

Management Review

Principal activities

Arla Foods amba and its subsidiary enterprises operate dairy activities based on milk weighed in by its members in Denmark, Sweden, Germany, United Kingdom, Belgium and Luxembourg.

Developments of the year

The activity level of Arla Foods amba increased further in 2013. Revenue rose by DKK 9.0 billion to a total of DKK 46.7 billion mostly driven by price increases and the full year effect of mergers with Milk Link and Milch-Union Hocheifel (MUH) in 2012.

At 31 December 2013 Arla Foods Milk Partnership (AFMP) farmers became co-owners of Arla Foods amba contributing capital of DKK 0.5 billion and creating a stable and secure supply of raw milk in the UK.

Profit for the year stood at DKK 2.2 billion (DKK 2.0 billion in 2012).

Dividends from subsidiaries and associates of DKK 0.6 billion (DKK 0.2 billion in 2012) are recognized in the income statement as a consequence of measuring investments in subsidiaries and associates at cost in Arla Foods amba.

Outlook

The results for 2014 are expected to be at 2013 levels.

For more details, please see the Management Review in the Consolidated Financial Statements.

Income Statement for the Parent Company 1 January - 31 December

(DKKm)	NOTE	2013	2012
Revenue		46,758	37,741
Production costs	1.1-1.3	-41,679	-32,326
Gross profit		5,079	5,415
Research and development costs	1.1-1.3	-138	-118
Sales and distribution costs	1.1-1.3	-2,455	-2,790
Administration costs	1.1-1.3	-990	-915
Other operating income		213	161
Other operating costs		-62	-88
Profit from divestments		-	66
Earnings before interest and tax (EBIT)		1,647	1,731
Specification:			
Earnings before interest, tax, depreciation and amortisation (EBITDA)		2,424	2,481
Depreciation, amortisation and impairment losses	1.3	-777	-750
Earnings before interest and tax (EBIT)		1,647	1,731
Financial income and expenses	4.1	638	342
Profit before tax		2,285	2,073
Tax	5.1	-66	-54
Profit for the year		2,219	2,019

Statement of Comprehensive Income for the Parent Company 1 January - 31 December

(DKKm)	NOTE	2013	2012
Profit for the year		2,219	2,019
Other comprehensive income			
Items that may subsequently be reclassified to the income statement:			
Value adjustment for the year of hedging instruments		152	27
Other value adjustments		16	-47
Other comprehensive income		168	-20
Total comprehensive income		2,387	1,999

Balance Sheet for the Parent Company 31 December

(DKKm)	NOTE	2013	2012
ASSETS			
Non-current assets			
Intangible assets	3.1	435	352
Property, plant and equipment	3.2	4,539	4,156
Investments in subsidiaries		6,125	2,774
Investments in associates		1,867	1,823
Other non-current assets	3.3	4,652	6,717
Total non-current assets		17,618	15,822
Current assets			
Inventories	2.1	2,168	1,885
Trade receivables	2.2	1,450	1,446
Amounts owed by subsidiaries		5,838	5,749
Amounts owed by associates		16	-
Derivatives		161	230
Receivable for non-paid equity instruments		111	-
Other receivables		272	233
Securities		1,242	1,239
Cash at bank and at hand		52	39
Total current assets		11,310	10,821
TOTAL ASSETS		28,928	26,643

Balance Sheet for the Parent Company 31 December

(DKKm)	NOTE	2013	2012
EQUITY AND LIABILITIES			
EQUITY			
Equity before proposed supplementary payments to owners		13,245	11,281
Proposed supplementary payments to owners		900	1,112
Total equity		14,145	12,393
LIABILITIES			
Non-current liabilities			
Loans	4.2	3,912	4,959
Total non-current liabilities		3,912	4,959
Current liabilities			
Loans	4.2	3,023	2,132
Trade payables		3,615	3,012
Amounts owed to subsidiaries		3,098	2,881
Provisions	3.5	15	22
Derivatives		218	265
Current tax		23	6
Other payables		698	850
Deferred income		181	123
Total current liabilities		10,871	9,291
Total liabilities		14,783	14,250
TOTAL EQUITY AND LIABILITIES		28,928	26,643

