

Arla Foods Finance A/S

Sønderhøj 14

8260 Viby J

CVR No. 89622816

Annual Report 2022

The Annual Report was presented and approved at the Annual General Meeting of the Company on 22 June 2023

Jesper Blauenfeldt
Chairman

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Management's Statement

Today, Management has considered and approved the Annual Report of Arla Foods Finance A/S for the financial year 1 January 2022 - 31 December 2022.

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 2022 and of the results of the Company's operations for the financial year 1 January 2022 - 31 December 2022.

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 approved at the Annual General Meeting.

Aarhus, 22 June 2023

Executive Board

Jesper Mellemkjær

Board of Directors

Peder Tuborgh
Chairman

John Duus Andresen

Torben Dahl Nyholm

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 2022 - 31 December 2022, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. 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 2022 and of the results of the Company's operations for the financial year 1 January 2022 - 31 December 2022 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 the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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.

Independent Auditor's Report

- * Obtain an understanding of internal control relevant to the audit 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.
- * 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 the 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 Statement Act. We did not identify any material misstatement of the Management's review.

Aarhus, 22 June 2023

EY Godkendt Revisionspartnerselskab

CVR-no. 30700228

Henrik Kronborg Iversen
State Authorised Public Accountant
mne24687

Jan Krarup Mortensen
State Authorised Public Accountant
mne40030

Arla Foods Finance A/S

Company details

Company	Arla Foods Finance A/S Sønderhøj 14 8260 Viby J
Telephone	89381000
CVR No.	89622816
Registered office	Aarhus
Board of Directors	Peder Tuborgh John Duus Andresen Torben Dahl Nyholm
Executive Board	Jesper Mellemkjær
Auditors	EY Godkendt Revisionspartnerselskab Værkmestergade 25 8000 Aarhus C CVR-no.: 30700228

Management's Review

The Company's principal activities

The Group's overall liquidity and currency management is handled via Arla Foods Finance A/S. 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 the financial situation

The Company's Income Statement of the financial year 1 January 2022 - 31 December 2022 shows a result of kDKK -12.796 and the Balance Sheet at 31 December 2022 a balance sheet total of kDKK 12.496.011 and an equity of kDKK 519.393. The profit before tax and unrealised fair value adjustment amounts to 6,9 mDKK which is in line with the expectations for the year.

During 2022, the Arla Group restructured its internal interest rate hedging arrangements previously held centrally in Arla Foods Finance A/S. The restructuring was performed to simplify treasury operations and to create a more direct connection between interest bearing debt and hedging on a legal entity-by-entity level. The restructuring had no net effect on the income statement of Arla Foods Finance A/S, as the effect of closing the interest rate swaps held centrally in Arla Foods Finance A/S was allocated to the relevant group entities. The restructuring affected balance sheet and equity by -27 mDKK as the effect of closing the interest rate swaps held centrally in Arla Foods Finance A/S dissolved the hedging reserve and any derivative in the balance sheet as part of the allocation to the relevant group entities.

Risks

The Company is exposed to currency risk from interest rate payments and the loan and liquidity portfolio. Currency risk on the loan portfolio is hedged by entering into derivatives that converts funding currencies into the needed currencies to make sure that assets and liabilities matches. Furthermore, the Company is exposed to interest rate risk. Interest rate risk is hedged by matching an external exposure with an offsetting internal exposure for both funding activities and derivatives which reduces net exposure.

Expectations for the future

The Company expects a profit before tax and unrealised fair value adjustments in the range of 4 and 9 mDKK for the coming year as the activity is expected to be on the same level.

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.

Key Figures and Financial Ratios

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

kDKK

	2022	2021	2020	2019	2018
Net financial income and costs	10.750	-6.290	9.169	-30.450	-1.053
Profit for the year	-12.796	-19.493	-2.553	-26.740	1.163
Total assets	12.496.011	12.520.953	12.850.144	13.633.906	12.238.446
Total equity	519.393	555.073	383.715	409.701	470.826
Return on equity (ROE) (%)	-2,38	-4,15	-0,64	-6,07	0,25
Solvency ratio (%)	4,16	4,43	2,99	3,01	3,85

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines.

Return on equity (%):

Profit/loss for the year X 100 / Avg. 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 2022 has been presented in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

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

The accounting policies applied remain unchanged from last year.

Consolidated Financial Statements

With reference to § 112 (1) of the Danish Financial Statements Act, no Consolidated Financial Statement have been prepared because the Group enterprises are subsidiaries of a higher-ranking group.

Reporting currency

The Annual Report is presented in thousand Danish kroner.

Foreign currency translation

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 under Financial Income and 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.

If the forecast transaction results in income or costs, amounts previously recognised in equity are transferred to the income statement in the period in which the hedged item affects the income statement.

