raw milk 13,570 million kg
Volume driven revenue growth 4.3%	Volume driven revenue growth 5.3%
Branded growth 3.4%	Branded growth 2.1%
Trading share 21.5%	Trading share 20.8%



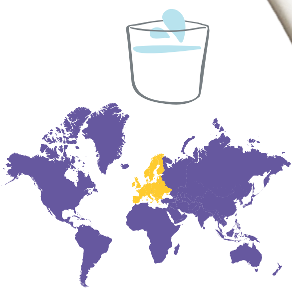
A competitive milk price creates opportunities for our farmer owners' growth.

When it comes to milk intake, Arla is ranked fifth in the world. Arla's cooperative business model is built on the principle of the milk wheel whereby continuous milk volumes keep the wheel turning and provide the opportunity for innovation, product development and branding leading to value creation.

The abolition of EU milk quotas in 2015 is accelerating the turning of the wheel and we expect milk intake from our owners to increase by 3 - 4 per cent year on year. This is why the volume is king agenda continues to be an essential priority in 2016.

In 2015, we proactively made the decision to increase our investments in marketing by 25 per cent with the objective to transfer more milk into retail and foodservice and reduce the share of commodity products. We have also sought new contracts and new consumers and taken advantage of new opportunities both inside and outside Europe to strengthen our position. As a result, we have approximately moved an additional 500 million kg of milk into profitable positions in European core markets and outside the EU compared to last year while keeping the trading share under control at 21.5 per cent.

In 2016, we aim to add an additional 400 million kg owner milk into retail and foodservice. As our owners are supplying increasing volumes of milk, we are facing a true paradigm shift. Going forward our focus will no longer be on driving growth and building the milk pool through mergers and acquisitions. Rather, we will invest in creating organic growth in our existing business with milk from our current owners.



The increasing demand around the world for healthy and natural products offers an opportunity for Arla. We have the platform to meet this demand.

Grow the Arla® brand volume

As a global dairy company, Arla is obliged to help people make healthier choices by offering nutritious products and inspiring good food habits. Spearheaded by the Arla® brand, our health strategy will be a growth driver in the years to come. In 2015, we completed the implementation of the new Arla® brand platform globally and achieved a volume driven revenue growth from the Arla® brand of 2.1 per cent corresponding to revenue of EUR 2.7 billion.

Volume driven revenue growth of 2.1 per cent for the Arla® brand shows that our 25 per cent increase in marketing spend is paying off. This is, however, not fully achieving our ambition for the year in which we targeted growth of 3 - 5 per cent for the Arla® brand, but we have succeeded in building a solid foundation.

HEALTH IS THE MAIN THEME FOR THE ARLA® BRAND

The positioning of the Arla® brand is at the core of our vision. The brand is spearheading our intention 'to bring health and inspiration to the world, naturally'. In 2015 natural health became the main theme for the Arla® brand and it is absolutely integral to its development. During the year, we have intensified our communication to consumers about the value of Arla® branded products in terms of natural ingredients, fewer artificial additives and sustainability from cow to consumer.

We also consolidated our Arla® brand portfolio with a unified design and launched a variety of new products across markets, many supporting the strengthened health agenda, for example, low-fat, high-protein and less sugar.

ARLA® BRAND PRODUCT LAUNCHES IN 2015

Arla's innovation pipeline is very promising. In 2015, we have launched several new products.

Arla® Big Milk is the UK's first fresh milk enriched with essential nutrients to help support childrens' growth and development.

Fat-free, reduced sugar, high-protein Arla® skyr was launched in Germany, the UK and Denmark and Arla® Protein was launched in the UK.

Fulfilling the growing demand for protein-rich food for breakfast and snacks, Arla® Yoghurt Quark was launched in Sweden.

Arla® BIO pasture milk from organic farms where the cows, from spring to autumn, spend at least 120 days on pasture was launched in Germany.

Arla Yoggi® Frozen, a low-fat frozen yogurt ice cream was launched in Denmark as part of Arla's innovation strategy.

Grow butter
and spread volumes

Within the butter and spreads category, during 2015 we have focused on Lurpak® and Anchor®. The intention was to grow the two strategic brands by 3 - 5 per cent as well as launch Lurpak® in selected markets across the world. Volume driven revenue growth for Lurpak® and Anchor® butter and spreads products developed by 6.1 and -0.3 per cent respectively, and Lurpak® was launched or promoted in Brazil, Mexico, Australia and Central Europe.

BUTTER AND SPREADS GROWTH

The butter and spreads category has grown by 0.5 per cent during 2015, fuelled by the Lurpak® brand. Special focus has been placed on spreadable products, which represent a significant part of the Lurpak® business and have huge potential for growth. In 2015, a new marketing campaign was created to drive the Lurpak® Spreadable business globally. In the UK, Lurpak® Spreadable accounts for 86.9 per cent of all Lurpak® volume, but for only 65.7 per cent globally, signalling that there is an opportunity to further grow the spreadable business in other markets. The spreadable business grew 5.9 per cent globally in 2015.

Marketing campaigns for Anchor® have also been launched in the UK, focusing both on Anchor butter and also repositioning Anchor® as a 'great tasting dairy brand, not just a butter brand', the aim being to strengthen the brand overall.

GLOBAL ROLL-OUT OF LURPAK®

Australia

Lurpak® has been high on the agenda in Australia in 2015, following Arla entering a cooperation with Australia's largest cheese importer, F. Mayer Imports. The target was to grow volume by 15 per cent. We are not fully achieving our ambition with volume driven revenue growth of 7.7 per cent through an intensive marketing programme, with activities including TV campaigns, social media interaction and sampling activities. This has resulted in increased brand awareness of Lurpak®, which also helps to build the brand in the long term.

Mexico

Mexico - a country with a population of 123 million people - is finding it increasingly difficult to supply enough dairy products for its growing population. For years Arla was a niche player in Mexico, mostly selling blue mould and white cheese. In 2014, we boosted Lurpak® butter through extensive marketing advertising. As a result, Arla's butter sales in Mexico are up 86.6 per cent in 2015.

Brazil

Brazil's potential is vast. During 2015 we have launched and supported Lurpak® with the objective of positioning Lurpak® as the number one international brand bringing its unique features to Brazilian consumers. Consumers in Sao Paolo have received Lurpak® particularly well and sales have increased by 55 per cent in 2015. Through the Weave Your Magic campaign we have reached consumers via digital media, food bloggers and celebrity chefs and Lurpak® is expected to grow further in 2016.

Central Europe

In the German market, Lurpak® is showing positive growth rates of 161 per cent but based on very limited volumes due to the competitive price level and direct competitors. However, in Germany, Arla Kærgården® represents a significantly larger market share than Lurpak®. During 2015, Lurpak® made a strong come back in The Netherlands with growth rates of 29.8 per cent due to a successful cooperation with a local retailer.

VOLUME DRIVEN REVENUE GROWTH IN 2015

	ACHIEVED	EXPECTED
	6.1%	3-5%
	-0.3%	3-5%

Seven essential priorities for Arla in 2016

Seven essential priorities for 2016

The seven essentials are the crucial priorities for Arla in 2016. They fully reflect the direction set in our new strategy and maintain focus on the two overall agendas we have worked to in 2015: increased profitability of the growing milk volumes and improved cost efficiency across Arla. The seven essential priorities have been filtered down into the organisation. All business groups and functions have created goals and activities to ensure that we will deliver as a united group.

Deliver significant growth on brands
Deliver significant growth on strategic brands, covered by our three global brands, Arla®, Lurpak® and Castello® and supported brands.

Improve Consumer Central Europe peer performance
Improve Consumer Central Europe peer performance by addressing cost and brand performance and competitively export milk into retail outside EU.

Volume is king
Add an additional **400 million kg** owner milk into retail and foodservice.

Strengthen the Arla cooperative
Establish a process with the Board of Directors, National Councils and Board of Representatives to create strong owner relations.

Strengthen market positions in Consumer International
Strengthen leading positions in China, the US, Nigeria, Middle East and North Africa measured by volume and market share.

Improve cash flow
Improve cash flow to achieve leverage of **2.8 - 3.2** and release **EUR 150 million** in cash within net working capital.

Structurally reduce the cost level
Deliver conversion cost in production at an **index level of 98.5**.
Volume driven revenue growth should be > **2.0 times** higher than the growth in capacity costs.

2015
highlighted events

NEW BUSINESS REGION ESTABLISHED IN ASIA
China and South East Asia were integrated as a new regional market called Business Unit Asia. Synergies in product portfolio, marketing and innovation will strengthen Arla's position in this high potential region.

NEW PRODUCTION FACILITY IN PRONSFELD OPENED
The new powder and butter facility in Pronsfeld, Germany, officially opened. The EUR 110 million investment makes Pronsfeld by far the largest production site in the Arla Group.

ACQUISITION OF FALBYGDENS OST APPROVED
The purchase of Falbygdens Ost, Sweden, was approved by the Swedish Competition Authority effective from April 1, 2015. The strategic acquisition enhances Arla's ability to promote and develop the speciality cheese market.

ArNoCo IS RUNNING AT FULL SPEED
Arla's joint venture with Deutsches Milchkontor eG (DMK), ArNoCo, Germany, officially launched and the new production facility is up and running at full speed.

3-4%

ABOLITION OF EU MILK QUOTAS
On April 1, EU milk quotas were abolished resulting in Arla's raw milk inflow increasing by expectedly 3 - 4 per cent year on year.

NEW SUBSIDIARY IN AUSTRALIA
Arla entered a cooperation with Australia's largest cheese importer, F. Mayer Imports with the ambition to multiply its revenue in Australia fivefold.

NEW SUBSIDIARY IN EGYPT
Arla and Egypt-based dairy company, Juhayna, entered into a cooperation that enables Arla to sell its products across Egypt, a country with a population of 90 million.

NEW SUBSIDIARIES IN WEST AFRICA
Arla continued its expansion in West Africa through two subsidiaries in Nigeria and Senegal respectively. These provide the distribution backbone that will help Arla fulfil its ambitions in Sub-Sahara Africa.

ADJUSTMENT OF EXPECTATIONS
The Board of Directors accepted a lower year-end net result of 2.7 - 3 per cent for 2015 to support the on-account price to the owners.

ARLA AND LACTALIS AGREE ON FUTURE OF WALHORN AG
Arla and Lactalis reached an agreement concerning the future of the associated company, Walhorn AG. Arla sold its legal shares of Walhorn AG to Lactalis on 30 June 2015.

NEW BUSINESS REGION ESTABLISHED IN AMERICA
USA and Latin America were united in a new regional market called Business Unit Americas. This ensures stronger focus by placing senior management closer to customers and consumers.

RYNKEBY FOODS FOR SALE
Following months of strategic analysis, Arla decided to sell its juice subsidiary, Rynkeby Foods. A sales process is initiated to identify the right buyer.

ARLA CLOSES KISSLEG SITE
It was decided to close the production plant in Kißlegg-Zaisenhofen, Germany in 2016 as continued operation of the site is not economically viable.

NEW STRATEGY: GOOD GROWTH 2020
Arla launched the new strategy towards 2020 focusing on organic growth and increasing the profitability of the owners' milk - through category excellence, stronger brands, increased focus on selected markets and efficiency across the organisation.

OUR FINANCIAL REVIEW

We measure our performance by the value we add to each kilo of milk supplied by our owners. We call it our performance price and it is our key financial indicator.

OUR FINANCIAL REVIEW

Financial **review**

Given the challenging conditions within the dairy industry in 2015, Arla has performed satisfyingly. We achieved net profit of 2.8 per cent of revenue in a depressed market and we delivered a performance price of EUR-cent 33.7 per kg to our owners.

MARKET SITUATION

Globally declining market prices have impacted the entire industry and all of its players. In 2014, the commodity price for whole milk powder decreased significantly and in 2015 it remained at a continuously low level despite short periods of optimism during the year.

PERFORMANCE PRICE

The low price level for commodity products has affected Arla's ability to safeguard the milk price for our owners. The performance price achieved in 2015 was EUR-cent 33.7 per kg. This is significantly below 2014 levels, which were EUR-cent 41.7 per kg. We gave a solid performance compared to our peers at 103.7 on the peer group index, which is within the range of our expectations. However, the peer group index is preliminary before year-end of Royal FrieslandCampina N.V. and Deutsches Milchkontor eG.

MILK VOLUME

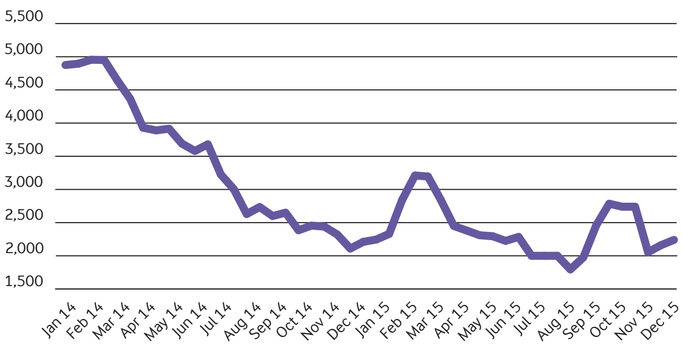
Total milk volumes in 2015 were 14.2 billion kg, an increase of 4.6 per cent compared to 2014. The abolition of the EU milk quota system on 1 April 2015, the merger with Walhorn EGM, Belgium on 1 August 2014 and new AMCo members in the UK account for the majority of the increased milk volumes. Despite this, milk volumes in Sweden decreased due to owners leaving the cooperative. Furthermore, milk volumes from contract farmers have declined by 5.6 per cent.

Our milk volumes may have increased, but we have succeeded in keeping the trading share under control at 21.5 per cent in 2015, compared to 20.8 per cent in 2014. The trading share showed a positive trend towards the end of the year and we expect to maintain it at the same level in 2016 even though milk volumes will continue to increase.

REVENUE

Revenue in 2015 amounts to EUR 10.3 billion, a decrease of 3.3 per cent compared to 2014. Due to decreasing commodity prices, revenue expectations were adjusted during the year. The decrease in revenue is the result of a negative price development of 11.4 per cent. This is a consequence of the decline in world market prices and the related impact on our branded business, however, the negative price effect is partly offset by the increasing volumes and currency effects. This results in a negative organic revenue development of 8.4 per cent.

MARKET PRICES/GDT DEVELOPMENT WMP, USD MT



Volume driven revenue growth was 4.3 per cent in 2015, compared to 5.3 per cent in 2014, in line with our expectation for the year. Our branded share increased from 41.2 per cent in 2014 to 42.1 per cent in 2015, which clearly shows that increasing our marketing spent by 25 per cent is paying off. The Lurpak® brand (6.1 per cent) and the Arla® brand (2.1 per cent) show progress while Castello® (0.1 per cent) is struggling to keep pace.

In 2015, the average difference in performance price between commodity and branded products equated to approximately EUR-cent 10, proving that our strategy to sell as much milk as possible into retail and foodservice is the right one.

COST

We have succeeded in actively managing our costs in 2015 according to the plan and have implemented cost reduction programmes and defined ambitious goals to significantly streamline the organisation. Our ambition was to make savings from cost reduction programmes of EUR 330 million before the end of 2015 compared to 2012 - and we have achieved this goal. To improve performance further, we have set a new target of delivering an additional EUR 400 million in cost reductions between 2016 and 2020.

Our total costs have decreased by 4.6 per cent in 2015 compared to 2014. The non-raw milk cost has increased by 4.4 per cent, predominantly as a result of our higher marketing spend to drive the brand agenda, in addition to an increase in production costs and currency effects. Cost of raw milk has decreased by 13.3 per cent despite the increase in volumes during the year. As the performance price indicates, the average cost per kg milk has decreased to EUR-cent 32.04.

Our scalability shows overall positive development at 4.3 due to a firm control of our capacity costs.

PROFIT

Profit for the year amounts to EUR 295 million and corresponds to a profit share of 2.8 per cent of revenue*. During the year, expectations were

** Based on profit allocated to owners of Arla Foods amba*

Financial **highlights**

	2015	2014	2013	2012	2011
Inflow of raw milk (mkg)					
Owners in Denmark	4,705	4,550	4,508	4,419	4,320
Owners in Sweden	1,995	2,035	2,016	2,059	1,819
Owners in Germany	1,741	1,526	1,332	685	369
Owners in the UK	3,320	3,088	1,254	286	-
Owners in Belgium	531	403	253	53	-
Owners in Luxembourg	130	119	111	27	-
Owners in The Netherlands	41	17	-	-	-
Others	1,729	1,832	3,202	2,881	2,733
Total inflow of raw milk	14,192	13,570	12,676	10,410	9,241
Number of owners					
Owners in Denmark	3,027	3,144	3,168	3,354	3,514
Owners in Sweden	3,174	3,366	3,385	3,661	3,865
Owners in Germany	2,636	2,769	2,500	2,911	645
Owners in the UK	2,654	2,854	2,815	1,584	-
Owners in Belgium	882	997	529	501	-
Owners in Luxembourg	221	228	232	245	-
Owners in The Netherlands	56	55	-	-	-
Total number of owners	12,650	13,413	12,629	12,256	8,024
Performance price					
EUR-cent/kg owner milk	33.7	41.7	41.0	36.9	38.6
Key figures (EURm)					
Income statement					
Revenue	10,262	10,614	9,870	8,479	7,368
EBITDA	754	681	737	597	475
EBIT	400	368	425	336	236
Net financials	-63	-30	-88	-70	-41
Net profit for the year	295	320	300	255	188
Consolidation for the year					
Contributed capital	31	39	43	38	37
Common capital	141	171	131	63	81
Supplementary payment	113	104	121	149	66
Balance sheet					
Total assets	6,736	6,613	6,187	5,828	4,728
Non-current assets	3,903	3,774	3,427	3,273	2,521
Current assets	2,833	2,839	2,760	2,555	2,207
Equity	2,148	1,874	1,708	1,463	1,281
Total non-current liabilities	2,084	2,137	2,189	2,049	1,542
Total current liabilities	2,504	2,602	2,290	2,316	1,904
Net interest bearing debt inclusive pensions	2,497	2,547	2,394	2,298	1,647
Primary net working capital	999	928	906	790	827
Cash flows					
Cash flow from operating activities	669	511	342	510	309
Cash flow from investing activities	-402	-416	-470	-715	-333
Free cash flow	267	95	-128	-204	-24
Cash flow from financing activities	-274	-93	110	235	33
Investments in property, plant and equipment	-348	-429	-505	-444	-291
Purchase of enterprises	-29	15	-	-39	-20
Financial ratios					
Organic growth	-8.4%	6.7%	6.6%	2.1%	6.1%
EBIT margin	3.9%	3.5%	4.3%	4.0%	3.2%
Leverage	3.3	3.7	3.2	3.9	3.5
Interest cover	13.2	8.2	11.1	11.5	9.7
Equity ratio	31%	28%	28%	25%	27%

Please refer to definitions and glossary on page 122

revised down to 2.7 - 3 per cent year in favour of the prepaid milk price.

FINANCIAL POSITION

At 31 December 2015, leverage was 3.3 and within our long-term target range of 2.8 - 3.4 compared to 3.7 at 31 December 2014. We met our ambition as a result of improvements in EBITDA combined with a decision to reduce CAPEX investments. We have reduced our capital expenditure and going forward we will focus on investments that support our new strategy. Investments in property, plant and equipment have decreased by EUR 73 million to EUR 350 million.

Our net working capital is also developing very strongly compared to our projections as a result of Programme Zero, our working capital project, which delivered a EUR 151 million reduction in 2015. The expectation was a reduction of EUR 130 million. Since 2011, Programme Zero has focused on releasing cash and has created a cash-oriented mindset in Arla.

EQUITY

At 31 December 2015, equity amounts to EUR 2.1 billion, which is an increase of 14.6 per cent compared to 2014. 29.3 per cent of the total equity is individual capital while 69 per cent is common capital. The equity ratio amounts to 31 per cent compared to 28 per cent in 2014 which is a comfortable level.

CASH FLOW

In 2015, cash flow from operating activities was EUR 669 million compared to EUR 511 million in 2014 primarily due to improvements in net working capital. Cash flow from investing activities reduced to EUR -402 million compared to EUR -416 million and consists mainly of investments in property, plant and equipment. Cash flow from financing activities in 2015 was EUR -274 million compared to EUR -93 million in 2014 and is affected by the 2014 supplementary payment of EUR 105 million and repayment of EUR 18 million individual capital to owners resigning or retiring.

The combined amounts of cash and cash equivalents amounts to EUR 70 million at 31 December 2015.

OUTLOOK FOR 2016

The global dairy industry has rarely been as unpredictable and 2015 has been as challenging as we anticipated. We expect a positive turn in the market in the second half of 2016, however, the market remains very unpredictable.

FINANCIAL EXPECTATIONS FOR 2016	EXPECTATIONS FOR 2015	ACHIEVED IN 2015	EXPECTATIONS FOR 2016
PEER GROUP PERFORMANCE (peer group index)*	103 - 105	103.7	103 - 105
MILK VOLUME (bkg)	14.0	14.2	14.6
REVENUE (EURb)	-	10.3	-
REVENUE GROWTH (volume driven revenue growth)	3 - 5%	4.3%	3 - 5%
PROFIT	2.7 - 3.2%**	2.8%	2.8 - 3.2%
LEVERAGE	3.2 - 3.4***	3.3	~ 3.2

** Peer group index for 2015 is preliminary*
*** Profit expectation was changed to 2.7 - 3% during 2015*
**** Expectation to leverage was changed to 3.3 - 3.6 during 2015*

Strengthen delivery of efficiency and Net Working Capital programmes

As a part of Arla's short-term strategy for 2015, we have focused on strengthening delivery of both our efficiency and Net Working Capital programmes. We have concentrated on three measures to achieve this essential priority in 2015 and have delivered a solid performance on all of them.

EFFICIENCY PROGRAMMES

Continue implementation of LEAN, Total Cost of Ownership, Design to Value and structural plans to deliver cost efficiency gains of EUR 330 million by the end of 2015 compared to 2012.

Status in 2015

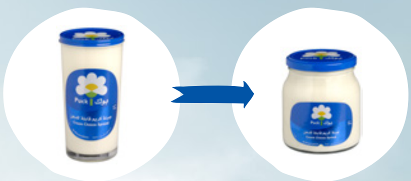
As a result of our cost agenda, Arla has achieved its target of EUR 330 million savings in 2015 compared to 2012. This is achieved with the implementation of LEAN, Design to Value and Total Cost of Ownership.

LEAN

- In 2015 we continued to implement LEAN, which is an enabler of continuous improvement within all functions across the organisation. Today, LEAN is implemented at more than 60 dairies and in a number of supply chain administrative functions. We have also begun the first LEAN implementation in other administrative areas
- Going forward, LEAN will play a major part in delivering target cost savings of EUR 400 million from 2016 towards 2020

Design to Value

- The purpose of Design to Value is to optimise products and packaging for improved competitiveness and quality, which means doing it better, at less cost and without losing focus on the customer experience
- In 2015, Design to Value has delivered cost savings of EUR 41 million compared to 2012, which is EUR 7 million above the initial target
- During the process, savings and standardisation complement one another. For example, the custom-made packaging for Puck® cream cheese spread has been replaced by standard jars reducing cost



Tumblers to jars: Changing from a custom-made Arla designed glass to standard screw lid jars.

Total Cost of Ownership

- Total Cost of Ownership projects achieve savings by optimising products and service specifications, standardising and rationalising materials and ensuring more alignment across product categories and business groups. For example, standardisation of product flavours across Arla
- Going forward, we expect savings from Total Cost of Ownership of EUR 65 million in 2016

Target towards 2020

To improve performance further, we have set a new target of delivering an additional EUR 400 million in cost reductions, mainly in supply chain, from 2016 towards 2020 of which EUR 100 million should be delivered in 2016. The task of achieving this will be the responsibility of the entire organisation.

COST FREEZE

Freeze capacity costs outside supply chain across Arla with the exception of growth markets.

The capacity cost freeze is part of Arla's cost agenda as we need to demonstrate to our owners that we control our cost base and, in particular, in challenging times are able to reduce it even further. Almost all functions and business groups across Arla have, in 2015, been obliged to adhere to the capacity cost freeze. The exceptions are supply chain, which has its on-going efficiency programmes and selected markets within Consumer International, where maintaining growth momentum is crucial and in line with Arla's strategy. The capacity cost freeze is one of Arla's initiatives to mitigate the challenges of the volatile global milk market during the year. The measures used to freeze capacity costs involved reduced travelling and training, restructuring and redundancies. In 2016, our short-term priorities will contribute further to this agenda.

NET WORKING CAPITAL

Develop and implement Net Working Capital plan to deliver EUR 130 million cash release in 2015.

For our business to remain successful it is important that as little cash as possible is tied in to running our operations. One way to release cash is by reducing net working capital. These ambitions are ongoing and supported by Programme Zero, which has been running effectively since 2011.
During 2015, pressure was put on our net working capital due to the increasing milk volumes and as a result of the increased level of inventory. In order to achieve the target for 2015 we have focused on:

- Reducing the rate of overdue payments from customers by optimising the money collection processes
- Improvement of payment terms with suppliers and customers
- Optimisation of inventories globally

The target for 2015 was to release approximately EUR 130 million - and we succeeded by releasing EUR 151 million.

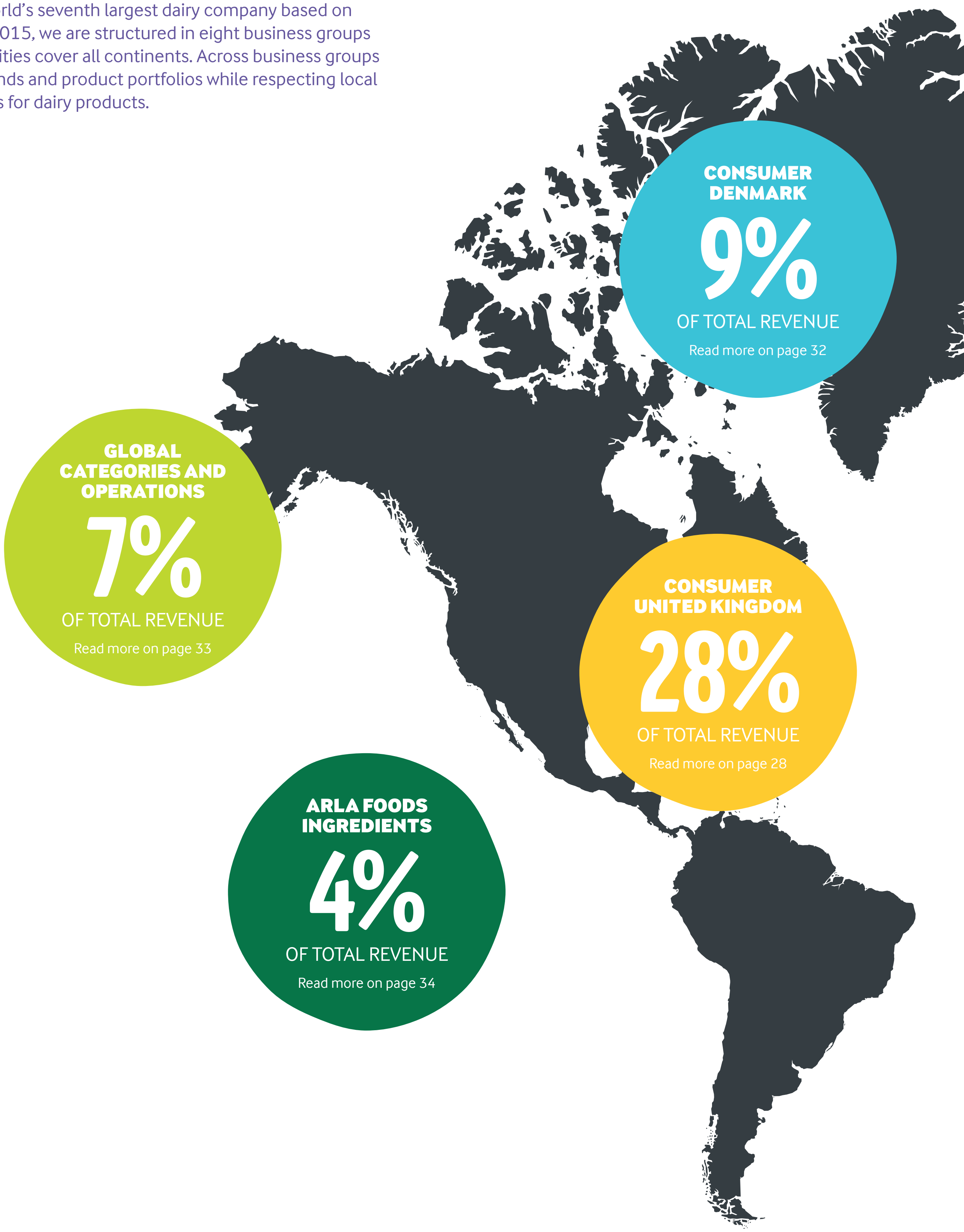
OUR MARKET REVIEW

To become a leading global dairy company we need to share global synergies while respecting local differences. Our activities are segmented into eight business groups, each with a strong presence in its respective markets.

OUR MARKET REVIEW

Overview of **business groups**

Arla is the world's seventh largest dairy company based on revenue. In 2015, we are structured in eight business groups and our activities cover all continents. Across business groups we share brands and product portfolios while respecting local requirements for dairy products.



A part of revenue and a share of full time colleagues is not attributable to business groups, therefore the revenue percentages do not total 100 per cent.

New market definitions will be implemented in our reporting from 2016.

CONSUMER
UNITED KINGDOM

Arla is the largest dairy company in the UK. As well as being number one in fresh liquid milk, butter, spreads and cream, Arla is also the UK's largest cheese producer. Consumer UK covers the manufacture and distribution of a broad range of dairy categories and is the number one supplier in private label to most major grocery retailers. In addition, the business group has leading branded positions. The head office is situated in Leeds.

OPERATIONAL HIGHLIGHTS IN 2015

- Consumer UK has grown volumes by 200 million kg, while reducing costs by EUR 80 - 95 million
- Awareness of the Arla® brand has increased with the launch of products such as Arla® Big Milk and by entering the yogurt category with products including Arla® Skyr and Arla® Protein. The business group has also launched the farmer-owned marque and introduced the farm assurance scheme, Arlagården®
- Record sales ware experienced in the butter and spreads category with Lurpak® and Anchor®
- Branded business has grown and some of the successes within this include Lurpak® growth in a declining category, Cravendale® growth in retail channels, Castello® growth and double digit growth of Lactofree®
- The 'Organised to Win' initiative was launched to encourage integrated working across categories leading to increased collaboration and efficiencies as well as a reduction of 100 full time colleagues

EXPECTED MARKET TRENDS

Short term

- Milk volumes for retail are expected to flatten or decline however there is ample opportunity to grow through increasing innovation in new value-add categories such as fortified and fat-free milk and yogurt
- Global market pressure will continue to impact the UK market, driven by increased global supply and weakening demand. Supply will also increase in the UK
- Healthy eating is in increasing focus and will require food companies to develop healthier and more natural products
- The growth of discounters is expected to continue

Long term

- Structural changes in both the dairy and grocery markets, an increase in online shopping and a move towards more healthy and natural diets present significant opportunities
- 2016 will see the launch of Consumer UK's Championing British Dairy strategy. Building on its recent success, Consumer UK will take advantage of the increased amount of milk available to it by growing new categories and retail channels as well as maximising its position within the growing consumer health agenda

Volume driven revenue growth
4.7%

Brand share
25.5%

Branded growth
5.2%

Average number of full time colleagues
3,372

Net working capital
332 million EUR

Read more about the profitability in Consumer UK on page 37

REVENUE SPLIT BY PRODUCT CATEGORY

- 52% Fresh dairy products
- 18% Cheese
- 20% Butter and spreads
- 2% Milk powder
- 1% Whey products
- 7% Other

REVENUE

2,890
million EUR

CONSUMER **CENTRAL EUROPE**

Consumer Central Europe includes two of Arla's core markets, Germany and The Netherlands, and it is also responsible for Belgium, Luxembourg, France and Austria. The head office is situated in Düsseldorf, Germany. The business group covers production and logistics, as well as having responsibility for retail sales. Arla holds a top three position in the German dairy industry and a top two position in the fresh dairy market in The Netherlands.