Changes in Equity for the Parent Company 1 January - 31 December

(DKKm)	CAPITAL ACCOUNT	DELIVERY-BASED OWNER CERTIFICATES	CONTRIBUTED CAPITAL	RESERVE FOR SPECIAL PURPOSES	RESERVE FUND B	RESERVE FOR VALUE ADJUSTMENT OF HEDGING INSTRUMENTS	RESERVE FOR FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	PROPOSED SUPPLEMENTARY PAYMENT TO OWNERS	TOTAL
Equity as at 1 January 2013	8,151	835	1,628	969		-252	-50	1,112	12,393
Net profit for the year	18	-	323	978	-	-	-	900	2,219
Other comprehensive income	-	-	-	-	-	152	16	-	168
Total comprehensive income	18	-	323	978	-	152	16	900	2,387
Capital issued to new owners	41	-	501	-	-	-	-	-	542
Payments to owners	-	-28	-23	-	-	-	-	-	-51
Supplementary payment to owners	-	-	-	-	-	-	-	-1,126	-1,126
Foreign currency translation adjustments	19	-11	-22	-	-	-	-	14	-
Total transactions with owners	60	-39	456	-	-	-	-	-1,112	-635
Equity as at 31 December 2013	8,229	796	2,407	1,947	-	-100	-34	900	14,145

Equity as at 1 January 2012	7,999	840	682	-	500	-279	-3	491	10,230
Net profit for the year	155	-	-283	469	-	-	-	1,112	2,019
Other comprehensive income	-	-	-	-	-	27	-47	-	-20
Total comprehensive income	155	-	283	469	-	27	-47	1,112	1,999
Capital issued to new owners	14	-	678	-	-	-	-	-	692
Payments to owners	-	-18	-19	-	-	-	-	-	-37
Transfer	-	-	-	500	-500	-	-	-	-
Supplementary payment to owners	-	-	-	-	-	-	-	-491	-491
Foreign currency translation adjustments	-17	13	4	-	-	-	-	-	-
Total transactions with owners	-3	-5	663	500	-500	-	-	-491	164
Equity as at 31 December 2012	8,151	835	1,628	969	-	-252	-50	1,112	12,393

Distribution of net profit

(DKKm)	2013	2012
Net profit for the year	2,219	2,019

Proposed distribution of net profit:

Supplementary payment for milk	882	1,096
Interest on contributed capital	18	16
Supplementary payment, total	900	1,112

Transferred to equity:

Capital account	18	155
Reserve for special purposes	978	469
Contributed capital	323	283
Transferred to equity, total	1,319	907

Distributed profit, total	2,219	2,019
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Cash Flow Statement for the Parent Company 1 January - 31 December

(DKKm)	NOTE	2013	2012
Earnings before interest and tax (EBIT)		2,219	2,019
Depreciation, amortisation and impairment losses		777	750
Change in working capital		-216	1,074
Other operating items without cash impact		139	-2
Dividends received		606	212
Interest paid		-344	-259
Interest received		376	419
Tax paid		-49	-62
Total cash flow from operating activities		3,508	4,151
Investment in intangible assets	3.1	-202	-79
Investment in property, plant and equipment	3.2	-1,048	-827
Sale of property, plant and equipment	3.2	25	-
Total cash flow from operational investing activities		-1,225	-906
Investment in financial assets		-1,330	-883
Sale of financial assets		0	97
Acquisition of companies	3.4	0	-2,176
Total cash flow from financial investing activities		-1,330	-3,868
Total free cash flow		953	283
Supplementary payment regarding the previous financial year		-1,126	-491
Paid out from equity regarding terminated member contracts		-51	-37
Paid-in funds from new owners		396	-
Loans obtained, net		-1,047	428
Change in current liabilities		891	-154
Net change in marketable securities		-3	10
Total cash flow from financing activities		-940	-244
Cash as at 1 January		39	-
Foreign currency translation adjustments of cash		-	-
Cash as at 31 December		52	39

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Accounting policies

In accordance with the consolidated financial statements, the parent company supplements the accounting policies in the following areas.

Dividends from subsidiaries and associates

Dividends from subsidiaries and associates are recognized in the income statement.

