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PARENT COMPANY MANAGEMENT REVIEW

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

The financial statements for the parent company show the financial position, the result and the cash flow of Arla Foods amba on a non-consolidated basis for the financial year 1 January to 31 December 2020.

Principal activities

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

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

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

Performance

The milk price delivered to our farmers owners increased by 0.8 per cent resulting in a performance price of 36.9 EUR-cent/kg.

Revenue increased by 1.0 per cent to EUR 7,652 million, compared to EUR 7,576 million last year.

EBIT amounted to EUR 128 million compared to EUR 119 million last year.

In 2020, the parent company incurred a gain due to a reversal of impairment on investment in subsidiaries. The gain incurred amounted to EUR 9 million compared to a gain of EUR 26 million last year.

Financial income increased by EUR 43 million, mainly driven by higher dividends received from subsidiaries. Dividends received amounted to EUR 71 million compared to EUR 11 million last year.

Profit for the year increased to EUR 186 million compared to EUR 153 million last year.

Due to the cooperative setup the result for the parent company is dependent on the prepaid milk price and the performance of the group. For 2021, the company anticipates a result in line with the 2020 result depending on the development of results in other group companies.

INCOME STATEMENT

(EURm)	Note	2020	2019
Revenue	1.1	7,652	7,576
Production costs	1.2	-6,800	-6,728
Gross profit		852	848
Sales and distribution costs	1.2	-430	-414
Administration costs	1.2	-296	-260
Other operating income	1.3	70	13
Other operating costs	1.3	-68	-68
Earnings before interest and tax (EBIT)		128	119
Impairments and reversal of impairments in subsidiaries	3.3	9	26
Financial income	4.1	92	49
Financial costs	4.1	-33	-33
Profit before tax		196	161
Tax	5.1	-10	-8
Profit for the year		186	153

COMPREHENSIVE INCOME

(EURm)	2020	2019
Profit for the year	186	153
Other comprehensive income		
Items that may be reclassified subsequently to the income statement		
Value adjustment of hedging instruments	31	-10
Adjustments related to foreign currency translation	1	-3
Other comprehensive income, net of tax	32	-13
Total comprehensive income	218	140

PROFIT APPROPRIATION

(EURm)	2020	2019
Profit for the year	186	153
<i>Proposed profit appropriation:</i>		
Supplementary payment for milk	219	124
Interest on contributed capital	4	3
Total supplementary payment	223	127
<i>Transferred to equity:</i>		
Capital account	-181	-177
Reserve for special purposes	81	123
Contributed capital	41	61
Reserve for development costs	22	19
Total transferred to equity	-37	26
Appropriated profit	186	153

BALANCE SHEET

(EURm)	Note	2020	2019
Assets			
Non-current assets			
Intangible assets and goodwill	3.1	251	267
Property, plant, equipment and right of use assets	3.2	925	828
Investments in subsidiaries	3.3	1,297	1,236
Investments in associates	3.3	247	246
Other securities and investments		11	4
Subordinated loans to subsidiaries	3.3	391	401
Total non-current assets		3,122	2,982
Current assets			
Inventory	2	286	309
Trade receivables	2	149	180
Amounts owed by subsidiaries		841	731
Amounts owed by associates		13	-
Derivatives		23	5
Other receivables		245	98
Securities	4.2	174	182
Cash and cash equivalents	4.2	1	-
Total current assets		1,732	1,505
Total assets		4,854	4,487

(EURm)	Note	2020	2019
Equity and liabilities			
Equity			
Common capital		1,295	1,419
Individual capital		513	498
Other equity accounts		147	93
Proposed supplementary payments to owners		223	127
Total equity		2,178	2,137
Liabilities			
Non-current liabilities			
Loans	4.2	623	646
Total non-current liabilities		623	646
Current liabilities			
Loans	4.2	193	197
Trade and other payables		604	560
Amounts owed to subsidiaries		1,014	770
Provisions		4	-
Derivatives		23	46
Other current liabilities	4.2	204	118
Deferred income		11	13
Total current liabilities		2,053	1,704
Total liabilities		2,676	2,350
Total equity and liabilities		4,854	4,487

