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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 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 Board 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 stand-alone basis for the financial year 1 January to 31 December 2022.

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. For more details, refer to the governance section in the management review of the group annual report.

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

Performance

The milk price offered to our farmer owners increased by 39 per cent, resulting in a performance price of 55.1 EUR-cent per kg. owner milk. Revenue increased by 28 per cent to EUR 10,479 million, compared to EUR 8,164 million last year. EBIT amounted to EUR 30 million compared to EUR 56 million last year.

In 2022, the parent company incurred a loss due to impairment on investment in subsidiaries. The loss incurred amounted to EUR 32 million related to a minor number of subsidiaries, compared to a loss of EUR 4 million last year. This had no impact on group results and the milk price paid to farmer owners.

Financial income increased by EUR 84 million, mainly driven by fair value adjustment from commodity derivatives, foreign exchange rate gains on subordinated loans and higher dividends received from subsidiaries and associates. Dividends received amounted to EUR 135 million compared to EUR 122 million last year.

Profit for the year amounted to EUR 189 million compared to EUR 194 million last year, which was in line with our expectations. 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 2023, the company anticipates a result in the interval EUR 180 million to EUR 210 million, depending on the development of results in other group companies.



INCOME STATEMENT

(EURm)	Note	2022	2021
Revenue	1.1	10,479	8,164
Production costs	1.2	-9,628	-7,320
Gross profit		851	844
Sales and distribution costs	1.2	-501	-473
Administration costs	1.2	-255	-267
Other operating income	1.3	85	51
Other operating costs	1.3	-150	-99
Earnings before interest and tax (EBIT)		30	56
Impairments and reversal of impairments in subsidiaries	3.3	-32	-4
Financial income	4.1	260	176
Financial costs	4.1	-59	-24
Profit before tax		199	204
Tax	5.1	-10	-10
Profit for the year		189	194

COMPREHENSIVE INCOME

(EURm)	Note	2022	2021
Profit for the year		189	194
Other comprehensive income			
Items that may be reclassified subsequently to the income statement:			
Value adjustments of hedging instruments		96	-16
Adjustments related to foreign currency translation		-2	-7
Other comprehensive income, net of tax		94	-23
Total comprehensive income		283	171

PROFIT APPROPRIATION

(EURm)	2022	2021
Profit for the year	189	194
Profit appropriation:		
Supplementary payment for milk	260	203
Interest on contributed individual capital	9	4
Total supplementary payment	269	207
Transferred to equity:		
Capital account	-147	-79
Reserve for special purposes	74	83
Contributed individual capital	39	42
Reserve for development costs	-46	-59
Total transferred to equity	-80	-13
Appropriated profit	189	194



BALANCE SHEET

(EURm)	Note	2022	2021
Assets			
Non-current assets			
Intangible assets and goodwill	3.1	286	238
Property, plant, equipment and right-of-use assets	3.2	965	958
Investments in subsidiaries	3.3	1,280	1,310
Investments in associates	3.3	247	247
Subordinated loans to subsidiaries	3.3	432	395
Amounts owed by subsidiaries		-	175
Other non-current assets		3	12
Total non-current assets		3,213	3,335
Current assets			
Inventory	2.1	521	301
Trade receivables	2.1	337	247
Amounts owed by subsidiaries	2.1	863	825
Amounts owed by associates	2.1	3	12
Derivatives	4.5	200	25
Other receivables		97	81
Securities	4.2	155	166
Cash and cash equivalents	4.2	1	1
Total current assets		2,177	1,658
Total assets		5,390	4,993

(EURm)	Note	2022	2021
Equity and liabilities			
Equity			
Common capital		1,245	1,303
Individual capital		540	542
Other equity accounts		113	65
Supplementary payment to owners		208	207
Total equity		2,106	2,117
Liabilities			
Non-current liabilities			
Loans	4.2	1,142	768
Total non-current liabilities		1,142	768
Current liabilities			
Loans	4.2	177	225
Trade and other payables	2.1	780	668
Amounts owed to subsidiaries		1,060	1,050
Derivatives	4.5	29	38
Other current liabilities		96	127
Total current liabilities		2,142	2,108
Total liabilities		3,284	2,876
Total equity and liabilities		5,390	4,993

