

# **Arla Foods Finance A/S**

Sønderhøj 14

8260 Viby J

CVR No. 89622816

## **Annual Report 2018**

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 24 May 2019

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Jonas Buur  
Chairman

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## **Management's Statement**

Today, Management has considered and adopted the Annual Report of Arla Foods Finance A/S for the financial year 1 January 2018 - 31 December 2018.

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 2018 and of the results of the Company's operations for the financial year 1 January 2018 - 31 December 2018.

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 adopted at the Annual General Meeting.

Aarhus, 24 May 2019

### **Executive Board**

Jesper Mellekjær  
CEO

### **Board of Directors**

Peder Tuborgh  
Chairman

Natalie Knight

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 2018 - 31 December 2018, which comprise accounting policies, income statement, balance sheet, statement of changes in equity and notes. 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 2018 and of the results of the Company's operations for the financial year 1 January 2018 - 31 December 2018 in accordance with the Danish Financial Statements Act.

### Basis for 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 responsibilities 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.

### Auditor's responsibilities 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

## Independent Auditor's Report

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- \* 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 Statements Act. We did not identify any material misstatement of the Management's review.

Aarhus, 24 May 2019

**Ernst & Young**

**Godkendt Revisionspartnerselskab**

CVR No. 30700228

Jens Weiersøe Jakobsen

State Authorised Public Accountant

mne30152

## Arla Foods Finance A/S

### Company Information

<b>Company</b>	Arla Foods Finance A/S Sønderhøj 14 8260 Viby J
Telephone	89381000
CVR No.	89622816
Registered office	Aarhus
Financial year	1 January 2018 - 31 December 2018
<b>Board of Directors</b>	Peder Tuborgh, Chairman Natalie Knight 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 A/S is responsible for the overall liquidity and currency management for a number of companies in the 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 2018 - 31 December 2018 shows a result of K DKK 1.163 and the Balance Sheet at 31 December 2018 a balance sheet total of K DKK 12.238.446 and an equity of K DKK 470.826. This is in line with the expectations for the year.

### **Post financial year events**

After the end of the financial year, no events have occurred which may change the financial position of the entity substantially.

### **Expectations for the future**

The company's operations before fair value adjustments for next year are expected to generate a minor positive result before tax, in line with this year.

## Key Figures and Financial Ratios

K DKK

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Financial income and costs, net	-1.053	85.033	-3.057	83.289	15.025
Gross profit	-4.169	84.087	-3.832	82.778	14.317
Profit for the year	1.163	60.491	4.252	61.148	18.764
Total assets	12.238.446	16.399.869	15.763.310	14.611.474	12.583.728
Total equity	470.826	470.451	378.863	448.838	401.349
Return on equity (ROE) (%)	0,25	14,24	1,03	14,38	4,39
Solvency ratio (%)	3,85	2,87	2,40	3,07	3,19

Return on equity (ROE) (%) = Profit for the year X 100 / Average 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 2018 has been presented in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

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

### **Consolidated Financial Statements**

With reference to § 112.1 of the Danish Financial Statements Act, no Consolidated Financial Statement have 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 amba, CVR No. 25313763. The consolidated financial statements are available at the following address: Arla Foods amba, Sønderhøj 14, DK-8260 Viby J.

### **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 as Financial Income and Financial 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 hedged transactions are realised, the accumulated gains or losses are 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.

## Accounting Policies

### Income Statement

#### Financial income and costs

Financial income and costs are recognised in the Income Statement with the amounts that concern the financial year. Financial income and costs include interest, realised and unrealised capital gains and losses regarding securities, debt and foreign currency transactions, dividends received from other equity investments, amortisation of financial assets and liabilities as well as surcharges and allowances under the tax repayment scheme.

#### Other external expenses

Other external costs comprise expenses regarding administration.

#### Income from investments in group enterprises

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.

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

## Accounting Policies

### Balance Sheet

#### Investments in group enterprises

Investments in group enterprises are recognised in the balance sheet at the proportionate share of the equity value of the enterprises, 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 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.

#### Securities and other short term investments

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

#### Current tax

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 taxes.

#### Financial liabilities

Financial liabilities such as mortgage loans and loans from credit institutions are recognised initially at the proceeds received net of transaction expenses incurred. In subsequent periods, financial liabilities are measured at amortised cost, so that the difference between the 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

K DKK

	Note	2018	2017
Financial income	1	169.053	246.552
Financial costs	2	-170.106	-161.519
Other external costs	3	-3.116	-946
<b>Gross profit</b>		<b>-4.169</b>	<b>84.087</b>
Income from investments in group enterprises		-147	-447
<b>Profit before tax</b>		<b>-4.316</b>	<b>83.640</b>
Tax	4	5.479	-23.149
<b>Profit</b>		<b>1.163</b>	<b>60.491</b>
<b>Profit appropriation</b>	5		
Retained earnings		1.163	60.491
<b>Distribution of profit</b>		<b>1.163</b>	<b>60.491</b>