Participating interests in subsidiaries and associates

Participating interests in subsidiaries and associates are measured at cost. If there are indications of impairment, an impairment test is performed. If the carrying amount exceeds the recoverable amount, it will be written down to the recoverable amount. Distribution of profits in the enterprises are recognized as income in the statement of income. If more than the enterprise's comprehensive income for the period is distributed, an impairment test will be performed. When distributing reserves other than earned profits in enterprises, this distribution reduces equity investments if the distribution is in the nature of a repayment of the parent company's investment.

Subordinated loans to subsidiaries

Subordinated loans to subsidiaries are measured at amortised cost. Foreign exchange rate adjustments to the rate at the reporting date are recognized as financial income/cost.

New IFRS standards

A number of new standards and interpretations not mandatory for Arla Foods amba when the 2013 Annual Report was prepared have been disseminated. None of them is expected to have any major effect on the presentation of accounts for the parent company.

Note 1. Costs

NOTE 1.1 PRODUCTION COSTS

(DKKm)

	2013	2012
Production costs	-41,679	-32,326
Research and development costs	-138	-118
Sales and distribution costs	-2,455	-2,790
Administration costs	-990	-915
Total function costs	-45,262	-36,149

of this:

Cost of raw milk	-26,901	-19,127
Staff costs	-2,738	-2,607
Depreciation, amortisation and impairment	-777	-750
Other costs	-14,846	-13,665
Total function costs	-45,262	-36,149

NOTE 1.2 STAFF COSTS

(DKKm)

	2013	2012
Wages, salaries and remuneration	-2,507	-2,360
Pensions	-218	-215
Other social security costs	-13	-32
Total staff costs	-2,738	-2,607

Staff costs relate to:

Production costs	-1,905	-1,864
Research and development costs	-40	-34
Sales and distribution costs	-272	-270
Administration costs	-521	-439
Total staff costs	-2,738	-2,607

Average number of full time employees	5,590	5,572
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NOTE 1.3 DEPRECIATION, AMORTISATION AND IMPAIRMENT ON NON-CURRENT ASSETS

(DKKm)

	2013	2012
Depreciation, amortisation and impairment		
Intangible assets, amortisation	-119	-119
Property, plant and equipment, depreciation	-632	-587
Property, plant and equipment, impairment	-26	-44
Total depreciation, amortisation and impairment	-777	-750

Depreciation/amortisation and impairment relate to:

Production costs	-642	-640
Research and development costs	-5	-4
Sales and distribution costs	-11	-10
Administration costs	-119	-96
Total depreciation, amortisation and impairment	-777	-750

Note 2. Working Capital

NOTE 2.1 INVENTORY 2013 2012 (DKKm)

Inventory, gross	2,243	1,934
Write-downs	-75	-49
Total inventory	2,168	1,885

Raw materials and consumables	762	673
Work in progress	439	323
Finished goods and goods for resale	967	889
Total inventory	2,168	1,885

NOTE 2.2 TRADE RECEIVABLES 2013 2012 (DKKm)

Trade receivables before provision for bad debts	1,476	1,468
Write-downs for bad debts	-26	-22
Total trade receivables, net	1,450	1,446

Write-down for bad debts, 1 January	22	28
New provisions	4	-
Reversed provisions	-	-6
Write-down for bad debts, 31 December	26	22

Note 3. Other operating assets and other operating liabilities

NOTE 3.1 INTANGIBLE ASSETS - IT DEVELOPMENT 2013 2012 (DKKm)

Cost as at 1 January	1,171	1,107
Additions	202	79
Disposals	-261	-15
Cost as at 31 December	1,112	1,171

Amortisation and impairment losses as at 1 January	-819	-730
Amortisation for the year	-119	-101
Amortisation of disposals	261	12
Amortisation and impairment losses as at 31 December	-677	-819
Carrying value as at 31 December	435	352

NOTE 3.2 PROPERTY, PLANT AND EQUIPMENT
(DKKm)