EQUITY

(EURm)	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	
Equity at 1 January 2020	410	1,009	271	68	159	127	-37	-6	136	2,137
Profit for the year	-181	81	41	-	-	223	-	-	22	186
Other comprehensive income	-	-	-	-	-	-	31	1	-	32
Total comprehensive income	-181	81	41	-	-	223	31	1	22	218
Intra-group business combinations*	-28	-	-	-	-	-	-	-	-	-28
Total intra-group business combinations	-28	-	-	-	-	-	-	-	-	-28
Capital issued to new owners	-	-	-	-	-	-	-	-	-	-
Payments to owners	-	-	-11	-4	-7	-	-	-	-	-22
Acquisition of majority interests	-	-	-	-	-	-	-	-	-	-
Supplementary payment related to 2019	-	-	-	-	-	-127	-	-	-	-127
Foreign exchange adjustments	4	-	1	1	-6	-	-	-	-	-
Total transactions with owners	4	-	-10	-3	-13	-127	-	-	-	-149
Equity at 31 December 2020	205	1,090	302	65	146	223	-6	-5	158	2,178
Equity at 1 January 2019	591	886	222	72	162	290	-27	-3	117	2,310
Profit for the year	-177	123	61	-	-	127	-	-	19	153
Other comprehensive income	-	-	-	-	-	-	-10	-3	-	-13
Total comprehensive income	-177	123	61	-	-	127	-10	-3	19	140
Capital issued to new owners	-	-	-	-	-	-	-	-	-	-
Payments to owners	-	-	-11	-4	-9	-	-	-	-	-24
Supplementary payment related to 2018	-	-	-	-	-	-289	-	-	-	-289
Foreign exchange adjustments	-4	-	-1	-	6	-1	-	-	-	-
Total transactions with owners	-4	-	-12	-4	-3	-290	-	-	-	-313
Equity at 31 December 2019	410	1,009	271	68	159	127	-37	-6	136	2,137

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.

*Arla foods amba has acquired all activities in Tholstrup Cheese A/S. Differences between the agreed consideration and the carrying amount of the acquired entity are recognised directly in equity.

CASH FLOW

(EURm)	Note	2020	2019	(EURm)	Note	2020	2019
EBIT		128	119	Investment in subsidiaries		-29	-
Depreciation, amortisation and impairment losses		179	161	Issuance/repayment of subordinated loans		-	1
Other non-cash income and cost		-12	-	Financial investing activities		-	1
Change in net working capital		-47	219	Cash flow from investing activities		-299	-299
Change in other receivables and other current liabilities		-145	-7	Supplementary payment regarding the previous financial year		-127	-289
Dividends received		71	11	Paid out from equity regarding terminated membership contracts		-22	-24
Interest paid		-21	-30	Payment of lease debt	4.2	-16	-17
Interest received		19	23	Change in non-current liabilities	4.2	287	132
Tax paid		-10	-9	Change in current liabilities	4.2	8	1
Cash flow from operating activities		162	487	Net change in marketable securities	4.2	8	7
Investment in intangible assets		-75	-124	Cash flow from financing activities		138	-190
Investment in property, plant and equipment		-195	-176	Net cash flow		1	-2
Operating investing activities		-270	-300	Cash and cash equivalents at 1 January		-	2
				Cash and cash equivalents at 31 December		1	-

	2020	2019
<i>Free operating cash flow</i>		
<i>Cash flow from operating activities</i>	162	487
<i>Operating investment activities</i>	-270	-300
Free operating cash flow	-108	187
<i>Free cash flow</i>		
<i>Cash flow from operating activities</i>	162	487
<i>Cash flow from investing activities</i>	-299	-299
Free cash flow	-137	188