EQUITY

(EURm)	Common capital			Individual capital				Other equity accounts				Supplementary payment	Total Equity
	Capital account	Reserve for special purposes	Total	Contributed individual capital	Delivery-based owner certificates	Injected individual capital	Total	Reserve for value adjustment of hedging instruments	Reserve for foreign exchange adjustments	Reserve for development costs	Total	Total	
Equity at 1 January 2022	130	1,173	1,303	334	61	147	542	-22	-12	99	65	207	2,117
Profit for the year	-147	74	-73	39	-	-	39	-	-	-46	-46	269	189
Other comprehensive income	-	-	-	-	-	-	-	96	-2	-	94	-	94
Total comprehensive income	-147	74	-73	39	-	-	39	96	-2	-46	48	269	283
Transactions with owners	2	-	2	-15	-5	-4	-24	-	-	-	-	-	-22
Half-year supplementary payment	-	-	-	-	-	-	-	-	-	-	-	-61	-61
Supplementary payment regarding 2021	-	-	-	-	-	-	-	-	-	-	-	-211	-211
Foreign currency translation adjustments	13	-	13	-10	-1	-6	-17	-	-	-	-	4	-
Total transactions with owners	15	-	15	-25	-6	-10	-41	-	-	-	-	-268	-294
Equity at 31 December 2022	-2	1,247	1,245	348	55	137	540	74	-14	53	113	208	2,106
Equity at 1 January 2021	205	1,090	1,295	302	65	146	513	-6	-5	158	147	223	2,178
Profit for the year	-79	83	4	42	-	-	42	-	-	-59	-59	207	194
Other comprehensive income	-	-	-	-	-	-	-	-16	-7	-	-23	-	-23
Total comprehensive income	-79	83	4	42	-	-	42	-16	-7	-59	-82	207	171
Transactions with owners	1	-	1	-11	-4	-4	-19	-	-	-	-	-	-18
Supplementary payment regarding 2020	-	-	-	-	-	-	-	-	-	-	-	-227	-227
Foreign currency translation adjustments	3	-	3	1	-	5	6	-	-	-	-	4	13
Total transactions with owners	4	-	4	-10	-4	1	-13	-	-	-	-	-223	-232
Equity at 31 December 2021	130	1,173	1,303	334	61	147	542	-22	-12	99	65	207	2,117

Refer to comments to the equity statement in 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 5.5.



CASH FLOW

(EURm)	Note	2022	2021
EBITDA		206	242
Reversal of other operating items without cash impact		-53	4
Change in net working capital	2.1	-268	-86
Change in other receivables and other current liabilities		-37	119
Dividends received from subsidiaries and associates	4.1	135	122
Interest paid		-19	-16
Interest received		60	17
Taxes paid		-11	-9
Cash flow from operating activities		13	393
Investment in intangible fixed assets	3.1	-73	-42
Investment in property, plant and equipment	3.2	-125	-138
Sale of property, plant and equipment		2	1
Operating investing activities		-196	-179
Sale of financial assets	4.2.c	11	9
Acquisition of subsidiaries		-3	-16
Subordinated lending	4.2.c	-46	10
Financial investing activities		-38	3
Cash flow from investing activities		-234	-176

(EURm)	Note	2022	2021
Half-year supplementary payment		-61	-
Supplementary payment regarding 2021		-211	-227
Transactions with owners		-24	-18
New loans obtained	4.2.c	497	182
Other changes in loans	4.2.c	37	-138
Payment of lease debt	4.2.c	-17	-16
Cash flow from financing activities		221	-217
Net cash flow		-	-
Cash and cash equivalents at 1 January		1	1
Net cash flow for the period		-	-
Exchange rate adjustment of cash funds		-	-
Cash and cash equivalents at 31 December		1	1
Cash flow from operating activities		13	393
Cash flow from operating investing activities		-196	-179
Free operating cash flow		-183	214
Cash flow from operating activities		13	393
Cash flow from investing activities		-234	-176
Free cash flow		-221	217

