

Content

01 Management Review

Primary Financial Statements

- 02 Income statement
- 02 Comprehensive income
- 02 Profit appropriation
- 03 Balance sheet
- 04 Changes in equity
- 05 Cash flow

Notes

- 06 Note 1 Revenue and operational cost
- 07 Note 2 Net working capital
- 08 Note 3 Capital employed
- 10 Note 4 Funding
- 15 Note 5 Other areas including general accounting policies

Parent company Management Review

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

The financial statements for the parent company show the financial position, the result and the cash flow of Arla Foods amba on a non-consolidated basis for the financial year 1 January to 31 December 2018.

Principal activities

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

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

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

Performance

The milk price delivered to our farmers owners decreased by 4.5 per cent due to lower market prices resulting in a performance price of 36.4 EUR-cent/kg. Revenue decreased by 0.2 per cent to EUR 7,695 million, compared to EUR 7,709 million last year. Gross profit amounted to EUR 915 million, which is at the same level as last year.

Profit for the year increased to EUR 215 million compared to EUR 188 million last year. The parent company continued to incur losses due to impairment on investment in subsidiaries. The loss incurred amounted to EUR 82 million compared to EUR 185 million last year. Dividends received from subsidiaries recognised in financial items amounted to EUR 85 million compared to EUR 97 million last year. Furthermore financial items was last year impacted by a positive gain of EUR 44 million related to the sale of shares in Vigor Alimentos S.A in Brasil. Finally losses was incurred on hedge instruments partly offset by lower exchange rate losses.

Due to the cooperative setup the result for parent company is dependent on the prepaid milk price and the performance of the Group. For 2019 the company expect a result in line with the 2018 result depending on the development of results in other group companies.

Income statement

(EURm)	Note	2018	2017
Revenue	1.1	7,695	7,709
Production costs	1.2	-6,781	-6,810
Gross profit		914	899
Sales and distribution costs	1.2	-463	-482
Administration costs	1.2	-199	-203
Other operating income	1.3	9	38
Other operating costs	1.3	-47	-23
Earnings before interest and tax (EBIT)		214	229
Impairment of investments in subsidiaries	3.3	-82	-185
Financial income	4.1	109	171
Financial costs	4.1	-19	-25
Profit before tax		222	190
Tax	5.1	-7	-2
Profit for the year		215	188

Comprehensive income

(EURm)	2018	2017
Profit for the year	215	188
Other comprehensive income		
Items that may be reclassified subsequently to the income statement		
Value adjustment of hedging instruments	-11	46
Adjustments related to foreign currency translation	-12	-2
Other comprehensive income, net of tax	-23	44
Total comprehensive income	192	232

Profit appropriation

(EURm)	2018	2017
Profit for the year	215	188
<i>Proposed profit appropriation:</i>		
Supplementary payment for milk	287	124
Interest on contributed capital	3	3
Total supplementary payment	290	127
<i>Transferred to equity:</i>		
Capital account	-100	-134
Reserve for special purposes	-	120
Contributed capital	-	38
Reserve for development costs	25	37
Total transferred to equity	-75	61
Appropriated profit	215	188

Balance sheet

(EURm)	Note	2018	2017
Assets			
Non-current assets			
Intangible assets	3.1	192	190
Property, plant and equipment	3.2	687	603
Investments in subsidiaries	3.3	1,211	1,187
Investments in associates	3.3	246	266
Subordinated loans to subsidiaries	3.3	390	633
Total non-current assets		2,726	2,879
Current assets			
Inventory	2	313	298
Trade receivables	2	184	209
Amounts owed by subsidiaries		1,001	873
Amounts owed by associates		9	8
Derivatives		21	13
Other receivables		85	41
Securities	4.2	190	199
Cash and cash equivalents		2	-
Total current assets		1,805	1,641
Total assets		4,531	4,520

(EURm)	Note	2018	2017
Equity and liabilities			
Equity			
Common capital		1,477	1,563
Individual capital		456	502
Other equity accounts		87	85
Proposed supplementary payments to owners		290	127
Total equity		2,310	2,277
Liabilities			
Non-current liabilities			
Loans	4.2	484	274
Total non-current liabilities		484	274
Current liabilities			
Loans	4.2	194	202
Trade and other payables		570	531
Amounts owed to subsidiaries		821	1,098
Derivatives		36	34
Other current liabilities		98	84
Deferred income		18	20
Total current liabilities		1,737	1,969
Total liabilities		2,221	2,243
Total equity and liabilities		4,531	4,520