	LAND AND BUILDINGS	PLANT AND MACHINERY	FIXTURE AND FITTING, TOOLS AND EQUIPMENT	ASSETS IN COURSE OF CONSTRUCTION	TOTAL
2013					
Cost as at 1 January	2,804	5,947	290	389	9,430
Additions	1	58	27	962	1,048
Transferred from assets in course of construction	135	715	30	-880	-
Disposals	-121	-55	-6	-	-182
Cost as at 31 December	2,819	6,665	341	471	10,296
Depreciation and impairment losses as at 1 January	-1,464	-3,616	-194	-	-5,274
Depreciation for the year	-122	-467	-43	-	-632
Impairment losses for the year	-1	-25	-	-	-26
Depreciation of disposals	85	82	8	-	175
Depreciation and impairment losses as at 31 December	-1,502	-4,026	-229	-	-5,757
Carrying value as at 31 December	1,317	2,639	112	471	4,539
Of which assets held under finance lease	66	40	-	-	106

2012

Cost as at 1 January	2,669	5,710	250	356	8,985
Additions	-	-	-	827	827
Transferred from assets in course of construction	135	617	42	-794	-
Disposals	-	-380	-2	-	-382
Cost as at 31 December	2,804	5,947	290	389	9,430
Depreciation and impairment losses as at 1 January	-1,345	-3,503	-163	-	-5,011
Depreciation for the year	-117	-437	-33	-	-587
Impairment losses for the year	-2	-42	-	-	-44
Depreciation of disposals	-	366	2	-	368
Depreciation and impairment losses as at 31 December	-1,464	-3,616	-194	-	-5,274
Carrying value as at 31 December	1,340	2,331	96	389	4,156
Of which assets held under finance lease	69	43	-	-	112

NOTE 3.3 OTHER NON-CURRENT ASSETS
(DKKm)

	2013		2012	
	SUBORDINATED LOANS TO SUBSIDIARIES	OTHER SECURITIES, ETC.	SUBORDINATED LOANS TO SUBSIDIARIES	OTHER SECURITIES, ETC.
2013				
Cost as at 1 January	6,893	117	5,724	115
Additions	239	1	1,214	16
Disposals	-1,967	-14	-45	-14
Cost as at 31 December	5,165	104	6,893	117
Adjustments as at 1 January	-320	27	-377	19
Exchange rate adjustments	-146	-4	57	4
Other value adjustments	-181	7	-	4
Adjustments as at 31 December	-647	30	-320	27
Carrying amount as at 31 December	4,518	134	6,573	144

NOTE 3.4 BUSINESS COMBINATIONS

Reference to consolidated financial statements.

NOTE 3.5 PROVISIONS

(DKKm)

	2013	2012
Provisions as at 1 January	22	20
New provisions during the year	-	10
Reversals	-	-7
Used during the year	-7	-1
Other provisions as at 31 December	15	22

Note 4. Financial Matters

NOTE 4.1 FINANCIAL ITEMS

(DKKm)

	2013	2012
<i>Financial income:</i>		
Interest cash	1	-
Interest securities	5	15
Dividends from subsidiaries	606	212
Interest from subsidiaries	363	359
Fair value adjustment	6	2
Other financial income	1	13
Total financial income	982	601
<i>Financial expenses:</i>		
Financial expenses for financial instruments measured at amortised cost	-173	-179
Foreign exchange losses (net)	-168	-68
Fair value adjustment	-3	-
Other financial expenses	-	-12
Total financial expenses	-344	-259

NOTE 4.2 NET INTEREST-BEARING DEBT

Note 4.2.a Borrowings	2013	2012
(DKKm)		
<i>Long-term borrowings:</i>		
Issued bonds	1,259	1,309
Mortgage credit institutions	2,577	2,634
Bank borrowings	76	947
Other non-current borrowings	53	62
Total	3,965	4,952
<i>Short-term borrowings:</i>		
Mortgage credit institutions	51	46
Bank borrowings	1,817	1,377
Commercial papers	1,155	549
Other current borrowings	16	16
Total	3,039	1,988
Total long-term and short-term borrowings	7,004	6,940

Note 4.2.b Net interest-bearing debt	2013	2012
(DKKm)		
Securities and cash	-52	-39
Other interest-bearing assets	-1,242	-1,241
Current liabilities	3,039	1,988
Non-current liabilities	3,965	4,952
Net interest-bearing debt	5,710	5,660

