

# **Arla Foods Finance A/S**

Sønderhøj 14,

8260 Viby J

CVR No. 89622816

## **Annual Report 2019**

The Annual Report was presented and approved at the Annual General Meeting of the Company on 22 May 2020

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Peter Stenholt Randrup  
Chairman

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## **Management's Statement**

Today, Management has considered and approved the Annual Report of Arla Foods Finance A/S for the financial year 1 January 2019 - 31 December 2019.

The Annual Report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January 2019 - 31 December 2019.

In our opinion, the Management's Review includes a true and fair account of the matters addressed in the review.

We recommend that the Annual Report be approved at the Annual General Meeting.

Aarhus, 22 May 2020

### **Executive Board**

Jesper Mellekjær

### **Board of Directors**

Peder Tuborgh  
Chairman

John Duus Andresen

## Independent Auditor's Report

### To the shareholders of Arla Foods Finance A/S

#### **Opinion**

We have audited the financial statements of Arla Foods Finance A/S for the financial year 1 January 2019 - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations and cash flows for the financial year 1 January 2019 - 31 December 2019 in accordance with the Danish Financial Statements Act.

#### **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

#### **The auditor's responsibility for the audit of the financial statements**

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- \* Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- \* Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

## **Independent Auditor's Report**

\* Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management

\* Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

\* Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Statement on Management's Review**

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Aarhus, 22 May 2020

**Ernst & Young**

**Godkendt Revisionspartnerselskab**

CVR-no. 30700228

Henrik Kronborg Iversen

State Authorised Public Accountant

mne24687

## Arla Foods Finance A/S

### Company details

<b>Company</b>	Arla Foods Finance A/S Sønderhøj 14, 8260 Viby J
Telephone	89381000
CVR No.	89622816
Registered office	Aarhus
<b>Board of Directors</b>	Peder Tuborgh, Chairman John Duus Andresen
<b>Executive Board</b>	Jesper Mellekjær, CEO
<b>Auditors</b>	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25 8000 Aarhus C CVR-no.: 30700228

## Management's Review

### The Company's principal activities

Arla Foods Finance is responsible for the overall liquidity and currency management of a number of companies in Arla Foods Group. In addition the company also performs hedging transactions for the Arla Foods Group on interest rates and energy, related to the Groups commercial business.

The objective is to reduce the Group's funding cost in the form of interest and fees by consolidating the Group's credit lines. Furthermore Arla Foods Finance A/S' cash management services and internal group netting creates cost effective transactions, scale and optimised liquidity management.

The company is also engaged in small-scale financial investments.

### Development in activities and financial matters

The Company's Income Statement of the financial year 1 January 2019 - 31 December 2019 shows a result of kDKK -26.740 and the Balance Sheet at 31 December 2019 a balance sheet total of kDKK 13.633.906 and an equity of kDKK 409.701. The result of kDKK -26.740 is below the expectations and is driven by negative fair value adjustments on bonds and interest rates swaps.

### Post financial year events

In March 2020 the COVID-19 pandemic began impacting Denmark. Until now the short-term impact has been limited. The long-term impact is highly uncertain at this point in time, however we don't expect the impact to become material.

### Expectations for the future

The profit before tax and unrealised fair value adjustments is expected to fall within a range of a 5-7 mDKK profit.

### Risks

The Company is exposed to interest and currency risks which is hedged by financial instruments.

## Key Figures and Financial Ratios

The development in the Company's key figures and financial ratios can be described as follows:

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Financial income and costs, net	-30.450	-1.053	85.033	-3.057	83.289
Profit for the year	-26.740	1.163	60.491	4.252	61.148
Total assets	13.633.906	12.238.446	16.399.869	15.763.310	14.611.575
Total equity	409.701	470.826	470.451	378.863	448.838
Return on equity (ROE) (%)	-6,07	0,25	14,24	1,03	14,38
Solvency ratio (%)	3,01	3,85	2,87	2,4	3,07

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines.