OPERATIONAL HIGHLIGHTS IN 2015

- The new powder and butter facility in Pronsfeld officially opened in January. It is now the largest production site in the Arla Group
- The integration process following the merger in 2014 with the Belgian cooperative, EGM Walhorn, has successfully completed
- Implementation of SAP in Upahl was finalised, while the planned implementation in Nijkerk, The Netherlands, was postponed
- Distribution set-up was improved with a new warehouse that opened in Krefeld to centralise and streamline the distribution of dairy products in Central Europe
- Product and organisational synergies were reaped through the launch of skyr in Germany and The Netherlands - a product which has proved to be a success in other business groups

EXPECTED MARKET TRENDS

Short term

- Demand for organic products will continue to increase
- The health trend will continue, with a growing demand for innovative health concepts among consumers
- E-commerce will continue to emerge

Long term

- Innovation will be even more important to fulfil consumer needs and demands
- Creating new customer opportunities will be key

Volume driven revenue growth
0.6%

Brand share
19.5%

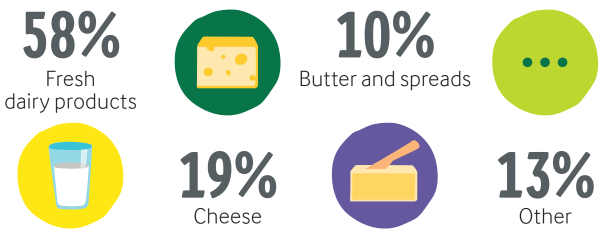
Branded growth
4%

Average number of full time colleagues
1,959

Net working capital
207 million EUR

Read more about the profitability in Consumer Central Europe on page 37

REVENUE SPLIT BY PRODUCT CATEGORY



REVENUE

1,844
million EUR

CONSUMER **INTERNATIONAL**

Consumer International is Arla's growth engine and is responsible for delivering growth outside the core markets. It covers all retail sales outside Denmark, Sweden, Finland, the UK, Germany and The Netherlands for cheese, butter and spreads and milk powder.

OPERATIONAL HIGHLIGHTS IN 2015

- Establishment of new subsidiaries in Nigeria, Senegal, Egypt and Australia
- Re-packaging site in Nigeria is up and running according to plan and the first Arla Dano® products have been sent to market
- Successful re-launch of Puck® in the Middle East and North Africa to support the new brand positioning 'Mealtime joy everyday' using new packaging design and promotions
- Consumer International's approach towards 2020 is to build five regional powerhouses which will be the epicentres for Arla's expansion in each region. During 2015 the regional powerhouses in Kuala Lumpur, Asia and New Jersey, USA were established

EXPECTED MARKET TRENDS

Short term
- More milk will be moved out of EU
- Global demand will grow at a lower rate than during the period 2012 - 2014

Long term
- Living standards will increase in emerging markets
- Global demand for milk powder and liquid milk drinks will increase
- Growing demand for healthy, natural and organic products

Volume driven revenue growth
5.8%

Brand share
71.4%

Branded growth
5.9%

Average number of full time colleagues
1,968

Net working capital
292 million EUR

Read more about growing volumes in Consumer International on page 36

REVENUE SPLIT BY PRODUCT CATEGORY

- 9% Fresh dairy products
- 55% Cheese
- 9% Butter and spreads
- 26% Milk powder
- 1% Other

REVENUE

1,499
million EUR

CONSUMER **SWEDEN**

Consumer Sweden covers production and logistics of fresh milk and fermented products in Sweden, as well as retail sales. The business group has a strong focus on growing both brands and private label, a close cooperation and service to customers as well as constantly improving logistics and delivery reliability. Arla is market leader in Sweden, marketing a broad range of dairy products. The head office is situated in Stockholm.

OPERATIONAL HIGHLIGHTS IN 2015

- The purchase of Falbygden Ost was approved by the Swedish Competition Authority effective from 1 April 2015. The acquisition enhances the premium cheese category
- Falkenberg dairy, Europe's largest cottage cheese dairy, is now fully operational following the opening in 2014. According to the plan, the dairy in Skövde closed in 2015
- The volume agenda in Sweden has, among other things, been anchored in the health strategy. Examples of activities include sponsoring sport events and promoting the natural benefits of milk
- The 'We are Arla' and 'Arla 100 years' campaigns were launched and highlight Arla's farmer ownership. The campaigns included events in which customers and consumers could meet our owners
- Several sustainability initiatives have been introduced to drive environmental improvements at dairies and within transport. An example is replacing fossil fuels with more sustainable alternatives within the distribution fleet, which will reduce Co_2 emissions

EXPECTED MARKET TRENDS

- International competition is stepping up, most notably from large European dairy companies
- Demand for products of Swedish and local origin is expected to grow
- Interest in health is expected to grow as is the trend towards organic and natural products
- Polarisation will increase and we expect to see more premium and more discount products. The trend will be driven by increased demand for different products for different occasions, both within branded products and private labels
- Growing requirements for transparency and responsibility are expected

Volume driven revenue growth
2.9%

Brand share
85.8%

Branded growth
1.8%

Average number of full time colleagues
2,237

Net working capital
66 million EUR

REVENUE SPLIT BY PRODUCT CATEGORY

57% Fresh dairy products

22% Cheese

17% Butter and spreads

4% Other

REVENUE

1,451
million EUR

CONSUMER **DENMARK**

Consumer Denmark covers production and logistics of fresh milk and fermented products in Denmark, as well as having retail sales responsibility for this country. As market leader within the Danish dairy industry, Consumer Denmark has a strong focus on developing the core business, creating value through brands as well as ensuring an effective and lean business. The head office is situated in Viby.

OPERATIONAL HIGHLIGHTS IN 2015

- Consumer Denmark has launched several product innovations across categories including yogurt, cheese and milk and it has also entered new categories, for example, ice cream. The value from these innovations is a strong growth driver for Consumer Denmark
- Arla's health strategy has successfully been implemented and included the launch of products rich in protein for both the health industry and sports purposes
- Despite an increased focus on discount products and private label products from consumers and retailers, Consumer Denmark have succeeded in achieving branded growth of 4.9 per cent. The growth has been delivered across brands and categories and is also driven by a strong innovation pipeline

EXPECTED MARKET TRENDS

Short term

- Consumers will demand more locally produced food products and premium products will grow in popularity
- Retailers will increasingly develop their own concepts and private label ranges

Long term

- Milk consumption among consumers in Denmark will decline
- The number of consumers focusing on food and health benefits will increase
- Discounters will grow and create new positions in an extremely challenging market

Volume driven revenue growth
3.5%

Brand share
69.4%

Branded growth
4.9%

Average number of full time colleagues
1,734

Net working capital
41 million EUR

REVENUE SPLIT BY PRODUCT CATEGORY

59% Fresh dairy products

12% Butter and spreads

24% Cheese

5% Other

REVENUE

917
million EUR

GLOBAL CATEGORIES **AND OPERATIONS**

Global Categories and Operations plays a leading role in translating innovative ideas into profitable products and solutions, and sets the marketing framework for our three global brands: Arla®, Castello® and Lurpak®. Furthermore, Global Categories and Operations drives Arla's strategic innovation activities.
The business group handles milk planning, logistics and the production of butter and spreads, cheese as well as milk powder and the supply chain consists of 32 sites globally.
Global Categories and Operations is also responsible for trading on the commodity market and holds a global leading position within industrial sales of mozzarella and milk powder.

OPERATIONAL HIGHLIGHTS IN 2015

- A number of new concepts were launched including skyr, Protein, Castello® Burger Blue, Lactofree, Milk Plus, Naifu and 'Good2Go'
- The 'farmer-owned' campaign was launched and driven by Global Categories and Operations
- Arla established itself as the largest mozzarella producer in Europe. Branderup Dairy was converted to mozzarella production to support this
- The efficiency agenda has been achieved: Conversion cost, scalability and net working capital improved through tight cost management and LEAN activities
- The strong milk volume growth post abolition of EU milk quotas was managed by capacity boosts at selected sites and a three per cent higher target on milk volume for each site

EXPECTED MARKET TRENDS

As Global Categories and Operations operates across all markets, both the local trends on the individual consumer markets but also the general global trends are relevant for product innovations, marketing and operations. The trends on the commodity market specifically affect Global Categories and Operations' trading business.

Short term

- The negative trend in price development on the commodity market is expected to level out

Long term

- On the commodity market we expect that increasing global demand will surpass global supply and affect prices positively

Volume driven revenue growth
4.5%

Trading share
21.5%

Average number of full time colleagues
5,141

Net working capital
276 million EUR

BRANDS

CASTELLO · LURPAK · Arla

REVENUE

773
million EUR

ARLA FOODS **INGREDIENTS**

Arla Foods Ingredients is a global leader in natural whey ingredients for products in a range of categories - from bakery, beverages, dairy and ice cream to clinical, infant and sports nutrition. The products are sold in more than 90 countries. All ingredients are produced at a site in Denmark or by one of our joint ventures in Argentina, Germany and the UK.

OPERATIONAL HIGHLIGHTS IN 2015

- The lactose site at Denmark Protein is fully up and running and the first dry-blend lactose powder has been delivered
- Construction of a hydrolysate plant began and it is expected to be ready for production in the first half of 2016
- Whey conversion to kosher and halal standards is fully implemented and all whey intakes at Denmark Protein are now kosher and halal
- Export of value added products based on speciality whey protein concentrate has increased to the US. This is a consequence of demand for egg replacement products due to avian flu
- Sales of whey protein concentrate volumes have increased by 27 per cent and lactose sales by 124 per cent as a result of new contracts and new lactose manufacturing facilities

EXPECTED MARKET TRENDS

Short term

- Whey protein concentrate and lactose markets have been oversupplied, however demand is growing and growth is expected to continue in 2016. This is putting sales prices under pressure

Long term

- A slowdown in supply is expected to restore the balance in the whey protein concentrate and lactose markets in the long run
- Customers will continue to ask for specialised ingredients and quality demands will become stricter
- The volume growth within infant formula in China is expected to slow down

Revenue
368 million EUR*

Volume driven revenue growth
25.4%

Average number of full time colleagues
615

Net working capital
90 million EUR

Whey intake
6.5 billion kg

** A large part of Arla Foods Ingredients activities are carried out in joint ventures, which are not included in the consolidated financial statements. Revenue including joint ventures amounts to EUR 486 million.*

PRODUCT CATEGORIES

Bakery
Dairy products
Ice cream
Beverage
Clinical nutrition
Culinary and meat
Infant nutrition
Sports nutrition
Health foods

CONSUMER **FINLAND**

Arla is Finland's second-largest producer of milk-based products. Over the years Arla has enlarged the product range in Finland and today offers products from all the Arla product categories. The head office is located in Sipoo, just outside Helsinki. Consumer Finland has a strong focus on value added products that strengthen the Arla® brand.

OPERATIONAL HIGHLIGHTS IN 2015

- A number of value added products were launched including an Arla® Protein assortment, Arla® Luonto+ products and a family cheese concept
- During the year Consumer Finland analysed customer strategies and operations to obtain a deeper understanding and has adjusted procedures accordingly
- A more consumer centric approach has been taken to get a better understanding of consumer needs. Activities include ethnographic studies, visiting consumers' homes and going grocery shopping together as well as inviting them to product development workshops
- During the year Consumer Finland focused on gaining market position within private label

EXPECTED MARKET TRENDS

Short term

- The tough operating conditions are expected to continue due to the Russian embargo. Prior to the embargo a significant proportion of Consumer Finland's production was exported to Russia. The price pressure on dairy products will continue as will private label growth
- The trend towards healthy products will increase, with growing demand for products with less sugar and no additives

Long term

- Requirements for transparency, responsibility and traceability are expected to increase
- Consumer trends will change rapidly and there will be big demand for product development and innovation
- Polarisation of consumer behaviour is expected going forward

Volume driven revenue growth
6.4%

Brand share
60.2%

Branded growth
-10.4%

Average number of full time colleagues
307

Net working capital
14 million EUR

REVENUE SPLIT BY PRODUCT CATEGORY

64% Fresh dairy products

7% Butter and spreads

20% Cheese

9% Other

REVENUE

346 million EUR

Grow volumes in Consumer International

Consumer International is a key contributor to Arla's mission, which is to create as much value as possible from our owners' milk. The business group's main focus is to move milk into profitable positions in markets outside the EU. As a result, Consumer International has been fully engaged in the task of moving an additional 500 million kg of milk into retail and foodservice and contributed significantly to the achievement of this goal, despite the Russian embargo.

IMPLEMENT ACCELERATED CONSUMER INTERNATIONAL GROWTH PLAN TO INCREASE VOLUMES

In 2015, one of the main challenges for Consumer International was to compensate for the lost business in Russia due to the embargo, and the business group did so by accelerating growth in other emerging markets. Consumer International achieved volume driven growth of 5.8 per cent indicating that growth is back on track and has established a platform for further growth. Lurpak® and the Middle Eastern brand Puck® contributed significantly to the volume growth, while the Arla® brand, despite positive growth rates, has not performed according to target. In addition, Castello® has struggled due to the Russian embargo.

MIDDLE EAST AND NORTH AFRICA

Focused marketing efforts have resulted in our strong regional brand Puck® now leading the long life dairy category for processed cream cheese in jars in Saudi Arabia, which is the largest cheese category in the country. Overall the Saudi business has delivered volume driven revenue growth of 20.7 per cent in 2015. During the year Arla created a subsidiary in Egypt with Egypt-based dairy company, Juhayna, to enable product sales across the country.

SUB-SAHARAN AFRICA

In 2015 a subsidiary was established in Nigeria and one was agreed in Senegal. In Nigeria, the biggest market in the region, Arla changed its business model from one based on various distribution agreements to a partnership with a single leading distributor Tolaram Group. Due to practical issues in the transition process, Arla did not achieve the expected volume growth rate in Nigeria. However, volumes look promising in 2016.

ASIA

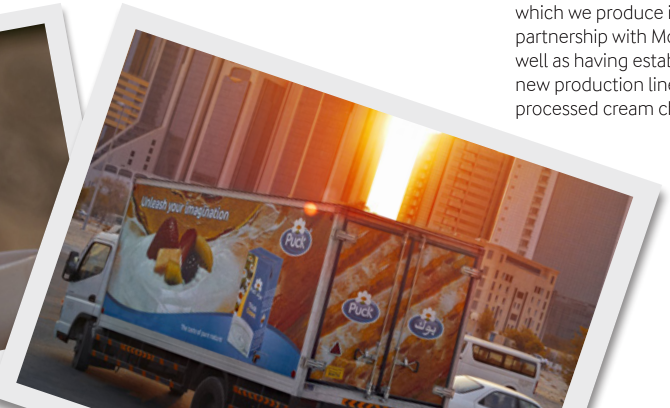
Arla achieved volume driven revenue growth of 136.9 per cent in China in 2015. This is a result of the intensive work to create an Arla® brand position in China built on food quality, safety, traceability throughout the entire value chain and European products made from natural ingredients. China is the largest single market in Asia and we are using it as an engine for our activities in the entire region.

AMERICAS

The lead market in this region is the US, where we aim to create a leading position within speciality cheese with the Castello® range in the future. In terms of the Arla® brand, we have a new ambition, which is to move from the deli section to the dairy aisles with US retailers and its natural goodness position will be the main driver. A key activity has been the launch of Arla® branded cream cheese, which will challenge existing competitors as it is made only from natural ingredients and milk from Arla farmers.

RUSSIA

In 2015, we have experienced the full effect of the Russian embargo. Arla's lost revenue totals approximately EUR 38.9 million in 2015, resulting in revenue in Russia of EUR 37.2 million in 2015. With a population of more than 140 million people, who share European dairy habits, Russia will continue to be a key market for Arla. However, due to the embargo the growth targets have been postponed. Currently the strategic focus is on preparing for the upturn in order to maintain our position as one of the leading international players in the Russian dairy market, when the embargo is lifted. During 2015, we have therefore increased our local production of branded yellow cheeses, which we produce in partnership with Molvest, as well as having established a new production line for local processed cream cheese.



Increase profitability in Consumer UK and Consumer Central Europe

In 2015, Arla has focused on increasing profitability in Consumer UK and Consumer Central Europe. During the year, Consumer UK regained momentum and delivered a solid contribution to the profitability of Arla while Consumer Central Europe is struggling due to the local market being under severe pressure. As a result, improving Consumer Central Europe peer performance is an essential priority in 2016 and we have a strong platform in place to deliver on this short-term goal.

SECURE INCREASED PROFITABILITY IN CONSUMER CENTRAL EUROPE BY FURTHER ENHANCING BRANDS AND VALUE ADDED PRODUCTS

During 2015, external and internal factors had significant impact on profitability in Consumer Central Europe.

The dairy market in Central Europe is under severe pressure and both Arla and its competitors are struggling. As a result, Consumer Central Europe is unable to keep pace with other core markets in Arla. The tough market situation is a consequence of the Russian embargo on European dairy products. The ban hit the dairy market in Central Europe harder than any other of Arla's core markets affecting the general market prices negatively. Furthermore, Consumer Central Europe has a significant share of UHT milk and non-branded products within its product portfolio and these products are very sensitive to world market prices.

In 2015, following mergers, Consumer Central Europe have focused on integrating and aligning merged activities with the intention to reap long-term synergies and we have invested in marketing and innovation to increase brand share and move products up the value chain. We have achieved volume driven revenue growth for our global strategic brands of 3.1 per cent as well as increased the brand share to 19.5 per cent in 2015, compared to 19.1 per cent last year.

Based on the activities in 2015, combined with the investments in new production capacity, IT system implementations and a new logistics setup, we have now established a strong production platform. Furthermore, Consumer Central Europe has successfully implemented cost freezing activities in 2015 and a larger cost efficiency programme is planned for 2016.

In Arla, some business groups perform better than average while other business groups perform below average. The current level of sales prices in the Central European dairy market cannot support the average milk price in Arla and, as a result, we have incurred significant losses in Consumer Central Europe in 2015.

In 2015, Consumer Central Europe has taken several steps to drive more synergies from the business and to improve its financial performance. Arla's strategy is to allocate more milk to markets outside EU into profitable positions and Consumer Central Europe will be an important driver to succeed with our target of allocating an additional 150 million kg of milk to our international markets in 2016. This means that actions have been made to improve the profitability of Consumer Central Europe.

SECURE INCREASED PROFITABILITY IN CONSUMER UK THROUGH COST SAVINGS IN SUPPLY CHAIN AND OTHER MARKET RELATED MEASURES OF EUR 80 - 95 MILLION AND GROWTH IN THE ARLA BRAND POSITION AND VOLUME OF 5 - 10 PER CENT

2015 was predicted to be a challenging year for Consumer UK. The business group delivered many initiatives which were incorporated into a strong and ambitious plan. The overall focus was to improve performance through strong cost control, securing volumes and delivering an improved Arla brand position. Consumer UK has succeeded in delivering these targets. As a result, 2015 was a big step forward in terms of market position and profitability.

Internally, Consumer UK has undergone significant structural change in order to prepare the organisation to be the leading dairy company in the UK. This organisational restructure and streamlining combined with increased supply chain efficiency, such as increased capacity and improved production costs, along with other measures has enabled Consumer UK to achieve its cost savings target of EUR 80 - 95 million.

Arla is now the leading dairy company in the UK. Within the milk category, the Arla® brand is ranked number one based on revenue partly generated by the Arla® Cravendale brand. This is supported by volume driven revenue growth of 5.1 per cent against a target of 5 - 10 per cent. Within the butter and spreads category as well as the speciality cheese category, Arla produces the leading brands Lurpak® and Castello®.

BUILDING THE ARLA® BRAND SUCCESS IN CONSUMER UK HAS BEEN ACHIEVED THROUGH:

- Positioning the Arla® brand as a health brand: Aligned with the global health agenda spearheaded by the Arla® brand.
- New category entry: Entering the yogurt category enables Consumer UK to strengthen its position as a leading dairy company in the UK.
- Commercialising the cooperative: Externally, UK farmers have added value to the business group by promoting Arla. Consumer UK was the frontrunner in launching the company-wide farmer-owned campaign.

An ambitious **health agenda**

Arla strives to bring health and inspiration to the world, naturally. Providing the natural health benefits of milk to people across the world is at the very core of our cooperative. In 2015, we launched an ambitious health strategy and throughout the year, the health theme has gained momentum in our organisation and our communication towards consumers, customers and stakeholders. By spreading knowledge and launching new dairy products, we will make it easier for people to live healthily.

It is Arla's goal to be recognised as a global leader in natural nutrition. In 2015, we stepped up our Healthy and Natural agenda with the launch of a global health agenda across business groups to guide innovation and market activities.

HEALTH IS A GLOBAL OPPORTUNITY FOR ARLA

All over the world people are concerned about their health. They are looking for healthy food for themselves and their families and simple ways to live healthier lives. Dairy products are an easy and tasty way to consume essential nutrients for the body and they can be enjoyed throughout the day and at all stages in life. This presents a great opportunity for Arla.

Globally, we face problems with obesity, malnutrition, diabetes and other lifestyle diseases. Millions struggle with the consequences of bad diets and lack of knowledge when it comes to good health. As a global dairy company, Arla is obliged to help people live healthy lives. Adopting this stance has motivated our ambitious health agenda, committing our business to focus increasingly on health as both a growth driver for Arla and a positive contribution to health on a global scale.

... worldwide, over 800 million people go to bed hungry every single day and almost two billion lack sufficient nutrients? Arla Foods Ingredients is creating a healthy biscuit and a porridge supplement that are highly affordable and packed with nutrients, specifically for the poorest consumers in Ethiopia.

... a reduced sugar, low fat yogurt targeted at the whole family has been launched under the Arla brand in the UK in 2015? The everyday yogurt contains 30 per cent less sugar than standard yogurts and contains only 62 calories.

... Arla® Dano has put health on the agenda in Sub-Saharan Africa? Educating school children about milk nutrients and offering consumers free health checks play a part in our health activities in Ivory Coast, Mauritania, Cameroon and Mali.

... as we age we lose muscle mass, and protein in the daily diet strengthens and maintains muscles, organs and bones? High-protein drink Arla® Protino was launched in Denmark, Sweden and the UK in 2015. The product is formulated specifically for sick, weak and elderly consumers who have lost their appetite but need a proper nutrition profile.

From agenda to action

3 areas of our health agenda

1

PRODUCT INNOVATION: WE MAKE MILK EVEN BETTER
Milk is naturally nutritious. To match specific requirements, we lend nature a helping hand and make our milk even better - by adding natural protein, probiotics, vitamins or fibre, or reducing lactose.

2

FOOD INSPIRATION: WE INSPIRE GOOD FOOD HABITS
Through a wide collection of online recipes, on-pack information, collaboration with retail customers, inspirational events and educational programmes, we share our knowledge of what is good to eat and how to prepare a healthy breakfast, lunch, snack or dinner.

3

RESEARCH COLLABORATION: WE PARTNER TO SPREAD KNOWLEDGE ABOUT MILK AND HEALTH
We invest in research and collaborate with experts to understand more and share knowledge about the health benefits of milk, and we build partnerships with our retail customers to strengthen their health profile and to make healthy products more available.

Farmer-owned is a global **differentiator**

In 2015, Arla's history of farmer ownership became a competitive differentiator. In a move to share our cooperative story with consumers, the global launch of a product marque offers the opportunity to easily identify and trust that Arla® branded products are responsibly produced by a farmer-owned business where the profits go back to the owners. The long-term initiative springs from Arla's corporate identity, Good Growth, and adds value to the Arla® brand at a time of low milk prices.

In 2015 and early 2016, a new marque on Arla® branded products is making it easier for consumers all over the world to identify that our products are from a dairy company owned by farmers, who are committed to delivering natural and nutritious milk produced in a responsible manner. The marque is one of many initiatives aimed at consumers that Arla has conducted to communicate its farmer ownership.

The decision to increase consumer awareness of Arla's farmer ownership is based on substantial consumer insight revealing that confidence in Arla's products increases when consumers know that we are farmer-owned. Our quality assurance programme, Arlagården®, fits perfectly with consumers' expectations. By explaining what we do and how we do it, Arla can provide the product traceability and transparency of origin that consumers are increasingly demanding.

A GLOBAL SIGN OF TRUST

Arla's cooperative roots provide added value across the world. In Europe, consumers across borders say they trust a farmer-owned company to pay more attention to animal welfare and quality than others. They associate the cooperative with honesty as well as better tasting, healthy and more natural products. In China and other emerging markets being farmer-owned has proved to be a strong asset in attracting the best partners. European products are considered to be of high quality and European farmers are believed to produce milk with greater care.

SUPPORTING THE MILK PRICE

It is important to create awareness that when buying an Arla product the profit goes to the dairy farmers, not a group of shareholders with little or no association to dairy farming. This message is even more important at a point in time when the milk price is under pressure as a result of global market volatility.

In a volatile market trust in Arla's products is paramount. In 2015, we saw UK farmers taking action to raise awareness of their plight amongst the general public through the media. Industry support for the farmer-owned marque gathered momentum as major grocery retailer Asda in the UK committed to carrying the marque on all of its own label fresh liquid milk. Other retailers have since followed the example with similar initiatives in other markets to support farmers.

A LONG-TERM INITIATIVE FOR QUALITY GUARANTEE

Being a large cooperative means people expect more from us. In order to meet their expectations we created the farmer-owned marque as a long-term initiative. Being farmer-owned, Arla is in control of all stages of production from farm to the final product and we promise healthy, fresh and naturally great tasting products. The farmer-owned marque is the reason to believe this promise.

Farmer-owned campaign kicks off

ACTIONS:

CONSUMER UK
- In the UK, a campaign called 'White Wednesdays' mobilised many farmers and colleagues across the country each Wednesday in December to tell the story of Arla being farmer-owned and the associated benefits
- Marque on 68 milk collection tankers, with 12 more to follow
- Marque on Arla® brand packaging and trucks from October 2015

CONSUMER SWEDEN
- Open days for consumers, customers, colleagues and Arla farmers at eight dairies and the launch of the campaign 'We are Arla' where farmers meets consumers
- Marque on Arla® brand packaging from January 2016

CONSUMER DENMARK
- Events like the Arla Food Festival and Open Farm Sunday combined with advertisements create awareness of our farmer ownership
- Marque on Arla® brand packaging and trucks from September 2015

CONSUMER CENTRAL EUROPE
- Marque on Arla® brand packaging from the beginning of 2016

CONSUMER INTERNATIONAL
- Marque in Latin America and South East Asia from the end of 2015
- Marque in Middle East, Africa and China from the first quarter of 2016

SYMBOLS

The farmer-owned marque works in all markets, with minor tweeks to the wording. Across core and growth markets, the launch of the on-pack marque has been followed by activities in social media, websites and events.

On-pack marque in core markets

On-pack marque in growth markets

Trailers, trucks and tail lifts will also carry the logo

OUR STRATEGY

We have performed well during 2015 and Strategy 2017 has been our guiding star. Strategy 2020 will take us successfully into the next decade as we raise our ambitions to the next level. We are not redefining the way we run our business with Strategy 2020. We will focus even stronger on the categories and markets where we see the greatest potential to create value for our farmers’ milk.

OUR STRATEGY

We are in a strong position **for further growth**

In December 2015, Arla's Board of Directors and Executive Management Group presented a new corporate strategy for the coming five years called 'Good Growth 2020'. Building on the solid position Arla has established, the new strategy is an evolution of the direction that we have followed in Strategy 2013 and Strategy 2017.

In our latest strategy plan, Strategy 2017, we have successfully pursued the following ambitions and we now have a favourable position for further growth:

- Develop the core: Capture benefits of leading positions and grow our three global brands
- Deliver the growth: Move milk outside Europe to increase revenue from non-core markets to 20 per cent
- Faster, simpler and leaner: Achieve cost leadership and strong execution with savings of EUR 330 million

The new strategy is not a radical change of direction for Arla and we will build on the solid position that we have established during the previous two strategy periods. We have been preparing Arla to take the role of an international dairy company and our achievements are the main reasons why we are in a favourable position for further growth. Taking Arla into the next decade, we will shape a more efficient supply chain, improve our marketing spend effectiveness through more global branding and drive radical innovation across borders.

STRONG CUSTOMER RELATIONS
We have increased Arla's strategic collaboration with key retailers in order to be their preferred partner to drive profitable growth in the dairy categories.

EFFICIENCY
We have built a more competitive Arla through a year-long restructuring of our supply chain. New technology and ongoing efficiency programmes have streamlined Arla's operations and together with the cross-organisational programmes Design to Value, Total Cost of Ownership and Programme Zero, we have delivered the goal of EUR 330 million in savings during 2012 - 2015.

INVESTMENT IN BRANDS AND INNOVATION
Our decision to focus on three global brands with strong individual profiles has reduced the number of sub-brands and focused our resources.

OWNERS IN SEVEN COUNTRIES
We have built a stronger Arla through cooperative mergers and, today, 12,650 owners in seven countries deliver milk to Arla. As the milk pool has grown, we have been able to strengthen our position as an attractive partner for customers.

LOCAL PARTNERSHIPS
Local partners play an important role in Arla's expansion and we have built partnerships outside Europe in China, Russia, Egypt, Nigeria, Senegal, Ivory Coast, Brazil and Australia.

INTERNATIONAL EXPANSION
By the end of 2015, Arla established a strong position in the Middle East and North Africa and has gained footholds in China, South East Asia, Sub-Saharan Africa, Russia and Americas.

INNOVATION
Arla has, year on year, increased the investment in marketing and innovation in response to consumers' needs across the world.

NUMBER ONE IN NORTHERN EUROPE
Arla has become the number one dairy company in the UK, Sweden and Denmark and among the top three in Germany, The Netherlands and Finland.

A STRONG IDENTITY: GOOD GROWTH
Good Growth is our strong identity and it guides Arla's decisions towards 2020. We have started to commercialise its core principles of healthy, natural, responsible and cooperative growth.

Arla's Strategy: **Good Growth 2020**

Since 2008, our milk intake has increased mainly due to mergers with other dairy cooperatives. Not only did this milk come with new owners of the cooperative, it also came with market positions. However, this is a luxury we do not have going forward. After the abolition of the EU milk quota system in April, extra milk is now coming from our existing owners without market positions and we face a true paradigm shift. Our new strategy Good Growth 2020 is designed to address this and will take Arla into the next decade.

Market trends going forward

GLOBAL SUPPLY AND DEMAND

The dairy industry has become increasingly globalised due to the growing geographical discrepancy between supply and demand. Big dairy producing regions like Europe, the US and New Zealand will increase their supply, while there is a growing milk deficit in Asia and Africa. Consequently, we expect about half of our growth to come from outside the EU. The other half will come from within the EU where our task is to grow in key categories and add value through innovation.

CUSTOMERS AND COMPETITION

Global champions in the highly competitive dairy industry focus on selected categories and win market shares with strong brands and scale. It is imperative that Arla's three global brands grow stronger. In Northern Europe, discounters and private label are growing rapidly and putting pressure on profitability. Arla's customers are looking to build their own brands, which is why we also want to be a strong private label partner.

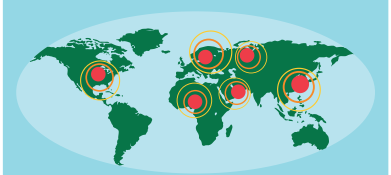
CONSUMER TRENDS

In the coming years, more people will live in the big cities, where they will eat on-the-go, adopt new food cultures quickly and have more money to spend on food. They will look for brands that they can trust to be healthy, natural, of high quality and produced in a responsible way. People want food that can improve their own health and that helps them provide for their children or loved ones in the best possible way during their busy everyday lives. Another global trend is that consumers want locally produced products. Arla needs to play a role in both the global and local games.