Note 4.2.c Net interest-bearing debt, maturity

(DKKm)										
31 December 2013	TOTAL	2014	2015	2016	2017	2018	2019	2020	2021 -2023	AFTER 2023
DKK	2,736	29	86	150	145	135	125	125	591	1,350
EUR	560	560	-	-	-	-	-	-	-	-
SEK	2,414	1,155	-	1,259	-	-	-	-	-	-
Total	5,710	1,744	86	1,409	145	135	125	125	591	1,350
31 December 2012	TOTAL	2013	2014	2015	2016	2017	2018	2019	2020 -2022	AFTER 2022
DKK	3,244	161	84	230	218	216	124	124	516	1,571
EUR	560	-	560	-	-	-	-	-	-	-
SEK	1,856	549	-	-	1,307	-	-	-	-	-
Total	5,660	710	644	230	1,525	216	124	124	516	1,571

NOTE 4.3 LIQUIDITY RESERVES

(DKKm)

	2013	2012
Cash refunds	52	39
Securities (free cash flow)	5	23
Unutilised committed loan facilities	1,858	2,777
Other unutilised loan facilities	3,513	3,939
Total	5,428	6,778

NOTE 4.4 FINANCIAL RISKS

Financial risk management

Financial risks are an inherent part of Arla operating activities and hence, Arla's yearly profit is impacted by the developments in currencies, interest rates and certain types of commodities. Both the Global and national financial and commodity markets remain volatile and thus, it is critical for Arla to have

a well implemented financial risk management system in order to protect farmers against short term market volatilities while at the same time achieving the highest possible milk price. Arla Financial Management is described in the consolidated report on page 87.

Note 4.4.a Currency risks

(DKKm)

	EUR/DKK	USD/DKK*	GBP/DKK	SEK/DKK
Currency risk 31 December 2013				
Applied sensitivity	1%	5%	5%	5%
Impact on profit or loss	-11	-11	16	-6
Impact on equity	-	-48	-47	-8
Currency risk 31 December 2012				
Applied sensitivity	1%	5%	5%	5%
Impact on profit or loss	-14	-14	9	-8
Impact on equity	-	-36	-34	-

*) incl. SAR and AED

The currency risks primarily arise from transaction risks in the form of future commercial payments. Arla risk management policies are described on page 90 in the consolidated group report.

The aggregate currency exposure is composed of all assets and liabilities denominated in foreign currencies, and economic hedged projected cash flows for unrecognized firm commitments, and anticipated transactions.

The sensitivity above presents the impact before tax of a reasonable change in the currency rates. The sensitivity analysis only include currency exposures arising from financial instruments and thus, the analysis does not included the hedged commercial transactions. The applied change in the exchange rate is based on the historical currency fluctuations and the sensitivity analysis assumes unchanged interest rate levels.

Note 4.4.b Interest Rate risk

Arla is exposed to interest-rate risks on borrowings, issued bonds and deposits. The risk management policy is described in the consolidated report on page 91.

Fair value sensitivity

A change in interest rates will impact the fair value of Arla's interest rate derivative instruments and debt instruments measured at either fair value through profit or loss or other comprehensive income.

Cash flow sensitivity

A change in interest rates will impact the interest rate payments on Arla's unhedged floating rate debt.

Note 4.4.c Funding and liquidity risk

Arla manages liquidity risk by ensuring the availability of sufficient operating liquidity and credit facilities for operations. Any major acquisitions or investments are funded separately. Arla Liquidity management is described in the consolidated report on page 88.

The below table shows the maturity analysis for the financial liabilities recognized as at 31 December 2013.

Assumptions:

The contractual cash flows are based on

- the earliest possible date at which Arla can be required to settle the financial liability
- the interest rate cash flows are based on contractual interest rate. Floating interest rate payments have been determined using the current floating rate for each tenure at the reporting date.