Revenue and cost

1.1 REVENUE

(EURm)	Internal sales of goods	External sales of goods	Total revenue
2020			
Raw milk	2,784	61	2,845
Milk, yoghurt, powder and cooking	586	807	1,393
Cheese	925	693	1,618
Butter, spreads and margarine	889	247	1,136
Other	108	552	660
Total	5,292	2,360	7,652
2019			
Raw milk	2,739	70	2,809
Milk, yoghurt, powder and cooking	538	860	1,398
Cheese	886	718	1,604
Butter, spreads and margarine	864	265	1,129
Other	104	532	636
Total	5,131	2,445	7,576

Revenue and cost

1.2 COSTS

(EURm)	2020	2019
Research and development costs are included in sales and distribution costs and amounts to EUR 39 million, compared to EUR 40 million last year.		
Operational costs split by functions		
Production costs	6,800	6,728
Sales and distribution costs	430	414
Administration costs	296	260
Total	7,526	7,402
<i>Specification:</i>		
Weighed-in raw milk	4,362	4,321
Other production materials*	1,773	1,746
Staff costs	498	479
Transportation costs	181	173
Marketing costs	81	91
Depreciation, amortisation and impairment	179	161
Other costs**	452	431
Total	7,526	7,402
<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	460	442
Pensions	36	35
Other social security costs	2	2
Total staff costs	498	479
<i>Staff costs relate to:</i>		
Production costs	311	310
Sales and distribution costs	61	56
Administration costs	126	113
Total staff costs	498	479
Average number of full-time employees	5,540	5,511

Revenue and cost

1.2 COSTS

	2020	2019
Depreciation, amortisation and impairment (EURm)		
Intangible assets, amortisation	58	51
Property, plant and equipment including right of use assets, depreciation	121	110
Total depreciation, amortisation and impairment	179	161
<i>Depreciation, amortisation and impairment losses relate to:</i>		
Production costs	110	100
Sales and distribution costs	33	29
Administration costs	36	32
Total depreciation, amortisation and impairment	179	161

Revenue and operational cost

1.3 OTHER OPERATING INCOME AND COSTS

(EURm)	2020	2019
Income of hedging instruments transferred from equity	29	3
Other items	41	10
Total other operating income	70	13
Costs of hedging instruments transferred from equity	12	27
Other items	56	41
Total other operating costs	68	68

Net working capital

2 NET WORKING CAPITAL

	2020	2019
Net working capital (EURm)		
Inventory	286	309
Trade receivables	149	180
Amounts owed by subsidiaries	640	518
Amounts owed by associated	13	-
Trade and other payables	-604	-560
Amounts owed to subsidiaries	-78	-68
Net working capital	406	379

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

Inventory (EURm)	2020	2019
Inventory before write-downs	302	318
Write-downs	-16	-9
Total inventory	286	309
Raw materials and consumables	75	100
Work in progress	71	76
Finished goods and goods for resale	140	133
Total inventory	286	309

Trade receivables (EURm)	2020	2019
Trade receivables before provision for expected losses	152	181
Provision for expected losses	-3	-1
Total trade receivables	149	180

Capital employed
3.1 INTANGIBLE ASSETS AND GOODWILL

(EURm)	Goodwill	Licenses and trade-marks	IT and other development projects	Total
2020				
Cost at 1 January	80	28	392	500
Exchange rate adjustments	-7	-	3	-4
Additions	-	-	47	47
Disposals	-	-	-1	-1
Cost at 31 December	73	28	441	542
Amortisation and impairment at 1 January	-	-9	-224	-233
Exchange rate adjustments	-	-	-1	-1
Amortisation for the year	-	-2	-56	-58
Amortisation on disposals	-	-	1	1
Amortisation and impairment at 31 December	-	-11	-280	-291
Carrying amount at 31 December	73	17	161	251
2019				
Cost at 1 January	-	28	358	386
Additions	-	-	46	46
Merger and acquisitions	80	-	-	80
Disposals	-	-	-12	-12
Cost at 31 December	80	28	392	500
Amortisation and impairment at 1 January	-	-8	-186	-194
Amortisation for the year	-	-2	-49	-51
Amortisation on disposals	-	1	11	12
Amortisation and impairment at 31 December	-	-9	-224	-233
Carrying amount at 31 December	80	19	168	267