OUR VISION
CREATE THE FUTURE OF DAIRY TO BRING HEALTH AND INSPIRATION TO THE WORLD, NATURALLY

EXCEL
IN EIGHT CATEGORIES

FOCUS
ON SIX REGIONS



WIN
AS ONE ARLA

OUR IDENTITY
HEALTHY, NATURAL, RESPONSIBLE AND COOPERATIVE GROWTH

OUR MISSION
TO SECURE THE HIGHEST VALUE FOR OUR FARMERS' MILK WHILE CREATING OPPORTUNITIES FOR THEIR GROWTH

THE FINANCIAL TARGETS OF GOOD GROWTH 2020	ACHIEVED IN 2015	TARGET IN 2020
PEER GROUP PERFORMANCE (peer group index)*	103.7	103 - 105
REVENUE GROWTH IN RETAIL AND FOODSERVICE (volume driven revenue growth)	3.6%	4%
TRADING SHARE	21.5%	~ 20%
BRAND SHARE	42.1%	>45%
GROWTH OUTSIDE EUROPE IN RETAIL AND FOODSERVICE (volume driven revenue growth)	16.9%	>25%

**Peer group index for 2015 is preliminary*

EXCEL IN EIGHT CATEGORIES

To be a leading global dairy company, Arla needs to go for leading category positions that we can grow across markets, regionally or globally. By leading we mean to be among the very best, although not necessarily number one in all categories in all markets.

By analysing our own category strengths and matching these to the consumer needs we see globally, we have identified eight categories as the ones in which we see growth opportunities on a global or regional scale.

Within these eight categories, we want to excel with innovative products, a world class supply chain, compelling marketing and strong partnerships with our customers. We will still be active in other categories, for example in yellow and white cheese, however these will be driven from a national perspective.

We will grow the categories through our three global brands: Arla®, Lurpak® and Castello® as well as through foodservice and business to business sales.

Arla – The dairy champion that brings health and natural goodness to the world

MILK AND POWDER

MILK BASED BEVERAGES

SPREADABLE CHEESE

YOGURT

LURPAK – Champion of good food

BUTTER AND SPREADS

CASTELLO – Creatively crafted cheeses

SPECIALITY CHEESES

Foodservice

MOZZARELLA

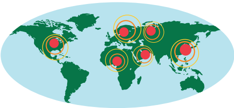
Business to business

INGREDIENTS

WIN AS ONE ARLA

To deliver Strategy 2020, we need to organise Arla to win in the global dairy game - as ONE united and efficient Arla. Over the past years Arla has grown significantly in Europe with six mergers in Central Europe, the UK and Sweden. We have been aligning the different entities into one and harvesting the synergies that the mergers created. Through our Good Growth 2020 strategy we will take this unity to the next level.

We will improve our skills and use the same processes and tools across the organisation. We will put a lot of focus on strengthening our global category and brand building, our innovation across borders and our commercial excellence. Our marketing will become more global, improving our spend effectiveness, and we will drive more radical innovation across borders. Our entire supply chain will be even more efficient as we will establish one European milk pool to ensure a more holistic use of our milk across Arla. Overall, we have set a new ambitious cost improvement target of EUR 400 million to be reached by 2020.



FOCUS ON SIX REGIONS

Arla has identified the six market regions with the biggest potential to grow a long-term profitable business for our owners. We will not be pulling out of any markets, rather we will focus our innovation, investments and competences on these lead markets.

RETAIL AND FOODSERVICE REVENUE TARGET

EUROPE

In Europe, people share food cultures and trends and we will increase collaboration and innovation across the region. We will grow the value of our products through innovation and branding and increase efficiency. In the UK, Sweden and Denmark we will develop our position as the overall dairy champion by expanding the role of dairy in people's lives and suggesting new ways and occasions for consuming dairy products. In other markets, we will be a champion in several of our global categories.

Grow revenue by **3** per cent annually

MIDDLE EAST AND NORTH AFRICA

Middle East is Arla's strongest region after Europe and we are expanding it into North Africa through the recent subsidiary in Egypt. We lead several categories in the region, in particular processed cream cheese under the strong regional brand Puck® and in butter and spreads with Lurpak®. The ambition is to grow our current positions and build new ones within value added milk concepts and milk-based beverages. Also, it is a new ambition to be a strong player in foodservice.

Double revenue

CHINA AND SOUTH EAST ASIA

China is crucial for Arla's success in Asia. We will work closely with our partner, Mengniu to build leading positions in imported standard long life milk and build the category for value added milk beverages as a healthier alternative to soft drinks, both under the Arla® brand. We will sow the seeds for positions in other dairy categories. One is mozzarella, which will drive our expansion into foodservice to capitalise on the Asians' craving for pizza. Selected markets in South East Asia will also be important for Arla's growth.

Quadruple revenue

USA

The USA is the world's largest cheese market. Our main ambition is for Castello® to be one of the leading speciality cheese brands by developing its position and expanding the range with new cheeses within Arla's broad portfolio. An equally important ambition is to build a strong number two position in the huge cream cheese category, currently dominated by domestic brands. However, our Arla® branded products have a unique selling point - they are made from natural ingredients.

Double revenue

SUB-SAHARAN AFRICA

Demand for dairy is growing in West Africa and Nigeria is the region's largest and most important market for Arla. We want to lead the milk powder category and create the foundations for positions in other dairy categories. To make our products more widely available, we will leverage the new subsidiary's distribution network. As we grow our position in Nigeria, we will expand into other markets in the region.

Triple revenue

RUSSIA

Russians share European dairy habits so this huge country holds a lot of potential for Arla in the future. However, due to the current embargo on European imports, we will not make larger strategic bets in Russia at this point in time. We will maintain consumers' loyalty to the Arla® brand by offering locally produced yellow cheese and processed cheese in retail and foodservice. Existing and new products will be produced by our local partner, Molvest.

Maintain revenue position

The six focus regions in Good Growth 2020 are not directly comparable to markets defined in the consolidated financial statements in 2015. This is due to new definitions that will be implemented in our reporting from 2016.

The preferred partner

We will continuously develop our skills and ability to be a strong partner for our customers and to help them grow the dairy categories.

Arla is a strong player in both industry and retail. Our new strategy will expand our global focus on foodservice customers in restaurants, hotels, canteens and coffee shops, for example. For this purpose, we are developing a global foodservice product portfolio. We will also pursue new opportunities within online sales, which is a fast growing channel for dairy products.

OUR CORPORATE GOVERNANCE

Arla is owned by dairy farmers in seven countries. This makes us unique and presents us with both opportunities and challenges. The strength of the cooperative will help us create the future of dairy and bring health and inspiration to the world.

OUR CORPORATE GOVERNANCE

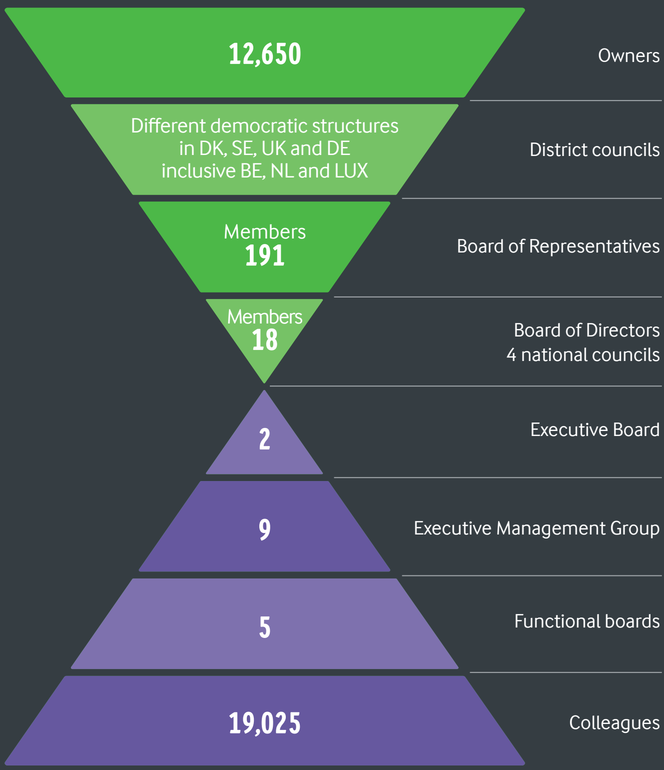
Framework for our **corporate governance**

Arla is a cooperative owned by dairy farmers. Being a large cooperative is an important differentiator for us. Operating it across seven countries is both very rewarding and challenging. Arla's democratic structure gives decision-making authority to the Board of Directors and to the Board of Representatives.

Arla's cooperative foundation has a long history. More than 100 years ago the first dairy cooperatives were founded in Scandinavia with the purpose of buying, processing and selling the owners' milk in the best possible way. Today, our cooperative owners are still both owners of, and suppliers to, Arla. This is the key strength of the cooperative: the long-term, mutually obliging cooperation. Arla's owners are obliged to supply their milk to Arla, thereby securing a supply of our most important raw material. And Arla is obliged to buy their milk. Unlike a limited liability company, the purpose of the cooperative is to pay its owners the highest possible price for their milk. In this way, Arla creates value for its farmers. The cooperative is a unique business model, which requires a democratic and representative governance illustrated in Arla's governance model.

Arla's mission is to secure the highest value for our farmers' milk while creating opportunities for their growth.

ARLA'S GOVERNANCE MODEL



In February 2016, Arla announced significant changes to the organisation. The changes are commencing with a new executive management team based on functional areas and commercial markets. There are seven members of the new executive management team which is a reduction from nine previously.

!

WHISTLEBLOWER SERVICE

Arla Foods is an organisation with strong sense of responsibility and integrity. Arla Foods' Code of Conduct - Our Responsibility - contains general guidelines for conducting business. In addition to this, Arla has a whistleblower service to enable its colleagues in all companies that are majority owned or controlled by Arla to report information about possible irregularities. It is also a channel to voice concerns regarding potential violation of Arla Foods' Code of Conduct or legislation. Since the service started in 2012, Arla has received 26 whistleblowing reports. In 2015, we received nine reports, seven of which were investigated further. The rest were related to human resource issues which, for legal reasons, we cannot register.

THE BOARD OF DIRECTORS' FOCUS IN 2015

Work in the Board of Directors follows an annual plan to cover all the important areas - supervision, strategy, organisation and corporate governance. Here are a few highlights from 2015.

Supervision

Financial and strategic supervision in a very difficult market situation

Strategy

Deciding on the business strategy towards 2020 and preparing the process for developing an owner strategy

Deciding on recruitment of new organic farmers and on managing principles for setting the organic supplement

Organisation

Continued work to align conditions for milk settlement and quality

Corporate governance

Election of the Board of Directors, which for the coming two years will consist of 15 farmers and three employee representatives which is a lower number than in the last term

COOPERATIVE GOVERNANCE

In Arla, cooperative governance lies with the Board of Directors and the Board of Representatives. Their primary tasks are the development of the ownership base, safeguarding the cooperative democracy, embedding decisions and developing competencies.

OWNERS

In 2015, 12,650 milk producers in Denmark, Sweden, the UK, Germany, Belgium, Luxembourg and The Netherlands were joint owners of Arla.

DISTRICT COUNCILS

Each owner country has its own democratic structure resulting in different local organisations. Each year, the cooperative members convene for a local annual assembly in Denmark, Sweden, the UK and Central Europe (Germany, The Netherlands, Belgium and Luxembourg) to ensure the democratic influence of the cooperative owners in the seven owner countries. The members of the district council elect the members who represent their district on the Board of Representatives.

BOARD OF REPRESENTATIVES

The Board of Representatives is the company's supreme body comprising 191 members of whom 179 are cooperative owners while 12 are Arla colleagues. Cooperative owners are elected every other year in odd years. The Board of Representatives makes decisions including appropriation of the profit for the year and elects the Board of Directors. The Board of Representatives meets at least two times a year.

BOARD OF DIRECTORS

Together with the Board of Representatives, the Board of Directors is responsible for decisions relating to long-term strategies. The Board of Directors consists of 15 elected Arla farmers and three employee representatives. The composition of the Board reflects Arla's ownership. The Board of Directors is responsible for monitoring the company's activities and asset management, maintaining the accounts satisfactorily and appointing the Executive Board. The Board of Directors is also responsible for ensuring that Arla is managed in the best interests of its owners.

National councils

Arla has four national councils that are subcommittees of the Board of Directors but consist of members of the Board of Directors as well as members of the Board of Representatives. The national councils are established in the four democratic areas of Sweden, Denmark, Central Europe and UK to take care of the matters that are of special interest to the owners in each country.

CORPORATE GOVERNANCE

In Arla, corporate governance is shared between the Executive Management Group and the Board of Directors. Together, they define the company's strategic direction and ensure adherence to this, organise and manage the company, supervise management and ensure compliance.

EXECUTIVE BOARD

The Executive Board consists of Arla's CEO and vice CEO. They must ensure the proper, long-term growth of the company in a global perspective, drive the corporate strategy, and follow up on the targets for the year. This is where the group's ambitions are defined for cross-disciplinary efforts.

EXECUTIVE MANAGEMENT GROUP

The Executive Management Group is responsible for Arla's day-to-day business operations and for preparing strategies and planning the future operating structure. The Executive Management Group holds a minimum of 11 meetings a year. The Executive Board, Arla's business groups, finance and HR are represented in the group.

FUNCTIONAL BOARDS

The functional boards are interdisciplinary forums to create one course for Arla. It is within these boards that a number of Arla's global polices are defined, where best practices are shared and implemented and where efficiency measures are managed. The functional boards hold four to six meetings a year.

- Finance Board
- Supply Chain Board
- Innovation and Marketing Board
- Customer Board
- Human Resource Board

Anchored in the Finance Board is the Compliance Committee. Financial compliance is key to being a responsible company, and Arla is committed to meeting all applicable laws, rules and regulations in the markets in which we operate. The purpose of the committee is to ensure that Arla remains compliant as it becomes a fast growing global company.

To ensure commitment to the Code of Conduct internally, we have established a CSR committee that is chaired by the CEO and is made up of representatives from the senior management team. The committee prioritises the areas that need additional focus to ensure the company's long-term commitment to responsibility.

COLLEAGUES

Arla has 19,025 colleagues globally, who are represented in the Board of Directors and Board of Representatives.

Inclusion and **diversity**

In Arla, we believe that inclusion and diversity are imperative to our business. We define diversity broadly as differences between people from different backgrounds. In 2010, we launched a 10-year Global Diversity and Inclusion strategy. We believe this will benefit both our people, business, suppliers, consumers and customers.

TARGETS DEFINED FOR 2020

In terms of the composition of teams, the long-term target is that a maximum of 70 per cent of members of any one team should represent the same:

- National/ethnic background
- Gender
- Generation
- Educational/professional background

INCLUSION AND DIVERSITY ACTIVITIES IN 2015

- Ongoing activities from last year's gender representation task force have continued while others have been initiated
- Our Arla Leadership Development Programmes have a specific and separate module dedicated to diversity and inclusion training
- A leadership assessment of all senior directors and above has been executed. Each person had a one-to-one development session with an experienced psychologist to ensure full understanding of their leadership strengths and development areas
- 'Our People' process reviewed the performance and development plans for all females at director level and above in order to put in place development actions for each of them
- Our 2015 global Future 15 graduate programme has 50 per cent female representation and colleagues represent a wide diversity of ethnic and educational backgrounds

INCLUSION AND DIVERSITY GOING FORWARD

In 2016, we will continuously focus on implementing operational practices that aim to improve gender representation within all levels of our organisation. A key priority is to create a female development programme to encourage and empower women to aspire for bigger roles or to maximise their performance in the roles they currently hold. To reach our 2020 targets, we continuously implement techniques to mitigate unconscious bias in our HR processes, and we will further develop the proposals of the gender representation task force and monitor its impact.

DIVERSITY NUMBERS IN 2015

Arla has set targets for the underrepresented gender in the Board of Directors in compliance with the legislation introduced in 2012. As men are highly overrepresented in the industry, the target reflects the gender composition in the owner group. The Board of Directors and Board of Representatives are elected in a democratic process. Diversity is increased by enhancing awareness of the benefits related to diversity in general - not just gender.

Gender in the Board of Representatives in 2015	13%	87%
Gender in the Board of Directors in 2015	6%	94%
Gender in the Executive Management Group in 2015	0%	100%

DIVERSITY NUMBERS IN 2015 FOR COLLEAGUES

Nationalities at director level and above

	59%
	14%
	11%
	7%
Other nationalities	11%

Gender status in 2015 at director level and above	21%	79%
Gender status in 2015 in Arla as a whole	28%	72%

Executive **Management Group**

EXECUTIVE BOARD

Peder Tuborgh
CEO

2005: CEO, Arla Foods
2002: Executive Group Director, Nordics Division, Arla Foods
2000: Divisional Director, Denmark Division, Arla Foods
1994: Marketing Director, Denmark Division, MD Foods
1990: Marketing Manager, Danya Foods Saudi Arabia
1987: Product Manager, MD Foods Germany

Povl Krogsgaard
Vice CEO

2004: Vice CEO, Arla Foods
2000: Executive Group Director, Arla Foods
1998: Executive Group Director, MD Foods
1994: CEO, Mejeriernes Produktionsselskab
1991: Director, Home Market Division, MD Foods
1989: Production Manager, Yellow Cheese, MD Foods
1988: Head of Home Market Division, MD Foods
1987: Head of Mejeriselskabet, Denmark
1979: Danske Mejeriers Fællesorganisation

OTHER EXECUTIVE MANAGEMENT GROUP

Natalie Knight
CFO

2016: CFO Arla foods

2015: Senior Vice President, Group Functions Finance, Adidas

2011: Senior Vice President, Brand and Commercial Finance, Adidas

2008: CFO, Adidas, North America

2004: Vice President, Mergers and Acquisitions and Investor Relations, Adidas

1999: Vice President, Head of Investor Relations, Adidas

1998: Investor Relations Manager, BASF

1995: Investor Relations Specialist, Bankgesellschaft Berlin

Joined the Executive Management Group 1 January 2016

Ola Arvidsson
CHRO

2007: CHRO, Arla Foods

2006: HR Director, Arla Foods

2005: Vice President HR, Unilever Nordic, Helsingborg

2003: European HR Director, Unilever Home and Personal Care Europe, Brussels

2001: HR Director, Unilever, Sweden

2000: HR Director, Lever Faberge Nordic, Unilever, Sweden

1998: HR Director DiversyeLever Nordic, Unilever, Sweden and Denmark

1995: HR Manager, Unilever, Sweden

1988: Officer, Royal Combat Engineering Corps, Swedish Army

Henri de Sauvage Nolting
Executive Vice President, Consumer Sweden, Consumer Finland and Consumer Denmark

2013: Executive Vice President, Consumer Sweden and Finland, from 2014 also Consumer Denmark

2009: Chairman of Unilever Nordic

2006: Country Manager, Unilever, Sweden

2004: Chairman of Ice Cream, Unilever Nordic

1998: Customer & Category Director, Lever Faberge, The Netherlands

1996: General Manager, Hefei Lever, China

1993: Factory Manager, Lever Vlaardingen, The Netherlands

1991: Operations Manager, Lever Brothers Port Sunlight, UK

1989: Technical Manager, Unilever de Fenix, The Netherlands

Peter Giørtz-Carlsen
Executive Vice President, Consumer UK

2014: Executive Vice President, Consumer UK

2011: Executive Vice President, Consumer Denmark, Arla Foods

2010: Vice CEO, Bestseller Fashion Group, China

2008: Managing Director, Cocio Chokolademælk A/S

2003: Vice President, Corporate Strategy, Arla Foods

2002: Business Development Director, Semco/Bravida, Danmark

1999: Management Consultant, Accenture Strategy Practice

Tim Ørting Jørgensen
Executive Vice President, Consumer Central Europe

2012: Executive Vice President, Consumer Central Europe, Arla Foods

2007: Executive Vice President, Consumer International, Arla Foods

2001: Divisional Director, Denmark Division, Arla Foods

1999: Group Project Manager, MD Foods

1996: Commercial Manager, MD Foods do Brasil/Dan Vigor, Brazil

1993: Product Manager, Danya Foods, Saudi Arabia

1992: Trade Marketing Manager for France, MD Foods

1991: Trade Marketing Assistant, Cheese Division, MD Foods

Finn S. Hansen
Executive Vice President, CIN

2012: Executive Vice President, Consumer International, Arla Foods

2008: Senior Vice President, Middle East and North Africa, Arla Foods, Dubai

1994: Regional Director, Division Overseas, Arla Foods, Copenhagen

1994: Regional Director, Overseas Division, MD Foods, Copenhagen

1990: General Manager, Danya Foods, Riyadh, Saudi Arabia

1988: Branch Manager, Danya Foods, Jeddah, Saudi Arabia

1986: Export Manager, Dofo Cheese, Haderslev, Denmark

1984: Area Manager, Dofo Cheese, Haderslev, Denmark

1981: Traffic Manager, Dofo Cheese Inc., Canada

Board of Directors

Åke Hantoft
Chairman

Year of birth: **1952**

Nationality: **Swedish**

Member of the board since: **2000**

Jan Toft Nørgaard
Vice Chairman

Year of birth: **1960**

Nationality: **Danish**

Member of the board since: **2000**

Viggo Ø. Bloch

Year of birth: **1955**

Nationality: **Danish**

Member of the board since: **2003**

Palle Borgström

Year of birth: **1960**

Nationality: **Swedish**

Member of the board since: **2008**

Jonas Carlgren

Year of birth: **1968**

Nationality: **Swedish**

Member of the oard since: **2011**

Matthieu Dobbelstein

Year of birth: **1957**

Nationality: **Belgian**

Member of the board since: **2014**

Resigned from the board 31 December 2015

Manfred Graff

Year of birth: **1959**

Nationality: **German**

Member of the board since: **2012**

Heléne Gunnarson

Year of birth: **1969**

Nationality: **Swedish**

Member of the board since: **2008**

Markus Hübers

Year of birth: **1975**

Nationality: **German**

Member of the board since: **2016**

Joined the board 1 January 2016

Bjørn Jepsen

Year of birth: **1963**

Nationality: **Danish**

Member of the board since: **2011**

Thomas Johansen	Steen Nørgaard Madsen	Torben Myrup	Jonathan Ovens	Johnnie Russell	Manfred Sievers	Ib Bjerglund Nielsen Employee representative	Harry Shaw Employee representative	Haakan Gillström Employee representative
Year of birth: **1959**	Year of birth: **1956**	Year of birth: **1956**	Year of birth: **1957**	Year of birth: **1950**	Year of birth: **1955**	Year of birth: **1960**	Year of birth: **1952**	Year of birth: **1953**
Nationality: **Danish**	Nationality: **Danish**	Nationality: **Danish**	Nationality: **British**	Nationality: **British**	Nationality: **German**	Nationality: **Danish**	Nationality: **British**	Nationality: **Swedish**
Member of the board since: **2002**	Member of the board since: **2005**	Member of the board since: **2006**	Member of the board since: **2014**	Member of the board since: **2012**	Member of the board since: **2013**	Member of the board since: **2013**	Member of the board since: **2013**	Member of the board since: **2015**

Our corporate **responsibility**

At Arla, we are dedicated to developing our business in a responsible manner. This is embedded in our identity, Good Growth. We believe sustainability and profitability go hand in hand, and that our commitment to being responsible will benefit us commercially. During the year, our Code of Conduct - Our Responsibility - has been revised and updated. This strengthens the expectations we have of ourselves and those of our stakeholders, and it further embeds responsibility in our corporate culture.

Below is an extract from our responsibility report, where we report, year-on-year, on how we are adhering to our Code of Conduct. We are proud of what we have achieved during 2015, while we acknowledge that there are opportunities for improvement in the years to come. Read more about how we meet our responsibilities in Arla's Corporate Responsibility report on http://www.arla.com/company/responsibility/csr-reports/ in accordance with section 99a in the Danish Financial Statements Act where the foundations on which we base our Code of Conduct can also be found.

RESPONSIBLE BUSINESS

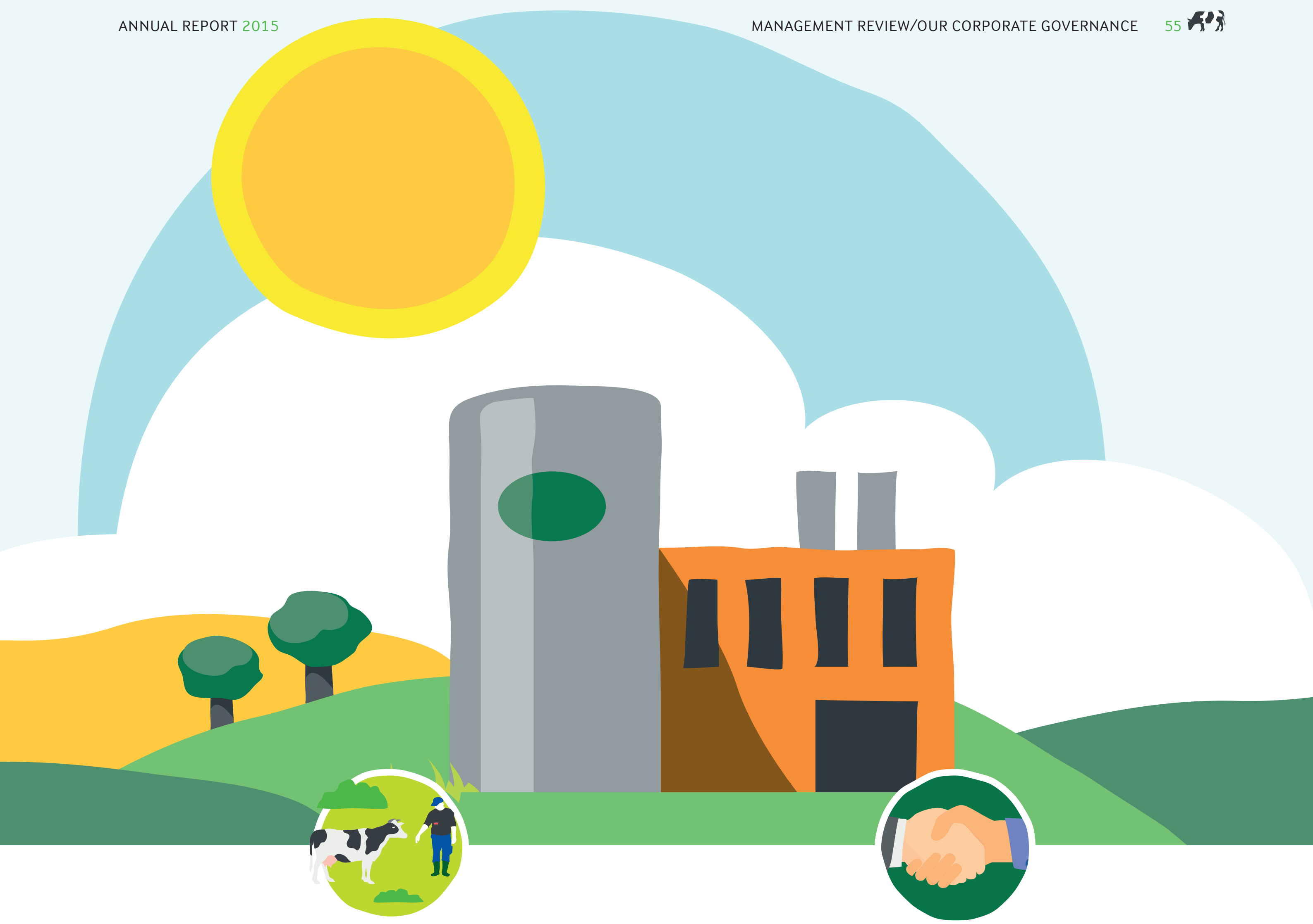
PRINCIPLES:
BUSINESS PRINCIPLES - We act credibly and with integrity in all of our operations
OPERATIONAL PRINCIPLES - We manage our business in a responsible and cooperative way that promotes the financial interests of our owners
MARKET CONDUCT - We have open and honest relationships with all of our stakeholders
PROCUREMENT AND SUPPLIER RELATIONS - We expect our suppliers to support us in our commitment to abide by our Code of Conduct

ACTIONS IN 2015:
- Revision of Our Responsibility - Arla's Code of Conduct, which is now available in 12 languages. The scope includes all companies controlled and/or owned by Arla
- An anti-bribery compliance officer appointed and the process and training developed
- Due diligence process for presumed new business partners revised
- Communication about being farmer-owned
- Active consumer dialogue in digital channels
- Both praise and criticism from customers
- Arla signed up for EU trade associations' fair business practice initiative
- Clarified demands on subcontractors
- Responsible supply of soy, palm and cocoa

CONFIDENCE IN PRODUCTS

PRINCIPLES:
FOOD SAFETY - We ensure our products are safe, no matter where they are manufactured
FOOD AND HEALTH - We make healthy and natural dairy products available to consumers around the globe to enhance the quality of people's lives

ACTIONS IN 2015:
- Transition to global food safety standards - the Global Food Safety Initiative
- Screening developed for foreign substances in milk
- More stringent test for antibiotics in raw milk
- New requirements in new markets
- Increased food safety knowledge among subcontractors
- One global ingredient specification governance model
- Health strategy implemented
- Introduction of Arla® brand - Nutrition Criteria
- Inspiring good food habits
- Arla Foods Dairy Health and Nutrition Excellence Centre opened
- Dairy and dietary guidelines discussed from a sustainability perspective
- Current nutrition and health status of different regions of the world mapped



CARE FOR ENVIRONMENT AND ANIMAL WELFARE

PRINCIPLES:

ENVIRONMENT AND CLIMATE - We continually improve our environmental performance by applying sound and sustainable principles throughout our entire value chain

AGRICULTURE - We support sustainable dairy farming

ACTIONS IN 2015:

- Mapping the total environmental impact from cow to consumer, using the Natural Capital Accounting has been initiated
- Several sites have switched to renewable energy sources
- Solar panels produce energy for sites in Ivory Coast and Bangladesh
- Water recovery and recycling taking place at a number of dairies
- Transport optimisation, minimising fuel consumption and switch to biofuels
- Renewable cartons for milk introduced
- Smarter packaging developed to reduce food waste
- Arlagården® launched in all countries, ensuring all Arla farmers apply the same standards for milk quality, food safety and animal welfare
- Ongoing implementation of the sustainable dairy farming programme, including carbon assessment at farms
- Ongoing research for locally produced protein as an alternative to soy
- Recruitment of organic milk continues

RESPONSIBLE RELATIONS

PRINCIPLES:

WORKPLACE - We have competent, committed and engaged employees, and we provide safe and healthy working conditions

HUMAN RIGHTS - We respect and support internationally recognised human rights

SOCIETY AND COMMUNITY RELATIONS - We engage in open, respectful and constructive community relations

ACTIONS IN 2015:

- Barometer engagement survey in 28 countries and 14 languages; response rate 89 per cent, overall score outperformed benchmark group; impressive agility score and engagement score continues to climb
- Behaviour-based safety programmes in place at many sites
- Head of security position established with focus on colleagues' safety and handling security related incidents
- Training focus on compliance, leadership programmes and a broad spectrum of e-learning
- New human rights policy in place
- Human rights assessment procedure and tools developed and used in Nigeria and Senegal
- We opened dialogue with West African farmers and engaged in 'Milky Way to Development' with international NGO Care to ensure sustainable development for dairy farmers in the region
- Change to passport practise in Saudi Arabia
- Active in global network organisations such as Global Dairy Platform, Sustainable Agriculture Initiative and International Dairy Federation
- Product donations to charities have continued, so has farm visits events. The cooking websites continue to be an inspiration for many consumers

Our corporate risk **governance**

Being in control of the entire value chain means that Arla is well-protected against certain risks. However, as a global dairy company engaged in sales and production across the world, we are exposed to both industry-related political and socio-economic risks. Arla is continuously working actively to identify the corporate risks that can seriously damage the business, and 2015 underlined the importance of this work. A prolonged Russian embargo, the worsening of our owners' financial situation and a few isolated cases of unacceptable behaviour called for mitigating actions during the year.