Return on equity (%):

Profit/loss for the year X 100 / Avg. equity

Solvency ratio (%):

Total equity X 100 / Total equity and liabilities

## Accounting Policies

### Reporting Class

The Annual Report of Arla Foods Finance A/S for 2019 has been presented in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Company has also decided not to include a cash flow statement due to Danish Financial Statements Act §86, 4.

### Consolidated Financial Statements

With reference to § 112 of the Danish Financial Statements Act, no Consolidated Financial Statement have been prepared because the Group enterprises are subsidiaries of a higher-ranking group.

### Reporting currency

The Annual Report is presented in Danish kroner.

### Foreign currency transactions

Transactions in foreign currencies are translated into DKK at the exchange rate prevailing at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into DKK based on the exchange rates prevailing at the balance sheet day. Realised and unrealised foreign exchange gains and losses are included in the Income Statement under Financial Income and costs.

### Derivative financial instruments

Derivative financial instruments are measured at cost and subsequently at fair value at initial recognition in the Balance Sheet. Positive and negative fair values of derivative financial instruments are included in other receivables and other payables, respectively.

Changes in the fair value of derivative financial instruments classified as and fulfilling the criteria for hedging the fair value of a recognised asset or liability are recognised in the Income Statement together with any changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments classified as and fulfilling the conditions for hedging future assets and liabilities are recognised directly in equity. When transaction that was being hedged is realised, the accumulated gain or loss is recognised as part of cost of the relevant items.

For derivative financial instruments that do not fulfil the conditions for treatment as hedging instruments, changes in the fair value will continually be recognised in the Income Statement.

## Income Statement

### Financial income and costs

Financial income and expenses are recognised in the Income Statement based on the amounts that concern the financial year. Financial income and expenses include interest revenue and expenses, realised and unrealised capital gains and losses regarding securities, transactions in foreign currencies, and surcharges and allowances under the tax prepayment scheme.

### Other external costs

Other external costs include costs regarding administration.

### Income from investments in subsidiaries

Income from equity investments comprises the proportionate share of profit/loss after tax and any adjustment of internal profit/loss and less amortisation of consolidated goodwill.

## **Accounting Policies**

### **Tax on net profit for the year**

Tax on net profit/loss for the year comprises current tax on expected taxable income of the year and the year's adjustment of deferred tax less the part of the tax of the year that relates to changes in equity. Current and deferred tax regarding changes in equity is recognised directly in equity.

The Company and the Danish associates are taxed jointly. The Danish income tax is distributed between profit- and loss-making Danish enterprises in relation to their taxable income (full distribution).

## **Balance Sheet**

### **Investments in subsidiaries**

Investments in subsidiaries are recognised in the balance sheet at the proportionate share of the equity value of the subsidiary, calculated according to the parents accounting policies with the deduction or addition of unrealised intercompany profits or losses and with the addition or deduction of the remaining value of positive or negative goodwill, calculated according to the purchase method.

Subsidiaries having a negative equity value are recognised at kDKK 0, and any amounts receivable from those enterprises are written down by the parents share of the negative equity value to the extent that the amounts are deemed to be uncollectible.

If the negative equity value exceeds receivables, the remaining amount is recognised as a provision to the extent that the parent has a legal or constructive obligation to cover the negative balance of the relevant subsidiary.

### **Receivables**

Receivables are measured at amortised cost which usually corresponds to the nominal value. The value is reduced by write-downs for expected bad debts.

### **Other securities and equity investments recognised in current assets**

Securities are measured at fair value at the balance sheet date. Other short-term investments are measured at estimated fair value.

### **Equity**

Equity comprises the working capital and a number of equity items that may be statutory or stipulated in the articles of association.

### **Current tax liabilities**

Current tax liabilities and current tax receivables are recognised in the Balance Sheet as calculated tax on the expected taxable income for the year, adjusted for tax on taxable income for previous years as well as for prepaid tax.

### **Liabilities**

Financial liabilities such as mortgage loans and loans from credit institutions are recognised initially at the proceeds received net of transactions expenses incurred. In subsequent periods, financial liabilities are measured at amortised cost, so that the difference between proceeds and the nominal value is recognised in the Income Statement as interest costs over the life of the financial instrument.