REVENUE AND COSTS

1.1 REVENUE

Table 1.1 – Revenue split by category

(EURm)	Internal sales of goods	External sales of goods	Total revenue
2022			
Raw milk	4,236	152	4,388
Milk, yoghurt, powder and cooking	525	1,002	1,527
Cheese	1,080	1,042	2,122
Butter, spreads and margarine	1,019	394	1,413
Other	90	939	1,029
Total	6,950	3,529	10,479
2021			
Raw milk	3,096	99	3,195
Milk, yoghurt, powder and cooking	581	940	1,521
Cheese	870	767	1,637
Butter, spreads and margarine	852	275	1,127
Other	133	551	684
Total	5,532	2,632	8,164

1.2 OPERATIONAL COSTS

Table 1.2.a Operational costs split by function and type (EURm)

	2022	2021
Production costs	9,628	7,320
Sales and distribution costs ¹	501	473
Administration costs	255	267
Total	10,384	8,060
Specification:		
Weighed-in raw milk	6,660	4,773
Other production materials ²	2,263	1,926
Staff costs	509	495
Transportation costs	252	203
Marketing costs	81	76
Depreciation, amortisation and impairment	175	187
Other costs ³	444	400
Total	10,384	8,060

¹Research and development costs are included in sales and distribution costs and amounts to EUR 48 million, compared to EUR 52 million last year.

²Other production materials includes packaging, additives, consumables, variable energy and changes in inventory.

³Other costs mainly includes maintenance, utilities and IT.

REVENUE AND COSTS

1.2 OPERATIONAL COSTS

Table 1.2.b Staff costs

(EURm)	2022	2021
Wages, salaries and remuneration	466	456
Pensions	41	37
Other social security costs	2	2
Total	509	495
Staff costs relate to:		
Production costs	327	315
Sales and distribution costs	76	70
Administration costs	106	110
Total	509	495
Average number of full-time employees	5,800	5,662

Table 1.2.c Depreciation, amortisation and impairment

(EURm)	2022	2021
Intangible assets, amortisation and impairment	50	62
Property, plant and equipment and RoU assets, depreciation and impairment	125	125
Total	175	187
Depreciation, amortisation and impairment relate to:		
Production costs	113	108
Sales and distribution costs	16	20
Administration costs	46	59
Total	175	187

1.3 OTHER OPERATING INCOME AND COSTS

Table 1.3 Other operating income and costs

(EURm)	2022	2021
Income of hedging instruments transferred from equity	8	7
Other items	77	44
Other operating income	85	51
Cost of hedging instruments transferred from equity	76	38
Other items	74	61
Other operating costs	150	99



NET WORKING CAPITAL

2.1 NET WORKING CAPITAL

Table 2.1.a Net working capital
(EURm)

	2022	2021
Inventory	521	301
Trade receivables	337	247
Amounts owed by subsidiaries	863	825
Amounts owed by associates	3	12
Trade and other payables	-780	-668
Amounts owed to subsidiaries	-203	-207
Net working capital	741	510

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

Table 2.1.b Inventory
(EURm)

	2022	2021
Inventory before the write-downs	531	306
Write-downs	-10	-5
Total inventory	521	301
Raw materials and consumables	138	93
Work in progress	222	94
Finished goods and goods for resale	161	114
Total inventory	521	301

Table 2.1.c Trade receivables
(EURm)

	2022	2021
Trade receivables before provision for expected losses	339	247
Provision for expected losses	-2	-
Total trade receivables	337	247

CAPITAL EMPLOYED

3.1 INTANGIBLE ASSETS AND GOODWILL

Table 3.1 Intangible assets and goodwill

(EURm)	Goodwill	Licenses and trademarks	IT and other development projects	Total
2022				
Cost at 1 January	79	28	482	589
Exchange rate adjustments	5	-	-	5
Additions	16	-	73	89
Disposals	-	-	-5	-5
Reclassifications	-	-	4	4
Cost at 31 December	100	28	554	682
Amortisation and impairment at 1 January	-	-13	-338	-351
Amortisation and impairment for the year	-	-2	-48	-50
Amortisation on disposals	-	-	5	5
Amortisation and impairment at 31 December	-	-15	-381	-396
Carrying amount at 31 December	100	13	173	286
2021				
Cost at 1 January	73	28	441	542
Exchange rate adjustments	6	-	1	7
Additions	-	-	42	42
Disposals	-	-	-2	-2
Cost at 31 December	79	28	482	589
Amortisation and impairment at 1 January	-	-11	-280	-291
Amortisation and impairment for the year	-	-2	-60	-62
Amortisation on disposals	-	-	2	2
Amortisation and impairment at 31 December	-	-13	-338	-351
Carrying amount at 31 December	79	15	144	238