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 transaction that was being hedged is realised, the accumulated gain or loss is 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 based on the amounts that concern the financial year. Financial income and costs include interest revenue and expenses, realised and unrealised capital gains and losses regarding securities, transactions in foreign currencies, and surcharges and allowances under the tax prepayment scheme.

Other external costs

Other external costs include costs regarding administration.

Income from investments in subsidiaries

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

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

Balance Sheet

Investments in subsidiaries

Equity investments in subsidiaries are measured according to the equity method, which is considered a measurement method.

Investments in subsidiaries are measured in the balance sheet at the proportionate share of the equity value of the subsidiary, 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 kDKK 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.

Impairment of accounts receivables past due is established on individual assessment of receivables.

Accounting Policies

Other receivables

Other receivables mainly consists of derivative financial instruments. Derivative financial instruments are recognised from the trade date and measured in the financial statement at fair value. Positive and negative fair values of derivative financial instruments are recognised in the balance sheet. Changes in the fair value of derivative financial instruments which meet the criteria for hedging the fair value of recognised assets and liabilities, are recognised alongside changes in the value of the hedged asset or the hedged liability for the portion that is hedged. Changes in the fair value of derivative financial instruments, that are classified as hedges of future cash flows and effectively hedge changes in future cash flows, are recognised in equity as a reserve for hedging transactions, until the hedged cash flows impact the income statement. For derivative financial instruments that do not meet the criteria for classification as hedging instruments, changes in fair value are recognised as they occur in the income statement, under financial income and costs.

Other securities and equity investments recognised in current assets

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand as well as short-term securities with a term of less than three months which can be converted directly into cash at bank and in hand and involve only an insignificant risk of value changes.

Equity

Equity comprises the working capital and a number of equity items that may be statutory or stipulated in the articles of association.

Hedging reserve

The hedging reserve comprises the cumulative net change in the fair value of hedging transaction that qualify for recognition as a cash flow hedge and where the hedged transaction has not been realised. The reserve is dissolved when the hedged transaction is realised, if the hedged cash flows are no longer expected to be realised or if the hedging relationship is no longer effective. The reserve does not represent a limitation under company law and may therefore be negative.

Deferred tax

Deferred tax and the associated adjustments for the year are determined according to the balance-sheet liability method as the tax base of all temporary differences between carrying amounts and the tax bases of assets and liabilities.

Deferred tax assets, including the tax base of tax losses allowed for carryforward, are recognised at the value at which they are expected to be used, either by elimination in tax on future earnings or by set-off against deferred tax liabilities in enterprises within the same legal entity and jurisdiction.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Current tax assets and liabilities

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 tax.

Accounting Policies

Liabilities

Financial liabilities such as bond issue, mortgage loans and loans from credit institutions are recognised initially at the proceeds received net of transactions expenses incurred. In subsequent periods, financial liabilities are measured at amortised cost, so that the difference between proceeds and the nominal value is recognised in the Income Statement as interest costs over the life of the financial instrument.

Other liabilities comprising, trade payables, other payables and deposits, are measured at amortised cost, which usually corresponds to the nominal value.

Arla Foods Finance A/S

Income Statement

	Note	2022 kDKK	2021 kDKK
Financial income	1	237.826	157.786
Financial costs	2	-227.076	-164.076
Other external costs		-7.735	-4.062
Gross profit/loss		3.015	-10.352
Income from investments in subsidiaries		-356	-294
Profit/loss before tax		2.659	-10.646
Tax	3	-15.455	-8.847
Profit/loss for the year		-12.796	-19.493
Proposed distribution of results	4		
Retained earnings		-12.796	-19.493
Distribution of profit/loss		-12.796	-19.493

Balance Sheet as of 31 December

	Note	2022 kDKK	2021 kDKK
Assets			
Investments in subsidiaries	5, 6	6.642	6.998
Long-term receivables from group companies		978.730	0
Investments		985.372	6.998
Non-current assets			
		985.372	6.998
Receivables from group companies		9.260.333	10.256.363
Current tax		13.033	0
Other receivables		525.251	479.533
Receivables		9.798.617	10.735.896
Securities and other investments	7	1.701.952	1.757.900
Current investments		1.701.952	1.757.900
Cash and cash equivalents		10.070	20.159
Current assets		11.510.639	12.513.955
Assets		12.496.011	12.520.953