Capital employed
3.2 PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS

(EURm)	Land and buildings	Plant and machinery	Fixture and fitting, tools and equipment	Assets in course of construction	Total
2020					
Cost at 1 January	513	1,248	126	188	2,075
Exchange rate adjustments	1	5	-	1	7
Additions	18	60	15	102	195
Transferred from assets under construction	29	95	13	-137	-
Disposals	-12	-7	-4	-	-23
Reclassification	-	25	-	-	25
Cost at 31 December	549	1,426	150	154	2,279
Depreciation and impairment at 1 January	-274	-894	-79	-	-1,247
Exchange rate adjustments	-1	-2	-	-	-3
Depreciation and impairments for the year	-19	-82	-20	-	-121
Depreciation on disposals	8	6	3	-	17
Depreciation and impairment at 31 December	-286	-972	-96	-	-1,354
Carrying amount at 31 December	263	454	54	154	925
Right of use assets included in the carrying amount	34	2	18	-	54
2019					
Cost at 1 January	451	1,204	100	122	1,877
Change in accounting policies	26	2	17	-	45
Restated cost at 1 January	477	1,206	117	122	1,922
Additions	29	47	14	118	208
Transferred from assets under construction	11	37	4	-52	-
Disposals	-4	-42	-9	-	-55
Cost at 31 December	513	1,248	126	188	2,075
Depreciation and impairment at 1 January	-265	-855	-70	-	-1,190
Depreciation and impairments for the year	-12	-81	-17	-	-110
Depreciation on disposals	3	42	8	-	53
Depreciation and impairment at 31 December	-274	-894	-79	-	-1,247
Carrying amount at 31 December	239	354	47	188	828
Right of use assets included in the carrying amount	40	3	18	-	61

Capital employed

3.2 PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS

Right of use assets

(EURm)	Land and building	Plant and machinery	Fixture and fitting, tools and equipment	Total
2020				
Carrying amount at 1 January	40	3	18	61
Additions	3	1	9	13
Disposals	-4	-2	-4	-10
Depreciation and impairments for the year	-7	-1	-8	-16
Depreciation on disposals	2	1	3	6
Carrying amount at 31 December	34	2	18	54
2019				
Change in accounting policy	26	2	17	45
Additions	21	2	9	32
Disposals	-	-	-6	-6
Depreciation and impairments for the year	-7	-1	-8	-16
Depreciation on disposals	-	-	6	6
Carrying amount at 31 December	40	3	18	61

Total cash outflow from right of use assets amounted to EUR 26 million. This comprised, lease debt payments of EUR 16 million, non-capitalised short-term and low value lease costs of EUR 8 million and interest expenses on lease liabilities of EUR 2 million.

Capital employed

3.3 INVESTMENTS AND SUBORDINATED LOANS

(EURm)

	Investments in subsidiaries	Investments in associates	Subordinated loans to subsidiaries
2020			
Cost at 1 January	1,999	246	470
Additions	47	-	-
Disposals	-	-	-
Cost at 31 December	2,046	246	470
Adjustments at 1 January	-763	-	-69
Exchange rate adjustments	5	1	-10
Impairments and reversal of impairment in investments in subsidiaries	9	-	-
Adjustments at 31 December	-749	1	-79
Carrying amount at 31 December	1,297	247	391
2019			
Cost at 1 January	2,000	246	469
Additions	-	-	1
Disposals	-1	-	-
Cost at 31 December	1,999	246	470
Adjustments at 1 January	-789	-	-79
Exchange rate adjustments	-	-	10
Reversal of impairment in investments in subsidiaries	26	-	-
Adjustments at 31 December	-763	-	-69
Carrying amount at 31 December	1,236	246	401

The parent company incurred a gain mainly due to reversal of impairment on investment in Arla Foods Deutschland GmbH. The gain incurred amounted to EUR 9 million as a result of improved earnings in 2020 and future outlook.