In 2015, some of our corporate risks turned into reality.

A

Severe reduction in reputation and consumer confidence

During an internal assessment of costs in Sweden, we found an unacceptable spending pattern in a few isolated cases in specific areas of the organisation, mainly related to customer entertainment. Measures have been taken to rectify this including a review of control systems and processes.

D

Political and/or socio-economic instability in emerging markets

The Russian embargo initiated in 2014 has had a significant impact on Arla in 2015 due to the indirect effect on the European market. The inability to supply the Russian market reinforces the pressure that increasing milk volumes bring and that ultimately affect the milk price. Furthermore, the Russian embargo on dairy products was extended to cover products made from vegetable fat and the length of the embargo has been prolonged.

E

Lack of milk supply/owner dissatisfaction

Owners in some of our core markets have experienced a challenging year due to the volatile market situation and, consequently, a lower milk price. These challenges have partly caused the reduction in number of owners but despite this our milk inflow has increased in 2015.

This underlines the importance of corporate risk governance. In Arla, we are working actively to identify our Black Swans, which are the corporate risks that can seriously damage our business. Having identified our Black Swans, we are able to implement mitigating actions to reduce the risks to an acceptable level.

CORPORATE RISK GOVERNANCE

Risk is an integral part of doing business and all big companies face some similar risks. What distinguishes them is their ability to manage these risks. For this reason, corporate risk governance is an important priority for Arla's Board of Directors. However, being in charge of the entire value chain means that Arla is well-protected against individual risks.

We continuously evaluate corporate risks that may impair our performance significantly and therefore prevent Arla from offering a competitive milk price. Effective risk governance ensures that the risks we take are calculated and well-managed by adequate mitigating actions and it is therefore an important tool in helping us reduce uncertainty and achieving our objectives.

At Arla, we take a three pronged approach to corporate risk governance.

1. Spreading the risk

Arla is a continuously growing business and a significant share of the growth is achieved in markets outside Arla's core markets. Our strategy is to spread the risk and this is supported by our growth agenda. Today, Arla has sales, production and subsidiaries globally.

2. Calculated risk

Some risks are worth taking to preserve our business in the long term. If we do not invest in growth, we cannot keep pace with our competitors. The Board of Directors has to weigh the pros and cons of each individual risk and carefully choose the best opportunities for Arla.

3. Adaptability

One of the key roles of the global finance community is to capture the performance of our business to support a 'no surprise culture'. It is vital for management at all levels to carefully monitor market movements and to be able to exercise due care and flexibility to minimise the risk of surprises in operations.

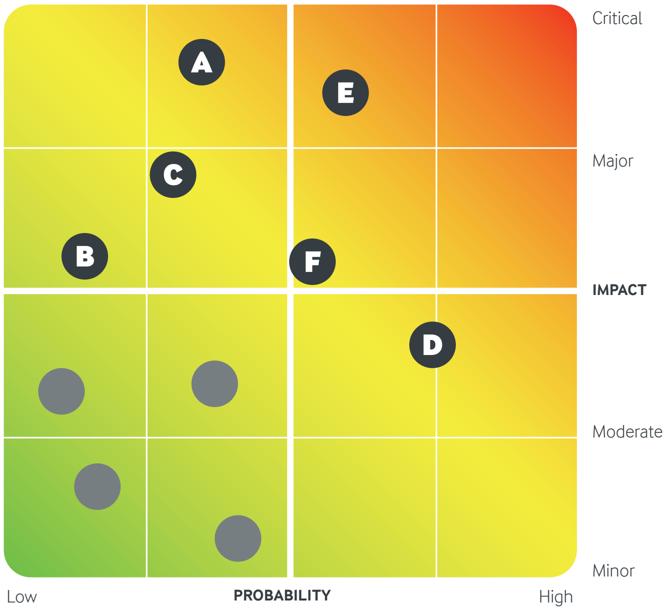
RISK ASSESSMENT

In 2015, Arla's Board of Directors identified the six corporate risks that are the most critical to our business currently. The risk picture remains unchanged, however, we have increased focus on the risk from political and socio-economic instability in emerging markets and owner dissatisfaction based on events during 2015.

When mapping risks the probability is based on the risk that an event will occur and the assumed frequency. Its potential impact is also assessed before precautions are taken. The impact is considered major if it unsettles the entire business platform.

In addition, we are exposed to financial risks as a result of our operating, investing and financing activities and these are managed centrally for Arla. The corporate financial risks are described in note 5.3 in the consolidated financial statements.

CORPORATE RISKS



RISK	CHARACTERISTICS	MITIGATING ACTIONS
A **Severe reduction in reputation and consumer confidence**	An external or internal event resulting in a significant impact on the reputation of Arla - either immediately or over time The causes could be animal welfare, ethics or food safety resulting in major product recall and medium/long-term damage to our brands and positions	Clear focus on our responsibility and the revision of our Code of Conduct - Our Responsibility Quality programmes across all sites and physical locations Systematic focus on 'issues management' in order to constantly be aware of potential damaging issues that could arise
B **Large-scale production site accidents**	Fire, chemical spill, explosion, sabotage related to one or more of Arla's production sites The specialisation of dairies has increased the level of exposure	An emergency programme exists across all production sites Learnings from historical accidents are continuously built into the emergency programme in order to prevent accidents Continuous back-up plans for re-allocation of raw milk to other production sites in the case of a serious breakdown
C **Anti-competitive ruling**	Anti-competitive agreement and/or abuse of dominant position Adverse publicity and damage to reputation Time-consuming and costly investigations, additional third-party claims, sanctions include imprisonment	Compliance manager function supported by governance model and mandate "Tone from the top" Implementation of compliance programme for all relevant employees
D **Political and/or socio-economic instability in emerging markets**	Regulative measures or financial downturn in individual countries or regions preventing Arla from exporting or selling products in the market A potential political and social unrest impacting Arla's profit in one of our growth markets Local restrictions on foreign currency transfers	Diversification strategy across many international markets reducing dependency on single growth markets Joint ventures and partnerships with lower risk Establishment of regional powerhouses in growth markets to support local operations
E **Lack of milk supply/ owner dissatisfaction**	Significant drop in the supply of raw milk from owners Lack of milk supply due to the inability to pay a competitive milk price compared to competitors Significant worsening of the financial situation for our owners Fragmentation of the owner group	Strategy 2020 emphasising profit and performance in order to pay a competitive milk prices to owners Establishment of a process with the Board of Directors, National Councils and the Board of Representatives to strengthen the democratic process in Arla
F **IT meltdown**	An internal or external event causing a major IT-related issue with significant medium- or long-term business impact Examples: Digital terrorism, bankruptcy of key vendors, environmental threats such as solar flares and earth quakes, IT infrastructure breakdown or radical political disturbance in India where the vendors' global outsourcing centre of IT services is located	Multi-vendor set-up completed in order to reduce exposure to single vendors Clear mandate and process for information security in place Thorough due diligence processes and recruitment checks at all strategic vendors Roll-out of IT Code of Conduct and cyber security e-learning

Our tax **affairs**

At Arla we are dedicated to developing our business in a responsible way. Our approach to taxes conforms with our global Code of Conduct - Our Responsibility - and is founded on a set of Key Tax Principles approved by the Board of Directors. We aim to ensure full compliance and support transparency. Our goal is to proactively manage tax in order to control our tax risks.

Our Key Tax Principles

Arla's strategic ambition is to act as a good partner in all tax matters, achieving a balance between managing tax costs, driving efficiencies and ensuring optimisations in a responsible way.

Our Key Tax Principles are aligned with this ambition and are the cornerstones for all tax-related matters in Arla.

- Arla aims to report the right and proper amount of tax according to where value is created
- Arla is committed to pay taxes legally due and to ensure compliance with legislative requirements in all jurisdictions in which the business operates
- Arla does not use tax havens to reduce the group's tax liabilities
- Arla will not set up tax structures intended for tax avoidance which have no commercial substance and do not meet the spirit of the law
- Arla is transparent about our approach to tax and our tax position. Disclosures are made in accordance with relevant regulations and applicable reporting standards such as IFRS
- Arla builds on good relations with tax authorities and trusts that transparency, collaboration and proactiveness minimises the extent of disputes

ACCOUNTABILITY AND GOVERNANCE

Our global tax function is organised and driven to ensure that, as a business, we have the right policies and procedures in place to adhere to the Key Tax Principles.

We continuously work on establishing internal standards and control mechanisms required to adhere to our Key Tax Principles. Accountability for all tax processes is clearly described and, with a few exceptions, lies within the global tax function.

OPERATING UNDER A COOPERATIVE TAX SCHEME

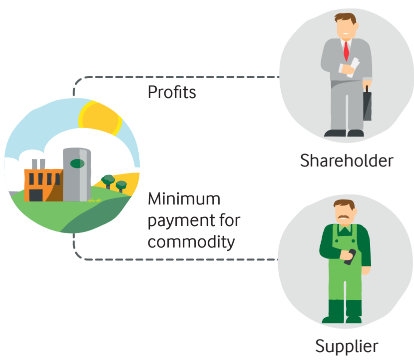
As a dairy cooperative based in Denmark our activities are governed by the Danish tax rules for cooperatives. Danish cooperative tax rules are based on the fact that the cooperative acts as its owners' extended arm. Our owners are also our suppliers, and earnings go back to them in the form of payment for their milk. The company's earnings can therefore be viewed as the owners' personal income.

This means that our owners, as opposed to shareholders, pay income tax on the amount of milk they have delivered in a year multiplied by the milk price - prepaid as well as any supplementary payment - under the applicable rules in the countries in which Arla has owners. It also means that Arla as a cooperative pays income tax in Denmark based on our assets (equity). This income tax should be viewed as interest on the tax of the share of earnings retained in the company.

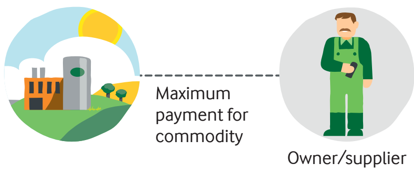
Arla holds a number of subsidiaries globally. Our subsidiaries are typically limited liability and private limited companies subject to regular corporate taxation - just like all other such companies.

GUIDE TO COOPERATIVE TAXES

Limited liability company



Cooperative



Danish cooperative tax rules take account of the fact that Arla's suppliers are also Arla's owners and that earnings do not accrue to the company but its owners in the form of the highest possible payment for their milk.

Paid to owners for local taxation

4.0 billion EUR

Subject to local tax rate in the country of the owner


6900
JOHN DEERE
EB
85 94
DISC ROLLER

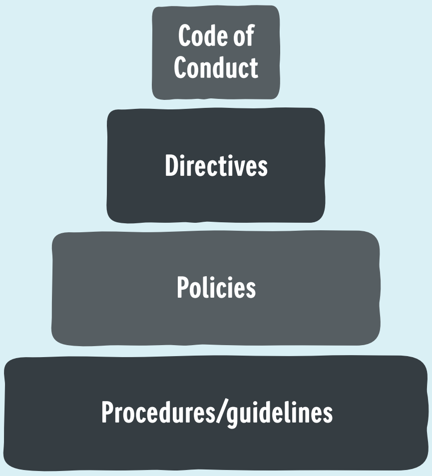
Our moral **compass**

With a global strategy and a company in growth, a strong and uniform approach to compliance and governance is important. Knowing right from wrong goes beyond laws, regulations and a strict set of rules. For us, responsible business conduct comes from living our company values, through our culture of openness and transparency starting at the top of the organisation and spanning all our business groups.

Strong values are the foundation of our company. Arla's corporate directives and polices establish a clear link between our values, incorporated in our responsibility, and the way we conduct our business and engage with our stakeholders, internally and externally. They are global principles that provide guidance to every colleague to align behaviour and actions across countries and functions and put our corporate values into practice.

Adherence to our corporate directives and policies is monitored closely across the organisation and immediate action is taken to remedy non-compliance. Our compliance activities are structured in accordance to the internal control framework, COSO. The activities are dedicated to developing and sustaining efficient systems and internal controls that support business objectives.

OUR GOVERNANCE FRAMEWORK

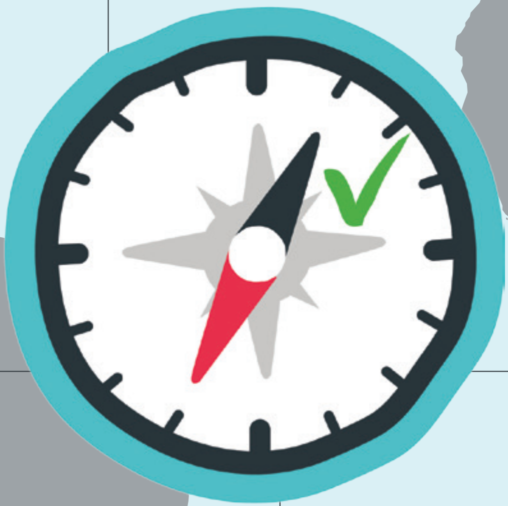


Good practice

Put simply, Arla is people. We are a large cooperative and we rely on one another to act responsibly in accordance to our shared goals and values. We are dedicated to managing our resources in the best possible way. We achieve this through a combination of policies and culture which frame our behaviour. An example of this is within CAPEX, where a budget of two per cent of revenue sets the framework, supported by several policies and guidelines regarding leasing and investment to ensure compliance. Behaviour is monitored actively and corrective actions taken if needed. This also applies to our cost behaviour, as prudence is an integral part of our everyday operations.

Internal controls

We believe that a strong internal control environment is a prerequisite to create a 'no surprise' culture. Using a risk-based approach, the compliance maturity in Arla is monitored through various compliance activities and local compliance visits in order to ensure implementation of adequate risk mitigating measures.



Fraud

Arla has a zero-tolerance approach to fraud and takes all forms of non-compliant transactions very seriously. We have a clear commitment to thoroughly investigate the validity of any credible allegations of fraud and to ensure that the appropriate actions are subsequently taken.

Bribery

It is our policy to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to corruption such as bribery and facilitation payments and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships, wherever we operate, and to implementing and enforcing effective systems to counter corruption.

CONSOLIDATED FINANCIAL STATEMENTS

We want our financial reporting to be best practice and we work diligently to produce a more reader-friendly report.

We have grouped the consolidated financial statements into sections to increase understanding of each accounting area. Each section begins with an overview of the structure, a short introduction and the financial highlights. The notes include information about the accounting policies applied, significant management judgements and estimates, in addition to the financial figures and our financial comments if relevant.

CONSOLIDATED
FINANCIAL STATEMENTS

Primary **statements**

An important key figure for the group is the performance price which measures the value added to each kg of milk supplied by our owners. The performance price is calculated as the prepaid milk price plus the result for the year attributable to owner of Arla Foods amba divided by milk volume supplied.

In 2015, the Board of Directors agreed to reduce the profit expectations to 2.7 - 3 per cent in favour of a higher prepaid milk price. The decision was made to help our owners during the very difficult financial situation.

As a result, profit for the year amounts to EUR 295 million and corresponds to a profit share of 2.8 per cent based on profit allocated to owners of Arla Foods amba.

The proposed supplementary payment for 2015 is EUR 113 million corresponding to EUR-cent 1 per kg owner milk before adjustments according to merger agreements. At 31 December, equity amounts to EUR 2.148 million which equals an equity ratio of 31 per cent.

CONTENT

Performance price

33.7
EUR-cent/kg

Profit

295
million EUR

2.8%*
of revenue

Equity

2.1
billion EUR

Equity ratio
31%

Leverage

3.3

*Based on profit allocated to owners of Arla Foods amba

Consolidated **income statement 1 January - 31 December**

(EURm)	NOTE	2015	2014
Revenue	1.1	10,262	10,614
Production costs	1.2	-7,833	-8,470
Gross profit		**2,429**	**2,144**
Sales and distribution costs	1.2	-1,597	-1,454
Administration costs	1.2	-417	-393
Other operating income	1.3	37	66
Other operating costs	1.3	-74	-52
Share of results after tax in joint ventures and associates	3.4	22	57
Earnings before interest and tax (EBIT)		**400**	**368**
Specification:			
Earnings before interest, tax, depreciation and amortisation (EBITDA)		754	681
Depreciation, amortisation and impairment losses	1.2	-354	-313
Earnings before interest and tax (EBIT)		**400**	**368**
Financial income	5.1	14	54
Financial costs	5.1	-77	-84
Profit before tax		**337**	**338**
Tax	6.1	-42	-18
Profit for the year		**295**	**320**
Minority interests		-10	-6
Arla Foods amba's share of profit for the year		**285**	**314**

Consolidated **statement of comprehensive income 1 January - 31 December**

(EURm)	NOTE	2015	2014
Profit for the year		**295**	**320**
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Actuarial gains/(losses) on defined benefit plans etc.	5.7	34	-65
Income tax on actuarial gains/(losses) on defined benefit plans		-13	12
Items that may be reclassified subsequently to the income statement:			
Deferred gains/(losses) on cash flow hedges arising during the period		-49	-80
Value adjustments of hedging instruments reclassified to other operating income and costs		53	-25
Value adjustments of hedging instruments reclassified to financial items		20	20
Value adjustments of hedging instruments reclassified to production costs		12	-1
Value adjustments of financial assets for the period classified as held for sale		-	3
Foreign exchange adjustments of foreign entities		41	67
Income tax on items that may be reclassified to profit or loss		-1	6
Other comprehensive income, net of tax		**97**	**-63**
Total comprehensive income		**392**	**257**
Allocated as follows:			
Arla Foods amba's share of comprehensive income		380	249
Minority interests		12	8
Total		**392**	**257**

Consolidated **balance sheet 31 December**

(EURm)	NOTE	2015	2014
Assets			
Non-current assets:			
Intangible assets	3.1	873	791
Property, plant and equipment	3.3	2,457	2,399
Investments in associates	3.4	434	432
Investments in joint ventures	3.4	50	55
Deferred tax	6.1	64	72
Other non-current assets		25	25
Total non-current assets		**3,903**	**3,774**
Current assets:			
Inventories	2.1	1,007	988
Trade receivables	2.1	910	917
Derivatives		75	30
Current tax		1	5
Other receivables	3.4	202	250
Securities		509	560
Cash and cash equivalents		70	81
Total current assets excluding assets held for sale		**2,774**	**2,831**
Assets held for sale	4.2	59	8
Total current assets		**2,833**	**2,839**
Total assets		**6,736**	**6,613**
Equity and liabilites			
Equity:			
Equity excluding proposed supplementary payment to owners		2,000	1,747
Proposed supplementary payment to owners		113	104
Arla Foods amba's share of equity		**2,113**	**1,851**
Minority interests		35	23
Total equity		**2,148**	**1,874**
Liabilities			
Non-current liabilities:			
Pension liabilities	5.7	294	376
Provisions	3.5	8	8
Deferred tax	6.1	65	46
Loans	5.2	1,714	1,702
Other non-current liabilities	5.2	3	5
Total non-current liabilities		**2,084**	**2,137**
Current liabilities:			
Loans	5.2	1,076	1,130
Trade payables	2.1	918	977
Provisions	3.5	19	19
Derivatives		158	206
Current tax		5	9
Other current liabilities	3.4	298	261
Total current liabilities excluding liabilities regarding assets held for sale		**2,474**	**2,602**
Liabilities regarding assets held for sale	4.2	30	-
Total current liabilities		**2,504**	**2,602**
Total liabilities		**4,588**	**4,739**
Total equity and liabilities		**6,736**	**6,613**

Consolidated **statement of changes in equity 1 January - 31 December**

	COMMON CAPITAL		INDIVIDUAL CAPITAL			OTHER EQUITY ACCOUNTS					
(EURm)	CAPITAL ACCOUNT	RESERVE FOR SPECIAL PURPOSES	DELIVERY-BASED OWNER CERTIFICATES	CONTRIBUTED CAPITAL	PROPOSED SUPPLEMENTARY PAYMENT TO OWNERS	RESERVE FOR VALUE ADJUSTMENT OF HEDGING INSTRUMENTS	AVAILABLE FOR SALE RESERVE	RESERVE FOR FOREIGN EXCHANGE ADJUSTMENTS	TOTAL	MINORITY INTERESTS	TOTAL EQUITY
Equity at 1 January 2015	**901**	**432**	**99**	**387**	**104**	**-131**	**5**	**54**	**1,851**	**23**	**1,874**
Profit for the year	-	141	-	31	113	-	-	-	285	10	295
Other comprehensive income	21	-	-	-	-	36	-	38	95	2	97
Total comprehensive income	**21**	**141**	**-**	**31**	**113**	**36**	**-**	**38**	**380**	**12**	**392**
Capital issued to new owners	-	-	-	5	-	-	-	-	5	-	5
Payments to owners	-	-	-6	-12	-	-	-	-	-18	-	-18
Dividend to minority shareholders	-	-	-	-	-	-	-	-	-	-10	-10
Disposal of non-controlling interests	-	-	-	-	-	-	-	-	-	10	10
Supplementary payment to owners	-	-	-	-	-105	-	-	-	-105	-	-105
Foreign exchange adjustments	-13	-	1	11	1	-	-	-	-	-	-
Total transactions with owners	**-13**	**-**	**-5**	**4**	**-104**	**-**	**-**	**-**	**-118**	**-**	**-118**
Equity at 31 December 2015	**909**	**573**	**94**	**422**	**113**	**-95**	**5**	**92**	**2,113**	**35**	**2,148**
Equity at 1 January 2014	**924**	**261**	**107**	**323**	**121**	**-45**	**2**	**-6**	**1,687**	**21**	**1,708**
Profit for the year	-	171	-	39	104	-	-	-	314	6	320
Other comprehensive income	-42	-	-	-	-	-86	3	60	-65	2	-63
Total comprehensive income	**-42**	**171**	**-**	**39**	**104**	**-86**	**3**	**60**	**249**	**8**	**257**
Capital issued to new owners	23	-	-	24	-	-	-	-	47	-	47
Payments to owners	-	-	-6	-4	-	-	-	-	-10	-	-10
Dividend to minority shareholders	-	-	-	-	-	-	-	-	-	-6	-6
Supplementary payment to owners	-	-	-	-	-122	-	-	-	-122	-	-122
Foreign exchange adjustments	-4	-	-2	5	1	-	-	-	-	-	-
Total transactions with owners	**19**	**-**	**-8**	**25**	**-121**	**-**	**-**	**-**	**-85**	**-6**	**-91**
Equity at 31 December 2014	**901**	**432**	**99**	**387**	**104**	**-131**	**5**	**54**	**1,851**	**23**	**1,874**

Basis for profit appropriation	**2015**	**2014**
Profit for the year	295	320
Minority interests	-10	-6
Arla Foods amba's share of the net profit for the year	**285**	**314**
Proposed profit appropriation:		
Supplementary payment for milk	110	101
Interest on contributed capital	3	3
Supplementary payment, total	**113**	**104**
Transferred to equity:		
Reserve for special purposes	141	171
Contributed capital	31	39
Transferred to equity, total	**172**	**210**
Appropriated profit, total	**285**	**314**

PROFIT APPROPRIATION

Supplementary payment:
1EUR-cent/kg owner milk

Consolidation principles:
Common capital 2/3
Individual capital 1/3

Performance price
33.72 EUR-cent/kg

Prepaid
31.44 EUR-cent/kg

Profit for the year
285*** EURm
2.28 EUR-cent/kg

Supplementary payment
125 EURm
3* EURm
-15** EURm
113 EURm

Consolidation
157 EURm

Common capital
105 EURm
21** EURm
15** EURm
141 EURm

Individual capital
52 EURm
-21** EURm
31 EURm

*Interest on contributed capital: 0.02 EUR-cent/kg owner milk
** According to merger agreements
*** Based on profit allocated to owners of Arla Foods amba

Understanding the equity

Equity accounts regulated by the articles of association can be split into three main categories; common capital, individual capital and other equity accounts. The characteristics of each account is explained in detail below:

Common capital

Common capital is by nature undivided and consists of the *capital account* and the *reserve for special purposes*. The *capital account* represents a strong foundation for the cooperative's equity as the non-impairment clause described below determines that the account can not be used for payment to owners. The *reserve for special purposes* is an account that in extraordinary situations can be used to compensate owners for losses or impairments affecting the profit for appropriation. Amounts transferred from the annual profit appropriation to common capital are booked on this account.

Individual capital

Individual capital is capital allocated to each owner based on their delivered milk volume. Individual capital consists of *delivery-based owner certificates and contributed capital*. Amounts registered on these accounts will, subject to approval by the Board of Representatives, be paid out if the owner decides to leave the cooperative. Amounts allocated to individual capital as part of the annual profit appropriation are interest bearing. Also characterised as individual capital is the account for *proposed supplementary payment to owners* that will be paid out following the approval of the annual report.

Other equity accounts

Other equity accounts include accounts prescribed by IFRS that shall be traced individually and can not be used for payment to owners. This includes *reserve for value adjustment of hedging instruments, available for sale reserve* and *reserve for foreign exchange adjustments*.

Minority interests

Minority interests include the share of group equity attributable to holders of minority interests in group companies.

Financial comments

During 2015, equity increased by EUR 274 million compared to 31 December 2014.

Profit appropriation

Basis for proposed supplementary payment is EUR 125 million corresponding to EUR-cent 1 per kg owner milk. As set out in the merger agreement with AMCo, the UK, EUR 15 million of their share of supplementary payment is transferred separately to reserve for special purposes. Interest on consolidated contributed capital amounts to EUR 3 million where after supplementary payment is EUR 113 million. This is an increase of EUR 9 million compared to last year due to increased milk volumes from owners. The average supplementary payment of EUR-cent 1 per kg owner milk is unchanged from last year.

Basis for consolidation is EUR 157 million split by 1/3 to contributed capital amounting to EUR 52 million and by 2/3 to reserve for special purposes amounting to EUR 105 million. As set out in merger agreements, EUR 21 million of the contributed capital amounting to EUR 52 million is transferred from contributed capital to reserve for special purposes.

Consolidation for the year totals EUR 172 million of which EUR 31 million is transferred to contributed capital and EUR 141 million is transferred to reserve for special purposes. Compared to last year this is a decrease of EUR 38 million.

Other comprehensive income

Other comprehensive income amounting to EUR 97 million is primarily attributable to positive value adjustments of hedging instruments and net assets measured in foreign currencies. Furthermore, actuarial gains on pension liabilities have positively impacted the capital account due to higher interest rates.

Payments to and from owners

A supplementary payment relating to 2014 totalling EUR 105 million was paid out in March 2015. Additionally, EUR 18 million was paid out to owners resigning or retiring from the cooperative.
It is expected that EUR 20 million will be paid out in 2016 to owners resigning or retiring.

Regulations according to Articles of Association and IFRS

Recognised within the *capital account* are technical items such as movements on actuarial gains or losses on defined benefit pension schemes, effects from disposal and acquisitions of non-controlling interests in subsidiaries and exchange rate differences in the owners' equity instruments. Furthermore, the account is impacted by agreed contributions from new members of the cooperative.

Recognised within the *reserve for special purposes* is the annual profit appropriation to common capital. Further it may, upon the Board of Director's proposal, be applied by the Board of Representatives for the full or partial off-setting of material extraordinary losses or impairment in accordance to article 21(iii) of the Articles of Association.

Delivery-based owner certificates are established in accordance with article 21(1)(ii) of the Articles of Association and related regulations. Consolidation on this account is suspended from 2010.

Contributed capital is established in accordance with article 21(1)(iii) of the Articles of Association and regulation. Amounts consolidated as contributed capital via the annual profit appropriation carry interest at CIBOR 12 months + 1.5%. Amounts paid into the contributed capital in connection with mergers carry no interest. Interest is paid out along with the supplementary payment.

Individual owners' balances on delivery-based owner certificates and on contributed capital can be paid out over three years upon termination of membership of Arla Foods amba in accordance with the Articles of Association subject to the Board of Representatives' approval. Balances on individual accounts are denominated in the currency relevant to the country in which the members are registered. Foreign currency translation adjustments are calculated annually, the amount of which is then transferred to the capital account.

Proposed supplementary payment to owners is recognised separately in equity until paid out.

Reserve for value adjustments of hedging instruments comprise the fair value adjustment of derivative financial instruments classified as and meeting the conditions for hedging of future cash flows and where the hedged transaction has not yet been realised.

Available for sale reserve comprises value adjustments on securities classified as held for sale.

Reserve for foreign exchange adjustments comprises currency translation differences arising during the translation of the financial statements of foreign companies including value adjustments relating to assets and liabilities that constitute part of the group's net investment, and value adjustments relating to hedging transactions that hedge the group's net investment.

Non-impairment clause

Under the Article of Association, no payment may be made by Arla Foods amba to owners that impair the sum of the capital account and equity accounts prescribed by law and by IFRS. The non-impairment clause is assessed on the basis of the most recent annual report presented under IFRS. Individual accounts, reserve for special purposes and proposed supplementary payment to owners are not covered by the non-impairment clause.

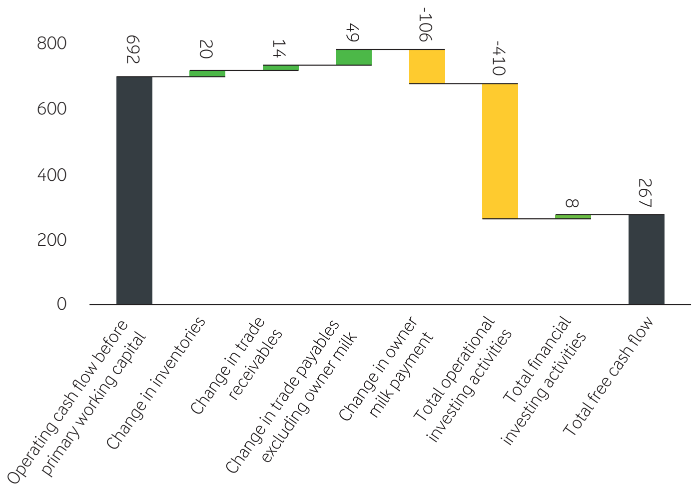
Minority interests

Subsidiaries are fully recognised in the consolidated financial statements. Minority interests' share of the results for the year and of the equity in the subsidiaries that are not wholly owned are recognised as part of the consolidated results and equity, respectively, but are listed separately. On initial recognition, minority interests are measured at either the fair value of the equity interest or the proportional share of the fair value of the acquired companies identified assets, liabilities and contingent liabilities. The measurement of minority interests is selected on a transactional basis, and disclosure is made in the note pertaining to business combinations.

Consolidated **cash flow statement** **1 January - 31 December**

(EURm)	NOTE	2015	2014
Cash flows from operating activities			
EBITDA		754	681
Share of results in joint ventures and associates	3.4	-22	-57
Change in primary working capital	2.1	-23	-16
Change in other working capital		10	-75
Other operating items without cash impact		11	42
Dividends received, joint ventures and associates		8	7
Interest paid		-56	-72
Interest received		6	3
Tax paid	6.1	-19	-2
Total cash flow from operating activities		**669**	**511**
Investment in intangible fixed assets	3.1	-70	-33
Investment in property, plant and equipment	3.3	-348	-429
Sale of property, plant and equipment	3.3	8	-
Total operating investing activities		**-410**	**-462**
Free operating cash flow		**259**	**49**
Sale of financial assets		-	14
Acquisition of enterprises		-29	15
Sale of enterprises		37	17
Total financial investing activities		**8**	**46**
Total cash flow from investing activities		**-402**	**-416**
Total free cash flow		**267**	**95**
Cash flows from financing activities			
Supplementary payment regarding the previous financial year		-105	-122
Paid in funds from new owners		5	12
Paid out from equity regarding terminated membership contracts		-18	-10
Loans obtained, net	5.2	-173	44
Change in current liabilities		-33	-35
Net change in marketable securities		50	18
Total cash flow from financing activities		**-274**	**-93**
Net cash flow		**-7**	**2**
Cash and cash equivalents at 1 January		81	76
Exchange rate adjustments of cash funds		3	3
Transferred to assets held for sale		-7	-
Cash and cash equivalents at 31 December		**70**	**81**

SPECIFICATION OF TOTAL FREE CASH FLOW (EURm)



Accounting policies

The consolidated cash flow statement is presented according to the indirect method, whereby the cash flow from operating activities is determined by adjusting EBITDA for the effects of non-cash items such as undistributed results in joint ventures and associates and the effects of changes in primary working capital items during the period.