Gross financial liabilities

(DKKm)

31 December 2013	CARRYING VALUE	Non-discounted contractual cash flows										
		TOTAL	2014	2015	2016	2017	2018	2019	2020	2021 -2023	AFTER 2023	
Issued bonds	1,259	1,253	-	-	1,253	-	-	-	-	-	-	-
Mortgage credit institutions	2,628	2,688	59	59	126	125	125	125	125	594	1,350	
Credit institutions	3,048	3,045	2,969	19	16	14	10	9	7	1	-	
Interest expenses – interest bearing debt	-	446	113	79	74	20	19	18	16	41	66	
Trade payables etc.	6,713	6,713	6,713	-	-	-	-	-	-	-	-	
Derivative financial instruments	218	390	196	60	46	32	32	22	2	-	-	
Total	13,866	14,535	10,050	217	1,515	191	186	174	150	636	1,416	

31 December 2012	CARRYING VALUE	Non-discounted contractual cash flows									
		TOTAL	2013	2014	2015	2016	2017	2018	2019	2020 -2022	AFTER 2022
Issued bonds	1,310	1,307	-	-	-	1,307	-	-	-	-	-
Mortgage credit institutions	2,680	2,748	54	55	55	124	123	124	126	516	1,571
Credit institutions	3,101	2,993	2,045	580	167	14	162	19	6	-	-
Interest expenses – interest bearing debt	-	709	117	109	106	96	33	31	28	72	115
Trade payables etc.	5,893	5,893	5,893	-	-	-	-	-	-	-	-
Derivative financial instruments	265	462	99	70	59	56	53	60	48	17	-
Total	13,249	14,112	8,208	814	387	1,599	371	234	208	605	1,686

Note 4.4.d Credit risk

Arla's exposure towards credit risk arises from its operating activities and its financial contracts with financial institutions. Arla's risk management policies are described on page 92.

Further information on trade receivables is provided in note 2.2. The maximum exposure to credit risk is approximately equal to the carrying value as at 31 December 2013 and 2012.

NOTE 4.5 TRANSFER OF FINANCIAL ASSETS

Sale and Repurchase arrangements

As 31 December Arla has invested in the mortgage bonds underlying its mortgage debt. The reason for investing in the mortgage bonds is that Arla is able to achieve a lower interest rate than the current market interest rate on mortgage debt by entering into a sale and repurchase agreement on the listed Danish mortgage bonds. The net interest rate

payable by Arla when financing through this kind of sale and repurchase is the interest rate inherent in the sale and repurchase agreement and the contribution to the mortgage institute.

Due to the repurchase agreement the risks and rewards arising from the ownership of the transferred mortgage bonds have been retained by Arla.

The received proceeds have been recognized a repurchase obligation. If Arla is not able to settle the repurchase obligation, the counterparty only has collateral in the transferred mortgage bonds and hence, the counterparty is not able to seek any other form for recourse from Arla.

Transfer of financial assets (DKKm)

	CARRYING VALUE	NOTIONAL VALUE	FAIR VALUE
31 December 2013			
Mortgage bonds	1,237	1,282	1,237
Repurchase obligation	1,234	1,282	1,234
Net position	3	-	3
31 December 2012			
Mortgage bonds	1,235	1,297	1,235
Repurchase obligation	-1,243	-1,297	-1,243
Net position	-8	-	-8

Note 4.6.a Fair value of hedge instruments not qualifying for hedge accounting (economic hedge)

When hedging fair value that does not meet the criteria for hedge accounting, recognition at fair value takes place in the balance sheet and value adjustments are recognized in the income statement as financial items.

Arla uses currency option strategies which are hedging forecast sales and purchases. These option strategies does not qualify for hedge accounting and hence, the fair value adjustment is recognized directly in profit or loss.

Currency swaps are used as part of the daily liquidity management. The objective of the currency swaps is to match the timing of in- and outflow of foreign currency cash flows.

Note 4.6.b Hedging of future cash flows from highly probable forecast transactions

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

(DKKm)	CARRYING VALUE	FAIR VALUE RECOGNIZED IN EQUITY	Expected recognition				
			2014	2015	2016	2017	LATER THAN 2017
2013							
Currency contracts	14	14	14	-	-	-	-
Interest rate contracts	-105	-105	-62	-34	-19	-20	-86
Commodity contracts	-11	-9	-6	-2	-1	-	-
2012							
Currency contracts	26	26	26	-	-	-	-
Interest rate contracts	-265	-265	-55	-55	-46	-23	-86
Commodity contracts	-12	-12	-12	0	-	-	-

Note 4.6.c Categories of financial instruments

The carrying value of financial instruments per category is specified in the below table.