Other liabilities are measured at amortised cost, which usually corresponds to the nominal value.

Arla Foods Finance A/S

**Income Statement**

	<b>Note</b>	<b>2019 kDKK</b>	<b>2018 kDKK</b>
Financial income	1	157.663	169.053
Financial costs	2	-188.113	-170.106
Other external expenses		-2.373	-3.116
<b>Gross profit</b>		<b>-32.823</b>	<b>-4.169</b>
Income from investments in subsidiaries		-256	-147
<b>Profit before tax</b>		<b>-33.079</b>	<b>-4.316</b>
Tax	3	6.339	5.479
<b>Profit for the year</b>		<b>-26.740</b>	<b>1.163</b>
<b>Proposed distribution of results</b>	4		
Retained earnings		-26.740	1.163
<b>Distribution of profit</b>		<b>-26.740</b>	<b>1.163</b>

## Balance Sheet as of 31 December

	Note	2019 kDKK	2018 kDKK
<b>Assets</b>			
Investments in subsidiaries	5, 6	7.565	13.821
Long-term receivables from group companies		925.215	0
<b>Investments</b>		<b>932.780</b>	<b>13.821</b>
<b>Non-current assets</b>			
		<b>932.780</b>	<b>13.821</b>
Trade receivables		833	0
Receivables from group companies		10.078.013	9.876.247
Current tax		17.867	2.994
Other receivables		184.452	155.794
<b>Receivables</b>		<b>10.281.165</b>	<b>10.035.035</b>
Securities and other investments	7	1.878.536	2.053.077
<b>Current investments</b>		<b>1.878.536</b>	<b>2.053.077</b>
<b>Cash and cash equivalents</b>		<b>541.425</b>	<b>136.513</b>
<b>Current assets</b>		<b>12.701.126</b>	<b>12.224.625</b>
<b>Assets</b>		<b>13.633.906</b>	<b>12.238.446</b>

## Balance Sheet as of 31 December

	Note	2019 kDKK	2018 kDKK
<b>Liabilities and equity</b>			
Contributed capital		1.000	1.000
Retained earnings		408.701	469.826
<b>Equity</b>		<b>409.701</b>	<b>470.826</b>
Loans from credit institutions etc.	8	984.703	829.770
Loans related to issuance of bonds	8	2.855.281	1.819.523
<b>Long-term liabilities</b>		<b>3.839.984</b>	<b>2.649.293</b>
Loans from credit institutions etc.	8	2.289.476	2.662.837
Loans related to issuance of bonds	8	1.435.749	1.928.156
Trade payables		9.217	40
Payables to group companies		5.165.943	3.966.633
Other payables		483.836	560.661
<b>Short-term liabilities</b>		<b>9.384.221</b>	<b>9.118.327</b>
<b>Liabilities</b>		<b>13.224.205</b>	<b>11.767.620</b>
<b>Liabilities and equity</b>		<b>13.633.906</b>	<b>12.238.446</b>
Contingent liabilities	9		
Deferred tax assets and liabilities	10		
Related parties	11		

## Arla Foods Finance A/S

### Statement of changes in Equity

kDKK

	<b>Contributed capital</b>	<b>Retained earnings</b>	<b>Total</b>
Equity 1 January 2019	1.000	469.826	470.826
Net adjustments of hedging instruments	0	-44.084	-44.084
Tax on hedging instruments	0	9.699	9.699
Profit (loss)	0	-26.740	-26.740
<b>Equity 31 December 2019</b>	<b>1.000</b>	<b>408.701</b>	<b>409.701</b>

The Company's share capital is kDKK 1,000 divided into shares of kDKK 1 or any multiple thereof.

The share capital has remained unchanged for the last 5 years.