Transactions with subsidiaries

(EURm)

	2020	2019
Sale of goods	5,292	5,131
Purchase of distribution services	82	83
Purchase of administration services	10	9
Royalty from subsidiaries	23	10
Interest from subsidiaries	18	19
Interest to subsidiaries	1	2
Dividends from subsidiaries	71	11

Transactions with associates

Refer to the group consolidated financial statements.

Funding

4.1 FINANCIAL ITEMS

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)	2020	2019
Interest, securities	1	1
Dividends from subsidiaries	71	11
Gain from divestment of associates	-	2
Interest from subsidiaries	18	19
Foreign exchange gains	-	10
Fair value adjustment	2	6
Total financial income	92	49
Interest costs on financial instruments and lease liabilities measured at amortised cost	-20	-28
Foreign exchange losses	-9	-1
Interest to subsidiaries	-1	-2
Interest transferred to property, plant and equipment	3	3
Fair value adjustments	-6	-5
Total financial costs	-33	-33
Net financial income	59	16

Funding

4.2 NET INTEREST-BEARING DEBT

Net interest-bearing debt (EURm)	2020	2019
Securities	-174	-182
Cash	-1	-
Subordinated loans to subsidiaries and other interest-bearing assets	-592	-614
Long-term borrowings	623	646
Short-term borrowings	1,198	911
Net interest-bearing debt	1,054	761
Borrowings (EURm)		
Mortgage credit institutions	277	283
Bank borrowings	305	316
Lease liabilities	41	47
Total non-current borrowings	623	646
Current borrowing from subsidiaries	936	702
Bank borrowings	180	184
Lease liabilities	13	13
Other current borrowings	69	12
Total current borrowings	1,198	911
Total interest-bearing borrowings	1,821	1,557

Amounts owed to subsidiaries were EUR 1,014 million, compared to EUR 770 last year, of which EUR 936 million, versus EUR 702 million last year, were interest-bearing and therefore included in net interest-bearing debt as current borrowings.

Funding
4.2 NET INTEREST-BEARING DEBT
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	
2020							
Long-term borrowings	646	8	-	-22	-8	-1	623
Short-term borrowings	911	271	-	10	6	-	1,198
Total interest-bearing debt	1,557	279	-	-12	-2	-1	1,821
Subordinated loans	-401	-	-	-	10	-	-391
Amounts owed by subsidiaries	-213	-	-	12	-	-	-201
Securities	-182	8	-	-	-1	1	-174
Cash	-	-	-	-	-1	-	-1
Net interest-bearing debt	761	287	-	-	6	-	1,054
2019							
Long-term borrowings	517	103	10	-1	2	15	646
Short-term borrowings	898	12	-	1	-	-	911
Total interest-bearing debt	1,415	115	10	-	2	15	1,557
Subordinated loans	-390	-1	-	-	-	-10	-401
Amounts owed by subsidiaries	-202	-10	-	-	-1	-	-213
Securities and other interest-bearing receivables	-188	6	-	-	-	-	-182
Cash	-2	2	-	-	-	-	-
Net interest-bearing debt	633	112	10	-	1	5	761

Funding
4.2 NET INTEREST-BEARING DEBT
Net interest-bearing debt, maturity

(EURm)

	Total	2021	2022	2023	2024	2025	2026	2027	2028-	After
									2030	2030
2020										
DKK	907	591	20	18	16	63	18	18	52	111
EUR	-1	-1	-	-	-	-	-	-	-	-
GBP	30	-176	2	102	101	1	-	-	-	-
SEK	8	8	-	-	-	-	-	-	-	-
Other	110	9	-	-	101	-	-	-	-	-
Total	1,054	431	22	120	218	64	18	18	52	111
2019										
DKK	631	301	18	18	16	15	62	19	54	128
EUR	197	-9	2	2	102	100	-	-	-	-
GBP	-188	-188	-	-	-	-	-	-	-	-
SEK	-	-	-	-	-	-	-	-	-	-
Other	121	10	-	-	-	111	-	-	-	-
Total	761	114	20	20	118	226	62	19	54	128