Financial comments

Cash flows from operating activities were improved by EUR 158 million to EUR 669 million. The change is attributable to higher EBITDA and changes in primary working capital. Our efforts to reduce working capital continues to release cash, however payables related to owner milk have decreased by EUR 106 million due to the lower milk price and the timing of milk payments.

Cash flows from investment activities were EUR -402 million compared with EUR -416 million in 2014. Significant investments relate to the facilities in Upahl in Germany, Videbæk in Denmark and Falkenberg in Sweden. Free cash flows totalled EUR 267 million compared with EUR 95 million in 2014. These are calculated as cash flows from operating activities less cash flows from investment activities.

Cash flows from financing activities were EUR -274 million, which were mainly affected by the supplementary payment relating to 2014, paid out in 2015, and repayment of loans.

Combined cash and cash equivalents represented EUR 70 million, compared with EUR 81 million at the end of 2014.

Note 1
Operating profit

Operating profit is defined as earnings before share of result from joint ventures and associates, interest and tax. In 2015 operating profit amounts to EUR 378 corresponding to an increase of EUR 68 million.

Revenue has decreased by 3.3 per cent compared to 2014. The decline in world market prices has had significant negative price effect only partly offset by increasing milk volumes resulting in an organic revenue development of -8.4 per cent.

Total costs have decreased by 4.6 per cent in 2015 compared to 2014 primarily due to a significant decrease of EUR 637 million in production cost as a result of the lower milk price despite the increased volume. The average cost per kg milk has decreased to EUR-cent 32.04 per kg.

Sales and distribution costs as well as administration costs have increased by EUR 143 million and EUR 24 million respectively. Non raw milk cost has increased 4.4 per cent.

CONTENT

Organic revenue development

-8.4%

Average cost per kg milk

32.04
EUR-cent/kg

Milk volume development

4.6%

Average number of full time employees

19,025

NOTE 1.1 REVENUE

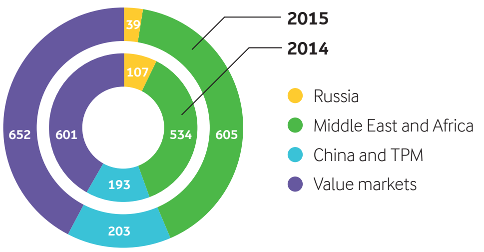
Accounting policies

Revenue from the sale of dairy and other food products is recognised in the income statement when delivery and risk of the products have passed to the buyer, the amount of revenue can be measured reliably, and collection is probable. Revenue comprises invoiced sales for the year less sales rebates, cash discounts, VAT and duties. Revenue by business group/market and product category is based on the group's internal financial reporting.

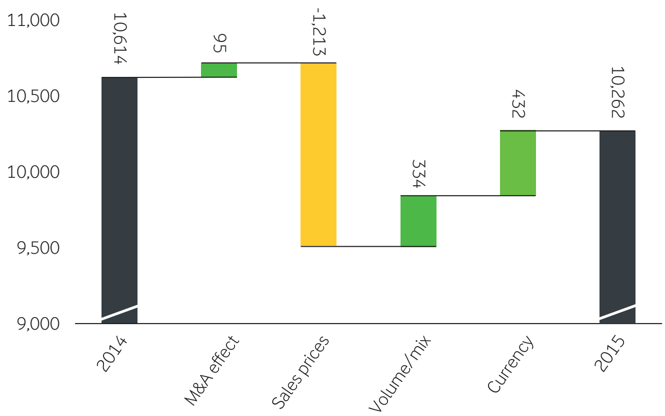
Note 1.1.a Revenue split by business group/market
(EURm)

	2015		2014
	ORGANIC DEVELOPMENT	REVENUE	REVENUE
Consumer UK [1]	-8.1%	2,890	2,828
Consumer Sweden [1]	-4.1%	1,451	1,516
Consumer Finland [1]	-1.6%	346	352
Consumer Denmark [1]	-4.2%	917	957
Consumer Central Europe [1]	-11.5%	1,844	1,990
Consumer International [2,3]	-0.1%	1,499	1,437
Arla Foods Ingredients [2]	5.2%	368	340
Global Categories and Operations - trading [4]	-22.1%	773	983
Others [4]	n/a	174	211
Total revenue	**-8.4%**	**10,262**	**10,614**
1 Core markets	**-6.3%**	**7,448**	**7,643**
2 Growth markets and Arla Foods Ingredients	**0.0%**	**1,250**	**1,179**
3 Value markets	**4.1%**	**617**	**598**
4 Trading and others	**n/a**	**947**	**1,194**

REVENUE SPLIT BY MARKET IN CONSUMER INTERNATIONAL (EURm)



DEVELOPMENT IN REVENUE (EURm)



Note 1.1.b Brand share by business group	2015	2014
Consumer UK	25.5%	25.6%
Consumer Sweden	85.8%	88.1%
Consumer Finland	60.2%	72.6%
Consumer Denmark	69.4%	66.4%
Consumer Central Europe	19.5%	19.1%
Consumer International	71.4%	70.7%
Arla Foods Ingredients	39.9%	44.9%
Global Categories and Operations - trading	1.2%	1.5%
Total brand share	**42.1%**	**41.2%**

REVENUE SPLIT BY PRODUCT CATEGORY

	Fresh dairy products	Cheese	Butter and spreads	Milk powder	Whey products	Other
2015	42%	25%	13%	8%	4%	8%
2014	42%	25%	13%	10%	3%	7%

Financial comments

Revenue has decreased by 3.3 per cent compared to 2014 due to the decline in world market prices affected by the Russian embargo, the consequences of the declining Chinese demand and the abolition of the EU milk quota system. Revenue has decreased primarily in core markets and on trading activities handled by Global Categories and Operations. However, revenue in growth markets and value markets has increased in 2015.

The negative price development resulted in a decrease in revenue of 11.4 per cent. However the negative effect is partially offset by a positive development in currencies of 4.1 per cent and a positive development from the increasing volumes of 3.1 per cent.

Adjusting total revenue for the effect from acquisitions and divestments results in a negative organic revenue development of 8.4 per cent.

Even with volume driven revenue growth of 4.3 percent, driven by Arla Foods Ingredients, Consumer International and Consumer Finland, volumes have not increased enough to compensate for the market volatility.

In 2015, the group remained committed to the plan to move additional milk into profitable branded and private label, retail and foodservice products and as a result, the brand share has increased from 41.2 per cent to 42.1 per cent. The group managed to move more milk into branded products, primarily in Consumer Denmark and Consumer International.

Revenue split by category remains unchanged compared to last year. Fresh dairy products are by far the largest category consisting of milk, cream, UHT and yogurt.

NOTE 1.2 COSTS

Accounting policies

Production costs
Production costs comprise purchase of goods; including the purchase of milk from cooperative owners, and direct and indirect costs including depreciation and impairment losses on production plant as well as payroll costs related to revenue for the year. The purchase of milk from cooperative owners is recognised at prepaid prices for the accounting period and therefore does not include supplementary payment, which is classified as distributions to owners and recognised directly in equity.

Sales and distribution costs
Costs incurred on the sale and distribution of goods sold in the course of the year, and for promotional campaigns are recognised as sales and distribution costs. Costs relating to sales staff, write-down of receivables sponsorship, research and development, advertising and exhibits, and depreciation and impairment losses, are also recognised as sales and distribution costs.

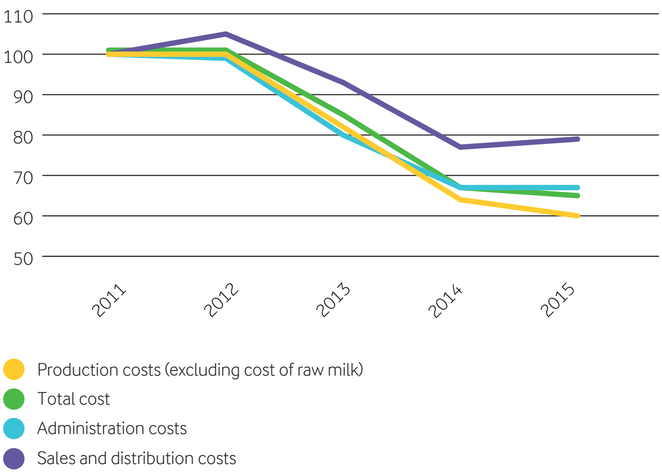
Administration costs
Administration costs incurred in the course of the year relate to management and administration, including administrative staff, office premises and office costs, as well as depreciation and impairment losses.

Note 1.2.a Split of total functional costs
(EURm)

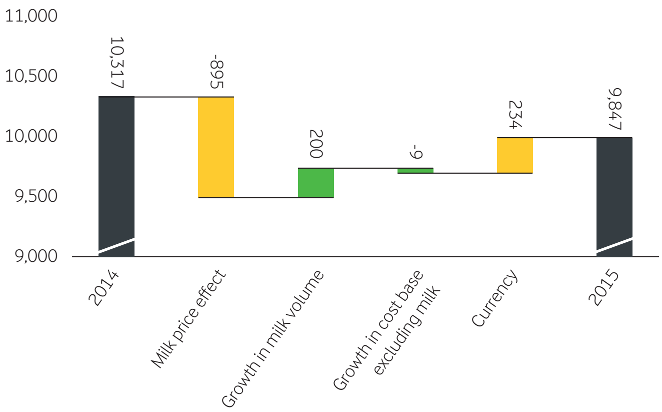
	2015	2014
Production costs	-7,833	-8,470
Sales and distribution costs	-1,597	-1,454
Administration costs	-417	-393
Total	**-9,847**	**-10,317**
of this:		
Cost of raw milk	-4,547	-5,242
Staff costs	-1,225	-1,156
Depreciation, amortisation and impairment	-354	-313
Other costs*	-3,721	-3,606
Total	**-9,847**	**-10,317**

*Other cost mainly includes packaging, additives, consumables, change in inventory, transportation, marketing and utilities.

DEVELOPMENT IN FUNCTIONAL COST 2011 - 2015 PER KG OWNER MILK (index)



DEVELOPMENT IN COST (EURm)



Financial comments

Total functional costs have declined by EUR 470 million equal to 4.6 per cent compared to last year primarily due to declining milk prices of EUR 695 million. Excluding cost of raw milk other costs have increased with 4.4 per cent primarily as a result of higher activity and currency effects.

The focus is on keeping costs down to pass on the highest possible milk price to the owners through the prepaid price milk and supplementary payment. In general variable costs excluding milk cost have risen due to increased activities, while fixed costs have increased at a proportionately lesser rate. Hence, the total costs per kg milk, excluding cost of raw milk, has decreased due to economies of scale.

Production costs excluding milk have only increased by 1.8 per cent compared to a growth in milk volume of 4.6 per cent due to a constant focus on scalability.

Sales and distribution cost have increased by 9.8 per cent, mainly driven by marketing costs to support the strategic goal of moving more milk into branded products.

Administration costs have increased by EUR 24 million, driven by increased cost related to product development, and insourcing of cost beneficial activities.

Research and development costs incurred, amount to EUR 46 million compared with EUR 39 million last year.

Note 1.2.b Cost of raw milk

	2015		2014	
	WEIGHED IN MIO. KG.	EURm	WEIGHED IN MIO. KG.	EURm
Owner milk	12,463	-3,918	11,738	-4,559
Other milk	1,729	-629	1,832	-683
Total	**14,192**	**-4,547**	**13,570**	**-5,242**

Financial comments

The cost of raw milk has decreased by EUR 695 million. Lower milk prices have reduced costs by EUR 895 million offset by increased volumes of EUR 200 million. The costs related to the prepaid milk price to owners has been reduced by EUR 641 million, even though the inflow of raw milk has increased by 725 million kg. This illustrates the difficult situation our owners are in.

Other non-owner milk primarily relates to speciality milk in the Allgäu region in Germany and in Finland.

Note 1.2.c Staff costs
(EURm)

	2015	2014
Wages, salaries and remuneration	-1,043	-982
Pensions - defined contribution plans	-70	-64
Pensions - defined benefit plans	-5	-2
Other social security costs	-107	-108
Total staff costs	**-1,225**	**-1,156**
Staff costs relate to:		
Production costs	-676	-641
Sales and distribution costs	-355	-344
Administration costs	-182	-161
Staff cost recognised as inventory or fixed assets	-12	-10
Total staff costs	**-1,225**	**-1,156**
Average number of full time employees	19,025	19,155

Financial comments

Staff costs, adjusted for currency effects, have increased by 3.5 per cent to EUR 1,225 million. The increased costs in production and sales, related to the handling of increased milk volumes, has been compensated with the implementation of efficiency programs and a continuous focus on staff costs. Salary levels and developments are closely monitored and benchmarked against local market levels. The increased focus on innovation and in-sourcing of cost beneficial activities, has increased staff costs.

During the year-end, the number of full time employees has decreased by 130 employees, when compared to last year.

Note 1.2.d Depreciation, amortisation and impairment losses
(EURm)

	2015	2014
Intangible assets, amortisation	-34	-31
Property, plant and equipment, depreciation	-320	-282
Total depreciation, amortisation and impairment losses	**-354**	**-313**
Depreciation/amortisation and impairment losses relate to:		
Production costs	-287	-263
Sales and distribution costs	-31	-21
Administration costs	-36	-29
Total depreciation, amortisation and impairment losses	**-354**	**-313**

Financial comments

Depreciation, amortisation and impairment losses has increased due to the full year effect of significant CAPEX-investments in previous years, as well as currency effects.

NOTE 1.3 OTHER OPERATING INCOME AND COSTS

Accounting policies

Other operating income and costs comprise items secondary to the group's primary activities.

These items comprise gains and losses relating to:
- Divestment of intangible assets and property, plant and equipment
- Gains and losses relating to financial instruments
- Compensation from insurance contracts

Note 1.3.a Other operating income
(EURm)

	2015	2014
Gain on disposal of intangible assets and property, plant and equipment	2	10
Insurance proceeds	-	22
Sale of electricity	6	8
Rent and other secondary income	3	-
Value adjustment related to divestments	7	-
Other items	19	26
Total other operating income	**37**	**66**

1.3.b Other operating cost
(EURm)

	2015	2014
Loss on disposal of intangible assets and property, plant and equipment	-3	-3
Costs relating to the sale of electricity	-5	-5
Financial instruments	-51	-25
Other items	-15	-19
Total other operating costs	**-74**	**-52**

Financial comments

Losses on financial instruments used for hedging of future sales have increased by EUR 26 million as a result of the increasing GBP and USD during the year.

In 2015 the group settled an earn out regarding a divestment made in prior years with an income effect of EUR 7 million.

Other operating income and costs include income and costs related to the sale of surplus power from condensation plants. The net result of this was EUR 1 million compared with EUR 3 million in 2014.

Note 2
Net working capital

Release of cash is a key driver in funding new activities and investments and securing long term earnings for owners. One way to release cash is by reducing net working capital.

Despite positive effects from Programme Zero, the total primary net working capital increased by EUR 71 million, corresponding to an increase of 8 per cent, which is caused by difference in the timing of payment for owner milk near year-end.

However corrected for owner milk the total primary net working capital has decreased by EUR 34 million.

CONTENT

Primary net working capital development

8%

NOTE 2.1. NET WORKING CAPITAL

Accounting policies

Inventories
Inventories are measured at the lower of cost or net realisable value, calculated on a first-in, first-out basis. The net realisable value is established taking into account the inventories' negotiability, marketability and estimate of the selling price, less completion costs and costs incurred to execute the sale.

The cost of raw materials, consumables as well as commercial goods includes the purchase price plus delivery costs. The prepaid price to Arla's owners is used as the purchase price for owner milk.

The cost of work in progress and manufactured goods also includes an appropriate share of production overheads, including depreciation, based on the normal operating capacity of the production facilities.

Trade receivables
Trade receivables are recognised at the invoiced amount less write-downs for amounts considered irrecoverable (amortised cost). Write-downs are measured as the difference between the carrying amount and the present value of anticipated cash flow. Write-downs are assessed on major individual receivables or in groups at portfolio level based on the receivables' age and maturity profile as well as historical records of losses.

Trade payables
Trade payables are measured at amortised cost, which usually corresponds to the invoiced amounts.

Uncertainties and estimates

Inventories
The entities in the group that use standard costs for calculating inventory revise their indirect production costs at least once a year. Standard costs are also revised if they deviate materially from the actual cost of the individual product. Indirect production costs are calculated based on relevant assumptions with respect to capacity utilisation, production time and other factors characterising the individual product.

The assessment of the net realisable value requires judgement, particularly in relation to the estimate of the selling price of certain cheese stocks with long maturity, discounted products and bulk products to be sold in the world market.

Receivables
Write-downs of receivables are based on individual assessments, in cases where signs of impairment are detected, in connection with customers' insolvency or anticipated insolvency. Furthermore a mathematical computation based on number of days overdue is used. Additional write-downs may be necessary in future reporting periods if customers' financial conditions worsen and customers are no longer able to meet their payment obligations. Movements for the year related to write-down of receivables pertaining to sales and services are shown below.

Customer specific bonuses are calculated based on actual agreements with retailers, however, some uncertainty exists when estimating exact amounts to be settled and timing of these settlements.

Note 2.1.a Primary net working capital

(EURm)	2015	2014
Inventories	1,007	988
Trade receivables	910	917
Trade payables	-918	-977
Total primary net working capital	**999**	**928**
Payables for member milk	200	305
Total primary net working capital excluding owner milk	**1,199**	**1,233**

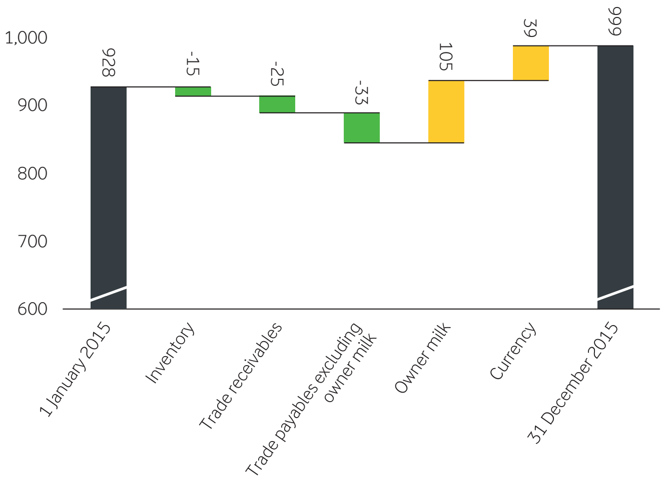
Note 2.1.b Inventory

(EURm)	2015	2014
Inventory, gross	1,036	1,025
Write-downs	-29	-37
Total inventory	**1,007**	**988**
Raw materials and consumables	224	213
Work in progress	294	334
Finished goods and goods for resale	489	441
Total inventory	**1,007**	**988**

Note 2.1.c Trade receivables

(EURm)	2015	2014
Trade receivables before provision for bad debts	922	940
Write-downs for bad debts	-12	-23
Total trade receivables, net	**910**	**917**
Write-down for bad debts at 1 January	23	12
Foreign currency translation adjustments	-	1
Additions/reversals	-9	11
Write-downs used	-2	-1
Write-down for bad debts at 31 December	**12**	**23**

DEVELOPMENT IN PRIMARY WORKING CAPITAL (EURm)



Financial comments

The group has constant focus on improving net working capital. Processes are continuously being optimised with focus on payment terms, inventory forecasting accuracy and internal planning.

The primary net working capital is positively affected by the working capital project Programme Zero, which have succeeded in delivering an improvement in primary net working capital of EUR 151 million.

Increased volumes at year end combined with a shift into more value adding products has increased the value of inventory. This has been offset by the declining milk price which has impacted the inventory by approximately 10 per cent. The net effect has been a decline of EUR 15 million excluding currency.

The declining milk price and focus on cash collection has reduced trade receivables. This has been partly offset by higher volumes. Trade receivables excluding currency has decreased by EUR 25 million compared to last year.

Exposure to credit risk on trade receivables is managed locally in the operating entities. Credit limits are set based on the customer's financial position and the current market conditions. Generally, the group does not hold collateral as security for trade receivables. The customer portfolio is diversified in terms of geography, industry sector and customer size. The group is not exposed to credit risk related to significant individual customers but to the general credit risk in the retail sector. Historically amounts written off as irrecoverable have been relatively low, which is also the case in 2015. Overdue above 90 days on trade receivables amounts to less than 2 per cent.

Trade payables excluding owner milk and currency increased EUR 33 million. Owner milk decreased by EUR 105 million due to lower milk price and timing of the biweekly milk payment.

Currency have increased net working capital with EUR 39 million.

Note 3
Other operating assets and liabilities

In order to accommodate for the increase in milk volumes, adequate production capacity was required. During 2015, the group invested approximately EUR 350 million in property, plant and equipment to improve capacity, efficiency, quality and environmental performance. Furthermore, EUR 70 million was invested in IT and other development projects. These investments contribute to increased long term profitability, and makes production more efficient and environmentally friendly. These initiatives directly support our Good Growth strategy.

CONTENT

Property, plant and equipment by country

Denmark	37%
Sweden	13%
UK	32%
Germany	11%
Other	7%

Investments in property, plant and equipment

350 million EUR

Carrying value of joint ventures and associates

484 million EUR

NOTE 3.1 INTANGIBLE ASSETS

Accounting policies

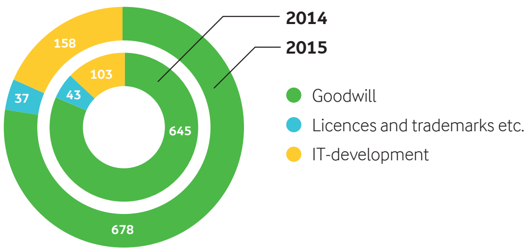
Goodwill
Goodwill represents the premium paid by the group above the fair value of the net assets of an acquired company. On initial recognition, goodwill is recognised at cost as described under note 4.1 'Business combinations'. Goodwill is subsequently measured at cost less any accumulated impairment. The carrying amount of goodwill is allocated to the group's cash-generating units that follow the management structure and internal financial reporting. Cash-generating units are the smallest group of assets which is able to generate independent cash inflows.

Licences and trademarks
Licences and trademarks are initially recognised at cost. The cost is subsequently amortised on a straight-line basis over their expected useful lives.

IT and other development projects
Costs incurred during the research phase in carrying out general assessments of the group's needs and available technologies are expensed as incurred. Directly attributable costs incurred during the development stage for IT and other development projects relating to the design, programming, installation and testing of projects before they are ready for commercial use are capitalised as intangible assets. Such costs are only capitalised provided the expenditure can be measured reliably, the project is technically and commercially viable, future economic benefits are probable and the group intends to and has sufficient resources to complete and use the asset. IT and other development projects are amortised on a straight-line basis over five to eight years.

Note 3.1.a Intangible assets (EURm)	GOODWILL	LICENSES AND TRADEMARKS	IT AND OTHER DEVELOPMENT PROJECTS	TOTAL
2015				
Cost at 1 January	645	103	206	954
Exchange rate adjustments	26	-2	-	24
Additions	-	-	70	70
Mergers and acquisitions	10	2	-	12
Reclassification	-3	-	13	10
Disposals	-	-1	-8	-9
Cost at 31 December	**678**	**102**	**281**	**1,061**
Amortisation and impairments at 1 January	-	-60	-103	-163
Exchange rate adjustments	-	1	-	1
Amortisation for the year	-	-6	-28	-34
Amortisation on disposals	-	-	8	8
Amortisation and impairment at 31 December	**-**	**-65**	**-123**	**-188**
Carrying amount at 31 December	**678**	**37**	**158**	**873**
2014				
Cost at 1 January	618	104	197	919
Exchange rate adjustments	27	1	-	28
Additions	-	5	45	50
Mergers and acquisitions	-	7	-	7
Reclassification	-	-2	1	-1
Disposals	-	-12	-37	-49
Cost at 31 December	**645**	**103**	**206**	**954**
Amortisation and impairments at 1 January	-	-57	-116	-173
Exchange rate adjustments	-	-1	-	-1
Amortisation for the year	-	-8	-23	-31
Reclassification	-	2	-1	1
Amortisation on disposals	-	4	37	41
Amortisation and impairment at 31 December	**-**	**-60**	**-103**	**-163**
Carrying amount at 31 December	**645**	**43**	**103**	**791**

INTANGIBLE ASSETS (EURm)



GLOBAL BRANDS

SELECTION OF OTHER BRANDS

Financial comments

Intangible assets increased by EUR 82 million during 2015. There were no impairments in 2015.

Goodwill
Goodwill primarily related to activities in Consumer UK, Consumer Finland and Consumer Sweden. During 2015 goodwill increased following the acquisition of Falbygden Ost, Sweden as described in note 4.1.

Licences and trademarks.
Licences and trademarks primarily include Cocio®, Anchor®, God Morgon® and Hansano®. Other brands including the 3 global brands; Arla®, Lurpak® and Castello® are not recognised with a value on the balance sheet.

IT and other development projects
The group continues to invest in the development of IT. Focus has been on integrating seven UK sites, Finland, Upahl in Germany and Falbygden, Sweden, into the Arla IT platform.

Other development cost capitalised relates to development of new products.

NOTE 3.2 IMPAIRMENT TESTS

Accounting policies

Impairment is indicated where the carrying amount of an asset is greater than its recoverable amount through either use or sale. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use (cash-generating unit) that are largely independent of the cash inflows of other assets or cash-generating units. The cash-generating units are determined based on the management structure and the internal financial reporting. The cash-generating units are reassessed each year.

The carrying amount of goodwill is tested for impairment together with the other non-current assets in the cash-generating unit to which the goodwill is allocated. The recoverable amount of goodwill is recognised as the present value of the expected future net cash flows from the cash-generating unit to which the goodwill is linked, discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and risks specific to the asset or cash-generating unit.

Impairment of goodwill is recognised on a separate line in the income statement and is not reversed. The carrying amount of other non-current assets is assessed annually to determine whether there is any indication of impairment. The assets are measured on the balance sheet at the lower value of the recoverable amount and the carrying amount. The recoverable amount of other non-current assets is the higher value of the asset's value in use and the market value (fair value), less expected disposal costs. The value in use is calculated as the present value of the estimated future net cash flows from the use of the asset or the cash-generating unit of which the asset is part of.

An impairment loss on other non-current assets is recognised in the income statement under production costs, sales and distribution costs or administration costs, respectively. Impairment made is reversed to the extent that the assumptions and estimates that led to the impairment have changed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Uncertainties and estimates

Due to the nature of the group, significant estimates are made of anticipated cash flows together with an assessment of the long-term growth rate and profitability. Additionally, an assessment of a reasonable discount rate is made, reflecting the risks inherent in the asset or cash-generating unit. This naturally results in a degree of uncertainty. Changes in the future cash flow or discount rate estimates used may result in materially different values.

Anticipated cash flows
The anticipated cash flows are based on current forecasts and the strategy goals for 2017. It has been ensured that anticipated cash flows are not impaired in the strategy goals for 2020.

Growth and profitability
Goodwill is allocated primarily to our core markets, which in general are characterised by slightly increasing or stable volumes. The focus of our business is continual optimisation of the cost structure, specific costs (conversion cost and scalability) and use of capital. The aim of improving profitability and in turn adding value to the milk price. Our commercial focus is to increase branded volumes through continued product innovation, and further development of global and local brands. This will support increasing sales volumes due to an expected increase in milk intake from our owners.

Discount rate
A discount rate (WACC) is applied for the specific business areas based on assumptions about interest rates, tax rates and risk premiums.

Note 3.2.a Impairment tests
(EURm)

	APPLIED KEY ASSUMPTIONS		
2015	CARRYING AMOUNT, GOODWILL	DISCOUNT RATE, NET OF TAX	DISCOUNT RATE, BEFORE TAX
Consumer UK	550	7.2%	9.1%
Consumer Finland	40	6.1%	7.8%
Consumer Sweden	24	6.3%	8.3%
Other	64	6.3%	6.9%
Total carrying amount at 31 December	**678**		
2014			
Consumer UK	524	7.8%	10.0%
Consumer Finland	40	6.7%	8.5%
Consumer Sweden	17	7.1%	9.3%
Other	64	6.9%	7.6%
Total carrying amount at 31 December	**645**		

Financial comments

Procedure for impairment tests
The goodwill in Consumer UK was generated in connection with the purchase of Express Dairies Limited in 2003 and 2007, the acquisition of AFF in 2009 and the merger with Milk Link in 2012. In Consumer Finland, the goodwill arose in connection with the purchase of Ingman in 2007.

The remaining goodwill arose primarily from the purchase of Tholstrup in 2006 and the merger with Milko in 2011. The business groups Consumer Denmark and Consumer Sweden support the export business of Consumer International. This means that these earnings contribute to support the value of the assets here. For this reason, these goodwill amounts are tested together. There is no goodwill related to the business groups Consumer Central Europe and Arla Foods Ingredients.

Applied estimates
The impairment tests do not include growth in the terminal value. In the applied forecasts, the milk is the most significant cost. The milk is recognised at a milk price that corresponds to the expected price at the time the test is performed. In the applied forecasts, the key operational assumption is an increased profitability based on a combination of positive impact from moving the milk intake into value added products and cost reductions measured through scalability and conversion costs.

Test results
No impairment write-downs of intangible assets have been recorded in 2015. For goodwill in Consumer Finland, there was indication of an impairment loss because of the challenging market situation after the Russian embargo. Impairment testing showed that there was no need for impairment in 2015. In that regard, sensitivities to changes in milk prices and discount rates have been calculated. The discount rate may rise by 4 per centage points before the need for impairment arises. In 2015, underlying earnings improved compared with 2014.

In our opinion, there are no significant risks to the group's general goodwill and there is no indication of impairment need for other intangible assets.

NOTE 3.3 PROPERTY, PLANT AND EQUIPMENT

Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and impairment. Depreciation aims to allocate the cost of the asset, less any amounts estimated to be recovered at the end of its expected use, to the periods in which the group obtains benefits from its use. Assets under construction, land and decommissioned plants are not depreciated.

Cost
Cost comprises the acquisition price as well as costs directly associated with the asset until such time as the asset is ready for its intended use. For self-constructed assets, cost comprises direct and indirect costs relating to materials, components, payroll and the borrowing costs from specific and general borrowing that directly concerns the construction of assets. If significant parts of an item of property, plant and equipment have different useful lives, they are recognised as separate items (major components). When component parts are replaced, any remaining carrying value of replaced parts is removed from the balance sheet and recognised as an accelerated depreciation charge in the income statement. Subsequent expenditure items of property, plant and equipment are only recognised as an addition to the carrying amount of the item, when it is likely that incurring the cost will result in financial benefits for the group. Other costs such as general repair and maintenance are recognised in the income statement when incurred.

Depreciation
Property, plant and equipment are depreciated on a straight-line basis from the time of acquisition, or when the asset is available for use based on an assessment of the anticipated useful life.

The estimated useful lives are as follows:
- Office buildings – 50 years
- Production buildings – 20 years
- Technical facilities and machinery – 5 - 20 years
- Other fixtures and fittings, tools and equipment – 3 - 7 years

The depreciation base is measured taking into account the residual value of the asset, being the estimated value the asset can generate through sale or scrappage at the end of its useful life, and reduced with any impairment made. The residual value is determined at the date of acquisition and is reviewed annually. Depreciation ceases when the carrying value of an item is lower than the residual value. Changes during the depreciation period or in the residual value are treated as changes to the accounting estimates, the effect of which is adjusted only in the current and future periods. Depreciation, to the extent it does not form part of the cost of self-constructed assets, is recognised in the income statement as production, sales and distribution costs or administration costs.

