

Arla Foods Finance A/S

Annual report 2014

CVR No. 89 62 28 16

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Arla Foods Finance A/S

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 of Arla Foods Finance A/S for 2014.

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 2014 and of the Company's operations for the financial year 1 January – 31 December 2014.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Aarhus, 15 May 2015

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 2014. 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.

Arla Foods Finance A/S

Independent auditors' report

Opinion

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2014 and of the results of its operations for the financial year 1 January – 31 December 2014 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, 15 May 2015

ERNST & YOUNG

Godkendt Revisionspartnerselskab



Morten Friis

State Authorised Public Accountant



Kim R. Mortensen

State Authorised Public Accountant

Arla Foods Finance A/S

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
Board of Directors	Povl Krogsgaard, Chairman Frederik Lotz John Duus Andresen
Executive Board	Jesper Mellemkjær, CEO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25 DK-8100 Aarhus C

Management's review

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 2014, Arla Foods Finance A/S realised a profit of DKK 18,764 thousand, a balance sheet total of DKK 12,583,728 thousand and equity of DKK 401,349 thousand at 31 December 2014.

Events after the balance sheet date

No events have occurred after the balance sheet date considerably affecting the financial position of the Company.

Management's review

Five-year summary

The financial highlights of the Company developed as follows:

	2014	2013	2012	2011	2010
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key figures					
Income statement					
Financial income and expenses	15,025	31,724	35,153	26,806	20,540
Net profit for the year	18,764	33,504	35,177	31,171	22,383
Balance sheet					
Total assets	12,583,728	9,836,309	8,343,534	3,478,168	4,240,218
Total equity	401,349	453,459	401,130	370,371	346,392
Financial ratios					
Return on equity	4.39%	7.84%	9.12%	8.70%	6.50%
Solvency ratio	3.19%	4.61%	4.81%	10.60%	8.20%

Accounting policies

Reporting class

The annual report of Arla Foods Finance A/S for 2014 has been prepared in accordance with the provisions applying to reporting class B 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/s. The consolidated financial statements are available at the following address: Arla Foods A/S, 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 into Danish kroner 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 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 the 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 the 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.

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.

Accounting policies

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. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively.

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.

Income statement

Other external costs

Other external costs include cost regarding administration.

Accounting policies

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.

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 on the expected taxable income 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. Receivables are recognised less write-downs for bad debt losses.

Accounting policies

Prepayments

Prepayments comprise costs incurred in relation to subsequent financial years.

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.

Financial liabilities

Financial liabilities comprising bond loans and other amounts owed to credit institutions are recognised at the date of borrowing at cost, corresponding to the proceeds received less transaction costs paid. In subsequent periods, financial liabilities are measured at amortised cost. Other liabilities are measured at amortised cost, which usually corresponds to nominal value.

Current tax liabilities

Current tax payable and receivable 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 in advance.

Financial ratios

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".

Return on equity (ROE)

$$\frac{\text{Net profit/loss for the year} \times 100}{\text{Average equity}}$$

Solvency ratio

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

Income statement

DKK'000	Note	2014	2013
Other external costs	1	-708	-543
Gross profit/loss		-708	-543
Income from investments in group enterprises and associates		11,534	7,925
Financial income	2	198,666	171,202
Financial expenses	3	-183,641	-139,478
Profit before tax		25,851	39,106
Tax on profit for the year	4	-7,087	-5,602
Profit for the year		18,764	33,504
Proposed profit appropriation			
Net revaluation reserve according to the equity method		11,534	7,925
Retained earnings		7,230	25,579
		18,764	33,504

Balance sheet

DKK'000	Note	2014	2013
ASSETS			
Investments			
Investments in group enterprises	5, 6	14,367	13,716
Investments in associates	6, 7	91,584	85,665
Total non-current assets		<u>105,951</u>	<u>99,381</u>
Receivables			
Receivables from group enterprises	8	11,562,202	9,096,429
Other receivables		230,234	59,703
Total receivables		<u>11,792,436</u>	<u>9,156,132</u>
Other securities and investments	9	606,517	580,681
Securities and investments		<u>606,517</u>	<u>580,681</u>
Cash at bank and in hand		<u>78,824</u>	<u>115</u>
Total current assets		<u>12,477,777</u>	<u>9,736,928</u>
TOTAL ASSETS		<u><u>12,583,728</u></u>	<u><u>9,836,309</u></u>