CAPITAL EMPLOYED

3.2 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Table 3.2.a Property, plant and equipment

(EURm)	Land and building	Plant and machinery	Fixture and fitting, tools and equipment	Asset in course of construction	Total
2022					
Cost at 1 January	587	1,487	163	188	2,425
Additions	13	44	16	64	137
Transferred from assets in course of construction	35	82	10	-127	-
Disposals	-1	-4	-8	-	-13
Reclassification	-	-	-	-4	-4
Cost at 31 December	634	1,609	181	121	2,545
Depreciation and impairments at 1 January	-302	-1,053	-112	-	-1,467
Depreciation and impairments for the year	-21	-82	-22	-	-125
Depreciation on disposals	1	3	8	-	12
Depreciation and impairment at 31 December	-322	-1,132	-126	-	-1,580
Carrying amount at 31 December	312	477	55	121	965
Right-of-use assets included in the carrying amount 31 December	35	1	19	-	55
2021					
Cost at 1 January	549	1,426	150	154	2,279
Exchange rate adjustments	-	1	-	-	1
Additions	30	27	13	91	161
Transferred from assets in course of construction	11	39	6	-56	-
Disposals	-3	-6	-6	-1	-16
Cost at 31 December	587	1,487	163	188	2,425
Depreciation and impairments at 1 January	-286	-972	-96	-	-1,354
Depreciation and impairments for the year	-18	-86	-21	-	-125
Depreciation on disposals	2	5	5	-	12
Depreciation and impairment at 31 December	-302	-1,053	-112	-	-1,467
Carrying amount at 31 December	285	434	51	188	958
Right-of-use assets included in the carrying amount 31 December	39	1	18	-	58



CAPITAL EMPLOYED

3.2 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Table 3.2.b RoU assets

(EURm)	RoU Land and building	RoU Plant and machinery	RoU Fixture and fitting, tools and equipment	RoU Assets total
2022				
Carrying amount at 1 January	39	1	18	58
Additions	3	1	10	14
Disposals	-1	-1	-8	-10
Depreciations and impairments for the year	-8	-1	-9	-18
Depreciation on disposals	2	1	8	11
Carrying amount at 31 December	35	1	19	55
2021				
Change in accounting policies	34	2	18	54
Additions	12	1	10	23
Disposals	-2	-1	-5	-8
Depreciations and impairments for the year	-7	-2	-9	-18
Depreciation on disposals	2	1	4	7
Carrying amount at 31 December	39	1	18	58

Total cash outflow from right-of-use assets amounted to EUR 31 million. This comprised, lease debt payments of EUR 17 million, non-capitalised short-term and low value lease costs of EUR 13 million and interest expenses on lease liabilities of EUR 1 million.

3.3 INVESTMENTS AND SUBORDINATED LOANS

Table 3.3.a Investments and subordinated loans

(EURm)	Investments in subsidiaries	Investments in associates	Subordinated loans to subsid- iaries
2022			
Cost at 1 January	2,062	246	460
Additions	3	-	53
Disposals	-	-	-6
Cost at 31 December	2,065	246	507
Adjustments at 1 January	-752	1	-65
Exchange rate adjustments	-1	-	-10
Impairments and reversal of impairment in investments in subsidiaries	-32	-	-
Adjustments at 31 December	-785	1	-75
Carrying amount at 31 December	1,280	247	432
2021			
Cost at 1 January	2,046	246	470
Additions	16	-	10
Disposals	-	-	-20
Cost at 31 December	2,062	246	460
Adjustments at 1 January	-749	1	-79
Exchange rate adjustments	1	-	14
Impairments and reversal of impairment in investments in subsidiaries	-4	-	-
Adjustments at 31 December	-752	1	-65
Carrying amount at 31 December	1,310	247	395

The parent company has incurred impairments of EUR -46 million related to a minor number of subsidiaries, which is partly offset by reversal of impairments from previous years of EUR 14 million. The net impairment on investments is EUR 32 million. This had no impact on group results and the milk price paid to farmer owners.