Funding
4.3 FINANCIAL RISKS
Liquidity reserves

(EURm)

	2020	2019
Unutilised committed loan facilities	326	355
Other unutilised loan facilities	12	97
Total	338	452

Funding

4.3 FINANCIAL RISKS

Gross financial liabilities

(EURm)

	Carrying amount	Non-discounted contractual cash flows										
		Total	2021	2022	2023	2024	2025	2026	2027	2028-2030	After 2030	
31 December 2020												
Borrowings from subsidiaries	1,014	1,014	1,014	-	-	-	-	-	-	-	-	-
Mortgage credit institutions	285	287	8	11	11	11	60	16	16	47	107	
Credit institutions	477	477	172	1	101	201	1	1	-	-	-	
Lease liabilities	53	53	12	9	8	5	4	2	2	6	5	
Interest expense - interest-bearing debt	-	27	2	2	2	2	2	2	1	4	10	
Trade and other payables	604	604	604	-	-	-	-	-	-	-	-	
Derivative instruments	23	23	10	5	4	3	1	-	-	-	-	
Total	2,456	2,485	1,822	28	126	222	68	21	19	57	122	

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

Funding

4.3 FINANCIAL RISKS

Currency risk (EURm)

Currency risk 31 December 2020	EUR/DKK	USD/DKK*	GBP/DKK	SEK/DKK	SAR/DKK
Applied sensitivity	1%	5%	5%	5%	5%
Impact on profit or loss	-1	1	-	-2	-
Impact on OCI	-	-10	-21	-4	-9

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

* Incl. AED

Funding

4.4 DERIVATIVES

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

	(EURm)	Carrying value	Fair value recognised in OCI	Expected recognition in the income statement				Later than 2024
				2021	2022	2023	2024	
2020								
Currency contracts		11	11	11	-	-	-	-
Interest rate contracts		-17	-17	-5	-5	-4	-3	-
Hedging of future cash flows		-6	-6	6	-5	-4	-3	-

	(EURm)	Carrying value	Fair value recognised in OCI	Expected recognition in the income statement				Later than 2023
				2020	2021	2022	2023	
2019								
Currency contracts		-14	-14	-14	-	-	-	-
Interest rate contracts		-23	-23	-7	-6	-5	-4	-1
Hedging of future cash flows		-37	-37	-21	-6	-5	-4	-1

Funding

4.5 FINANCIAL INSTRUMENTS

Categories of financial instruments (EURm)	2020	2019
Derivatives	8	4
Shares	3	3
Financial assets measured at fair value through income statement	11	7
Securities	174	182
Financial assets measured at fair value through other comprehensive income	174	182
Derivative assets used as hedging instruments	15	1
Subordinated loans to subsidiaries	391	401
Trade receivables	149	180
Other receivable	244	102
Amounts owed by subsidiaries	841	731
Amounts owed by associates	13	-
Cash	1	-
Financial assets measured at amortised cost	1,639	1,414
Derivatives	2	8
Financial liabilities measured at fair value through the income statement	2	8
Derivative liabilities used as hedging instruments	21	38
External long-term borrowings*	623	646
External short-term borrowings*	262	209
Trade payables and other payables	604	560
Amounts owed to subsidiaries	1,014	770
Financial liabilities measured at amortised cost	2,503	2,185