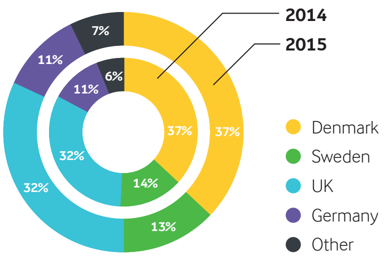
Uncertainties and estimates

Estimates are made in assessing the useful lives of items of property, plant and equipment that determine the period over which the depreciable amount of the asset is expensed to the income statement. The depreciable amount of an item of property, plant and equipment is a function of the asset's cost or carrying amount and its residual value. Estimates are made in assessing the amount that the group can recover at the end of the useful life of an asset. An annual review of the appropriateness of the depreciation method, useful life and residual values of items of property, plant and equipment is undertaken.

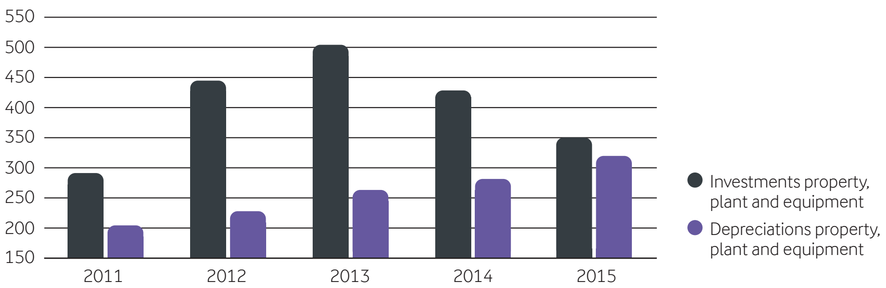
Note 3.3.a Property, plant and equipment
(EURm)

	LAND AND BUILDINGS	PLANT AND MACHINERY	FIXTURE AND FITTING, TOOLS AND EQUIPMENT	ASSETS IN COURSE OF CONSTRUCTION	TOTAL
2015					
Cost at 1 January	1,382	2,368	472	286	4,508
Exchange rate adjustments	48	36	24	1	109
Additions	18	97	16	219	350
Mergers and acquisitions	2	2	-	-	4
Transferred from assets in course of construction	65	154	31	-250	-
Reclassification	-24	-43	-6	-1	-74
Disposals	-25	-67	-18	-	-110
Cost at 31 December	**1,466**	**2,547**	**519**	**255**	**4,787**
Depreciation and impairments at 1 January	-500	-1,273	-336	-	-2,109
Exchange rate adjustments	-15	-12	-16	-	-43
Depreciation for the year	-72	-203	-45	-	-320
Reclassification	13	22	5	-	40
Depreciation on disposals	21	64	17	-	102
Depreciation and impairment at 31 December	**-553**	**-1,402**	**-375**	**-**	**-2,330**
Carrying amount at 31 December	**913**	**1,145**	**144**	**255**	**2,457**
Of which assets held under finance lease	44	21	4	-	69
2014					
Cost at 1 January	1,250	2,133	441	325	4,149
Exchange rate adjustments	22	4	5	4	35
Additions	10	70	8	335	423
Mergers and acquisitions	-	-	1	-	1
Transferred from assets in course of construction	100	243	33	-376	-
Disposals	-	-82	-16	-2	-100
Cost at 31 December	**1,382**	**2,368**	**472**	**286**	**4,508**
Depreciation and impairments at 1 January	-418	-1,160	-312	-	-1,890
Exchange rate adjustments	-20	3	-	-	-17
Depreciation for the year	-62	-182	-38	-	-282
Impairment for the year	-	-	-	-	-
Depreciation on disposals	-	66	14	-	80
Depreciation and impairment at 31 December	**-500**	**-1,273**	**-336**	**-**	**-2,109**
Carrying amount at 31 December	**882**	**1,095**	**136**	**286**	**2,399**
Of which assets held under finance lease	48	29	5	-	82

PROPERTY, PLANT AND EQUIPMENT BY COUNTRY



INVESTMENTS AND DEPRECIATIONS PROPERTY, PLANT AND EQUIPMENT (EURm)



Financial comments

Property, plant and equipment increased by EUR 58 million to EUR 2,457 million in 2015. The largest part of the group's tangible assets are located in its core markets in Denmark, Sweden, Germany and the UK.

Investments in dairy structure and capacity continued in alignment with our strategy. The group continues to strive for efficiency improvements by investing in new facilities. The year's investments add a total of EUR 350 million to property, plant and equipment.

Significant investments related to facilities in Upahl in Germany, Videbæk in Denmark and Falkenberg in Sweden.

NOTE 3.4 JOINT VENTURES AND ASSOCIATES

Accounting policies

Investments in which Arla exercise significant influence, but does not control, are classified as associates. Investments in which Arla has joint control are classified as joint ventures.

The proportionate share of the results of associates and joint ventures after tax is recognised in the consolidated income statement, after elimination of the proportionate share of unrealised intra-group profit or loss.

Investments in associates and joint ventures are recognised according to the equity method, and measured at the proportionate share of the entities' net asset values, calculated in accordance with the group's accounting policies. The proportionate share of unrealised intra-group profits and the carrying amount of goodwill are added. Whereas the proportionate share of unrealised intra-group losses is deducted. Dividends received from associates and joint ventures reduce the value of the investment.

For investments held in listed companies, the computation of the group's share of profit and equity is based on the latest published financial information from the company, other publicly available information on the company's financial development, and the effect of re-assessed net assets.

Investments in associates and joint ventures with negative net asset values are measured at EUR 0. If the group has a legal or constructive obligation to cover a deficit in the associate or joint venture, the deficit is recognised under provisions. Any amounts owed by associates and joint ventures are written down to the extent that the amount owed is deemed irrecoverable.

On acquisition of investments in associates and joint ventures, the acquisition method is described in note 4.1.

An impairment test is performed when there is objective evidence of impairment, such as significant adverse changes in the environment in which the equity-accounted investee operates, or a significant or prolonged decline in the fair value of the investment below its carrying value. Where the equity-accounted investment is considered to be an integrated part of a cash generating unit (CGU) the impairment test is performed at the CGU level, using expected future net cash flow of the CGU. An impairment loss is recognised when the recoverable amount of the equity-accounted investment (or CGU) becomes lower than the carrying amount. Recoverable amount being the higher of value in use, and fair value less costs to sell, of the equity-accounted investment (or CGU).

Note 3.4.a Joint ventures

Reconciliation of recognised value of joint ventures (EURm)	2015	2014
Share of equity in material joint ventures	-	-
Goodwill in material joint ventures	-	-
Share of equity in non-material joint ventures	50	55
Recognised value, total	**50**	**55**

Note 3.4.b Associates

Reconciliation of recognised value of associates (EURm)	2015	2014
Share of equity in material associates	167	148
Goodwill in material associates	158	142
Share of equity in non-material associates	109	142
Recognised value, total	**434**	**432**

Note 3.4.c Material associates

Financial information for associates that are considered material for the group

(EURm)	COFCO DAIRY HOLDING LIMITED, CHINA 2015	2014
Revenue	10	8
Results after tax	10	8
Other comprehensive income	-	-
Non-current assets	722	649
Current assets	-	-
Non-current liabilities	-	-
Current liabilities	-	-
Dividends received	4	3
Ownership share	30%	30%
Group share of result after tax	21	13
Recognised value, total	325	290

Note 3.4.d Transactions with joint ventures and associates

(EURm)	2015	2014
Sale of goods to joint ventures	4	9
Sale of goods to associates	155	113
Total sale of goods to joint ventures and associates	**159**	**122**
Purchase of goods from joint ventures	60	27
Purchase of goods from associates	-	-
Total purchase of goods from joint ventures and associates	**60**	**27**
Trade receivables joint ventures[1]	-	3
Trade receivables associates[1]	2	58
Total trade receivables joint ventures and associates	**2**	**61**
Trade payables joint ventures[2]	3	-
Trade payables associates[2]	-	-
Total trade payables joint ventures and associates	**3**	**-**

1) Included in other receivables
2) Included in other payables

Financial comments

Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Judgement is necessary in determining when significant influence exists.

COFCO Dairy Holding Limited (China) and China Mengniu Dairy Company Limited
The group holds a 30% investment in COFCO Dairy Holding Limited (China) which is considered an associated company based on a cooperation agreement giving significant influence, including right of Board representation. The cooperation agreement with COFCO also entitles Arla to Board representation in China Mengniu Dairy Company Limited - a Hong Kong listed dairy company controlled by COFCO. It is agreed that Arla and China Mengniu Dairy Company Limited cooperate within the exchange of technical dairy knowledge and expertise and that Arla grants intellectual rights to China Mengniu Dairy Company Limited. Based on the underlying agreements it is assessed that Arla has significant influence in China Mengniu Dairy Company Limited. Currently, COFCO Dairy Holding Limited holds no other investments.

At 31 December 2015, the group's proportionate share of the net asset values of COFCO Dairy Holdings Limited, including China Mengniu Dairy Company Limited, is EUR 325 million compared to EUR 290 million last year. The carrying amount of the investment in COFCO Dairy Holdings Limited includes goodwill amounting to EUR 158 million compared to EUR 142 million last year.

The fair value of the indirect held shares in China Mengniu Dairy Company Limited equals EUR 311 million compared to EUR 355 million last year.

The investment in COFCO Dairy Holdings Limited is part of the China business unit and is therefore managed together with sales activities with similar characteristics in China. A potential impairment of the investment is tested at the China business unit level using expected future net cash flow of the China business unit.

Impairment testing showed that there was no need for impairment in 2015. Impairment risks could include, substantial and long term reduction in leading stock indexes in Asia, issue of import restrictions on dairy products in China, or an adverse and permanent reduction in the expected performance of China Mengniu Dairy Company Limited.

Lantbrukarnas Riksförbund, Sweden (LRF)
The group has an ownership interest of 23% in LRF which is a politically independent professional organisation for Swedish entrepreneurs involved in agriculture, forestry and horticulture.

Based on a detailed analysis of the LRF set-up, it has been assessed that Arla's active ownership interest provides significant influence over LRF. This includes but is not limited to, the representation on the Board of Directors (historically a member of Arla's Board of Directors has represented the Swedish dairy industry at the Board of Directors in LRF.)

Vigor Alimentos S.A., Brazil
The group holds an 8% investment in Vigor Alimentos S.A. which is considered an associated company based on a cooperation agreement giving significant influence, including right of Board representation.

The fair value of shares in Vigor based on latest official share price equals the carrying amount.

Divestments
During 2015, the interest in Walhorn AG was sold at amounts close to the carrying amount.

NOTE 3.5 PROVISIONS

Accounting policies

The provisions in the balance sheet represent the best estimate of the amount that will be required to settle a present legal or constructive obligation arising from a past event, and it is probable that the group will be required to pay an amount that can be reliably estimated.

Insurance provisions
Insurance provisions are recognised on the basis of the risk relating to future payment of losses, injuries or damages that have already occurred. Insurance provisions primarily cover provisions relating to occupational injuries.

Restructuring provisions
Costs relating to restructuring are recognised as liabilities when a detailed, formal plan for the restructuring is published for the persons affected by the plan no later than at the reporting date. No provision is made for future operating losses.

Other provisions
Other provisions consist of different provisions for specific purposes, including onerous contracts which are recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Uncertainties and estimates

Provisions are particularly associated with estimates on restructuring and insurance provisions. The scope and size of onerous contracts as well as employee and other liabilities related to the restructuring are also estimated. Insurance provisions are assessed based on historical records of, among other things, the number of insurance events and related costs.

Note 3.5.a Provisions (EURm)	INSURANCE PROVISIONS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS	TOTAL
2015				
Provisions at 1 January	13	5	9	27
New provisions during the year	5	5	17	27
Reversals	-	-	-4	-4
Used during the year	-4	-4	-15	-23
Provisions at 31 December	**14**	**6**	**7**	**27**
Current provisions	6	6	7	19
Non-current provisions	8	-	-	8
Total provisions	**14**	**6**	**7**	**27**
2014				
Provisions at 1 January	16	22	13	51
New provisions during the year	4	-	18	22
Reversals	-2	-9	-8	-19
Used during the year	-5	-8	-14	-27
Provisions at 31 December	**13**	**5**	**9**	**27**
Current provisions	5	5	9	19
Non-current provisions	8	-	-	8
Total provisions	**13**	**5**	**9**	**27**

Financial comments

Provisions primarily pertain to insurance provisions for insurance incidents that have occurred but are not reported, and restructuring provisions.

Insurance provisions primarily concern occupational injuries. No major insurance incidents have occurred during the year, however the group has seen an increase in claims related to transportation.

Restructuring provisions mainly relate to the decommissioning of facilities and severance payments in connection to the planned closing of Kisslegg, Germany and restructuring of the customer service in Sweden. Minor new provisions were made for redundancies in connection with the efficiency programmes. Restructuring provisions were reduced during the year according to disbursements of termination benefits. Other provisions primarily include onerous contracts. With the exception of occupational injuries, all provisions are expected to be released within one year.

Note 4
Purchase and sale of business or activities

Going forward, the group's focus will, to a lesser extent, be about building the milk pool through mergers and acquisitions. With increasing volumes of milk coming from our current owners, the group need to focus even more on organic growth within our existing business. In 2015 the group initiated a process to sell Rynkeby Foods, which is the last remaining subsidiary not linked to the dairy industry.

CONTENT

NOTE 4.1 BUSINESS COMBINATIONS

Accounting policies

Recognition date and considerations
Newly acquired companies are recognised in the consolidated financial statements at the date when the group obtains control. The purchase consideration is generally measured at fair value. If an agreement relating to a business combination requires that the purchase consideration be adjusted in connection with future events or the performance of certain obligations (contingent consideration), this portion of the purchase consideration is recognised at fair value at the date of acquisition. Changes in estimates relating to a contingent consideration are recognised in the income statement. Costs directly attributable to the acquisition are recognised in the income statement as incurred.

The acquired assets, liabilities and contingent liabilities are generally measured at their fair value at the date of acquisition.

Goodwill arises when the aggregate of the fair value of consideration transferred, previously held interest and the value assigned to non-controlling interest holders exceeds the fair value of the identifiable net assets of the acquired company. Any goodwill that arises, which is not amortised, is tested annually for impairment.

The methodology outlined above also applies to mergers with other cooperatives, where the owners of the acquired company become owners of Arla Foods amba. The purchase consideration is calculated at the acquisition date fair values of the assets transferred and equity instruments issued. Positive differences between the consideration and fair value are recognised as goodwill.

Divestment
Changes in the group's interest in a subsidiary that do not result in a loss of control are recognised as equity transactions.

When the group loses control of a subsidiary, the carrying amount of the assets (including allocated goodwill) and liabilities of the subsidiary, together with any related non-controlling interest and other components of equity, such as foreign currency reserves, are de-recognised. Gains and losses arising from divestments are recognised in the income statement under other operating income and costs.

Uncertainties and estimates

For mergers and acquisitions where the group acquires control of the company in question, the purchase method is applied. There can be uncertainty associated with the identification of assets, liabilities and contingent liabilities, and with measuring the fair value at the time of acquisition. Significant estimates are made in the measurement of the fair value of the consideration transferred by the group in the acquisition of companies where the owners of the company acquired become owners of Arla. The measurement of the fair value of the company acquired is often used to determine the value of the consideration transferred by the group, as this is a more reliable valuation basis considering that the group's equity is not based on a quoted price.

Note 4.1.a Business combinations
Mergers and acquisitions in 2015
(EURm)

	INCOME STATEMENT CONSOLIDATED FROM	HOLDING ACQUIRED	REVENUE PER YEAR	NUMBER OF EMPLOYEES
Company: Falbygdens Ost	1 April	Asset deal	50	90

	Falbygdens Ost
Intangible assets exclusive goodwill	2
Property, plant and equipment	3
Inventory	15
Other assets	3
Liabilities	-4
Total net assets acquired	**19**
Goodwill	10
Purchase price, net	**29**
Cash in acquired company	-
Issued individual capital	-
Issued common capital	-
Other payment	29
Cash payment during the year	**29**

Mergers and acquisitions in 2014
(EURm)

	INCOME STATEMENT CONSOLIDATED FROM	HOLDING ACQUIRED	REVENUE PER YEAR	NUMBER OF EMPLOYEES
Company: Walhorn	1 August	100%	239	24

	Walhorn
Intangible assets excluding goodwill	-
Property, plant and equipment	1
Other assets	40
Liabilities	-18
Total net assets acquired	**23**
Goodwill	-
Purchase price, net	**23**
Cash in acquired company	15
Issued individual capital	-12
Issued common capital	-23
Other payment	-3
Cash payment during the year	**-**

Financial comments

On April 1 2015, Arla acquired Falbygden Ost, a significant market participant within premium cheese in Sweden. The acquisition is in line with Arla's strategy on branded premium cheese.

Goodwill amounts to EUR 10 million and is attributable to customer relations, the distribution network and expected synergies. In 2015, contribution to revenue was EUR 36 million. The effect on profit was insignificant due to the transaction and integration costs.

NOTE 4.2 ASSETS HELD FOR SALE

Accounting policies

Assets held for sale are non-current assets and divestment groups, the value of which is highly probable to be recovered through a sale within 12 months rather than ongoing use within the group's operations. Assets held for sale and divestment groups are measured at the lower of their carrying amount at the classification date as 'held for sale' and their fair value, less cost to sell. Property, plant and equipment and intangible assets are not depreciated or amortised from the time they are classified as 'held for sale.' Any impairment loss on a divestment group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to items that continue to be measured in accordance with the group's other accounting policies, such as inventories, financial assets and deferred tax assets. Impairment that arises at the initial classification as 'held for sale', and any profit or loss in connection with subsequent remeasurement is recognised in the income statement under the items to which it relates.

Note 4.2.a Assets held for sale

(EURm)	2015	2014
Fixed assets	26	8
Inventories	9	-
Receivables	17	-
Cash and cash equivalents	7	-
Carrying amount assets	**59**	**8**

Note 4.2.b Liabilities associated with assets held for sale

(EURm)	2015	2014
Loans	5	-
Other current liabilities	25	-
Carrying amount liabilities	**30**	**-**

Financial comments

In November 2015 the group announced that a divestment process regarding Rynkeby Foods, Denmark, was initiated. The process is focused on identifying the right buyer able to take Rynkeby Foods forward in its strategic development. The divestment is expected to be concluded by the end of the second quarter of 2016.

Land in the UK held for sale last year has not been sold and has, as a consequence, been reclassified to property, plant and equipment.

Note 5
Financial Matters

Financial risk management is conducted to support the best possible earnings for the group whilst ensuring that risks are managed in a responsible manner appropriate for the owners. The purpose is to contribute to ensuring a stable cash flow and financial manoeuvrability in a world of change.

The group's investments are financed by both equity and external funding. The balance between the two is expressed in the equity ratio. The Group's policy is to retain a credible balance between debt, equity and earnings resulting in a robust credit rating at investment grade level.

The group's ambition is to reduce its refinancing risk by ensuring a reasonable distribution in its repayment profile for its interest bearing debt. Risks related to interest and foreign exchanges rates are managed by use of derivatives.

Hedging the volatility in milk prices is not within the scope of financial risk management, but is an inherent component of the group business model.

CONTENT

Leverage

3.3

Average interest rate (excluding pensions)

2.6%

Net interest-bearing debt

2.5 billion EUR

NOTE 5.1 FINANCIAL ITEMS

Accounting policies

Financial income and financial costs
Interest income and costs as well as capital gains and losses are recognised in the income statement at the amounts that can be attributed to the period. Additionally, financial items comprise realised and unrealised value adjustments of securities and currency adjustments on financial assets and financial liabilities as well as the interest portion of financial lease payments. Additionally, realised and unrealised gains and losses on derivative financial instruments not classified as hedging contracts are included. Borrowing costs from general borrowing, or loans that directly relate to the acquisition, construction or development of qualified assets are attributed to the cost of such assets, and are therefore not included in financial cost.

Financial income and cost relating to financial assets and financial liabilities are recognised using the effective interest method.

Note 5.1.a Financial income and financial costs
(EURm)

	2015	2014
Financial income		
Interest, cash and cash equivalents	1	1
Interest, securities	4	4
Fair value adjustments	2	1
Other financial income	7	48
Total financial income	**14**	**54**
Financial costs		
Financial cost on financial instruments measured at amortised cost	-65	-73
Exchange rate losses, net	-6	-3
Fair value adjustments	-1	-
Interests, pension liabilities	-10	-15
Interests transferred to property, plant and equipment	8	10
Other financial costs	-3	-3
Total financial costs	**-77**	**-84**
Financial cost, net	**-63**	**-30**

Financial comments

Financial costs have decreased due to lower interest rates and margins. Average interest cost, excluding pensions, totalled 2.6 per cent compared with 3.0 per cent last year.

Net financial costs increased by EUR 33 million due to an one off income in 2014 related to reassessment of LRF - Lantbrukarnas Riksförbund, Sweden.

NOTE 5.2 NET INTEREST-BEARING DEBT

Accounting policies

Financial instruments
Financial instruments are recognised at the date of trade.

The group ceases to recognise financial assets when the contractual rights to the underlying cash flows either cease to exist or are transferred to the purchaser of the financial asset, and substantially all risks and reward related to ownership are also transferred to the purchaser.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when and only when the group obtains a legal right of offsetting and either intends to offset or settle the financial asset and the liability simultaneously.

Available for sale financial assets
Financial assets classified as available for sale consist of mortgage credit bonds, which correspond in part to raised mortgage debt.

Available for sale financial assets are measured on first-time recognition at fair value plus transaction costs. The financial assets are subsequently measured at fair value with adjustments made in other comprehensive income and accumulated in the available-for-sale reserve in equity. Interest income, impairments and foreign currency translation adjustments of debt instruments are recognised in the statement of income on a continuous basis under financial income and financial costs.

For sales of financial assets classified as available for sale, realised gains or losses are recognised under financial income and financial costs.

Financial assets measured at fair value
Securities classified at fair value consist primarily of listed securities, which are monitored, measured and reported continuously in accordance with the group's treasury and funding policy. Changes in the fair value are recognised in the income statement under financial income and financial costs

Liabilities
Debts to mortgage and credit institutions as well as issued bonds are measured at the trade date upon first recognition at fair value plus transaction costs. Subsequently, liabilities are measured at amortised cost with the difference between the loan proceeds and the nominal value recognised in the income statement over the expected life of the loan.

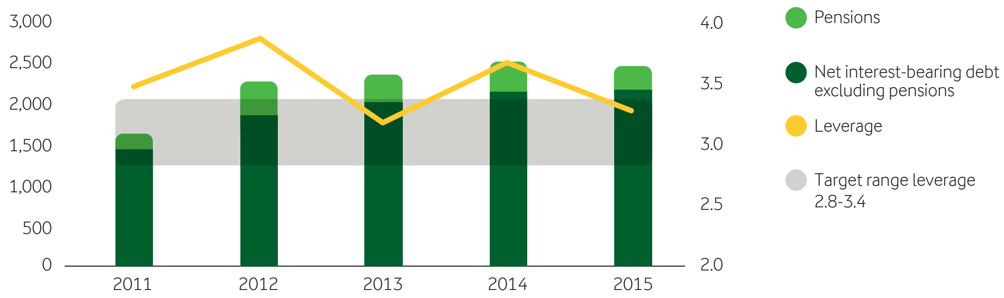
Capitalised residual lease obligations related to financial lease agreements are recognised under liabilities, measured at amortised cost.

Other financial liabilities are measured at amortised cost.

Cash and cash equivalents
Cash and cash equivalents consist of readily available cash at bank and deposits together with exchange listed debt securities with an original maturity of three months or less, which have only an insignificant risk of changes in value and can be readily converted to cash or cash equivalents.

Note 5.2.a Net interest bearing debt and leverage

NET INTEREST BEARING DEBT AND LEVERAGE (EURm)



The group's net interest-bearing debt consists of current and non-current liabilities to banks and credit institutions, less interest-bearing assets. The group's definition of leverage is the ratio between net interest-bearing debt including pensions and EBITDA and expresses the group's capacity to service the debt. The group's long-term target range for leverage is between 2.8 and 3.4.

Leverage 2012 was influenced by acquisitions of Milk Union Hocheifel, Germany and Milk Link in the UK in October 2012.

Note 5.2.a Borrowings
(EURm)

	2015	2014
Long-term borrowings		
Issued bonds	330	472
Mortgage credit institutions	700	817
Bank borrowings	657	370
Finance lease liabilities	27	43
Other non-current liabilities	3	5
Total	**1,717**	**1,707**
Short-term borrowings		
Issued bonds	164	-
Commercial papers	115	194
Mortgage credit institutions	1	5
Bank borrowings	778	911
Finance lease liabilities	18	20
Other current liabilities	13	2
Total	**1,089**	**1,132**
Total interest bearing borrowings	**2,806**	**2,839**

Note 5.2.b Net interest-bearing debt
(EURm)

	2015	2014
Securities, cash and cash equivalents	-579	-641
Other interest-bearing assets	-24	-27
Long-term borrowings	1,717	1,707
Short-term borrowings	1,089	1,132
Net interest-bearing debt excluding pension liabilities	**2,203**	**2,171**
Pension liabilities	294	376
Net interest-bearing debt including pension liabilities	**2,497**	**2,547**

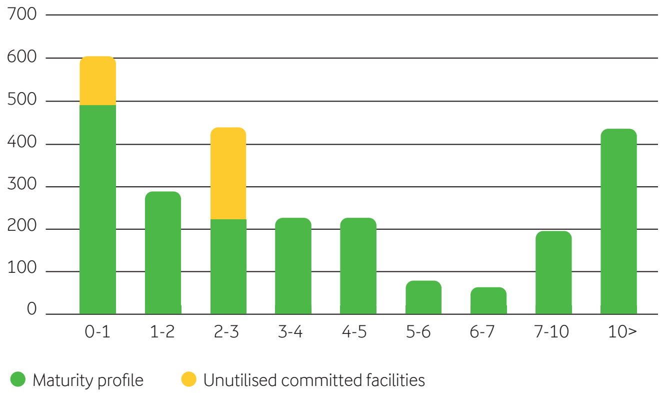
Note 5.2.c Net interest-bearing debt excluding pension obligations, maturity
(EURm)

December 31, 2015	Total	2016	2017	2018	2019	2020	2021	2022	2023-2025	After 2025
DKK	794	75	38	12	21	28	30	30	118	442
EUR	229	34	76	32	30	30	6	2	12	7
GBP	434	6	40	127	3	252	3	3	-	-
SEK	679	317	-	198	164	-	-	-	-	-
Other	67	57	10	-	-	-	-	-	-	-
Total	**2,203**	**489**	**164**	**369**	**218**	**310**	**39**	**35**	**130**	**449**

December 31, 2014	Total	2015	2016	2017	2018	2019	2020	2021	2022-2024	After 2024
DKK	753	-43	17	20	19	48	49	57	178	408
EUR	360	113	49	93	31	29	24	2	8	11
GBP	318	181	13	102	10	3	3	3	3	-
SEK	691	215	158	-	158	158	-	-	-	2
Other	49	9	40	-	-	-	-	-	-	-
Total	**2,171**	**475**	**277**	**215**	**218**	**238**	**76**	**62**	**189**	**421**

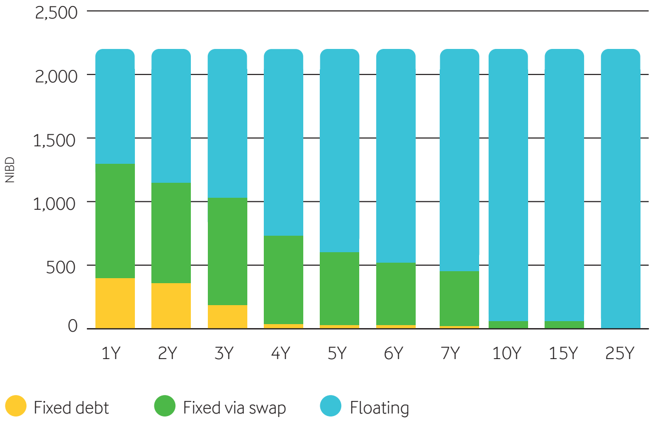
MATURITY OF NET INTEREST-BEARING DEBT EXCLUDING PENSIONS AT 31 DECEMBER 2015 (EURm)

MATURITY OF NET INTEREST-BEARING DEBT EXCLUDING PENSIONS AT 31 DECEMBER 2014 (EURm)

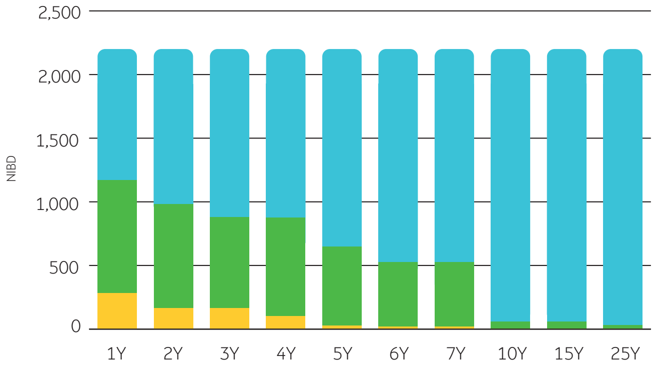


Note 5.2.d Interest rate risk at 31 December (EURm)	INTEREST RATE	AVERAGE INTEREST RATE	FIXED FOR	CARRYING AMOUNT	INTEREST RATE RISK
2015					
Issued bonds:					
SEK 1.150m maturing 22.06.2016	Fixed	5.00%	0-1 years	126	Fair value
SEK 500m maturing 04.06.2018	Fixed	3.25%	2-3 years	57	Fair value
SEK 800m maturing 28.05.2019	Fixed	2.63%	3-4 years	87	Fair value
SEK 350m maturing 22.06.2016	Floating	1.40%	0-1 years	38	Cash flow
SEK 1.000m maturing 04.06.2018	Floating	1.27%	0-1 years	109	Cash flow
SEK 700m maturing 28.05.2019	Floating	0.73%	0-1 years	77	Cash flow
Total issued bonds		**2.61%**		**494**	
Mortgages credit institutions:					
Floating-rate	Floating	0.70%	0-1 years	701	Cash flow
Fixed-rate	Fixed	-	3-4 years	-	Fair value
Total mortgages credit institutions		**0.70%**		**701**	
Bank borrowings:					
Fixed-rate	Fixed	0.01%	0-1 years	498	Fair value
Floating-rate	Floating	1.28%	0-1 years	953	Cash flow
Total bank borrowings		**0.85%**		**1,451**	
Commercial papers:					
Fixed-rate	Fixed	0.08%	0-1 years	115	Fair value
Total commercial papers		**0.08%**		**115**	
Finance lease liabilities:					
Fixed-rate	Fixed	4.85%	0-4 years	10	Fair value
Floating-rate	Floating	2.25%	0-1 years	35	Cash flow
Total finance lease liabilities		**2.81%**		**45**	
2014					
Issued bonds:					
SEK 1.150m maturing 22.06.2016	Fixed	5.00%	1-2 years	122	Fair value
SEK 500m maturing 04.06.2018	Fixed	3.25%	3-4 years	50	Fair value
SEK 800m maturing 28.05.2019	Fixed	2.63%	4-5 years	84	Fair value
SEK 350m maturing 22.06.2016	Floating	2.06%	0-1 years	37	Cash flow
SEK 1.000m maturing 04.06.2018	Floating	1.97%	0-1 years	105	Cash flow
SEK 700m maturing 28.05.2019	Floating	1.42%	0-1 years	74	Cash flow
Total issued bonds		**2.93%**		**472**	
Mortgages credit institutions:					
Floating-rate	Floating	1,00%	0-1 years	821	Cash flow
Fixed-rate	Fixed	2,95%	3-4 years	1	Fair value
Total mortgages credit institutions		**1,00%**		**822**	
Bank borrowings:					
Fixed-rate	Fixed	0,15%	0-1 years	496	Fair value
Floating-rate	Floating	1,53%	0-1 years	792	Cash flow
Total bank borrowings		**1,00%**		**1,288**	
Commercial papers:					
Fixed-rate	Fixed	0,83%	0-1 years	194	Fair value
Total commercial papers		**0,83%**		**194**	
Finance lease liabilities:					
Fixed-rate	Fixed	4,98%	0-4 years	15	Fair value
Floating-rate	Floating	2,33%	0-1 years	48	Cash flow
Total finance lease liabilities		**2,96%**		**63**	

INTEREST PROFILE FOR NET INTEREST-BEARING DEBT EXCLUDING PENSIONS AT 31 DECEMBER 2015 (EURm)



INTEREST PROFILE FOR NET INTEREST-BEARING DEBT EXCLUDING PENSIONS AT 31 DECEMBER 2014 (EURm)



Note 5.2.e Currency profile of net interest bearing debt excluding pensions at 31 December 2015
(EURm)

Currency profile of net interest-bearing debt excluding pensions before and after derivative financial instruments	ORIGINAL PRINCIPAL	EFFECT OF SWAP	AFTER SWAP
2015			
DKK	794	-	794
EUR	229	273	502
GBP	434	273	707
SEK	679	-546	133
Other	67	-	67
Total	**2,203**	**-**	**2,203**
2014			
DKK	753	-	753
EUR	360	158	518
GBP	318	264	582
SEK	691	-422	269
Other	49	-	49
Total	**2,171**	**-**	**2,171**

Financial comments

The group's net interest-bearing debt, including pensions, decreased by EUR 50 million to EUR 2,497 million at 31 December 2015.