Equity

	Common capital		Individual capital				Other equity accounts			Total
	Capital account	Reserve for special purposes	Contributed individual capital	Delivery-based owner certificates	Injected individual capital	Proposed supplementary payment	Reserve for value adjustment of hedging instruments	Reserve for foreign exchange adjustments	Reserve for development costs	
(EURm)										
Equity at 1 January 2018	677	886	243	79	180	127	-16	9	92	2,277
Profit for the year	-100	-	-	-	-	290	-	-	25	215
Other comprehensive income	-	-	-	-	-	-	-11	-12	-	-23
Total comprehensive income	-100	-	-	-	-	290	-11	-12	25	192
Capital issued to new owners	-	-	-	-	-	-	-	-	-	-
Payments to owners	-	-	-17	-6	-15	-	-	-	-	-38
Supplementary payment related to 2017	-	-	-	-	-	-121	-	-	-	-121
Foreign exchange adjustments	14	-	-4	-1	-3	-6	-	-	-	-
Total transactions with owners	14	-	-21	-7	-18	-127	-	-	-	-159
Equity at 31 December 2018	591	886	222	72	162	290	-27	-3	117	2,310
Equity at 1 January 2017	793	766	223	87	193	124	-62	11	55	2,190
Profit for the year	-134	120	38	-	-	127	-	-	37	188
Other comprehensive income	-	-	-	-	-	-	46	-2	-	44
Total comprehensive income	-134	120	38	-	-	127	46	-2	37	232
Capital issued to new owners	3	-	-	-	-	-	-	-	-	3
Payments to owners	-	-	-12	-7	-9	-	-	-	-	-28
Supplementary payment related to 2016	-	-	-	-	-	-120	-	-	-	-120
Foreign exchange adjustments	15	-	-6	-1	-4	-4	-	-	-	-
Total transactions with owners	18	-	-18	-8	-13	-124	-	-	-	-145
Equity at 31 December 2017	677	886	243	79	180	127	-16	9	92	2,277

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

Cash flow

(EURm)	Note	2018	2017
EBIT		214	229
Depreciation, amortisation and impairment losses		141	135
Gain/loss on disposal of non-current assets		-	2
Change in net working capital		-117	70
Change in other receivables and other current liabilities		-44	-56
Dividends received		89	97
Interest paid		-17	-13
Interest received		20	24
Tax paid		-8	-2
Cash flow from operating activities		278	486
Investment in intangible fixed assets	3.1	-51	-51
Investment in property, plant and equipment	3.2	-176	-87
Operating investing activities		-227	-138
<i>Free operating cash flow</i>		<i>51</i>	<i>348</i>

(EURm)	Note	2018	2017
Investment in subsidiaries	3.3	-86	-200
Investment in associates	3.3	-	-1
Sale of associates		-	74
Issuance/repayment of subordinated loans		241	-62
Financial investing activities		155	-189
Cash flow from investing activities		-72	-327
<i>Free cash flow</i>		<i>206</i>	<i>159</i>
Supplementary payment regarding the previous financial year		-121	-120
Paid out from equity regarding terminated membership contracts		-38	-28
Change in non-current liabilities		200	-2
Change in current liabilities		-253	-12
Net change in marketable securities		8	3
Cash flow from financing activities		-204	-159
Net cash flow		2	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		2	-

Note 1.1 Revenue

(EURm)	Internal sales of goods	External sales of goods	Total revenue
2018			
Raw milk	2,696	32	2,728
Milk, yoghurt, powder and cooking	531	840	1,371
Cheese	946	724	1,670
Butter, spreads and margarine	1,067	273	1,340
Other	63	523	586
Total	5,303	2,392	7,695
2017			
Raw milk	2,822	26	2,848
Milk, yoghurt, powder and cooking	355	1,065	1,420
Cheese	962	674	1,636
Butter, spreads and margarine	1,017	217	1,234
Other	48	523	571
Total	5,204	2,505	7,709