Balance Sheet as of 31 December

	Note	2022 kDKK	2021 kDKK
Liabilities and equity			
Contributed capital		1.000	1.000
Retained earnings		518.393	527.003
Hedging reserve		0	27.070
Equity		519.393	555.073
Deferred tax		1.712	0
Provisions		1.712	0
Loans from credit institutions etc.	8	1.115.460	0
Loans related to issuance of bonds	8	987.464	2.180.145
Long-term liabilities		2.102.924	2.180.145
Loans from credit institutions etc.	8	2.420.827	2.694.703
Loans related to issuance of bonds	8	1.642.987	471.870
Trade payables		101	0
Payables to group companies		5.165.857	6.102.797
Current tax		0	26.828
Other payables		627.210	489.537
Deposits		15.000	0
Short-term liabilities		9.871.982	9.785.735
Liabilities		11.974.906	11.965.880
Liabilities, provisions and equity		12.496.011	12.520.953
Contingent liabilities	9		
Scope and nature of derivative financial instruments	10		
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Statement of changes in Equity

	Contributed capital	Retained earnings	Hedging reserve	Total
Equity 1 January 2022	1.000	527.003	27.070	555.073
Net adjustments of hedging instruments	0	0	-34.706	-34.706
Tax on hedging instruments	0	0	7.636	7.636
Profit (loss)	0	-12.796	0	-12.796
Equity 31 December 2022	1.000	514.207	0	515.207

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

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

Notes

1. Financial income

	2022	2021
	kDKK	kDKK
Financial income from group companies	223.283	141.060
Other financial income	14.543	16.726
	237.826	157.786

2. Financial costs

Financial costs to group companies	87.366	49.978
Other financial costs	139.710	114.098
	227.076	164.076

3. Tax

Current income tax	-4.739	8.509
Adjustment current tax of previous years	18.482	338
Change in deferred tax	1.712	0
	15.455	8.847

4. Distribution of profit

Retained earnings	-12.796	-19.493
	-12.796	-19.493

5. Investments in subsidiaries

Cost at the beginning of the year	21.810	21.810
Cost at the end of the year	21.810	21.810
Fair value adjustments at the beginning of the year	-14.812	-14.518
Adjustments for the year	-356	-294
Fair value adjustments at the end of the year	-15.168	-14.812
Carrying amount at the end of the year	6.642	6.998

6. Disclosure of investments in subsidiaries

Subsidiaries

Name	Registered office	Share held in %	Equity	Profit
Kingdom Food Products ApS	Aarhus	100,00	653	23
Ejendomsanpartsselskabet st. Ravnsbjerg	Aarhus	100,00	5.989	-379
			6.642	-356

Notes

7. Securities and other short-term investments

The Company has repurchase agreements collateralised by bonds with a carrying amount of DKK 1.669 million at 31 December 2022 against DKK 1.723 million at 31 December 2021. The repurchase financing is disclosed as loans.

Other minor securities and short term investments amounting to DKK 33 million at 31 December 2022 against DKK 35 million at 31 December 2021 are also held by the company.

8. Bond issue

	Due after 1 year kDKK	Due within 1 year kDKK	Due after 5 years kDKK
Loans related to issuance of bonds	987.464	1.642.987	0
Loans from credit institutions etc.	1.115.460	2.420.827	0
	2.102.924	4.063.814	0

9. Contingent liabilities

Per 31 December 2022 the Company has warranties amounting to DKK 16 million (2021: 34 mDKK).

The company has joint and several tax liability, with other Danish group companies for company taxes. This also includes withholding taxes on dividends, interest and royalties within the group. The total known net tax liability of the jointly taxed companies is shown in the management company's annual accounts of, Arla Foods Holding A/S CVR no 27466052. Any subsequent corrections to co-taxation income and withholding tax etc. could result in the company's liability being higher or lower.

10. Scope and nature of derivative financial instruments

The Company has terminated interest rate swaps related to hedging of future interest rate payments during the year. Hence, the reserve for hedging instruments booked within equity is 0 mDKK as of 31 December 2022.

The Company has entered into interest rate swaps to hedge fair value risk on bond issue. The nominal value amounts to 989 mDKK and the market value amounts to -24 mDKK as of 31 December 2022.

Furthermore, the Company has entered into FX swaps and cross currency swaps to hedge currency risk on the bond issue, loans and internal receivables and payables. The market value amounts to -44 mDKK per 31 December 2022.

Notes

11. Related parties

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

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, 8260 Viby J

Arla Foods Finance A/S has been engaged in transactions with enterprises in the Arla Foods Group participating in the Group cash pool setup.

Parent company	2022	2021
	kDKK	kDKK
Financial income from parent company	0	39.704
Financial costs to parent company	272.614	0
Receivables from parent company	5.856.582	6.092.626
Payables to parent company	205.340	13.868
Other group companies		
Financial income from group companies	5.384	101.356
Financial costs to group companies	511.749	49.978
Receivables from group companies	4.382.484	4.163.737
Payables to group companies	4.960.517	6.088.929

12. Events after the balance sheet date

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