Net interest-bearing debt, excluding pension liability, increased by EUR 32 million to EUR 2,203 million at 31 December 2015. The group's leverage ratio decreased by 0.4 to 3.3 at 31 December 2015. This is inside the group's long-term target range of 2.8-3.4. One of the 7 essentials for 2016 is to reach a leverage of 3.2 or below.

The average maturity of the group's interest bearing borrowings, has decreased by 0.3 to 4.4 at 31 December 2015. The average maturity is impacted by lapse of time, refinancing of committed facilities and the level of net interest bearing debt.

The solvency ratio measured 31 per cent compared to 28 per cent last year.

NOTE 5.3 FINANCIAL RISKS

Financial risk management
Financial risks are an inherent part of the group's operating activities and hence, the group's profit is impacted by the developments in currencies, interest rates and certain types of commodities. The global financial markets are volatile and thus, it is critical for the group to have a well implemented financial risk management approach in order to mitigate short-term market volatilities while at the same time achieving the highest possible milk price.

The group's comprehensive financial risk management strategy and system builds on a thorough understanding of the interaction between the group's operating activities and the financial risks. The overall framework for managing financial risks being the treasury and funding policy is approved by the Board of Directors and managed centrally by the corporate treasury and finance department. The treasury and funding policy states risk limits for each type of financial risk, permitted financial instruments and counterparties.

Each month, the Board of Directors receives a report on the goup's financial risk exposures from the corporate treasury and finance department, which manages the financial risks on a continuous basis.

Hedging the volatility of milk prices is not within the scope of financial risk management, but an inherent component of the group's business model.

Note 5.3.a Liquidity risk

Related business activity
Liquidity is vital for the group to be able to pay its financial liabilities as they become due.

Risks impact
Insufficient liquidity will hinder the group in meeting its financial liabilities on a timely basis. This could cause breaches on loan covenants, reduce the ability to pay for owner milk and in the extreme impact the ability to continue as a going concern.

Mitigation process
The group seeks to have diversified funding with a balanced mix in maturity, commitments and counterparties. The group has, to a very high degree, centralized its cash management in order to control and optimise the cash position.

Performance indicator
Level of unutilized committed credit facilities and available cash and securities against the forecasted cash flow for the following 12 months. The group aims to have an adequate liquidity and credit facilities reserve in the level of the requirement for an investment grade company.

Policies and systems
The treasury and funding policy states the threshold for minimum average maturity for net interest-bearing debt, and sets limitations on debt maturing within the next 12 and 24 months.

Activities in 2015
During 2015 the group has implemented a liquidity model inspired by the rating agencies. A part of the process has been to refinance its bank debt and significantly increase the commitment of the facilities. The aim has been to comply with the liquidity requirements for an investment grade company.

Unused credit facilities and available cash have during 2015 been on a comfortable level and after the re-financing it has also been in rating terms on an adequate level.

Liquidity reserves

(EURm)	2015	2014
Cash and cash equivalents	70	81
Securities (free cash flow)	8	57
Unutilised committed loan facilities	333	322
Unutilised other loan facilities	103	401
Total	**514**	**861**

Financial comments

The group manages liquidity risk by ensuring the availability of sufficient operating liquidity and credit facilities for operations. Any major acquisitions or investments are funded separately.

The management of the day-to-day liquidity flow is, representing more than 95 per cent of the net revenue of the group, conducted by Arla Foods Finance A/S, via cash pool arrangements with the group's banks. This secures a scalable and efficient operating model.

Within the group, the companies with excess liquidity finance the companies with liquidity deficits. As a result, the group achieves a cost-efficient utilising of credit facilities.

The credit facilities contain relaxed financial covenants on equity/total assets and minimum equity as well as standard non-financial covenants. The group did not in 2015 nor in 2014 default on or fail to fulfil any loan agreements. Further information on net interest bearing debt is provided in note 5.2.

The group's liquidity reserves decreased by EUR 347 million to EUR 514 million at 31 December 2015. The reduction is mainly due to a decrease in uncommitted facilities, as loans of EUR 144 million and commercial papers of EUR 79 million have been repaid. The reduction in commercial papers follows an uncompetitive pricing compared to other facilities.

In the beginning of 2016 the group has obtained a new 20 year mortgage loan of EUR 95 million which all things equal will increase the liquidity reserve. Credit lines and facilities are continually managed in order to secure an adequate liquidity reserve.

Note 5.3.b Funding activities

Access to funding is vital for the group to be able to fulfil the strategy and ambitions.

Risks impact
Insufficient funding will hinder the group in achieving the strategic ambitions.

Mitigation process
The group seeks to have a diversified funding platform comprising of bilateral bank financing, mortgage loans, supranationals, capital market bond issues, commercial papers and finance leases. The funding of mergers, acquisitions and major investments is assessed separately. The funding strategy is supported by the members' long term commitment to invest in the business.

Performance indicator
Average maturity for interest-bearing debt. Diversified funding platform on both counterparties and markets. Counterparties' and investors' perception of the group as an investment grade credit.

Policies and systems
The treasury and funding policy states the threshold for minimum average maturity for net interest-bearing debt as well as a financing strategy approved by the Board of Directors. It is the group's objective to maintain its credit quality at a robust investment grade level.

Activities in 2015
During 2015 the group has re-financed the majority of its overdrafts and revolving credit facilities amounting to EUR 1 billion among its existing banking group. This has resulted in increased commitments, extended average maturity and the introduction of extension options together with reduced credit cost. The loan documentation for the revolving credit facilities has been made as bilateral agreements on the group's standard documentation.

Gross financial liabilities
(EURm)

		Non-discounted contractual cash flows									
2015	**CARRYING AMOUNT**	**TOTAL**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023-2025**	**AFTER 2025**
Issued bonds	494	492	164	-	164	164	-	-	-	-	-
Mortgage credit institutions	701	720	2	1	10	20	20	28	31	135	473
Credit institutions	1,551	1,541	845	142	220	34	283	10	7	-	-
Finance lease liabilities	45	45	19	15	10	1	-	-	-	-	-
Other non-current liabilities	15	15	13	2	-	-	-	-	-	-	-
Interest expense - interest bearing debt	-	113	22	19	15	11	7	5	5	12	17
Trade payables	918	918	918	-	-	-	-	-	-	-	-
Derivative instruments	158	158	71	18	16	14	7	6	6	8	12
Total	**3,882**	**4,002**	**2,054**	**197**	**435**	**244**	**317**	**49**	**49**	**155**	**502**

2014	**CARRYING AMOUNT**	**TOTAL**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022-2024**	**AFTER 2024**
Issued bonds	472	474	-	158	-	158	158	-	-	-	-
Mortgage credit institutions	822	845	6	17	17	20	50	50	59	191	435
Credit institutions	1,485	1,486	1,116	48	223	33	32	27	4	3	-
Finance lease liabilities	63	63	20	19	14	10	-	-	-	-	-
Other non-current liabilities	7	7	2	2	2	1	-	-	-	-	-
Interest expense - interest bearing debt	-	147	29	23	17	14	10	7	7	16	24
Trade payables	977	977	977	-	-	-	-	-	-	-	-
Derivative instruments	206	344	105	57	40	37	31	18	15	21	20
Total	**4,032**	**4,343**	**2,255**	**324**	**313**	**273**	**281**	**102**	**85**	**231**	**479**

Assumptions
The contractual cash flows are based on the following assumptions:

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

Financial comments

The group applies a diversified funding strategy in order to mitigate the liquidity and refinancing risk and to achieve an attractive low financing cost given the balanced funding.

During 2015 the group has raised the following mix of funding:

- Bank and credit institutions: Refinancing of EUR 1 billion overdrafts and revolving credit facilities resulting in an increase to the average maturity on these facilities from 0.7 to 3.3 years.
- Mortgage credit institutions: Refinancing of Swedish mortgage debt and reduction of mortgage debt in Danish assets by EUR 100 million. The mortgage loans are governed by the Danish Mortgage Act with mandatory security in land and buildings.
- Issued bonds: The Group can raise long-term funding by issuing bonds under the EUR 750 million EMTN programme, however no bonds have been issued in 2015.
- Commercial papers: The group has a commercial paper program in Sweden denominated in SEK and EUR. The average utilization in 2015 was in the level of EUR 200 million. At year end the utilization was EUR 115 million.
- Repo: The group is entering into sale and re-purchase arrangement based on its investment in listed AAA-rated Danish Mortgage Bonds. This sale and re-purchase agreement is described in further detail in note 5.6.

Note 5.3.c Currency risks

Related business activity
Currency risks arise from the group's export activities, investments and financing activities.

Risk impact and mitigation process
Income statement
Volatility in currency rates impact the group's revenue, cost of sales and financial items with a potential adverse effect on milk prices and cash flow.

The currency exposure is continuously managed by the corporate treasury and finance department. The individual currency exposures are hedged in accordance with the treasury and funding policy.

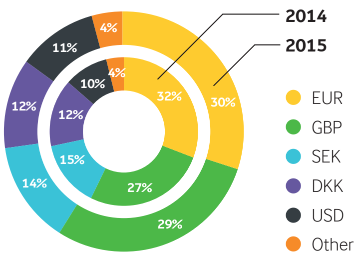
Balance sheet
Changes in currency rates could cause volatility in balance, equity and cash flow. The majority of local funding is obtained in local currencies. Investments in subsidiaries are normally not hedged.

Performance indicator
Realised foreign currency gains and losses and predictability in short term performance.

Policies and systems
The treasury and funding policy and profound understanding of the business combined with deep knowledge of the financial markets.

Activities in 2015
During the year the group has continued to hedge the forecasted sales and purchases in foreign currency always taking the current market situation into consideration. The group is increasingly involved in emerging markets where efficient hedging is not possible either due to currency regulations or illiquid financial markets. The risks from these markets are however still negligible.

REVENUE SPLIT BY CURRENCY



Note 5.3.c Currency risks

Currency exposures (EURm)	EUR/DKK	USD/DKK*	GBP/DKK	SEK/DKK
2015				
Financial liabilities	-238	-17	-494	-690
Financial assets	176	252	577	38
Derivatives	-393	-727	-901	490
External exposures, net	**-455**	**-492**	**-818**	**-162**
Net internal exposure from financial activities	205	-10	616	250
Exposures, net	**-250**	**-502**	**-202**	**88**
The net exposure relates to:				
Hedging of expected commercial cash flow that qualify for hedge accounting	-	-472	-203	-
Hedging of expected commercial cash flow where hedge accounting is not used	-250	-30	-	-
Exposure not hedged	-	-	1	88
Applied sensitivity	1%	5%	5%	5%
Impact on profit or loss	-2	-2	-	4
Impact on other comprehensive income	**-**	**-23**	**-10**	**-**
2014				
Financial liabilities	-337	-22	-262	-841
Financial assets	292	196	601	36
Derivaties	-165	-444	-874	574
External exposures, net	**-210**	**-270**	**-535**	**-231**
Net internal exposure from financial activities	172	-18	415	254
Exposures, net	**-38**	**-288**	**-120**	**23**
The net exposure relates to:				
Hedging of expected commercial cash flow that qualify for hedge accounting	-	-229	-153	-32
Hedging of expected commercial cash flow where hedge accounting is not used	-38	-59	-	-
Exposure not hedged	-	-	33	55
Applied sensitivity	1%	5%	5%	5%
Impact on profit or loss	-	-3	2	3
Impact on other comprehensive income	**-**	**-11**	**-8**	**-2**

* Incl. AED and SAR

Assumptions for the sensitivity analysis
The sensitivity analysis only includes currency exposures arising from financial instruments and thus, the analysis does not include the hedged future 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.

Financial comments

The group operates in many different countries and has significant investment in operations outside Denmark, of which the UK, Germany and Sweden represent the largest part of the business by net revenue, profit, and assets. A major part of the currency risk from net revenue denominated in foreign currencies is offset by sourcing in the same currency.

The currency risks primarily arise from transactional risks in the form of future commercial and financial payments and translation risks relating to investments in foreign operations in the form of subsidiaries, joint ventures and associated companies.

The transaction risks arise as a result of sales or sourcing in currencies different from the functional currency in each subsidiary. Measured in nominal EUR the group's consolidated risk is largest in EUR, followed by USD, GBP and SEK.

According to the Treasury and Funding Policy, the Corporate Treasury & Finance department can hedge:

- Up to 15 months of the net forecasted cash receipts and payables. The level of hedging activity is affected by factors such as the underlying business, currency rates and the time until forecasted cash flow will occur.
- Up to 100 per cent of net recognised trade receivables and trade payables.

The financial instruments used to hedge the currency exposures need not to qualify for hedge accounting and hence, some of the applied financial instruments (i.e., option strategies) are accounted for as fair value through profit or loss.

The executive management group has the discretion to decide if and when investment in foreign operations should be hedged (translation risks).

The group external exposure, net is calculated as all assets and liabilities denominated in foreign currencies per company, plus any external derivatives all converted on group level into currency risk against DKK i.e. EUR/DKK, USD/DKK etc. In addition net exposure from financial activities is calculated as all internal loans and derivatives different from functional currency. These sum up to the group's aggregate currency exposure, Exposure, net.

This analysis excludes net foreign currency investments in subsidiaries together with instruments hedging these investments. The hedging relationships are fully effective and hence, the net impact on profit or loss and other comprehensive income from the movements in currency rates are negligible.

Note 5.3.d Interest rate risk

Related business activity
Interest rate risks arise from group's funding activities and pension liabilities.

Risk impact
An increase in interest rates impacts group's financial items with an adverse effect on milk prices, but a positive impact on other comprehensive income due to hedge instruments.

Mitigation process
The interest rate exposures are continuously managed by the Corporate Treasury & Finance department. The exposures are hedged in accordance with the Treasury and Funding Policy.

Performance indicator
Predictability in realised funding costs.

Policies and systems
The Treasury and Funding Policy and profound understanding of the business of Arla combined with deep knowledge of the financial markets.

Activities in 2015
Interest rate risk from refinancing was partly hedged by entering into interest rate swaps.

Sensitivity based on 1 percentage point increase in interest rate
(EURm)

			Potential accounting impact	
	CARRYING VALUE	SENSITIVITY	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME
2015				
Financial assets	-603	1%	4	-2
Derivatives	-	1%	12	63
Financial liabilities	2,806	1%	-22	-
NIBD excluding pensions	**2,203**		**-6**	**61**
Pensions	294	1%	n/a	n/a
NIBD including pensions	**2,497**			
Following year cash flow impact			**-6**	
2014				
Financial assets	-668	1%	6	-1
Derivatives	-	1%	8	67
Financial liabilities	2,839	1%	-23	-
NIBD excluding pensions	**2,171**		**-9**	**66**
Pensions	376	1%	n/a	n/a
NIBD including pensions	**2,547**			
Following year cash flow impact			**-9**	

Financial comments

The group is exposed to interest-rate risks on interest bearing borrowings, pension liabilities, interest bearing assets and the impairment test of non-current assets. The risk is divided between profit and loss exposure and exposure to other comprehensive income. The profit and loss exposure relates to net interest paid, valuation of marketable securities and potential impairments of fixed assets. The exposure to other comprehensive income relates to revaluation of net pension liabilities and interest hedging instruments.

The interest rate risk from net borrowing is managed by having an appropriate split between fixed and floating interest rates.

The group actively uses derivative financial instruments to reduce the risks related to fluctuations in the interest-rate and to manage the re-pricing profile of the group's debt. According to the Treasury and Funding Policy the average duration of the net interest bearing debt should be between 1 and 7.

Fair value sensitivity
A change in interest rates will impact the fair value of the group's interest bearing assets, interest rate derivative instruments and debt instruments measured at either fair value through profit or loss, or through other comprehensive income. The table above shows the fair value sensitivity. The sensitivity is based on a 1 per centage increase in interest rates. A decrease in the interest rate would have the reverse effect.
The sensitivity on pensions can be calculated for the pension liability, however a large part of the assets are invested in non interest bearing assets like stocks and property where the sensitivity can't be calculated and therefore we haven't stated a sensitivity on the net pension liability.

Cash flow sensitivity
A change in interest rates will impact the interest rate payments on the group's un-hedged floating rate debt. The table above shows the one year cash flow sensitivity from 1 per centage increase in interest rates on the unhedged floating rate instruments recognised as at 31 December.
A decrease in the interest rate would have the reverse effect.

The average duration of the group's interest rate fixing on the interest bearing debt including derivatives but excluding pensions, has decreased by 0.3 to 3.5 at 31 December 2015. The duration is impacted by new variable rate loans converted into fixed interest rate loans by means of interest swaps and reduction in time to maturity and the level of net interest bearing debt.

Note 5.3.e Commodities

Related business activity
Commodity risks arise from the group's operating activities of buying energy but also to a minor extent from the commodities used in production.

Risks impact
Increased commodity prices impacts the cost of production and cost of distribution negatively. This could have an adverse effect on the milk price to owners.

Mitigation process
Commodity price risks are mainly hedged by entering into fixed price contracts with suppliers. However, certain commodities, such as energy, are hedged using derivative financial instruments.

Performance indicator
Realised commodity prices.

Policies and systems
The commodity price risks are managed by the group's procurement department. When financial contracts are used, this is done in close collaboration with the corporate treasury and finance department.

Activities in 2015
In accordance with the risk management strategy the group's hedged volumes and maturity profile of energy hedging has decreased due to lapse of time. No new hedging activity has been made in 2015.

Hedged commodities (EURm)	SENSITIVITY	CONTRACT VALUE	POTENTIAL ACCOUNTING IMPACT (OTHER COMPREHENSIVE INCOME)
2015			
Oil / natural gas	5%	-12	1
Electricity	5%	-7	1
2014			
Oil / natural gas	5%	-14	3
Electricity	5%	-4	2

Financial comments

The group is exposed to commodity risk on future commodity purchases. The risk mainly concerns energy commodities. The risk is divided between profit and loss exposure and exposure to other comprehensive income. The profit and loss exposure relates to future purchases whereas the exposure to other comprehensive income relates to the revaluation of commodities hedges. The group uses derivative financial instruments to reduce the risk of fluctuations in the price of energy commodities. The energy prices have declined significantly in 2015 and therefore the fixed price hedges have had a negative impact on the income statement of approximately EUR 20 million.

Fair value sensitivity
A change in commodity prices will impact the fair value of the group's hedged commodity derivative instruments measured through other comprehensive income. The table shows the sensitivity from 5 per cent increase in commodity prices for hedged commodity purchases. A decrease in commodity prices would have the reverse effect.

Note 5.3.f Credit risk

Related business activity
Credit risks arise from the group's operating activities and engagement with financial counterparties.

Risk impact
Losses arising from either customers, suppliers or financial counterparties defaulting on their obligations towards the group. Furthermore a weak credit quality of a counterparty can reduce the ability to support the group going forward thereby jeopardising the group's fulfilment of the strategy.

Mitigation process
The group has an extensive credit risks policy and uses credit insurance and other trade finance products extensively in connection with export. If a customer payment is late internal procedures are followed to mitigate losses. The group uses a limited number of financial counterparties.

Performance indicator
Expected and realised credit losses on customers.

Policies and systems
Financial counterparties must be approved by managing directors and the CFO and have a credit rating of a least A-/A-/A3 by S&P, Fitch or Moody's. A credit assessment is performed of all new customers. In addition existing customers are subject to an ongoing monitoring of their credit quality.

Activities in 2015
The group has, like in previous years, continuously worked with the credit exposure and has experienced a very low level of losses on customers.

Netting of credit risk
In order to manage counterparty risk, the group uses master netting agreements when entering into derivative contracts with counterparties.

The table below show the counterparty exposures for those agreements covered by entering into netting agreements.

External rating of financial counterparties (EURm)	ASSETS	QUALIFYING FOR NETTING	NET ASSETS	LIABILITIES	QUALIFYING FOR NETTING	NET LIABILITIES
2015						
AA-	32	32	-	42	32	10
A+	9	9	-	17	9	8
A	14	14	-	60	14	46
A-	2	1	1	1	1	-
Total	**57**	**56**	**1**	**120**	**56**	**64**
2014						
AA-	3	3	-	63	3	60
A+	16	16	-	49	16	33
A-	4	4	-	67	4	63
Total	**23**	**23**	**-**	**179**	**23**	**156**

In addition, the group has entered into sales and re-purchase agreements on mortgage bonds described in further details in note 5.6.

Financial comments

Credit risk stems from the possibility that counterparties to transactions may default on their obligations, thereby causing losses for the group. Additionally, when money is borrowed, there is credit risk of the refinancing.

For financial counterparties, the group minimises the credit risk by only entering into new derivative transactions with those with a credit rating of at least A-/A-/A3 from either S&P, Fitch or Moody's. In general all financial counterparties had a satisfactory credit rating at year end. According to the treasury and funding policy, credit rating is not required from lenders, however only in one case has a credit facility been obtained from a counterparty with a lower credit rating than A-/A-/A3. In some geographies which are not serviced by our relationship banks and where financial counterparties with a satisfying credit rating don't operate, the group might deviate from the rating requirement. The risk is however insignificant.

Other counterparties, customers and suppliers, are subject to an ongoing monitoring of their fulfilment of their contractual obligations and their credit quality. Outside the group's core markets credit insurance and trade finance instruments are widely used to reduce the risks.

Further information on trade receivables is provided in note 2.1c.

The maximum exposure to credit risk is approximately equal to the carrying amount.

NOTE 5.4 DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policies

Derivative financial instruments are recognised from the trade date and measured in the financial statement at fair value. Positive and negative fair values of derivative financial instruments are recognised on separate lines in the balance sheet and offsetting of positive and negative amounts only take place once the group has obtained the legal right and intends to settle several financial instruments net.

Fair value hedging
Changes in fair value of derivative financial instruments, which are meeting the criteria for hedging the fair value of recognised assets and liabilities, are recognised alongside changes in the value of the hedged asset or the hedged liability with respect to the portion that is hedged.

Cash flow hedging
Changes in the portions of the fair value of derivative financial instruments that are classified as and meet the conditions for hedging of future cash flows, and that effectively hedge changes in future cash flows, are recognised under other comprehensive income in a special reserve for hedging transactions under equity, until the hedged cash flows affect the income statement. The cumulative gains or losses from such hedging transactions that are retained in equity are reclassified from and recognised under the same item as the hedged item (basic adjustment).

If the hedging instrument no longer meets the criteria for hedge accounting, the hedge will cease from that point onward.

The accumulated change in value recognised in other comprehensive income is reclassified to the income statement once the hedged cash flows affect the income statement or are no longer likely.

If the hedged cash flows are no longer expected to be realised, the cumulative value change is immediately reclassified from equity to the income statement.

Hedging of net investments
Changes to the fair value of derivative financial instruments used to hedge net investments in foreign subsidiaries (the currency risk associated with the translation of foreign company's net assets), and that effectively hedge against foreign exchange rate changes in these companies, are recognised in the consolidated financial statements in other comprehensive income under a special reserve for foreign exchange rate adjustments.

For derivative financial instruments that do not meet the conditions for treatment as hedging instruments, changes in fair value are recognised on a continuous basis in the income statement under financial income and financial costs.

Note 5.4.a Hedging of future cash flow from highly probable forecast transactions
(EURm)

			Expected recognition				
2015	CARRYING VALUE	FAIR VALUE RECOGNISED IN OTHER COMPREHEN-SIVE INCOME	2016	2017	2018	2019	LATER THAN 2019
Currency contracts	8	8	8	-	-	-	-
Interest rate contracts	-85	-85	-15	-14	-13	-11	-32
Commodity contracts	-19	-19	-19	-	-	-	-
	-96	-96	-26	-14	-13	-11	-32

2014	CARRYING VALUE	FAIR VALUE RECOGNISED IN OTHER COMPREHEN-SIVE INCOME	2015	2016	2017	2018	LATER THAN 2018
Currency contracts	-10	-10	-10	-	-	-	-
Interest rate contracts	-104	-104	-16	-15	-14	-13	-46
Commodity contracts	-18	-18	-12	-6	-	-	-
	-132	-132	-38	-21	-14	-13	-46

Note 5.4.b Net investment hedges
(EURm)

	2015	**2014**
Net investment hedges (other comprehensive income) at 1 January	-2	1
Change in net investment hedge	1	-3
Net investment hedges (other comprehensive income) at 31 December	**-1**	**-2**
Profit or loss	**-**	**-**

Financial comments

Hedging of future cash flows
The group uses forward currency contracts to hedge currency risks regarding expected future net revenue and costs. Interest rate swaps are used to hedge risks regarding movement in expected future interest payments.

Hedging of net investments
As at 31 December 2015 the group has hedged an insignificant part of currency exposures relating to its investments in subsidiaries, joint ventures and associated companies using loans and derivatives. The above table shows the change in fair value recognised in other comprehensive income and the ineffectiveness recognised in profit or loss.

Fair value of hedge instruments not qualifying for hedge accounting (financial hedge)
The group uses currency options which are hedging forecasted sales and purchases. These options do 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 5.5 FINANCIAL INSTRUMENTS DISCLOSED

Note 5.5.a Categories of financial instruments

(EURm)	2015	2014
Available for sale financial assets	509	560
Loans and receivables	949	978
Financial assets measured at fair value through profit or loss	100	53
Derivatives	158	206
Financial liabilities measured at amortised cost	3,658	3,817

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

5.5.b Fair value hierarchy - accounting value

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 flow models and observable market data. The fair value is determined as a termination price and consequently, 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 consequently, the value is not adjusted for credit risks.

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 as significant non-observable market data

Note 5.5.b Fair value hierachy - accounting value

(EURm)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2015				
Financial assets				
Bonds	509	-	-	509
Shares	14	-	-	14
Derivatives	-	75	-	75
Total assets	**523**	**75**	**-**	**598**
Financial liabilities				
Issued Bonds	-	494	-	494
Mortgage credit institutions	701	-	-	701
Derivatives	-	158	-	158
Total liabilities	**701**	**652**	**-**	**1,353**
2014				
Financial assets				
Bonds	572	-	-	572
Shares	13	-	-	13
Derivatives	-	30	-	30
Total assets	**585**	**30**	**-**	**615**
Financial liabilities				
Issued Bonds	-	472	-	472
Mortgage credit institutions	822	-	-	822
Derivatives	-	206	-	206
Total liabilities	**822**	**678**	**-**	**1,500**

NOTE 5.6 TRANSFER OF FINANCIAL ASSETS

Note 5.6.a Transfer of financial assets

(EURm)	CARRYING VALUE	NOTIONAL AMOUNT	FAIR VALUE
2015			
Mortgage bonds	501	513	501
Re-purchase liability	-498	-513	-498
Net position	**3**	**-**	**3**
2014			
Mortgage bonds	503	516	503
Re-purchase liability	-496	-516	-496
Net position	**7**	**-**	**7**

Financial comments

The group has invested in the mortgage bonds underlying its mortgage debt. The reason for investing in the mortgage bonds is that the group is able to achieve a lower interest rate than the current market interest rate on mortgage debt by entering into a sale and re-purchase agreement on the listed Danish mortgage bonds. The net interest rate payable, by raising financing through this kind of sale and re-purchase agreement, is the interest rate inherent in the sale and re-purchase agreement and the contribution to the mortgage institute.

Due to the re-purchase agreement the risks and rewards arising from the ownership of the transferred mortgage bonds have been retained by the group. These mortgage bonds have been classified as available for sale with value adjustments through other comprehensive income. The received proceeds creates a re-purchase obligation which has been recognised within short term bank loans and overdrafts.

NOTE 5.7 PENSION OBLIGATIONS

Accounting policies

Pension liabilities and similar non-current liabilities
The group has entered post-employment pension plan agreements with a significant number of employees. The post-employment pension plan agreements take the form of defined benefit plan and defined contribution plan agreements.

Defined contribution plans
For defined contribution plans, the group pays fixed contributions to independent pension companies. The group has no obligation to make supplementary payments beyond those fixed payments, and the risk and reward of the value of the pension plan therefore rest with the plan members and not the group. Amounts payable for contributions to defined contribution plans are expensed in the income statement as incurred.

Defined benefit plans
Defined benefit plans are characterised by the group's obligation to make a specific payment from the date and during the period the plan member is pensioned, depending on, for example, the member's seniority and final salary. The group is subject to risks and rewards associated with the uncertainty that the return generated by the assets are able to meet the pension liability, which are affected by assumptions concerning mortality and inflation.

The group provides both funded and unfunded defined benefit plans to certain employees. Funded plans are where the group pays cash contributions into a separately administered fund, which invest the contributions into various assets with the aim of generating returns to meet present and future pension liabilities. Unfunded plans are where no cash or other assets are set aside from the group's assets used in operations to cover the future pension liability.

The group's net liability is the amount presented on the balance sheet as pension liability.

The net liability is calculated separately for each defined benefit plan. The net liability is the amount of future pension benefits that employees have earned in current and prior periods (i.e. the liability for pension payments for the portion of the employee's estimated final salary earned at the balance sheet date) discounted to a present value (the defined benefit liability), less the fair value of assets held separately from the group in a plan fund.

The group uses qualified actuaries to annually calculate the defined benefit liability using the projected unit credit method.

The balance sheet amount of the net obligation is impacted by remeasurement, which comprises the effect of changes in assumptions used to calculate the future liability (actuarial gain and losses) and the return generated on plan assets (excluding interest). Remeasurements are recognised through other comprehensive income.

Interest cost for the period is calculated using the discounted rate used to measure the defined benefit liability at the start of the reporting period applied to the carrying amount of the net liability, taking into account changes arising from contributions and benefit payments. The net interest cost and other costs relating to defined benefit plans are recognised in the income statement.

The provision covers defined benefit plans primarily in the UK and Sweden.

Uncertainties and estimates

The cost relating to defined benefit pension plans and their carrying amounts are assessed based on a number of assumptions, including discount rates, inflation rates, salary growth and mortality. A small difference in actual experience compared with assumptions and any changes in assumptions can have a significant impact on the carrying amount of the net liability.