(DKKm)	2013	2012
Available for sale financial assets	1,242	1,239
Loans and receivables	7,339	7,195
Financial assets measured at fair value through profit or loss	249	255
Financial liabilities measured at fair value through profit or loss	218	265
Financial liabilities measured at amortised cost	13,648	12,984

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

Note 4.6.d Fair value hierarchy

The table below shows the classification of financial instruments that are measured at fair value according to the following fair value hierarchy:

Level 1: Fair values measured using unadjusted quoted prices in an active market.
Level 2: Fair values measured using valuation techniques and observable market data.

Level 3: Fair values measured using valuation techniques and observable as well a significant non-observable market data.

(DKKm)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
31 December 2013				
<i>Financial assets</i>				
Bonds	1,242	-	-	1,242
Shares	31	-	-	31
Derivatives	-	161	-	161
Total financial assets	1,273	161	-	1,434
<i>Financial liabilities</i>				
Issued bonds	-	1,309	-	1,309
Mortgage credit institutions	2,628	-	-	2,628
Derivatives	-	218	-	218
Total financial liabilities	2,628	1,527	-	4,155
31 December 2012				
<i>Financial assets</i>				
Bonds	1,239	-	-	1,239
Shares	23	-	-	23
Derivatives	-	230	-	230
Total financial assets	1,262	230	-	1,492
<i>Financial liabilities</i>				
Issued bonds	-	-	-	-
Mortgage credit institutions	2,690	-	-	2,690
Derivatives	-	265	-	265
Total financial liabilities	2,690	265	-	2,955

Methods and assumptions applied when measuring fair values of financial instruments

Bonds and shares

The fair value is determined using the quoted prices in an active market.

Non-option derivatives

The fair value is calculated using discounted cash flows models and observable market data. The fair value is determined as a termination price and hence, the value is not adjusted for credit risks.

Option instruments

The fair value is calculated using option models and observable market data, such as option volatilities. The fair value is determined as a termination price and hence, the value is not adjusted for credit risks.

Note 5. Other Areas

NOTE 5.1 TAX 2013 2012 (DKKm)

Tax in the income statement

Tax on taxable equity	-66	-49
Adjustments regarding previous years, actual tax	0	-5
Total cooperative tax	-66	-54

Calculation of effective tax rate

Statutory Danish income tax rate	25%	25%
Adjustment for cooperative tax	-22%	-23%
Effective tax rate	3%	2%

NOTE 5.2 FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES 2013 2012 (DKKm)

KPMG

Statutory audit	-3	-3
Other assurance engagements	0	0
Tax assistance	-5	-4
Other services	-7	-8
Total fees to auditors	-15	-15

NOTE 5.3 MANAGEMENT REMUNERATION AND TRANSACTIONS

Remuneration for the Executive Board is proposed by the chairmanship and approved by the Board of Directors. Remuneration for the Board of Directors is approved by the Board of Representatives. Remuneration is negotiated on an annual basis.

The Board of Directors and Executive Board exercise a significant influence. Members of the Board of Directors are paid for milk supplies to Arla Foods a.m.b.a on equal terms with other members of the company.

Note 5.3.a Management remuneration

Reference to consolidated financial statements.

Note 5.3.b Transactions with the Board of Directors

Board of Directors	2013	2012
(DKKm)		
Purchase of goods	89	85
Supplementary payments received regarding previous years	4	2
Trade payables	9	7
Member accounts	8	8

NOTE 5.4 CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIES

	2013	2012
(DKKm)		
Surety and guarantee commitments	7,784	8,528
Operating rent commitments	268	265
0-1 year	52	27
1-5 years	91	86
Over 5 years	126	152
Operating lease commitments	124	141
0-1 year	54	57
1-5 years	68	81
Over 5 years	2	3
Commitments in relation to agreements on the purchase of intangible assets	53	115
Commitments in relation to agreements on the purchase of property, plant and equipment	444	646

The company is party to a small number of lawsuits, disputes, etc. The management believes that the outcome of these lawsuits will not significantly impact the company's financial position beyond what is recognized in the balance sheet and/or disclosed in the annual report.

NOTE 5.5 CO-OPERATIVE MEMBER'S LIABILITY

No co-operative members are personally liable for the parent company's obligations.