Note 1.2 Costs

(EURm)	2018	2017
Research and development costs are included in sales and distribution costs and amounts to EUR 26 million, compared to EUR 22 million last year.		
Operational costs split by functions		
Production costs	6,781	6,810
Sales and distribution costs	463	482
Administration costs	199	203
Total	7,443	7,495
<i>Specification:</i>		
Weighed-in raw milk	4,283	4,484
Other production materials*	1,838	1,760
Staff costs	466	442
Transportation costs	178	169
Marketing costs	157	153
Depreciation, amortisation and impairment	141	135
Other costs**	380	352
Total	7,443	7,495
<i>*Other production materials includes packaging, additives, consumables and changes in inventory</i>		
<i>**Other costs mainly includes maintenance, utilities and IT</i>		
Staff costs		
Wages, salaries and remuneration	430	407
Pensions	34	33
Other social security costs	2	2
Total staff costs	466	442
<i>Staff costs relate to:</i>		
Production costs	295	283
Sales and distribution costs	59	59
Administration costs	112	100
Total staff costs	466	442
Average number of full-time employees	5,590	5,428

Note 1.2 Costs (continued)

	2018	2017
Depreciation, amortisation and impairment (EURm)		
Intangible assets, amortisation	49	43
Property, plant and equipment, depreciation	92	92
Total depreciation, amortisation and impairment	141	135
<i>Depreciation, amortisation and impairment losses relate to:</i>		
Production costs	90	94
Sales and distribution costs	24	17
Administration costs	27	24
Total depreciation, amortisation and impairment	141	135

Note 1.3 Other operating income and costs

(EURm)	2018	2017
Financial instruments	7	35
Other items	2	3
Total other operating income	9	38
Financial instruments	21	6
Other items	26	17
Total other operating costs	47	23

Note 2 Net working capital

	2018	2017
Net working capital (EURm)		
Inventory	313	298
Trade receivables	184	209
Amounts owed by subsidiaries	1,001	863
Amounts owed by associated	9	8
Trade and other payables	-570	-531
Amounts owed to subsidiaries	-340	-160
Net working capital	597	687

Inventory (EURm)	2018	2017
Inventory before write-downs	320	305
Write-downs	-7	-7
Total inventory	313	298
Raw materials and consumables	108	102
Work in progress	97	91
Finished goods and goods for resale	108	105
Total inventory	313	298

Trade receivables (EURm)	2018	2017
Trade receivables before provision for expected losses	185	211
Provision for expected losses (2017: Incurred losses)	-1	-2
Total trade receivables	184	209

Note 3.1 Intangible assets

(EURm)	Licenses and trademarks	IT and other development projects	Total
2018			
Cost at 1 January	28	313	341
Additions	-	51	51
Disposals	-	-6	-6
Cost at 31 December	28	358	386
Amortisation and impairment at 1 January	-6	-145	-151
Amortisation for the year	-2	-47	-49
Amortisation on disposals	-	6	6
Amortisation and impairment at 31 December	-8	-186	-194
Carrying amount at 31 December	20	172	192
2017			
Cost at 1 January	28	264	292
Additions	-	51	51
Disposals	-	-2	-2
Cost at 31 December	28	313	341
Amortisation and impairment at 1 January	-4	-106	-110
Amortisation for the year	-2	-41	-43
Amortisation on disposals	-	2	2
Amortisation and impairment at 31 December	-6	-145	-151
Carrying amount at 31 December	22	168	190

Note 3.2 Property, plant and equipment

(EURm)	Land and buildings	Plant and machinery	Fixture and fitting, tools and equipment	Assets in course of construction	Total
2018					
Cost at 1 January	439	1,121	91	52	1,703
Additions	11	51	7	107	176
Transferred from assets under construction	2	33	2	-37	-
Disposals	-1	-1	-	-	-2
Cost at 31 December	451	1,204	100	122	1,877
Depreciation and impairment at 1 January	-253	-786	-61	-	-1,100
Depreciation for the year	-13	-70	-9	-	-92
Depreciation on disposals	1	1	-	-	2
Depreciation and impairment at 31 December	-265	-855	-70	-	-1,190
Carrying amount at 31 December	186	349	30	122	687
Of which assets held under a finance lease	3	11	2	2	18
2017					
Cost at 1 January	406	1,076	76	63	1,621
Additions	1	8	2	76	87
Transferred from assets under construction	32	40	15	-87	-
Disposals	-	-3	-2	-	-5
Cost at 31 December	439	1,121	91	52	1,703
Depreciation and impairment at 1 January	-242	-717	-52	-	-1,011
Depreciation for the year	-11	-71	-10	-	-92
Depreciation on disposals	-	2	1	-	3
Depreciation and impairment at 31 December	-253	-786	-61	-	-1,100
Carrying amount at 31 December	186	335	30	52	603
Of which assets held under a finance lease	3	13	1	1	18

