

Arla Foods Ingredients Energy A/S

Sønderhøj 10-12

8260 Viby J

CVR No. 33571836

Annual Report 2019

The Annual Report was presented and approved at the Annual General Meeting of the Company on 22 May 2020

Peter Stenholt Randrup
Chairman

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Management's Statement

Today, Management has considered and approved the Annual Report of Arla Foods Ingredients Energy A/S for the financial year 1 January 2019 - 31 December 2019.

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 2019 and of the results of the Company's operations for the financial year 1 January 2019 - 31 December 2019.

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 May 2020

Executive Board

Mogens Bøgh Pedersen
Manager

Board of Directors

Henrik Højen Andersen
Chairman

Luis Cubel
Member

Klaus Kristiansen
Member

Independent Auditors' Report

To the shareholders of Arla Foods Ingredients Energy A/S

Opinion

We have audited the financial statements of Arla Foods Ingredients Energy A/S for the financial year 1 January 2019 - 31 December 2019, which comprise an 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 2019 and of the results of the Company's operations for the financial year 1 January 2019 - 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibility under those standards and requirements are further described in the "Auditors' responsibility 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's 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 as Management considers 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 either liquidate the Company or suspend operations, or has no realistic alternative but to do so.

The auditor's responsibility for the audit of the financial statements

Our objective is to obtain reasonable assurance as to whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is no guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect material misstatements. 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 taken on the basis of these financial statements.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- * Identify and assess the risk of material misstatements in 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.

Independent Auditors' 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 whether the accounting policies used are appropriate and whether the accounting estimates and the related disclosures made by Management are reasonable.
- * 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 auditors' 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 auditors' 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 which we identify during our audit.

Statement on Management's Review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial 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 can conclude that the Mangement's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatements of the Management's review.

Aarhus, 22 May 2020

Ernst & Young

Godkendt Revisionspartnerselskab

CVR-no. 30700228

Henrik Kronborg Iversen
State Authorised Public Accountant
mne24687

Jan K. Mortensen
State Authorised Public Accountant
mne40030

Arla Foods Ingredients Energy A/S

Company details

Company	Arla Foods Ingredients Energy A/S Sønderhøj 10-12 8260 Viby J
Telephone	89381000
CVR No.	33571836
Board of Directors	Henrik Højen Andersen Luis Cubel Klaus Kristiansen
Executive Board	Mogens Bøgh Pedersen , Manager
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25 8100 Aarhus C CVR-no.: 30700228

Management's Review

The Company's principal activities

The Company owns and produces energy at a combined heat and power station in connection with the ingredient factory Danmark Protein.

Development in activities and financial matters

The Company's Income Statement of the financial year 1 January 2019 - 31 December 2019 shows a result of kDKK -7 and the Balance Sheet at 31 December 2019 a balance sheet total of kDKK 134.398 and an equity of kDKK 917.

Post financial year events

In March 2020 the Covid-19 pandemic began impacting Denmark. Until now the short-term impact has been limited. The long-term impact is highly uncertain at this point in time, however we don't expect the impact to become material.

Accounting Policies

Reporting Class

The Annual Report of Arla Foods Ingredients Energy A/S for 2019 has been presented in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B, with the adoption of individual rules from class C.

Accounting policies has been changed as follows:

The company has opted to change the disclosure of the 2019 statutory accounts from a statement of profit and loss by function to a statement of profit and loss by nature. This aligns with current internal management reporting requirements. Hence, comparatives for 2018 are changed.

Apart from the above mentioned fields, the accounting policies are consistent with those of the previous year.

Reporting currency

The Annual Report is presented in Danish kroner.

Translation policies

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 Expenses.

Income Statement

Gross profit/loss

The Company has decided to aggregate certain items of the Income Statement in accordance with the provisions of Section 32 of the Danish Financial Statements Act.

Gross profit is a combination of the items of revenue, change in inventories of finished goods, work in progress and goods for resale, other operation income, cost of raw and consumables and other external expenses.

Revenue

Revenue consists of the year's invoiced sales of electricity, gas and steam, and is recognised in the income statement at the time of delivery and the transfer of risk, if the revenue can be reliably calculated. Revenue is recognised exclusive VAT, duties and net of sales discounts.

Raw materials and consumables used

Costs for raw materials and consumables comprise the cost of goods purchased less discounts, costs subcontractors and change in inventories for the year.

Other external expenses

Other external costs include costs for distribution, sales, advertising, administration, premises. loss of debtors etc.

Depreciation and impairment of tangible assets

Depreciation and impairment of tangible assets has been performed based on a continuing assessment of the useful life of the assets in the Company. Non-current assets are amortised on a straight line basis, based on cost, on the basis of the following assessment of useful life and residual values.

Other operating expenses

Other operating expenses include items relating to activities secondary to the main activity of the enterprises.

Accounting Policies

Financial income and expenses

Financial income and expenses are recognised in the Income Statement based on the amounts that concern the financial year.

Tax on net profit for the year

Tax on net profit/loss for the year comprises current tax on expected taxable income of the year and the year's adjustment of deferred tax less the part of the tax of the year that relates to changes in equity. Current and deferred tax regarding changes in equity is recognised directly in equity.

The Company and the Danish 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).

Accounting Policies

Balance Sheet

Tangible assets

Tangible assets are measured at cost on initial recognition and subsequently at cost less accumulated depreciation and impairment losses.

The depreciable amount is calculated taking into consideration the residual value of the asset at the end of its useful life, reduced by impairment losses, if any. The depreciation period and the residual value are determined at the data of acquisition. If the residual value exceeds the carrying amount of the asset, depreciation is discontinued.

In case of changes in depreciation period or residual value, the effect of a change in depreciation period is recognised prospectively in accounting estimates.