CAPITAL EMPLOYED

3.3 INVESTMENTS AND SUBORDINATED LOANS

Table 3.3.b Transactions with subsidiaries
(EURm)

	2022	2021
Sale of goods	6,952	5,532
Purchase of goods and services	1,594	1,247
Royalty from subsidiaries	74	43
Interest from subsidiaries	68	16
Interest to subsidiaries	8	1
Dividends from subsidiaries and associates	135	122

Transactions with associates

Refer to note 3.3 in 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.

Table 4.1 Financial income and financial costs
(EURm)

	2022	2021
Financial income:		
Interest securities	1	1
Dividends from subsidiaries and associates	135	122
Interest from subsidiaries	68	16
Foreign exchange gains	-	14
Fair value adjustments	56	23
Total financial income	260	176
Financial costs:		
Interest on financial instruments and lease liabilities measured at amortised cost	-22	-16
Foreign exchange losses	-14	-9
Interest to subsidiaries	-8	-1
Interest transferred to property, plant and equipment	3	3
Fair value adjustments	-18	-1
Total financial costs	-59	-24
Net financial costs	201	152

FUNDING

4.2 NET INTEREST-BEARING DEBT

Table 4.2.a Net interest-bearing debt
(EURm)

	2022	2021
Long-term borrowings	1,142	768
Short-term borrowings	1,051	1,083
Securities, cash and cash equivalents	-156	-167
Subordinated loans to subsidiaries and other interest-bearing assets	-432	-570
Net interest-bearing debt	1,605	1,114

Table 4.2.b Borrowings
(EURm)

	2022	2021
Long-term borrowings:		
Issued bonds	224	146
Mortgage credit institutions	255	266
Bank borrowings	622	312
Lease liabilities	41	44
Total long-term borrowings	1,142	768
Short-term borrowings:		
Current borrowing from subsidiaries	857	843
Bank borrowings	162	210
Lease liabilities	15	15
Other current liabilities	17	15
Total short-term borrowings	1,051	1,083
Total interest-bearing borrowings	2,193	1,851

Amounts owed to subsidiaries are EUR 1,060 million, compared to EUR 1,050 million last year, of which EUR 857 million, versus EUR 843 million last year, were interest-bearing and therefore included in net interest-bearing debt as short-term borrowings.

Table 4.2.c Cash flow, net interest-bearing debt

(EURm)	1 January	Cash flow	Non-cash changes			31 December
		Included in financing activities	Reclasses	Foreign exchange movements	Fair value changes	
2022						
Long-term borrowings	768	385	-17	-8	14	1,142
Short-term borrowings	1,083	-43	17	-6	-	1,051
Total interest-bearing debt	1,851	342	-	-14	14	2,193
Subordinated loans	-395	-46	-	9	-	-432
Amounts owed by subsidiaries	-175	175	-	-	-	-
Securities	-166	11	-	-	-	-155
Cash	-1	-	-	-	-	-1
Net interest-bearing debt	1,114	482	-	-5	14	1,605
2021						
Long-term borrowings	623	137	-20	7	21	768
Short-term borrowings	1,198	-136	20	-	-	1,083
Total interest-bearing debt	1,821	1	-	7	21	1,851
Subordinated loans	-391	10	-	-14	-	-395
Amounts owed by subsidiaries	-201	27	-	-1	-	-175
Securities	-174	9	-	-	-1	-166
Cash	-1	-	-	-	-	-1
Net interest-bearing debt	1,054	47	-	-8	20	1,114