Balance sheet

DKK'000	Note	2014	2013
EQUITY AND LIABILITIES			
Equity			
Share capital		1,000	1,000
Net revaluation reserve according to the equity method		20,291	13,753
Retained earnings		380,058	438,706
Total equity	10	401,349	453,459
Other payables in connection with the issue of bonds		2,332,032	1,248,740
Bank loans, etc.		2,211,469	3,554,693
Non-current liabilities	11	4,543,501	4,803,433
Bank loans, etc.	9	3,262,452	1,410,239
Trade payables		106	12,977
Payables to group enterprises	8	4,027,074	3,106,860
Corporation tax payable		0	10,054
Other payables		349,246	39,287
Current liabilities		7,638,878	4,579,417
Total liabilities		12,182,379	9,382,850
TOTAL EQUITY AND LIABILITIES		12,583,728	9,836,309
Deferred tax assets and liabilities	12		



Notes to the financial statements

1 Other external costs

In 2014, 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	2014	2013
2 Financial income		
Other financial income from group enterprises	194,355	160,948
Other financial income	4,311	10,254
	<u>198,666</u>	<u>171,202</u>
3 Financial expenses		
Financial expenses from group enterprises	4,470	3,169
Other financial expenses	179,171	136,309
	<u>183,641</u>	<u>139,478</u>
4 Tax on profit for the year		
Tax on profit for the year	7,997	5,547
Adjustment of tax in respect of previous years	-910	55
	<u>7,087</u>	<u>5,602</u>
5 Investments in group enterprises		
Cost, beginning	21,810	17,095
Changes due to merger/liquidation	0	4,715
Cost at year end	<u>21,810</u>	<u>21,810</u>
Value adjustments, beginning	-8,094	-7,999
Changes due to merger/liquidation	32	6
Profit for the year	619	-101
Value adjustments at year end	<u>-7,443</u>	<u>-8,094</u>
Carrying amount at 31 December	<u>14,367</u>	<u>13,716</u>

Notes to the financial statements

6 Investments in group enterprises and associates

Group enterprises

Name	Domicile	Share in %
Kingdom Foods Products ApS	Aarhus	100.00
Ejendomselskabet 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

DKK'000	2014	2013
7 Investments in associates		
Cost, beginning	52,094	52,094
Cost, year end	52,094	52,094
Value adjustments, beginning	33,571	20,240
Foreign exchange adjustments and fair value adjustments of hedging instruments	-4,996	5,305
Profit for the year	10,915	8,026
Value adjustments at year end	39,490	33,571
Carrying amount at 31 December	91,584	85,665

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 2014, the Company had entered into repurchase agreements collateralised by bonds with a carrying amount of DKK 565 million as against DKK 571 million at 31 December 2013.

The repurchase financing is included under bank loans, etc.

Notes to the financial statements

10 Equity

DKK'000	Share capital	Reserve for net revaluation according to the equity method	Retained earnings	Total
Equity, beginning	1,000	13,753	438,706	453,459
Proposed profit appropriation		11,534	7,230	18,764
Change in equity due to merger			4,715	4,715
Foreign currency translation adjustment relating to independent foreign entities		-192		-192
Value adjustment of hedging instruments		-4,804	-78,590	-83,394
Tax on value adjustments of hedging instr.			7,997	7,997
	1,000	20,291	380,058	401,349

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

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

11 Non-current liabilities

	Payable within 1 year	Payable between 1 and 5 years	Payable after 5 years
Other payables in connection with the issue of bonds	2,332,032	0	0
Payables to credit institutions, etc.	2,211,469	3,262,452	243,952
	4,543,501	3,262,452	243,952

12 Deferred tax assets and liabilities

At 31 December 2014, the Company had a tax asset of DKK 7,284 thousand (2013: DKK 2,083 thousand), which is not recognised in the balance sheet as there is uncertainty about its utilisation.

Together with the other companies included in the joint taxation, the Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes for 2014 within the joint taxation unit.