

Arla Foods Finance A/S

Annual Report 2012

CVR No. 89 62 28 16

The following is a translation of an original Danish document. The original Danish document is the governing document for all purposes, and in case of any discrepancy, the Danish wording will be applicable.



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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the Annual Report for 2012 of Arla Foods Finance A/S.

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 Company's financial position at 31 December 2012 and of the Company's operations for the financial year 1 January – 31 December 2012.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Aarhus, 3 May 2013

Executive Board

Jesper Mellemkjær
CEO

Board of Directors

Povl Krogsgaard
Chairman

Frederik Lotz

John Duus Andresen

Independent auditors' report

To the shareholders of Arla Foods Finance A/S

Independent auditors' report on the financial statements

We have audited the financial statements of Arla Foods Finance A/S for the financial year 1 January - 31 December 2012. The financial statements comprise accounting policies, income statement, balance sheet and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

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 that Management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statements give a true and fair view of the Company's financial position at 31 December 2012 and of the results of its operations for the financial year 1 January – 31 December 2012 in accordance with 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 other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Aarhus, 3 May 2013

KPMG

Statsautoriseret Revisionspartnerselskab

Morten Friis

State Authorised Public Accountant

Management's review

Five-year summary

	2012	2011	2010	2009	2008
	DKK 1,000	DKK 1,000	DKK 1,000	DKK 1,000	DKK 1,000
Key figures					
Income statement					
Financial income and expenses	34,931	26,806	20,540	35,897	-2,381
Net profit for the year	35,177	31,171	22,383	37,922	9,924
Balance sheet					
Balance sheet total	8,402,214	3,478,168	4,240,218	4,591,223	5,440,649
Equity	401,130	370,371	346,392	338,376	300,454
Financial ratios					
Solvency ratio	4.77%	10.60%	8.20%	7.40%	5.50%
Return on equity	9.12%	8.70%	6.50%	11.90%	3.40%

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2010". For terms and definitions, please see the accounting policies.

Company details

Company

Arla Foods Finance A/S
Sønderhøj 14
DK-8260 Viby J

Telephone: +45 89 38 10 00

CVR No.: 89 62 28 16

Financial year: 1 January – 31 December

Registered office: Aarhus

Board of Directors

Povl Krogsgaard, Chairman
Frederik Lotz
John Duus Andresen

Executive Board

Jesper Mellemkjær, CEO

Auditors

KPMG
Statsautoriseret Revisionspartnerselskab
Bruun's Galleri
Værkmestergade 25
DK-8100 Aarhus C

Operating review

Principal activities of the Company

Arla Foods Finance A/S is responsible for the overall liquidity and currency management for a number of companies in the Arla Foods Group.

The objective is to reduce the Group's bank charges in the form of interest and fees, one of the means being to reduce the total cash outflow and the need for credit lines for cash management.

Furthermore, the Company is engaged in small-scale financial investments.

Development in activities and finances

In the financial year 1 January – 31 December 2012, Arla Foods Finance A/S realised a profit of DKK 35,177 thousand, a balance sheet total of DKK 8,402,214 thousand and equity of DKK 401,130 thousand at 31 December 2012.

Outlook

For the financial year 2013, profits are set to be on a par with 2012.

Accounting policies

The annual report of Arla Foods Finance A/S for 2012 has been prepared in accordance with the provisions applying to reporting class C medium-sized enterprises under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Consolidation

The Company qualifies for not preparing consolidated financial statements; accordingly, these have not been prepared.

The Company is a wholly-owned subsidiary of AF A/S, Viby J, and is included in the consolidated financial statements of Arla Foods a.m.b.a. The consolidated financial statements are available at the following address: Arla Foods Amba, Sønderhøj 14, DK-8260 Viby J.

Reporting currency

The annual report is presented in thousands of Danish kroner.

Foreign currency translation

Transactions in foreign currencies are translated at the exchange rates at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Danish kroner at the exchange rates at the balance sheet date. Realised and unrealised foreign exchange gains and losses are recognised in the income statement as financial income and financial expenses.

Translation of foreign group enterprises denominated in foreign currency

Independent foreign entities are translated according to the following policies:

The income statement is translated at the rate at the transaction date, while balance sheet items are translated at the exchange rates at the balance sheet date. Any translation differences arising on translation of the foreign companies' equity at 1 January at the exchange rates at the balance sheet date as well as any translation differences arising on translation of the foreign companies' income statements from the rate at the transaction date to the rate at the balance sheet date are recognised directly in equity.

Accounting policies

Foreign exchange adjustments of current balances with independent foreign entities, which make up an addition to or a deduction from net investment, are recognised directly in equity. Foreign exchange gains or losses on financial instruments, held to hedge the independent foreign entities, are recognised directly in equity.