FUNDING

4.2 NET INTEREST-BEARING DEBT

Table 4.2.d Net interest-bearing debt, maturity

(EURm)	Total	2023	2024	2025	2026	2027	2028	2029	2030-2032	After 2032
2022										
DKK	930	635	20	66	21	20	17	17	50	84
EUR	508	1	303	2	1	101	-	100	-	-
GBP	-208	-208	-	-	-	-	-	-	-	-
SEK	253	29	-	-	179	-	45	-	-	-
Other	122	6	116	-	-	-	-	-	-	-
Total	1,605	463	439	68	201	121	62	117	50	84
2021										
	Total	2022	2023	2024	2025	2026	2027	2028	2029-2031	After 2031
DKK	722	416	20	18	64	20	18	18	53	95
EUR	210	4	103	102	1	-	-	-	-	-
GBP	-194	-194	-	-	-	-	-	-	-	-
SEK	263	117	-	-	-	146	-	-	-	-
Other	113	3	-	110	-	-	-	-	-	-
Total	1,114	346	123	230	65	166	18	18	53	95

4.3 FINANCIAL RISKS

Table 4.3.a Liquidity reserves

(EURm)	2022	2021
Unutilised committed loan facilities > 1 year	475	689
Unutilised other loan facilities	447	167
Total	922	856

Table 4.3.b Currency exposure

(EURm)	Potential accounting impact		
	Sensitivity	Income statement	Other comprehensive income
2022			
EUR/DKK	1%	3	-
USD/DKK ¹	5%	-3	-27
GBP/DKK	5%	-	-17
SEK/DKK	5%	2	-3
SAR/DKK	5%	2	-5
2021			
EUR/DKK	1%	-1	-
USD/DKK ¹	5%	1	-10
GBP/DKK	5%	-	-21
SEK/DKK	5%	-2	-4
SAR/DKK	5%	-	-9

¹ Incl. AED

FUNDING

4.3 FINANCIAL RISKS

Table 4.3.c Contractual expected non-discounted cashflow on gross financial liabilities

(EURm)	Non-discounted contractual cash flow										
	Carrying amount	Total	2023	2024	2025	2026	2027	2028	2029	2030-2032	After 2032
2022											
Borrowing from subsidiaries	1,060	1,060	1,060	-	-	-	-	-	-	-	-
Bond Issue	224	224	-	-	-	179	-	45	-	-	-
Mortgage credit institutions	266	266	11	11	59	15	15	15	15	45	80
Credit institutions	512	512	199	101	210	1	1	-	-	-	-
Lease liabilities	56	56	15	11	8	6	5	2	1	4	4
Interest expense – interest-bearing debt	-	189	29	25	24	20	13	8	8	24	38
Trade and other payables	782	782	782	-	-	-	-	-	-	-	-
Derivative instruments	29	38	34	3	1	-	-	-	-	-	-
Total	2,929	3,127	2,130	151	302	221	34	70	24	73	122

	Non-discounted contractual cash flow										
	Carrying amount	Total	2022	2023	2024	2025	2026	2027	2028	2029-2031	After 2031
2021											
Borrowing from subsidiaries	1,050	1,050	1,050	-	-	-	-	-	-	-	-
Mortgage credit institutions	276	276	11	11	11	60	16	15	15	47	90
Credit institutions	512	512	199	101	210	1	1	-	-	-	-
Lease liabilities	59	59	15	12	8	5	4	2	2	6	5
Interest expense – interest-bearing debt	-	25	4	2	2	2	1	1	1	4	8
Trade and other payables	668	668	668	-	-	-	-	-	-	-	-
Derivative instruments	38	38	34	3	1	-	-	-	-	-	-
Total	2,603	2,628	1,981	129	232	68	22	18	18	57	103

FUNDING

4.4 DERIVATIVES

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

Table 4.4 Hedging of future cash flow from highly probable forecast transactions

(EURm)	Carrying value	Fair value recognised in OCI	Expected recognition in the income statement				
			2023	2024	2025	2026	After 2026
2022							
Currency contracts	42	42	42	-	-	-	-
Interest rate contracts	30	30	6	5	5	3	11
Hedging of future cash flow	72	72	48	5	5	3	11
(EURm)	Carrying value	Fair value recognised in OCI	Expected recognition in the income statement				
			2022	2023	2024	2025	After 2025
2021							
Currency contracts	-17	-17	-	-	-	-	-
Interest rate contracts	-5	-5	-4	-3	-	1	1
Hedging of future cash flow	-22	-22	-4	-3	-	1	1