Note 3.3 Investments and subordinated loans

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

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

(EURm)	Investments in subsidiaries	Investments in associates	Subordinated loans to subsidiaries
2017			
Cost at 1 January	1,694	295	648
Additions	200	1	87
Disposals	-	-30	-25
Cost at 31 December	1,894	266	710
Adjustments at 1 January	-522	-	-69
Exchange rate adjustments	-	-	-8
Impairment	-185	-	-
Adjustments at 31 December	-707	-	-77
Carrying amount at 31 December	1,187	266	633

In 2017, the investment in Arla Foods Deutschland GmbH was written down by EUR 185 million to the recoverable amount, as a result of an operating loss in this entity.

Note 3.3 Investments and subordinated loans (continued)

Transactions with subsidiaries (EURm)	2018	2017
Sale of goods	5,303	5,204
Purchase of distribution services	-59	-74
Sale of administration services	56	69
Royalty from subsidiaries	1	1
Interest from subsidiaries	19	23
Dividends from subsidiaries	89	97

Transactions with associates

Refer to the Group consolidated financial statements.

Note 4.1 Financial income and financial costs

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

(EURm)	2018	2017
Interest, securities	1	1
Dividends from subsidiaries	89	97
Gain from divestment of associates	-	44
Interest from subsidiaries	19	23
Fair value adjustment	-	6
Total financial income	109	171
Interest costs on financial instruments measured at amortised cost	-19	-15
Foreign exchange losses (net)	-2	-12
Interest transferred to property, plant and equipment	2	2
Total financial costs	-19	-25
Net financial income	90	146

Note 4.2 Interest-bearing debt

Net interest-bearing debt (EURm)	2018	2017
Securities	-190	-199
Cash	-2	-
Subordinated loans to subsidiaries and other interest-bearing assets	-592	-835
Long-term liabilities	484	274
Short-term liabilities	888	1,147
Net interest-bearing debt	588	387

Borrowings (EURm)	2018	2017
Mortgage credit institutions	272	266
Bank borrowings	212	6
Finance lease liabilities	-	1
Other non-current borrowings	-	1
Total non-current borrowings	484	274
Current borrowing from subsidiaries	481	938
Bank borrowings	193	201
Finance lease liabilities	1	1
Other current borrowings	12	12
Total current borrowings	687	1,152
Total interest-bearing borrowings	1,171	1,426

Amounts owed to subsidiaries were EUR 821 million, compared to EUR 1,098 last year, of which EUR 481 million, versus EUR 938 million last year, was interest-bearing and therefore included in net interest-bearing debt as current borrowings.

Note 4.2 Interest-bearing debt (continued)

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

	Cash flow		Non-cash changes				31 December
	1 January	Included in financing activities	Acquisitions	Reclasses	Foreign exchange movements	Fair value changes	
2018							
Long-term borrowings	274	200	-	5	4	1	484
Short-term borrowings	1,147	-253	1	-5	-4	-	886
Total interest-bearing debt	1,421	-53	1	-	-	1	1,370
Subordinated loans	-633	241	-	-	2	-	-390
Amounts owed by subsidiaries	-202	-	-	-	-	-	-202
Securities and other interest-bearing receivables	-199	8	-	-	3	-	-188
Cash	-	2	-5	-	1	-	-2
Net interest-bearing debt	387	198	-4	-	6	1	588
2017							
Long-term borrowings	281	-2	-	-5	-	-	274
Short-term borrowings	1,168	-22	-	5	-4	-	1,147
Total interest-bearing debt	1,449	-24	-	-	-4	-	1,421
Subordinated loans	-579	-	-63	-	9	-	-633
Amounts owed by subsidiaries	-202	-	-	-	-	-	-202
Securities and other interest-bearing receivables	-193	2	-2	-	-	-6	-199
Net interest-bearing debt	475	-22	-65	-	5	-6	387