On the disposal of an independent foreign group enterprise, the accumulated foreign exchange adjustment is recognised in the income statement together with the gain or loss.

Integrated foreign entities are translated using the following policies:

The income statement is translated at the date of transaction except for items derived from non-monetary assets. These are translated at the historical rate for the related non-monetary item. Monetary balance sheet items are translated at the rate at the balance sheet date. Non-monetary balance sheet items are translated at the exchange rate at the date of acquisition or at any subsequent date of revaluation. All translation adjustments are recognised in the income statement.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets and liabilities are recognised in other receivables or other payables and in equity. If the forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the forecast transaction results in income or expenses, amounts previously recognised in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement on a regular basis.

Changes in the fair value of derivative financial instruments, used to hedge net investments in independent foreign subsidiaries, are recognised in equity.

Accounting policies

Recognition and measurement in general

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities measured at fair value or amortised cost. Moreover, expenses incurred to generate earnings for the year are recognised, including depreciation, amortisation, impairment losses and provisions as well as reversals resulting from changed accounting estimates of amounts that used to be recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company and the value of the asset can be reliably measured.

Liabilities are recognised in the balance sheet when it is probable that future economic resources will flow from the Company and the value of the liability can be reliably measured.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each individual accounting item below.

Certain financial assets and liabilities are measured at amortised cost, in which case constant effective interest is recognised over the life of the asset or liability. Amortised cost is the original cost less principal repayments, if any, with the addition of or net of the accumulated amortisation of the difference between cost and nominal amount. Accordingly, gains and losses are recognised over the life of the asset or liability.

In recognising and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet ate are taken into account.

Income statement

Other external costs

Other external costs include cost regarding sale and administration.

Income from investments in group enterprises and associates

Income from investments comprises the proportionate share of profit/loss after tax and any adjustment of intra-group profits/losses and less amortisation of group goodwill.

Accounting policies

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts attributable to the financial year.

Financial income and expenses also comprise realised and unrealised translation adjustments of foreign currency loans and market value adjustments of securities.

Financial instruments are measured at market value at the balance sheet date. Both realised and unrealised adjustments are recognised in the income statement.

Financial instruments comprise forward exchange transactions and repurchase transactions in particular.

Tax

Tax on profit/loss for the year comprises current tax for the year and adjustment of deferred tax for the year less the share of tax for the year relating to equity movements. Current and deferred tax regarding equity movements is recognised directly in equity. The Company and the Danish group enterprises are jointly taxed. The Danish corporation tax is allocated between profitable and loss-making Danish companies in proportion to their taxable income (full absorption).

Balance sheet

Investments in group enterprises and associates

Investments in group enterprises and associates are measured in accordance with the equity method at the proportionate share of the enterprises' equity plus group goodwill, if any, less intra-group profits and negative goodwill. Enterprises with negative equity are measured at DKK 0, as the corresponding proportionate share of the negative value is set off against any receivables. Any additional amounts are recognised as provisions if the Company has a legal or constructive obligation to cover the deficit.

Receivables

Receivables are measured at amortised cost, normally corresponding to nominal value. Receivables are recognised less write-downs for bad debt losses.

Prepayments

Prepayments comprise costs incurred in relation to subsequent financial years.

Accounting policies

Other securities and investments recognised as current assets

Other listed securities and investments are measured at fair value at the balance sheet date. Other securities are measured at estimated fair value.

Cash

Cash and cash equivalents comprise cash and short-term securities with insignificant risk of changes in value.

Financial liabilities

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

Current tax liabilities

Current tax liabilities are recognised in the balance sheet as computed tax on the expected taxable income adjusted for tax in respect of previous years' taxable income and corporation tax paid.

Financial ratios

The financial ratios set out in the five-year summary are computed as follows:

Return on equity

$$\frac{\text{Net profit/loss for the year}}{\text{Average equity}}$$

Solvency ratio

$$\frac{\text{Total equity} \times 100}{\text{Total equity and liabilities}}$$

Income statement

	Note	2012	2011
Other external costs	1	-489	-855
Gross profit/loss		-489	-855
Income from investments in group enterprises and associates		7,903	9,826
Financial income	2	161,987	83,198
Financial expenses	3	-127,056	-56,392
Profit/loss before tax		42,345	35,777
Tax on profit/loss for the year	4	-7,168	-4,606
Profit for the year		<u>35,177</u>	<u>31,171</u>

Proposed profit appropriation

Net revaluation reserve according to the equity method		523	0
Retained earnings		34,654	31,171
		<u>35,177</u>	<u>31,171</u>