4.5 FINANCIAL INSTRUMENTS

Table 4.5.a Categories of financial instruments

(EURm)	2022	2021
Derivatives	62	19
Shares	3	4
Financial assets measured at fair value through the income statement	65	23
Securities	155	166
Financial assets measured at fair value through other comprehensive income	155	166
Derivative assets used as hedging instruments	138	6
Subordinated loans to subsidiaries	432	395
Trade receivables	337	247
Other receivables	99	81
Amounts owed by subsidiaries	863	1,000
Amounts owed by associates	3	12
Cash	1	1
Financial assets measured at amortised cost	1,735	1,736
Derivatives	28	10
Financial liabilities measured at fair value through the income statement	28	10
Derivative liabilities used as hedging instruments	1	28
External long term borrowings ¹	1,142	768
External short term borrowings ¹	42	42
Trade payables and other payables	668	668
Amounts owed to subsidiaries	1,050	1,050
Financial liabilities measured at amortised cost	2,902	2,528

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

¹Including lease liabilities

FUNDING

4.5 FINANCIAL INSTRUMENTS

Table 4.5.b Fair value hierarchy – carrying amount
(EURm)

	Level 1	Level 2	Level 3	Total
2022				
Financial assets:				
Bonds	155	-	-	155
Shares	3	-	-	3
Derivatives	200	-	-	200
Total financial assets	358	-	-	358
Financial liabilities:				
Derivatives	29	-	-	29
Total financial liabilities	29	-	-	29
2021				
Financial assets:				
Bonds	166	-	-	166
Shares	4	-	-	4
Derivatives	25	-	-	25
Total financial assets	195	-	-	195
Financial liabilities:				
Derivatives	38	-	-	38
Total financial liabilities	38	-	-	38

4.6 TRANSFER OF FINANCIAL ASSETS

Table 4.6 Transfer of financial assets

(EURm)	Carrying value	Notional amount	Fair value
2022			
Mortgage bonds	155	152	155
Repurchase liability	150	148	150
Net position	5	4	5
2021			
Mortgage bonds	166	162	166
Repurchase liability	159	158	159
Net position	7	4	7



OTHER AREAS

5.1 TAX

Table 5.1.a Tax recognised in the income statement
(EURm)

	2022	2021
Tax on taxable equity (cooperative tax)	10	9
Adjustment regarding previous years, actual tax	-	1
Total tax in the income statement	10	10

Table 5.1.b Calculation of effective tax rate
(EURm)

	2022	2021
Statutory corporate income tax rate in Denmark	22,0%	22,0%
Adjustment for cooperative tax	-17,0%	-17,5%
Adjustment regarding previous years	0,0%	0,4%
Total	5,0%	4,9%

5.2 FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES

Table 5.2 Fees to auditors appointed by the Board of Representatives
(EURm)

	2022	2021
Statutory audit	0,7	0,6
Other assurance engagements	0,3	0,2
Tax assistance	0,2	0,1
Other services	-	0,5
Total fees to auditors	1,2	1,4

5.3 MANAGEMENT REMUNERATION AND TRANSACTIONS WITH RELATED PARTIES

Management remunerations: Refer to note 5.4 in the group consolidated financial statements.

Transactions with related parties and associates: Refer to note 3.3.

5.4 CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIES

Table 5.4 Contractual commitments and contingent liabilities
(EURm)

	2022	2021
Guarantee commitments	2,859	2,279
Operating rent and lease commitments	68	81
Commitments in relation to agreements on the purchase of property, plant and equipment	46	30

The group provided security for mortgage debt, based on the Danish Mortgage Act, to a nominal value of EUR 266 million, compared to EUR 276 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 GENERAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Basis for preparation

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 lossmaking, 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 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 outlined in Note 3.1 in the group consolidated financial statements.

Adoption of new or amended IFRS

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

5.6 EVENTS AFTER THE BALANCE SHEET DATE

Refer to note 5.6 in the group consolidated financial statements.

5.7 GROUP CHART

Refer to note 5.8 in the group consolidated financial statements.