

Arla Foods Finance A/S

Annual report 2013

CVR No. 89 62 28 16

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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 of Arla Foods Finance A/S for 2013.

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 2013 and of the Company's operations for the financial year 1 January – 31 December 2013.

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, 30 April 2014

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 2013. 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 2013 and of the results of its operations for the financial year 1 January – 31 December 2013 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, 30 April 2014

KPMG

Statsautoriseret 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	KPMG Statsautoriseret Revisionspartnerselskab Bruun's Galleri 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 2013, Arla Foods Finance A/S realised a profit of DKK 33,504 thousand, a balance sheet total of DKK 9,836,309 thousand and equity of DKK 453,459 thousand at 31 December 2013.

At 1 January 2013, the Company was merged with Aktieselskabet af 5. juni 1992 following a liquidation of the subsidiary, Ravnsbjerg Finans ApS at the beginning of the financial year.

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:

	2013	2012	2011	2010	2009
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key figures					
Income statement					
Financial income and expenses	31,724	35,153	26,806	20,540	35,897
Net profit for the year	33,504	35,177	31,171	22,383	37,922
Balance sheet					
Total assets	9,836,309	8,343,534	3,478,168	4,240,218	4,591,223
Total equity	453,459	401,130	370,371	346,392	338,376
Financial ratios					
Return on equity	7.84%	9.12%	8.70%	6.50%	11.90%
Solvency ratio	4.61%	4.81%	10.60%	8.20%	7.40%

Accounting policies

Reporting class

The annual report of Arla Foods Finance A/S for 2013 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.

Changes in activities

The 2012 comparative figures were restated subsequent to the liquidation/merger in 2013.

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 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.

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. 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.

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.

Accounting policies

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 date 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.

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.

Accounting policies

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, 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.

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

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.

Accounting policies

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	2013	2012
Other external costs	1	-543	-568
Gross profit/loss		-543	-568
Income from investments in group enterprises and associates		7,925	6,786
Financial income	2	171,202	120,891
Financial expenses	3	-139,478	-85,738
Profit before tax		39,106	41,371
Tax on profit for the year	4	-5,602	-6,194
Profit for the year		<u>33,504</u>	<u>35,177</u>
 Proposed profit appropriation			
Net revaluation reserve according to the equity method		7,925	523
Retained earnings		<u>25,579</u>	<u>34,654</u>
		<u>33,504</u>	<u>35,177</u>

Balance sheet

DKK'000	Note	2013	2012
ASSETS			
Investments			
Investments in group enterprises	5, 6	13,716	9,096
Investments in associates	6, 7	85,665	72,334
Total non-current assets		<u>99,381</u>	<u>81,430</u>
Receivables			
Receivables from group enterprises	8	9,096,429	7,552,906
Other receivables		59,703	124,455
Prepayments		0	1
Deferred tax		0	38
Total receivables		<u>9,156,132</u>	<u>7,677,400</u>
Other securities and investments	9	580,681	584,338
Securities and investments		<u>580,681</u>	<u>584,338</u>
Cash at bank and in hand		<u>115</u>	<u>366</u>
Total current assets		<u>9,736,928</u>	<u>8,262,104</u>
TOTAL ASSETS		<u><u>9,836,309</u></u>	<u><u>8,343,534</u></u>

Balance sheet

DKK'000	Note	2013	2012
EQUITY AND LIABILITIES			
Equity			
Share capital		1,000	1,000
Net revaluation reserve according to the equity method		13,753	523
Retained earnings		438,706	399,607
Total equity	10	453,459	401,130
Other payables in connection with the issue of bonds		1,248,740	0
Bank loans, etc.		3,554,693	3,596,271
Non-current liabilities		4,803,433	3,596,271
Bank loans, etc.	9	1,410,239	1,846,440
Trade payables		12,977	7,122
Payables to group enterprises	8	3,106,860	2,469,725
Corporation tax payable		10,054	7,150
Other payables		39,287	15,696
Current liabilities		4,579,417	4,346,133
Total liabilities		9,382,850	7,942,404
TOTAL EQUITY AND LIABILITIES		9,836,309	8,343,534
Deferred tax assets and liabilities	11		

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Notes to the financial statements

1 Other external costs

In 2013, 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	2013	2012
2 Financial income		
Other financial income from group enterprises	160,948	116,309
Other financial income	10,254	4,582
	<u>171,202</u>	<u>120,891</u>
3 Financial expenses		
Financial expenses from group enterprises	3,169	6,318
Other financial expenses	136,309	79,420
	<u>139,478</u>	<u>85,738</u>
4 Tax on profit for the year		
Tax on profit for the year	10,054	6,176
Tax on value adjustment of hedging instruments via equity	-4,507	0
Adjustment of tax in respect of previous years	55	18
	<u>5,602</u>	<u>6,194</u>
5 Investments in group enterprises		
Cost, beginning	17,095	17,095
Changes due to merger/liquidation	4,715	0
Cost at year end	<u>21,810</u>	<u>17,095</u>
Value adjustments, beginning	-7,999	-7,565
Changes due to merger/liquidation	6	0
Profit for the year	-101	-434
Value adjustments at year end	<u>-8,094</u>	<u>-7,999</u>
Carrying amount at 31 December	<u>13,716</u>	<u>9,096</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
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 group enterprises and associates

Cost, beginning	52,094	52,094
Cost, year end	<u>52,094</u>	<u>52,094</u>
Value adjustments, beginning	20,240	17,438
Foreign exchange adjustments and fair value adjustments of hedging instruments	5,305	-4,418
Profit for the year	<u>8,026</u>	<u>7,220</u>
Value adjustments at year end	<u>33,571</u>	<u>20,240</u>
Carrying amount at 31 December	<u><u>85,665</u></u>	<u><u>72,334</u></u>

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 2013, the Company had entered into repurchase agreements collateralised by bonds with a carrying amount of DKK 571 million as against DKK 565 million at 31 December 2012.

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	523	399,607	401,130
Proposed profit appropriation		7,925	25,579	33,504
Foreign currency translation adjustment relating to independent foreign entities		-1		-1
Value adjustment of hedging instruments		5,306	18,027	23,333
Tax on value adjustments of hedging instr.			-4,507	-4,507
	<u>1,000</u>	<u>13,753</u>	<u>438,706</u>	<u>453,459</u>

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 Deferred tax assets and liabilities

At 31 December 2013, the Company had a tax asset of DKK 2,083 thousand (2012: DKK 4,331 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 2013 within the joint taxation unit.