Balance sheet

DKK'000	Note	2012	2011
ASSETS			
Investments			
Investments in group enterprises	5, 6	67,776	67,093
Investments in associates	6, 7	72,334	69,532
Total non-current assets		<u>140,110</u>	<u>136,625</u>
Receivables			
Receivables from group enterprises	8	7,552,906	2,709,546
Corporation tax receivable		0	18
Other receivables		124,455	38,677
Prepayments		1	1,473
Deferred tax		38	38
Total receivables		<u>7,677,400</u>	<u>2,749,752</u>
Other securities and investments	9	584,338	591,390
Securities and investments		<u>584,338</u>	<u>591,390</u>
Cash at bank and in hand		<u>366</u>	<u>400</u>
Total current assets		<u>8,262,104</u>	<u>3,341,542</u>
TOTAL ASSETS		<u><u>8,402,214</u></u>	<u><u>3,478,167</u></u>

Balance sheet

DKK'000	Note	2012	2011
EQUITY AND LIABILITIES			
Equity			
Share capital		1,000	1,000
Net revaluation reserve according to the equity method		523	0
Retained earnings		399,607	369,371
Total equity	10	401,130	370,371
Bank loans		3,596,271	445,000
Non-current liabilities		3,596,271	445,000
Bank loans	9	1,846,440	1,260,049
Trade payables		7,122	312
Payables to group enterprises	8	2,528,404	1,353,656
Corporation tax payable		7,150	4,606
Other payables		15,697	44,173
Current liabilities		4,404,813	2,662,796
Total liabilities		8,001,084	3,107,796
TOTAL EQUITY AND LIABILITIES		8,402,214	3,478,167
Contingent liabilities	11		

Notes to the financial statements

1 Other external costs

In 2012, as in previous years, the Company had no employees. No remuneration was paid to the Executive Board or the Board of Directors during the financial year.

Arla Foods amba handles the administration of the Company, for which Arla Foods amba receives a management fee.

DKK'000	2012	2011
2 Financial income		
Other financial income from group enterprises	157,405	71,859
Other financial income	4,582	11,339
	<u>161,987</u>	<u>83,198</u>
3 Financial expenses		
Financial expenses from group enterprises	47,636	17,925
Other financial expenses	79,420	38,467
	<u>127,056</u>	<u>56,392</u>
4 Tax on profit for the year		
Current tax for the year	7,150	4,606
Adjustment of tax in respect of previous years	18	0
	<u>7,168</u>	<u>4,606</u>
5 Investments in group enterprises		
Cost, beginning	87,493	87,493
Cost at year end	87,493	87,493
Value adjustments, beginning	-20,400	-22,415
Profit for the year	683	2,015
Value adjustments at year end	<u>-19,717</u>	<u>-20,400</u>
Carrying amount at 31 December	<u><u>67,776</u></u>	<u><u>67,093</u></u>

6 Investments in group enterprises and associates

Group enterprises

Name	Domicile	Share in %
Kingdom Foods Products ApS	Aarhus	100.00
Ravnsbjerg Finans ApS in liquidation	Aarhus	100.00
Aktieselskabet af 5. juni 1992	Aarhus	100.00
Ejendomsselskabet St. Ravnsbjerg	Aarhus	100.00

Associates

Name	Domicile	Share in %
K/S Danske Immobilien	Nykøbing Mors	35.00
Danske Immobilien ApS	Nykøbing Mors	35.00

7 Investments in associates

Cost, beginning	52,094	52,094
Cost, year end	52,094	52,094
Value adjustments, beginning	17,438	16,818
Foreign exchange adjustments and fair value adjustments of hedging instruments	-4,418	-7,191
Profit for the year	7,220	7,811
Value adjustments at year end	20,240	17,438
Carrying amount at 31 December	72,334	69,532

8 Receivables from/payables to group enterprises

These balances represent the sum of the respective amounts owed by and to the companies in the Arla Foods Group, participating in the cash pool system.

9 Repurchase agreement (repo)

At 31 December 2012, the Company had entered into repurchase agreements collateralised by bonds with a carrying amount of DKK 569 million as against DKK 585 million at 31 December 2011.

The repurchase financing is included under bank loans.

10 Equity

DKK'000	Share capital	Retained earnings	Proposed dividends	Total
Equity, beginning	1,000	369,371	0	370,371
Proposed distribution of profit	0	34,654	0	34,654
Foreign currency translation adjustment relating to independent foreign entities	0	248	0	248
Adjustment of hedging instruments at fair value	0	-4,666	0	-4,666
Net revaluation reserve according to the equity method		523		523
	<u>1,000</u>	<u>400,130</u>	<u>0</u>	<u>401,130</u>

The Company's share capital is divided into shares of DKK 1,000 or multiples thereof.

The shares are not divided into classes.

The share capital has remained unchanged over the past 5 years.

11 Contingent liabilities

At 31 December 2012, the Company had a tax asset of DKK 4,331 thousand (2011: DKK 5,774 thousand), which is not recognised in the balance sheet as there is uncertainty about the utilisation.