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

*Including lease liabilities

Funding

4.5 FINANCIAL INSTRUMENTS

Fair value hierarchy – carrying amount (EURm)	Level 1	Level 2	Level 3	Total
31 December 2020				
<i>Financial assets</i>				
Bonds	174	-	-	174
Shares	3	-	-	3
Derivatives	23	-	-	23
Total financial assets	200	-	-	200
<i>Financial liabilities</i>				
Derivatives	23	-	-	23
Total financial liabilities	23	-	-	23
31 December 2019				
<i>Financial assets</i>				
Bonds	182	-	-	182
Shares	3	-	-	3
Derivatives	-	5	-	5
Total financial assets	185	5	-	190
<i>Financial liabilities</i>				
Derivatives	-	46	-	46
Total financial liabilities	-	46	-	46

Funding

4.6 TRANSFER OF FINANCIAL ASSETS

(EURm)	Carrying value	Notional value	Fair value
31 December 2020			
Mortgage bonds	174	170	174
Repurchase liability	170	166	170
Net position	4	4	4
31 December 2019			
Mortgage bonds	182	177	182
Repurchase liability	182	177	182
Net position	-	-	-

Other areas

5.1 TAX

Tax in the income statement (EURm)	2020	2019
Tax on taxable equity (cooperative tax)	9	7
Adjustments regarding previous years, actual tax	1	1
Total tax in the income statement	10	8

Calculation of effective tax rate

Statutory corporate income tax rate in Denmark	22.0%	22.0%
Adjustment for cooperative tax	-17.5%	-17.4%
Adjustment regarding previous years	0.4%	0.5%
Effective tax rate	4.9%	5.1%

Other areas

5.2 FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES

(EURm)	2020	2019
Statutory audit	0.6	0.6
Other assurance engagements	0.1	-
Tax assistance	0.4	0.5
Other services	0.3	0.2
Total fees to auditors	1.4	1.3

Other areas

5.3 MANAGEMENT REMUNERATION AND TRANSACTIONS WITH RELATED PARTIES

Refer to the group consolidated financial statements.

Other areas

5.4 CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIES

(EURm)	2020	2019
Guarantee commitments	1,392	1,590
Operating rent and lease commitments	80	64
Commitments in relation to agreements on the purchase of property, plant and equipment	16	48

The group provided security in property for mortgage debt, based on the Danish Mortgage Act to a nominal value of EUR 287 million, compared to EUR 286 million last year

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

Other areas

5.5 EVENTS AFTER THE BALANCE SHEET DATE

Refer to the group consolidated financial statements.

Other areas

5.6 GENERAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The financial statements of Arla Foods amba have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Danish Financial Statements Act (large class C). The financial statements are presented in EUR in alignment with the group's presentation currency. Arla Foods amba's functional currency is DKK. With the exception of the accounting policies described below, the accounting policies for Arla Foods amba are identical to the group's consolidated financial statements.

Dividends from subsidiaries and associates

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

Investments in subsidiaries and associates

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

Intra-group business combinations

The book value method is applied to business combinations such as acquisition and disposal of equity investments, mergers, demergers, additions of assets and share conversions, etc., in which entities controlled by the parent company are involved, provided that the combination is considered completed at the acquisition date without any restatement of comparative figures.

Differences between the agreed consideration and the carrying amount of the acquired entity are recognised directly in equity.

Reserve for development costs

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

Significant accounting estimates and judgements

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

- Inventory, refer to Note 2.1 in the group consolidated financial statements
- Receivables, refer to Note 2.1 in the group consolidated financial statements
- Property, plant and equipment and right of use assets, refer to Note 3.2 in the group consolidated financial statements
- Associates and Joint ventures, refer to Note 3.3 in the group consolidated financial statements
- Investments in group companies: Recoverable amounts of investments in group companies that are directly owned by Arla Foods amba are continuously monitored and tested for impairment if indicators of such exist. The most important parameters in an impairment test for a specific subsidiary is expected future free cash flow in the subsidiary, cash flow 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

Other areas

5.6 GENERAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Adoption of new or amended IFRS

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

Other areas

5.7 GROUP COMPANIES

Refer to the group consolidated financial statements.