## Notes

	2019 kDKK	2018 kDKK		
<b>1. Financial income</b>				
Financial income from group companies	146.172	152.473		
Other financial income	11.491	16.580		
	<b>157.663</b>	<b>169.053</b>		
<b>2. Financial costs</b>				
Financial costs to group companies	27.896	29.026		
Other financial costs	160.217	141.080		
	<b>188.113</b>	<b>170.106</b>		
<b>3. Tax</b>				
Current tax	-7.549	-2.475		
Current tax adjustment, previous years	1.210	-3.004		
	<b>-6.339</b>	<b>-5.479</b>		
<b>4. Distribution of profit</b>				
Retained earnings	-26.740	1.163		
	<b>-26.740</b>	<b>1.163</b>		
<b>5. Investments in subsidiaries</b>				
Cost at the beginning of the year	21.810	21.810		
<b>Cost at the end of the year</b>	<b>21.810</b>	<b>21.810</b>		
Fair value adjustments at the beginning of the year	-7.989	-7.842		
Dividend received	-6.000	0		
Adjustments for the year	-256	-147		
<b>Fair value adjustments at the end of the year</b>	<b>-14.245</b>	<b>-7.989</b>		
<b>Carrying amount at the end of the year</b>	<b>7.565</b>	<b>13.821</b>		
<b>6. Disclosure of investments in subsidiaries</b>				
<i>Group enterprises</i>				
<b>Name</b>	<b>Registered office</b>	<b>Share held in %</b>	<b>Equity</b>	<b>Profit</b>
Kingdom Food Products ApS	Aarhus	100,00	588	57
Ejendomsanpartsselskabet st. Ravnsbjerg	Aarhus	100,00	6.977	-313
			<b>7.565</b>	<b>-256</b>

## Notes

<b>2019</b>	<b>2018</b>
<b>kDKK</b>	<b>kDKK</b>

**7. Securities and other short-term investments**

The Company has repurchase agreements collateralised by bonds with a carrying amount of DKK 1.848 million at 31 December 2019 against 2.021 million at 31 December 2018. The repurchase financing is disclosed as loans.

Other minor securities and short term investments amounting to DKK 30 million at 31 December 2019 against DKK 32 million at 31 December 2018 are also held by the company.

**8. Loans**

	Due after 1 year kDKK	Due within 1 year kDKK	Due after 5 years kDKK
Loans related to issuance of bonds	2.855.281	1.435.749	0
Loans from credit institutions etc.	984.703	2.289.476	0
	<u>3.839.984</u>	<u>3.725.225</u>	<u>0</u>

**9. Warranties**

Per 31 December 2019 the Company has warranties amounting to kDKK 17.028.

**10. Deferred tax assets and contingent liabilities**

Per 31 December 2019 the Company has a deferred tax asset amounting to kDKK 1.452 which is not recognised in the balance sheet due to uncertainties of the time of use.

The company has joint and several tax liability, with other Danish group companies for company taxes. This also includes withholding taxes on dividends, interest and royalties within the group. The total known net tax liability of the jointly taxed companies is shown in the management company's annual accounts of, Arla Foods Holding A/S CVR no 27466052. Any subsequent corrections to co-taxation income and withholding tax etc. could result in the company's liability being higher or lower.

Notes

	2019	2018
	kDKK	kDKK

**11. Related parties**

Related to Arla Foods Finance A/S are the Company's Management and companies within the Arla Foods Group.

Parties exercising control:

The Company is a wholly-owned subsidiary of AF A/S, Viby J, and is included in the consolidated financial statements of Arla Foods amba, CVR No. 25313763. The consolidated financial statements are available at the following address: Arla Foods Amba, Sønderhøj 14, 8260 Viby J

Related party transactions:

Arla Foods Finance A/S has been engaged in transactions with enterprises in the Arla Foods Group participating in the Group cash pool setup.

Transactions have been the following:

Parent company

Financial income from parent company	40.295	40.929
Financial costs to parent company	201	0
Receivables from parent company	6.573.620	4.853.685
Payables to parent company	1.843.613	88.224

All other companies in the group:

Financial income from group companies	105.876	111.543
Financial costs to group companies	27.695	29.026
Receivables from group companies	4.429.608	5.022.562
Payables to group companies	3.322.331	3.878.408