Note 4.2 Interest-bearing debt (continued)

Net interest-bearing debt, maturity
(EURm)

	Total	2019	2020	2021	2022	2023	2024	2025	2026-2028	After 2028
2018										
DKK	525	249	2	17	20	20	19	23	45	130
EUR	89	-11	-	-	-	100	-	-	-	-
GBP	-180	-180	-	-	-	-	-	-	-	-
SEK	27	27	-	-	-	-	-	-	-	-
Other	127	19	-	-	-	-	108	-	-	-
Total	588	104	2	17	20	120	127	23	45	130
2017										
DKK	464	276	9	8	14	-70	16	16	50	145
EUR	31	31	-	-	-	-	-	-	-	-
GBP	-218	-218	-	-	-	-	-	-	-	-
SEK	56	56	-	-	-	-	-	-	-	-
Other	54	54	-	-	-	-	-	-	-	-
Total	387	199	9	8	14	-70	16	16	50	145

Note 4.3 Financial risks

Liquidity reserves (EURm)	2018	2017
Unutilised committed loan facilities	434	721
Other unutilised loan facilities	86	220
Total	520	941

Note 4.3 Financial risks (continued)

Gross financial liabilities

(EURm)

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

	Carrying amount	Non-discounted contractual cash flows									
		Total	2018	2019	2020	2021	2022	2023	2024	2025-2027	After 2027
31 December 2017											
Borrowings from subsidiaries	938	938	938	-	-	-	-	-	-	-	-
Mortgage credit institutions	266	272	5	5	6	13	16	16	16	50	145
Credit institutions	222	222	216	2	2	1	1	-	-	-	-
Interest expense - interest-bearing debt	-	39	3	3	3	3	3	2	2	5	15
Trade payables	531	531	531	-	-	-	-	-	-	-	-
Derivative instruments	34	34	11	9	5	4	3	2	-	-	-
Total	1,991	2,036	1,704	19	16	21	23	20	18	55	160

Note 4.3 Financial risks (continued)

Currency risk (EURm)

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

Currency risk 31 December 2017	EUR/DKK	USD/DKK*	GBP/DKK	SEK/DKK	SAR/DKK
Applied sensitivity	1%	5%	5%	5%	5%
Impact on profit or loss	-	2	1	-	-
Impact on OCI	-	-12	-10	-	-3

* Incl. AED

Note 4.4 Derivative financial instruments

Arla uses forward currency contracts to hedge currency risks regarding expected future revenue and costs.

(EURm)

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

	Carrying value	Fair value recognised in OCI	Expected recognition				
			2018	2019	2020	2021	Later than 2021
2017							
Currency contracts	4	4	4	-	-	-	-
Interest rate contracts	-30	-30	-9	-7	-5	-4	-5
Hedging of future cash flows	-26	-26	-5	-7	-5	-4	-5

Note 4.5 Financial instruments

Table 4.5.a Categories of financial instruments (EURm)	2018	2017
Derivatives	17	8
Shares	6	6
Financial assets measured at fair value via income statement	23	14
Securities	190	199
Financial assets measured at fair value via other comprehensive income	190	199
Derivative assets used as hedging instruments	4	5
Subordinated loans to subsidiaries	390	633
Trade receivables	184	209
Other receivable	85	41
Amounts owed by subsidiaries	1,001	873
Amounts owed by associates	9	8
Cash	2	-
Financial assets measured at amortised cost	1,671	1,764
Derivatives	-5	-3
Financial liabilities measured at fair value through the income statement	-5	-3
Derivative liabilities used as hedging instruments	-31	-31
External long-term borrowings	484	274
External short-term borrowings	194	202
Trade payables and other payables	570	531
Amounts owed to subsidiaries	821	1,098
Financial liabilities measured at amortised cost	2,069	2,105

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

Note 4.5 Financial instruments (continued)