Note 5.7.a Pension liabilities recognized in the balance sheet

(EURm)	SWEDEN	UK	OTHER	TOTAL
2015				
Present value of funded liabilities	194	1,364	39	1,597
Fair value of plan assets	-11	-1,287	-18	-1,316
Deficit of funded plans	**183**	**77**	**21**	**281**
Present value of unfunded liabilities	-	-	13	13
Pension liabilities recognised in the balance sheet, net	**183**	**77**	**34**	**294**
Specification of total liabilities				
Present value of funded liabilities	194	1,364	39	1,597
Present value of unfunded liabilities	-	-	13	13
Total liabilities	**194**	**1,364**	**52**	**1,610**
2014				
Present value of funded liabilities	214	1,315	19	1,548
Fair value of plan assets	-11	-1,172	-4	-1,187
Deficit of funded plans	**203**	**143**	**15**	**361**
Present value of unfunded liabilities	-	-	15	15
Pension liabilities recognised in the balance sheet, net	**203**	**143**	**30**	**376**
Specification of total liabilities:				
Present value of funded liabilities	214	1,315	19	1,548
Present value of unfunded liabilities	-	-	15	15
Total liabilities	**214**	**1,315**	**34**	**1,563**

Note 5.7.b Development in defined benefit pension liabilities

(EURm)	2015	2014
Present value of liability at 1 January	1,563	1,324
Reclassification	15	-
Additions from mergers and acquisitions	-	7
Current service cost	3	6
Interest cost	55	59
Actuarial (gains)/losses from changes in financial assumptions (other comprehensive income)	-51	168
Actuarial (gains)/losses from changes in demographic assumptions (other comprehensive income)	-	-
Benefits paid	-65	-57
Curtailments and settlements	-	-6
Exchange rate adjustments	90	62
Present value of pension liability at 31 December	**1,610**	**1,563**

Note 5.7.c Development in fair value of plan assets

(EURm)	2015	2014
Fair value of plan assets at 1 January	1,187	976
Reclassification	16	-
Additions from mergers and acquisitions	-	7
Interest income	46	46
Return on plan assets excluding interest income (other comprehensive income)	-17	103
Contributions to plans	70	40
Benefits paid	-57	-47
Administration expenses	-2	-2
Exchange rate adjustments	73	64
Fair value of plan assets at 31 December	**1,316**	**1,187**

The group expects to contribute EUR 36 million to the plan assets in 2016, EUR 84 million in 2017-2020 and EUR 192 million from 2021 to the expiry of the obligations measured as non-discounted cash flow

Actual return on plan assets:		
Calculated interest income	46	46
Return excluding calculated interest	-17	103
Actual return	**29**	**149**

Note 5.7.d Sensitivity of defined benefit liabilities to key assumptions
(EURm)

Impact on defined benefit liabilities at 31 December 2015	+	-
Discount rate +/- 10bps	-27	26
Salary increases +/- 10bps	15	-15
Life expectancy +/- 1 year	47	-47

Note 5.7.e Pension assets recognised in the balance sheet

(EURm)	%	2015	%	2014
Shares	35%	464	15%	182
Bonds	26%	346	16%	187
Properties	11%	140	8%	95
Other assets	28%	366	61%	723
Total assets	**100%**	**1,316**	**100%**	**1,187**

Note 5.7.f Recognised in the income statement for the year

(EURm)	2015	2014
Current service cost	3	6
Past service cost	-	-
Administration cost	2	2
Curtailments and settlements	-	-6
Recognised as staff costs	**5**	**2**
Interest cost on obligations	55	59
Interest income on plan assets	-46	-46
Recognised as financial (gains)/losses	**9**	**13**
Total amount recognised in the income statement	**14**	**15**

Note 5.7.g Recognised in other comprehensive income

(EURm)	2015	2014
Accumulated actuarial gains/(losses) at 1 January	-189	-124
Actuarial gains/(losses) for the year	34	-65
Accumulated actuarial gains/(losses) at 31 December	**-155**	**-189**

Note 5.7.h Assumptions for the actuarial calculations at the balance sheet date are	2015	2014
Discount rate, Sweden	3,4%	2.6%
Discount rate, UK	3,8%	3.6%
Expected payroll increase, Sweden	2.4%	2.4%
Expected payroll increase, UK	4,3%	4.3%

Financial comments

The provision consists primarily of defined benefit plans in the UK and Sweden. The defined benefit plans provide pension disbursements to participating employees based on seniority and final salary. Net pension liabilities have been recognised at EUR 294 million, a decline of EUR 82 million compared with last year. The present value of defined benefit plans declined due primarily in the UK to the group's payments to these plans, and in Sweden to an increase in the discount rate for the plan.

Pension plans in Sweden
The defined benefit plan in Sweden does not currently require the group to make cash contributions. The recognised net liability stood at EUR 183 million, a decline of EUR 20 million compared with last year. The decrease is primarily due to actuarial gains of EUR 27 million resulting from an increase in the discount rate, partly offset by a foreign exchange rate adjustment of EUR 7 million.

The pension plans are contribution-based plans guaranteeing defined benefit pension at retirement on a final salary. Contributions are paid by the group. The schemes do not provide any insured disability benefits. The plan assets are legally structured as a trust. The group has control over the operation of the plans and their investments. The investment of the assets are based on the investment strategy defined by the board of the trust.

The pension plans do not include a risk-sharing element between the group and the plan participants.

Pension plans in the UK
The defined benefit plans in the United Kingdom are administered by independent pension funds that invest deposited amounts to cover pension liabilities. All schemes are closed to future accrual.

The recognised net liability stood at EUR 77 million, a decline of EUR 66 million compared with last year. The value of the liability totalled EUR 1,364 million, an increase of EUR 49 million compared with last year. The decrease in the net liability is primarily due to the group's payments to these plans amounting to EUR 70 million, actuarial gains of EUR 11 million and a negative foreign exchange rate adjustment of EUR 8 million.

The pension plans are defined benefit final salary schemes. The schemes are closed to both new entrants and future accrual. Employer contributions are determined with the advice of independent qualified actuaries on the basis of tri-annual valuations. The schemes do not provide any insured disability benefits.

The schemes are legally structured as trust-based statutory sectionalised pension schemes. The group has limited control over the operation of the plans or their investments. The trustees of the scheme set the investment strategy and have set up a policy on asset allocation to best match the assets to the liabilities of the scheme. The trustees appoint an independent external advisor to the schemes who is responsible for advising on the investment strategy and investing the assets.

The pension plans do not include a risk-sharing element between the group and the plan participants.

Note 6
Other areas

This section covers a number of disclosures required for statutory purposes. The tax position of the group, both current and deferred, is assessed according to the national rules and regulations of the entities across the group.

CONTENT

NOTE 6.1 TAX

Accounting policies

Tax in the income statement
Taxable income is assessed according to the national rules and regulations that apply to the entities in the group. Tax is assessed on the basis of cooperation or income tax.

Tax in the income statement comprises current tax and adjustments to deferred tax. Tax is recognised in the income statement, except to the extent that it relates to a business combination or items (earnings and costs) recognised directly in equity or in other comprehensive income.

Current tax
Current tax is assessed on the basis of cooperation or income tax. Cooperative taxation is based on capital, while income tax is based on the company's income for the year. Current tax payable and receivable are recognised in the balance sheet as tax calculated on the taxable income for the year, adjusted for any tax from previous years' taxable income as well as prepaid on-account taxes. The amount is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax
Deferred tax and related adjustments for the year are calculated applying the balance sheet liability method as the tax base of temporary differences between carrying amounts and the tax base of assets and liabilities.

Deferred tax is not recognised on temporary differences relating to goodwill, which is not deductible for tax purposes or arising at the acquisition date of items without affecting either the profit or loss for the year or taxable income, with the exception of those arising from business combinations.

Deferred tax assets, including the value of tax loss carry-forwards, are recognised under other non-current assets at the value at which they are expected to be used, either by elimination in the tax of future earnings or by offsetting against deferred tax payable in companies within the same legal tax entity or jurisdiction.

Deferred tax is measured on the basis of the tax rules and tax rates in the respective countries effective under the legislation at the reporting date when the deferred tax is expected to be realised. Changes in deferred tax assets and liabilities as a result of changes in the tax rate are recognised in the comprehensive income for the year.

Uncertainties and estimates

Deferred tax:
Deferred tax reflects assessments of the actual future tax due for items in the financial statements, taking into account timing and probability. These estimates also reflect expectations about future taxable profits and the group's tax planning. Actual future taxes may deviate from these estimates as a result of changes to expectations relating to future taxable income, future statutory changes in income taxation or the outcome of the tax authorities' final review of the group's tax returns. Recognition of a deferred tax asset also depends on an assessment of the future use of the asset.

Note 6.1.a Tax in the income statement

(EURm)	2015	2014
Cooperative tax	-8	-5
Current tax	-11	-4
Deferred tax	-14	-12
Change in deferred tax resulting from a change in the tax rate	-2	-
Adjustment regarding previous years, actual tax	-6	3
Adjustment regarding previous years, deferred tax	-1	-
Total tax in the income statement	**-42**	**-18**

Note 6.1.b Calculation of effective tax rate

(EURm)	2015	2014
Statutory corporate income tax rate in Denmark	23.5%	24.5%
Deviation in foreign subsidiaries' tax rates compared with the Danish tax rate (net)	-2.9%	-0.3%
Adjustment for cooperative tax	-23.3%	-22.6%
Non-taxable income less non-tax-deductible costs (net)	3.5%	-2.1%
Change in tax percentage	0.5%	-%
Adjustment regarding previous years	2.1%	-0.2%
Other adjustments	9.0%	6.2%
Effective tax rate	**12.4%**	**5.5%**

Note 6.1.c Deferred tax
(EURm)

	INTANGIBLE ASSETS	PROPERTY, PLANT AND EQUIPMENT	FINANCIAL ASSETS	CURRENT ASSETS	PROVISIONS	OTHER LIABILITIES	TAX LOSS CARRY-FORWARDS	OTHER CATEGORY	TOTAL
2015									
Net deferred tax asset/liability at 1 January	-	-10	11	-	40	2	13	-30	26
Income/charge to the income statement	-	6	2	-	-20	-1	-2	-	-15
Income/charge to other comprehensive income	-	-	-	-1	-13	-	-	-	-14
Change in tax rate	-	-3	-	-	2	-	-1	-	-2
Exchange rate adjustment	-	-	-	-	4	-	-	-	4
Other adjustments	-1	8	-11	-2	13	4	-	-11	-
Net deferred tax asset/liability at 31 December	**-1**	**1**	**2**	**-3**	**26**	**5**	**10**	**-41**	**-1**
Specified as follows:									
Deferred tax asset at 31 December	-	32	-	-	17	5	10	-	64
Deferred tax liability at 31 December	-1	-31	2	-3	9	-	-	-41	-65
2014									
Net deferred tax asset/liability at 1 January	-2	2	7	-	45	-9	4	-26	21
Income/charge to the income statement	2	15	-3	1	-9	-19	6	-5	-12
Income/charge to other comprehensive income	-	-	4	-	12	2	-	-	18
Change in tax rate	-	-	-	-	-	-	-	-	-
Exchange rate adjustment	-	1	-	-	-	1	-	1	3
Other adjustments	-	-28	3	-1	-8	27	3	-	-4
Net deferred tax asset/liability at 31 December	**-**	**-10**	**11**	**-**	**40**	**2**	**13**	**-30**	**26**
Specified as follows:									
Deferred tax asset at 31 December	-	18	7	2	62	4	4	-25	72
Deferred tax liability at 31 December	-	-28	4	-2	-22	-2	9	-5	-46

Financial comments

Tax in the income statement
The tax cost has increased by EUR 24 million primarily due to increased cooperative tax in Denmark, reduced recognition of tax losses compared to last year, and a reduction of deferred tax assets due to lower tax rates.

Deferred tax
Deferred tax has changed from a net deferred tax asset in 2014 of EUR 26 million to a net deferred tax liability of EUR 1 million in 2015.

Deferred tax assets are primarily based on temporary differences on property, plant and equipment together with pension liabilities. Deferred tax liabilities mainly relate to provisions and temporary differences on property, plant and equipment.

The change from 2014 to 2015 is primarily explained by tax rate changes and temporary differences arising from differences in accounting and tax depreciation on property, plant and equipment.

A deferred tax asset of EUR 110 million has not been recognised, as the group does not expect to be able to utilize it within a limited time range. The increase from EUR 55 million in 2014 is primarily caused by non recognised tax losses related to entities in Germany and the UK.

NOTE 6.2 FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES

(EURm)

	2015	2014
Statutory audit	-1.2	-0.6
Other assurance engagements	-	-
Tax assistance	-1.1	-0.2
Other services	-1.6	-0.1
Total fees to auditors	**-3.9**	**-0.9**

Financial comments

In 2014 KPMG in Denmark joined the EY network and following this in 2015, the group decided to appoint EY in all significant entities. The above fees to auditors are therefore attributable to EY. For 2014 the fees paid to the KPMG network amounted to EUR 1.2 million. Other services comprise fees related to due diligence in connection with mergers and acquisitions of companies.

NOTE 6.3 MANAGEMENT REMUNERATION AND TRANSACTIONS

The remuneration of 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 is exercise significant influence. Members of the Board of Directors are paid for milk supplies to Arla Foods amba on equal terms with other owners of the company.

Note 6.3.a Management remuneration

(EURm)	2015	2014
Board of Directors		
Wages, salaries and remuneration	-1.4	-1.4
Total	**-1.4**	**-1.4**
Executive Board		
Wages, salaries and remuneration	-2.2	-1.9
Pensions	-0.3	-0.2
Variable remuneration and incentive programmes	-0.8	-0.4
Total	**-3.3**	**-2.5**

Note 6.3.b. Transactions with the Board of Directors

(EURm)	2015	2014
Purchase of goods	10.7	13.4
Supplementary payments received regarding previous years	0.3	0.4
Total	**11.0**	**13.8**
Trade payables	0.6	1.0
Owner accounts	2.1	2.1
Total	**2.7**	**3.1**

NOTE 6.4 CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIES

Uncertainties and estimates

The group has entered into a number of lease agreements. Management assesses the substance of the agreements in order to classify the lease agreements as either financial or operating leases. The group has mainly entered into lease agreements for standardised assets that are short-term in relation to the asset's useful lives. As such, the lease agreements have been classified as operating leases.

Note 6.4.a Contractual commitments and contingent liabilities

(EURm)	2015	2014
Surety and guarantee commitments	**5**	**5**
0-1 year	24	22
1-5 years	48	49
Over 5 years	37	44
Operating rent commitments	**109**	**115**
0-1 year	40	37
1-5 years	71	59
Over 5 years	6	4
Operating lease commitments	**117**	**100**
Commitments in relation to agreements on the purchase of intangible assets	6	-
Commitments in relation to agreements on the purchase of property, plant and equipment	139	168
Total commitments in relation to agreements	**145**	**168**

Financial comments

The group is party to a small number of lawsuits, disputes, and other claims. Management believes that the outcome of these will not significantly impact the group's financial position beyond what is already recognised in the balance sheet and/or disclosed in the financial statements.
As security for mortgage debt based on the Danish Mortgage act with a nominal value of EUR 720 million, compared with EUR 845 million at 31 December 2014, the group provided security in property as security for the debt.

Contingent assets
Valio have been fined in the market court for a breach of the Competition Act, but have appealed to the Supreme Administrative Court. Arla has filed a damage claim of EUR 50 million against Valio because of predatory pricing.

NOTE 6.5. EVENTS AFTER THE BALANCE SHEET DATE

In February 2016, Arla announced significant changes to the organisation. The changes are commencing with a new executive management team based on functional areas and commercial markets. There are seven members of the new executive management team which is a reduction from nine previously. As a result of these changes, Arla is to reduce the organisation with 500 positions across its markets.

No other events with a significant impact on the business have occurred after the balance sheet date.

NOTE 6.6 GENERAL ACCOUNTING POLICIES

Consolidated financial statements
The consolidated financial statements included in this Annual report have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statement Act for class C large companies. The consolidated financial statements were authorised for issue by the Company's board of directors on 16 February 2016 and presented for approval by the board of representatives on 24 February 2016.

The consolidated financial statements are prepared as a compilation of the parent company's and the individual subsidiaries' financial statements prepared under the group's accounting policies. Revenue, costs, assets, liabilities together with items included in the equity of subsidiaries are aggregated and presented on a line-by-line basis in the consolidated financial statements. Intra-group shareholdings, balances and transactions as well as any unrealised income and expenses arising from intra-group transactions are eliminated.

The consolidated financial statements comprise Arla Foods amba (parent company) and the subsidiaries in which the parent company directly or indirectly holds more than 50% of the voting rights or otherwise maintains control in order to obtain benefits from its activities. Entities in which the group exercises joint control through a contractual arrangement are considered to be joint ventures. Entities in which the group exercises a significant but not controlling influence are considered to be associates. A significant influence is typically obtained by holding or having at the group's disposal, directly or indirectly, more than 20 per cent but less than 50% of the voting rights in an entity.

Unrealised gains (i.e. profits arising from sales to joint ventures or associates, whereby the customer pays with funds partly owned by the group) from transactions with joint ventures and associates are eliminated against the carrying amount of the investment in proportion to the group's interest in the company. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The consolidated financial statements are prepared on a historical cost basis except for certain items with alternative measurement bases, which are identified in these accounting policies.

Translation of transactions and monetary items in foreign currencies
For each reporting entity in the group, a functional currency is determined, being the currency used in the primary economic environment where the entity operates. Where a reporting entity transacts in a foreign currency, it will record the transaction in its functional currency using the transaction date rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate applicable at the reporting date. Exchange differences are recognised in the income statement under financial items. Non-monetary items, e.g. property, plant and equipment which are measured based on historical cost in a foreign currency, are translated into the functional currency on initial recognition.

Translation of foreign operations
The assets and liabilities of consolidated entities, including the share of net assets and goodwill of joint ventures and associates with a functional currency other than EUR, are translated into EUR using the year-end exchange rate. The revenue, costs and share of the results for the year are translated into EUR using the average monthly exchange rate if this does not differ materially from the transaction date rate. Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve.

On partial divestment of associates and joint ventures, the relevant proportional amount of the cumulative foreign currency translation adjustment reserve is transferred to the results for the year along with any gains or losses related to the divestment. Repayment of outstanding balances considered part of the net investment is not in itself considered to be a partial divestment of the subsidiary.

Adoption of new or amended IFRSs
The group has implemented all new standards and interpretations effective in the EU from 2015. Arla made an early implementation of changes to IAS 19 and has implemented annual improvements to IFRS 2011-2013 all with the same starting date as IFRS approved by IASB. None of these newly adopted standards and interpretations have had or are expected to have an impact on the consolidated financial statements of Arla.

IASB has issued a number of new or amended and revised accounting standards and interpretations that have not yet come into effect. Arla expect to incorporate the new standards when they become mandatory.

In January 2016, the IASB issued the final version of IFRS 16 "Leases". The standard, which is effective for annual periods beginning on or after 1 January 2019, brings significant changes to the treatment of leasing contracts currently treated as operating leases. At the moment, no in-depth analysis of the impact of the new standard has been performed. The standard is expected to have some impact on the consolidated financial statements, as a significant part of the Group's operating leases will be required to be recognized on the balance sheet.

Other new or revised accounting standards and implementations are not expected to have a material impact on the consolidated financial statements of the group.

NOTE 6.7 GROUP CHART

COMPANY NAME	COUNTRY	CURRENCY	GROUP EQUITY INTEREST (%)
Arla Foods amba	**Denmark**	**DKK**	
Arla Foods Ingredients Group P/S	Denmark	DKK	100
Arla Foods Ingredients Energy A/S	Denmark	DKK	100
Arla Foods Ingredients KK	Japan	JPY	100
Arla Foods Ingredients Inc.	USA	USD	100
Arla Foods Ingredients Korea, Co. Ltd.	Korea	KRW	100
Arla Foods Ingredients Trading (Beijing) Co. Ltd.	China	CNY	100
Arla Foods Ingredients S.A.*	Argentina	USD	50
Arla Foods Ingredients Singapore Pte. Ltd.	Singapore	SGD	100
Arla Foods Ingredients S.A. de C.V.	Mexico	MZN	100
Arla Foods Ingredients UK Limited	UK	GBP	100
AFI Partner ApS	Denmark	DKK	100
Cocio Chokolademælk A/S	Denmark	DKK	50
Cocio Beverage International P/S	Denmark	DKK	100
CBI GP ApS	Denmark	DKK	100
Andelssmør A.m.b.a.	Denmark	DKK	98
Aktieselskabet J. Hansen	Denmark	DKK	100
J.P. Hansen Inc.	USA	USD	100
Mejeriforeningen	Denmark	DKK	91
Arla Foods Holding A/S	Denmark	DKK	100
Arla Foods Distribution A/S	Denmark	DKK	100
Økomælk A/S	Denmark	DKK	100
Danmark Protein A/S	Denmark	DKK	100
Cocio Chokolademælk A/S	Denmark	DKK	50
Arla Foods International A/S	Denmark	DKK	100
Arla Foods UK Holding Ltd	UL	GBP	86
Arla Foods UK plc	UK	GBP	100
Arla Foods Finance Ltd	UK	GBP	100
Arla Foods Holding Co. Ltd	UK	GBP	100
Arla Foods UK Services Ltd	UK	GBP	100
Arla Foods Naim Limited	UK	GBP	100
Arla Foods Limited	UK	GBP	100
Milk Link Holdings Ltd.	UK	GBP	100
Milk Link Processing Ltd.	UK	GBP	100
Milk Link (Crediton No 2) Limited	UK	GBP	100
Milk Link Investments Ltd.	UK	GBP	100
The Cheese Company Holdings Ltd.	UK	GBP	100
The Cheese Company Ltd.	UK	GBP	100
Cornish Country Larder Ltd.	UK	GBP	100
The Cheese Company Investments Ltd.	UK	GBP	100
Westbury Dairies Ltd. ***	UK	GBP	11
Arla Foods (Westbury) Ltd.	UK	GBP	100
Arla Foods Cheese Company Ltd. UK	UK	GBP	100
Arla Foods Ingredients UK Ltd.	UK	GBP	100
MV Ingredients Ltd.*	UK	GBP	50
Arla Foods UK Property Co. Ltd.	UK	GBP	100
Arla Foods B.V.	Netherlands	EUR	100
Arla Foods Ltda	Brazil	BRL	100
Danya Foods Ltd.	Saudi Arabia	SAR	75
AF A/S	Denmark	DKK	100
Arla Foods Finance A/S	Denmark	DKK	100
Kingdom Food Products ApS	Denmark	DKK	100
Ejendomsanpartsselskabet St. Ravnsbjerg	Denmark	DKK	100
Arla Insurance Company (Guernsey) Ltd	Guernsey	DKK	100
Rynkeby Foods A/S	Denmark	DKK	100
Rynkeby Foods AB	Sweden	SEK	100
Rynkeby Foods Förvaltning AB	Sweden	SEK	100
Rynkeby Foods HB	Sweden	SEK	100
Rynkeby Foods Oy	Finland	EUR	100
Arla Foods Energy A/S	Denmark	DKK	100
Arla Foods Trading A/S	Denmark	DKK	100
Arla DP Holding A/S	Denmark	DKK	100
Arla DP A/S	Denmark	DKK	100
Arla Foods Investment A/S	Denmark	DKK	100
Fidan A/S	Denmark	DKK	100
Tholstrup International B.V.	Netherlands	EUR	100
Tholstrup Cheese Holding A/S	Denmark	DKK	100
Tholstrup Cheese A/S	Denmark	DKK	100
Tholstrup Cheese USA Inc.	USA	USD	100
Arla Foods Belgium A.G.	Belgium	EUR	99
Mölkerei Walhorn GmbH	Germany	EUR	100
Arla Foods Ingredients GmbH	Germany	EUR	100

COMPANY NAME	COUNTRY	CURRENCY	GROUP EQUITY INTEREST (%)
Arla Tagatose Holding GmbH	Germany	EUR	100
Arla CoAr Holding GmbH	Germany	EUR	100
ArNoCo GmbH & Co. KG*	Germany	EUR	50
Arla Biolac Holding GmbH	Germany	EUR	100
Biolac GmbH & Co. KG*	Germany	EUR	50
Biolac Verwaltungs GmbH*	Germany	EUR	50
Arla Foods Kuwait Company LLC	Kuwait	KWD	49
Arla Kallassi Foods Lebanon S.A.L.	Lebanon	USD	50
Arla Foods Qatar WLL	Qatar	QAR	40
AFIQ WLL**	Bahrain	BHD	25
Arla Foods Trading and Procurement Ltd.	Hong Kong	HKD	100
Arla Foods Sdn. Bhd.	Malaysia	MYR	100
Arla Foods AB	Sweden	SEK	100
Boxholm Mejeri AB	Sweden	SEK	100
Arla Oy Ab	Finland	EUR	100
Ranuan Meijeri Oy	Finland	EUR	99
Kiteen Meijeri Oy	Finland	EUR	99
Halkivahan Meijeri Oy	Finland	EUR	97
Massby Facility & Services Oy	Finland	EUR	60
Osuuskunta MS tuottajapalvelu**	Finland	EUR	39
Arla Foods UK Holding Ltd.	UK	GBP	14
Restaurang akademien Aktiebolag**	Sweden	SEK	50
Vardagspuls AB	Sweden	SEK	100
Arla Foods Russia Holding AB	Sweden	SEK	100
Arla Foods Artis LLC	Russia	RUB	80
L&L International AB	Sweden	SEK	100
Milko Sverige AB	Sweden	SEK	100
Videbæk Biogas A/S **	Denmark	DKK	50
Arla Foods Inc.	USA	USD	100
Arla Foods Production LLC	USA	USD	100
Arla Foods Transport LLC	USA	USD	100
Arla Foods SA	Poland	PLN	100
COFCO Dairy Holdings Limited **	Hong Kong	HKD	30
Arla Foods Inc.	Canada	CAD	100
Arla Global Financial Services Centre Sp. Z.o.o.	Poland	PLN	100
Arla National Foods Products LLC	UAE	AED	40
Arla Foods Deutschland GmbH	Germany	EUR	100
Arla Foods Artis LLC	Russia	RUB	20
Martin Sengele Produits Laitiers SAS	France	EUR	100
Team-Pack GmbH	Germany	EUR	100
Arla Foods France, S.a.r.l	France	EUR	100
Milch-Union Hocheifel, Luxemburg GmbH	Luxemburg	EUR	100
Milch-Union Hocheifel, Belgium AG	Belgium	EUR	100
Hansa Verwaltungs und Vertriebs GmbH	Germany	EUR	100
Arla Foods Logistics GmbH	Germany	EUR	100
Vigor Alimentos S.A.**	Brazil	BRL	8
Arla Foods Srl	Italy	EUR	100
Arla Foods S.a.r.l.	France	EUR	100
Arla Foods AS	Norway	NOK	100
Arla Foods S.A.	Spain	EUR	100
Arla Foods Hellas S.A.	Greece	EUR	100
Svensk Mjölk Ekonomisk förening**	Sweden	SEK	73
Lantbrukarnas Riksförbund upa **	Sweden	SEK	23
Arla Foods UK Farmers JV Company Limited	UK	GBP	100
Arla Côte d'Ivoire	Ivory Coast	XOF	51
Arla Foods Mayer Australia Pty, Ltd.	Australia	AUD	51
Arla Foods S.R.L.	Domician Republic	DOP	100
Arla Foods Bangladesh Ltd.	Bangladesh	BDT	51
Arla Foods Dairy Products Technical Service (Beijing) Co. Ltd.	China	CNY	100
Dofo Cheese Eksport K/S	Denmark	DKK	100
Dofo Inc.	USA	USD	100
Marygold Trading K/S	Denmark	DKK	100
TG Arla Dairy Products LFTZ Enterprices (JV)	Nigeria	NGN	50

** Joint ventures ** Associates *** Joint operation*
The Group also owns a number of entities without material commercial activities.

Independent **auditor's report**

TO THE OWNERS OF ARLA FOODS AMBA

Independent auditors' report on the consolidated financial statements and the parent company financial statements
We have audited the consolidated financial statements and the parent company financial statements of Arla Foods amba for the financial year 1 January – 31 December 2015, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies for the group as well as for the parent company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

Management's responsibility for the consolidated financial statements and the parent company financial statements
Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the parent company financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of consolidated financial statements and parent company financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

Opinion
In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the group's and the parent company's financial position at 31 December 2015 and of the results of the group's and the parent company's operations and cash flows for the financial year 1 January – 31 December 2015 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

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

Aarhus, 16 February 2016
Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jesper Ridder Olsen
State Authorised Public Accountant

Morten Friis
State Authorised Public Accountant

Statement by the Board of Directors and **the Executive Board**

Today, the Board of Directors and the Executive Board discussed and approved the annual report of Arla Foods amba for the financial year 2015. The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

It is our opinion, that the consolidated financial statements and the parent company financial statements give a true and fair view of the group's and the parent company's financial position at 31 December 2015 and of the results of the group's and the parent company's activities and cash flows for the financial year 1 January - 31 December 2015.

In our opinion, the Management's review of the annual report includes a true and fair view of the developments of the group's and the parent company's financial position, activities and financial matters, results for the year and cash flows as well as a description of the most significant risks and uncertainties that may affect the group and the parent company.

We hereby recommend the annual report for adoption by the Board of Representatives.

Aarhus, 16 February 2016

Peder Tuborgh CEO	Povl Krogsgaard Vice CEO	Åke Hantoft Chairman	Jan Toft Nørgaard Vice Chairman
Viggo Ø. Bloch	Palle Borgström	Jonas Carlgren	Manfred Graff
Heléne Gunnarson	Markus Hübers	Bjørn Jepsen	Thomas Johansen
Steen Nørgaard Madsen	Torben Myrup	Jonathan Ovens	Johnnie Russell
Manfred Sievers	Ib Bjerglund Nielsen Employee representative	Harry Shaw Employee representative	Haakan Gillström Employee representative

DEFINITIONS

EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciations and amortisation
EBIT margin	EBIT / revenue
Interest cover	EBITDA / interest costs, net
Net interest-bearing debt inclusive pension	Current interest-bearing liabilities - securities, cash and cash equivalents and other interest-bearing assets + non-current liabilities
Net working capital	Inventories + trade receivables - trade payables
Leverage	Net interest-bearing liabilities, including pension liabilities / EBITDA
Equity ratio	Equity excluding minority interest / balance sheet total

GLOSSARY

Peer group index The peer group index evaluates the relative performance of Arla Foods amba compared to competitors without considering the retainment policy.

Performance price and prepaid milk price The performance price for Arla Foods amba is defined as the prepaid milk price plus net profit divided by total member milk volume intake. The prepaid milk price is the cash payment owners receive for the milk delivered during the settlement period.

Organic revenue growth Organic revenue growth figures are adjusting for the effect of mergers, acquisitions and divestments of businesses and currency effects.

Volume driven revenue growth Volume driven revenue growth is defined as revenue associated with growth in volumes keeping the prices constant.

Capacity costs Capacity costs cover costs such as staff, maintenance, energy, cleaning, insurances, IT, travelling and consultants.

Scalability Scalability is defined as the ratio between volume driven revenue growth and growth in total capacity cost adjusted for special items.

Trading share Trading share measures the total milk consumed through trading goods compared to the total milk consumption in Arla Foods amba. A trading good is a product sold with a low amount of value added or no value added at all. Typically trading goods include business-to-business sales and bulk sales of cheese, butter or milk powder.

Brand share Brand share is defined as the ratio of revenue on strategic branded products out of total revenue.

Arla Foods amba
Sønderhøj 14
DK-8260 Viby J.
Denmark
CVR no.: 25 31 37 63

Phone +45 89 38 10 00
E-mail arla@arlafoods.com

www.arla.com

Arla Foods UK plc
4 Savannah Way
Leeds Valley Park
Leeds, LS10 1 AB
England

Phone +44 113 382 7000
E-mail arla@arlafoods.com

www.arlafoods.co.uk