Arla Foods Finance A/S

Balance Sheet as of 31 December

K DKK

	Note	2018	2017
Investments in group enterprises	6, 7	<u>13.821</u>	<u>13.965</u>
<b>Investments in group enterprises</b>		<b><u>13.821</u></b>	<b><u>13.965</u></b>
<b>Non-current assets</b>		<b><u>13.821</u></b>	<b><u>13.965</u></b>
Receivables from group enterprises		9.876.247	14.005.155
Corporation tax receivables		2.994	0
Other receivables		<u>155.794</u>	<u>72.033</u>
<b>Receivables</b>		<b><u>10.035.035</u></b>	<b><u>14.077.188</u></b>
Securities and other short-term investments	8	<u>2.053.077</u>	<u>2.288.940</u>
<b>Current investments</b>		<b><u>2.053.077</u></b>	<b><u>2.288.940</u></b>
<b>Cash at bank and in hand</b>		<b><u>136.513</u></b>	<b><u>19.776</u></b>
<b>Current assets</b>		<b><u>12.224.625</u></b>	<b><u>16.385.904</u></b>
<b>Assets</b>		<b><u>12.238.446</u></b>	<b><u>16.399.869</u></b>

Arla Foods Finance A/S

Balance Sheet as of 31 December

K DKK

	Note	2018	2017
Contributed capital		1.000	1.000
Retained earnings		469.826	469.451
<b>Equity</b>		<b>470.826</b>	<b>470.451</b>
Loans related to issuance of bonds	9	1.819.523	1.890.940
Loans from credit institutions etc.	9	829.770	1.140.039
<b>Non-current liabilities</b>		<b>2.649.293</b>	<b>3.030.979</b>
Loans related to issuance of bonds	9	1.928.156	2.718.202
Loans from credit institutions etc.	9	2.662.837	2.655.026
Trade payables		40	0
Payables to group enterprises		3.966.633	6.690.514
Corporation tax payables		0	31.014
Other payables		560.661	803.683
<b>Current liabilities</b>		<b>9.118.327</b>	<b>12.898.439</b>
<b>Liabilities</b>		<b>11.767.620</b>	<b>15.929.418</b>
<b>Liabilities and equity</b>		<b>12.238.446</b>	<b>16.399.869</b>
Warranties	10		
Deferred tax assets and contingent liabilities	11		
Related parties	12		

Arla Foods Finance A/S

**Statement of changes in Equity**

K DKK

	<b>Contributed capital</b>	<b>Retained earnings</b>	<b>Total</b>
Equity 1 January 2018	1.000	469.451	470.451
Net adjustments of hedging instruments		-1.011	-1.011
Tax on hedging instruments		223	223
Profit		1.163	1.163
<b>Equity 31 December 2018</b>	<b>1.000</b>	<b>469.826</b>	<b>470.826</b>

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

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

**Notes**

K DKK

	<b>2018</b>	<b>2017</b>
<b>1. Financial income</b>		
Financial income from group enterprises	152.473	185.543
Other financial income	16.580	61.009
	<b>169.053</b>	<b>246.552</b>
<b>2. Financial expenses</b>		
Financial costs to group enterprises	29.026	43.267
Other financial costs	141.080	118.252
	<b>170.106</b>	<b>161.519</b>
<b>3. Other external costs</b>		
As in previous years the Company has no employees. The disclosure of remuneration to the Executive Board is omitted due to Danish Financial Statements Act § 98b.		
A management fee is paid to Arla Foods amba for providing administrative support to the Company.		
<b>4. Tax</b>		
Current income taxes	-2.475	18.681
Adjustment regarding tax previous years	-3.004	4.468
	<b>-5.479</b>	<b>23.149</b>
<b>5. Distribution of profit</b>		
Retained earnings	1.163	60.491
	<b>1.163</b>	<b>60.491</b>
<b>6. Investments in group enterprises</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>
Value adjustments at the beginning of the year	-7.842	-7.398
Result in subsidiaries	-147	-447
<b>Value adjustments at the end of the year</b>	<b>-7.989</b>	<b>-7.845</b>
<b>Carrying amount at the end of the year</b>	<b>13.821</b>	<b>13.965</b>



## Notes

K DKK

### 7. Disclosure about group enterprises

Name	Registered office	Share held in		Equity	Profit
			%		
Kingdom Food Products ApS	Aarhus		100,00	6.531	170
Ejendomsanpartsselskabet St. Ravensbjerg	Aarhus		100,00	7.290	-317
				<b>13.821</b>	<b>-147</b>

### 8. Securities and other short-term investments

The Company has repurchase agreements collateralised by bonds with a carrying amount of DKK 2,021 million at 31 December 2018 against 2,273 million at 31 December 2017. The repurchase financing is disclosed as loans.

Other minor securities and short term investments amounting to DKK 32 million at 31 December 2018 against DKK 16 million at 31 December 2017 are also held by the company.

### 9. Loans

	Due within 1 year	Due after 1 year	Due after 5 years
Loans related to issuance of bonds	1.928.156	1.819.523	0
Loans from credit institutions etc.	2.662.837	829.770	0
	<b>4.590.993</b>	<b>2.649.293</b>	<b>0</b>

### 10. Warranties

Per 31 December 2018 the Company has warranties amounting to K DKK 14.307.

### 11. Deferred tax assets and contingent liabilities

Per 31 December 2018 the Company has a deferred tax asset amounting to K DKK 9.232 which is not recognised in the balance sheet due to uncertainties of the time of use. The Company is jointly taxed with the other enterprises in the Danish joint taxation group and is jointly and severally liable for the taxes that concern the joint taxation.

### 12. Related parties

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

Parties exercising control:  
AF A/S, Viby J holds 100 % of share capital in the company.

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.

All transactions between related parties in the year has been conducted at market conditions. In respect of act 98 C 7.1 no further is disclosed in this matter.