Fair value hierarchy – carrying amount (EURm)	Level 1	Level 2	Level 3	Total
31 December 2018				
<i>Financial assets</i>				
Bonds	190	-	-	190
Shares	6	-	-	6
Derivatives	-	21	-	21
Total financial assets	196	21	-	217
<i>Financial liabilities</i>				
Mortgage credit institutions	272	-	-	272
Derivatives	-	36	-	36
Total financial liabilities	272	36	-	308
31 December 2017				
<i>Financial assets</i>				
Bonds	199	-	-	199
Shares	6	-	-	6
Derivatives	-	13	-	13
Total financial assets	205	13	-	218
<i>Financial liabilities</i>				
Mortgage credit institutions	266	-	-	266
Derivatives	-	34	-	34
Total financial liabilities	266	34	-	300

Note 4.6 Transfer of financial assets

(EURm)	Carrying value	Notional value	Fair value
31 December 2018			
Mortgage bonds	190	184	190
Repurchase liability	190	184	190
Net position	-	-	-
31 December 2017			
Mortgage bonds	199	194	199
Repurchase liability	194	193	194
Net position	5	1	5

Note 5.1 Tax

(EURm)	2018	2017
Tax in the income statement		
Tax on taxable equity (cooperative tax)	6	6
Adjustments regarding previous years, actual tax	1	-4
Total tax in the income statement	7	2
Calculation of effective tax rate		
Statutory corporate income tax rate in Denmark	22.0%	22.0%
Adjustment for cooperative tax	-18.9%	-18.1%
Adjustment regarding previous years	0.2%	-2.5%
Effective tax rate	3.3%	1.4%

Note 5.2 Fees to auditors appointed by the Board of Representatives

(EURm)	2018	2017
Statutory audit	0.6	0.3
Tax assistance	0.6	0.4
Other services	0.2	0.4
Total fees to auditors	1.4	1.1

Note 5.3 Management remuneration and transactions

Refer to the Group consolidated financial statements.

Note 5.4 Contractual commitments and contingent liabilities

(EURm)	2018	2017
Guarantee commitments	1,298	1,100
0-1 year	30	25
1-5 years	47	41
Over 5 years	5	9
Operating rent and lease commitments	82	75
Commitments in relation to agreements on the purchase of property, plant and equipment	38	55

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

Note 5.5 Events after the balance sheet date

Refer to the Group consolidated financial statements.

Note 5.6 General accounting policies and significant accounting estimates and judgements

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

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

Dividends from subsidiaries and associates

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

Investments in subsidiaries and associates

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

Reserve for development costs

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

Adoption of new and amended IFRS

Refer to the Group consolidated financial statements for a description of new and amended IFRS. None of these have had or are expected to have a significant impact on the financial statements of Arla Foods amba, except the implementation of IFRS 16.

Arla Foods amba assessed the impact on the 2019 financial statements of the adoption related to the new standard based on a detailed analysis. The analysis indicates an increase in total assets of approximately EUR 65 million.

Arla Foods amba's 2019 income statement will show a shift from operating expenses to depreciation and interest at approximately EUR 15 million. This will have an expected increase of around 7 per cent on EBIT. It is expected that the net result will not be significantly affected.

Note 5.6 General accounting policies and significant accounting estimates and judgements (continued)

In accordance with IFRS 16, the annual operational lease payment of approximately EUR 15 million in 2018 needs to be presented as cash flow from financing activities, as opposed to the current treatment as cash flow from operating activities. This change in disclosure will improve the cash flow from operating activities by approximately 45 per cent.

Significant accounting estimates and judgements

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

- Inventory, refer to Note 2.1 in the Group consolidated financial statements
- Receivables, refer to Note 2.1 in the Group consolidated financial statements

- Property, plant and equipment, refer to Note 3.2 in the Group consolidated financial statements
- Joint ventures and associates, refer to Note 3.3 in the Group consolidated financial statements
- Investments in Group companies: Recoverable amounts of investments in Group companies that are directly owned by Arla Foods amba are continuously monitored and tested for impairment if indicators of such exist. The most important parameters in an impairment test for a specific subsidiary are expected future free cashflow in the subsidiary, cashflow in underlying subsidiaries, as well as assumptions on discount rates. Expectations for these are based on the same expectations as outlined in Note 3.1 in the Group consolidated financial statements
- Leases, refer to Note 5.4 in the Group consolidated financial statements.

Note 5.7 Group companies

Refer to the Group consolidated financial statements.