

Arla Foods UK Tax Strategy – year ended 31 December 2016

Background

Arla UK is part of a Danish dairy co-operative, Arla Foods Amba, with a global reach, owned by 12,000 farmer members in a number of European countries, with circa 2,500 of whom farm in the UK.

The aim of the co-operative is to secure the highest value for its farmer's milk by creating opportunities for their growth, and as a co-operative, Arla aims to maximise the profits that go back to the farmer owners.

The UK is Arla's largest market, contributing around 25 per cent of group revenue. Arla has invested significantly in the UK market, in terms of employment and capital investment in state of the art dairies, as well as driving growth and innovation in the UK dairy market.

Arla's direct contribution to taxation in the UK economy spans corporate, employment, property and insurance premium taxes, as well as fuel duty and other taxes. Additionally, Arla UK makes a significant indirect contribution to UK taxation, via the milk price paid to its UK farmer members, which is taxable income of the farmers.

Approach to Risk Management and Governance Arrangements

Arla believes that a responsible approach to tax is essential for the sustainability of its business. Arla's approach to taxes conforms with Arla's global Code of Conduct "Our Responsibility" and is founded on a key set of principles approved by the Arla Amba Board of Directors. Arla aims to ensure full compliance and supports transparency.

The Global tax team reports in the finance hierarchical chain to the VP Accounting, Tax and Compliance who in turn reports to the Chief Financial Officer of Arla Amba.

The UK tax team consists of three tax professionals and reports directly to the Global Head of Tax whilst maintaining a close working relationship with the UK Vice President, Finance, who acts as the UK Senior Accounting Officer and sits on the UK Board of Directors.

Arla ensures that its tax team has the necessary skills to manage the tax position of the UK group through training and continuous professional development. External tax advice may be sought for significant and/or complex transactions as well as for issues that are considered technically complex or subject to uncertainty.

Arla uses a tax risk management framework to identify, mitigate, manage and report tax risk globally and within the UK. Arla maintains tax policies and procedures at a global and local level for key tax processes including compliance, transfer pricing and risk management/governance.

Many of these policies are reviewed annually and updated in relation to changing legislation (national and international), business operations, and business and tax risks identified.

Arla aims to report the right and proper amount of tax due according to where value is created and is committed to paying the taxes legally due and ensuring compliance with all legislative requirements in the UK.

Attitude to Tax Planning and Tax Risk

Arla adopts a conservative approach to tax planning and will only be involved in tax planning to the extent that it supports commercial activities, in order that these activities can be carried out in a tax effective manner whilst remaining compliant with all relevant tax legislation.

Arla claims relevant tax reliefs made available by the UK government, in line with the public policy objectives of such reliefs.

Arla applies OECD guidelines and UK legislation when considering the pricing of intercompany transactions between Arla UK and other Arla group entities.

Arla does not utilise tax havens to reduce the Group's tax liabilities. Further, Arla does not interpret tax law in a manner contrary to its original intentions.

Where uncertainty over interpretation of tax law arises, Arla will consult with external advisors and HMRC as necessary, in order to minimise uncertainty and therefore risk.

Working with HMRC

Arla UK operates a transparent, honest and proactive approach to its interaction with HMRC. In particular, Arla UK commits to:

- Meeting its compliance obligations in a timely manner, making accurate returns and providing adequate disclosure on returns and in relation to specific transactions
- Discussing Arla UK's tax affairs with HMRC on a real time and regular basis, especially in relation to areas of complexity or uncertainty
- Considering the impact of new legislation and interpretation of tax law which impacts Arla UK and discussing with HMRC on a real time basis

Arla UK is proud to have achieved and maintained HMRC low risk status for a number of years and considers the maintenance of this status to be a key UK tax objective going forward.

This UK Tax Strategy document was reviewed and approved by the UK Finance Director on 2 August 2017.

Arla considers this document to comply with the UK legislative requirement in paragraph 16(2) and paragraph 25(1), Schedule 19, Finance Act 2016.