Cost includes the purchase price and expenses directly related to the acquisition until the time when the asset is ready for use. The cost of self-constructed assets includes costs for materials, components, subcontractors, direct payroll costs and indirect production costs.

The cost of composite asset is disaggregated into components, which are separately depreciated if the useful lives of the individual components differ.

Depreciation is calculated using the straight-line method over the following estimated useful lives of the individual assets and their residual values:

Production buildings:	20-30 years
Combined Heat and Power Station:	4-10 years

Gains or losses arising from the disposal of property, plant and equipment are determined as the difference between the selling price less selling costs and the carrying amounts at the time of sale. Gains or losses are recognised in the income statement as other operating income or other operating expense.

The carrying amounts of property plant and equipment are tested annually to determine whether there is any indication of impairment other than what is expressed by amortisation and depreciation. If so, the assets are tested for impairment to determine whether the recoverable amounts are lower than the carrying amounts and the relevant assets are written down to such lower recoverable amounts.

The recoverable amount of an asset is determined as the higher of the net sales price and the value in use. Where the recoverable amount of the individual assets cannot be determined, the assets are grouped together into the smallest group of assets that can be estimated to determine an aggregate reliable recoverable amount for those units.

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.

Liabilities

Liabilities are measured at amortised cost.

Current tax 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 tax prepaid.

Income Statement

	Note	2019 kDKK	2018 kDKK
Revenue		134.124	83.653
Raw materials and cosumables used		-129.068	-79.904
Other external expenses		-2.368	-3.682
Gross profit		2.688	67
Depreciation, amortisation and impairment losses		-2.310	0
Other operating expenses	1	0	-5.549
Operating profit		378	-5.482
Financial income	2	7	10
Financial costs	3	-126	-44
Profit before tax		259	-5.516
Tax	4	-266	1.214
Profit for the year		-7	-4.302
Proposed distribution of results			
Retained earnings		-7	-4.302
Distribution of profit		-7	-4.302

Arla Foods Ingredients Energy A/S

Balance Sheet as of 31 December

	Note	2019 kDKK	2018 kDKK
Assets			
Land and buildings	5	7.879	0
Plant and machinery	6	41.367	0
Asset in course of construction	7	1.514	20.745
Property, plant and equipment		50.760	20.745
Fixed assets		50.760	20.745
Trade receivables		1.393	0
Receivables from group companies		60.360	57.784
Deferred tax		460	22
Current tax		0	1.221
Other receivables		21.425	0
Receivables		83.638	59.027
Current assets		83.638	59.027
Assets		134.398	79.772

Balance Sheet as of 31 December

	Note	2019 kDKK	2018 kDKK
Liabilities and equity			
Contributed capital		501	500
Retained earnings		416	-4.076
Equity		917	-3.576
Trade payables		73.033	81.603
Payables to group companies		59.953	3
Current tax		495	0
Other payables		0	1.742
Short-term liabilities		133.481	83.348
Liabilities		133.481	83.348
Liabilities and equity		134.398	79.772
Contingent liabilities	8		
Related parties	9		

Arla Foods Ingredients Energy A/S

Statement of changes in Equity

	Contributed capital	Retained earnings	Total
Equity 1 January 2019	500	-4.076	-3.576
Increase of capital	1	4.499	4.500
Profit (loss)	0	-7	-7
Equity 31 December 2019	501	416	917

The share capital is divided into shares of DKK 1.000 or multiples thereof. The share capital is increased with 1 kDKK in 2019. Except for this change the share capital has remained unchanged for the last 5 years.

Notes

1. Other operating expenses

Other operating expenses relate to the repayment of the public grants for energy production for the period 2013-2017. The amount was repaid after deciding that the amount was overcompensated.

	2019	2018
	kDKK	kDKK
2. Finance income		
Financial income from group companies	0	10
Financial income	<u>7</u>	<u>0</u>
	7	10
3. Financial costs		
Financial costs from group companies	126	0
Financial costs	<u>0</u>	<u>44</u>
	126	44
4. Tax		
Current tax for this Year	495	-1.221
Adjustment of tax regarding previous years	209	0
Adjustment of deferred tax	<u>-438</u>	<u>7</u>
	266	-1.214
5. Land and buildings		
Transfers from asset in course of construction	<u>8.011</u>	<u>0</u>
Cost at 31 December	8.011	0
Depreciation for the year	<u>-132</u>	<u>0</u>
Depreciation and impairments at 31 December	-132	0
Carrying amount at 31 December	7.879	0
6. Plant and machinery		
Cost at 1 January	1.000	1.000
Disposal during the year	-1.000	0
Transfers from asset in course of construction	<u>43.545</u>	<u>0</u>
Cost at 31 December	43.545	1.000
Depreciation and impairments at 1 January	-1.000	-1.000
Depreciation for the year	-2.178	0
Reversal of depreciation of disposed assets	<u>1.000</u>	<u>0</u>
Depreciation and impairments at 31 December	-2.178	-1.000
Carrying amount at 31 December	41.367	0

Notes

7. Asset in course of construction

Cost at 1 January	20.745	0
Addition during the year, incl. improvements	32.325	20.745
Transfers during the year	-51.556	0
Cost at 31 December	1.514	20.745
Carrying amount at 31 December	1.514	20.745

8. Contingent liabilities

The company is jointly and severally liable for the Danish corporation tax with the other jointly taxed companies and withholding taxes within the joint taxation.

No contingent liabilities exist at the balance sheet date.

9. Related parties

Consolidated financial statements:

The Company is a wholly owned subsidiary of Arla Foods Ingredients Group P/S, Viby J and is included in the consolidated financial statements of Arla Foods Amba. The consolidated financial statements can be obtained at the following address: Arla Foods Amba, Sønderhøj 14, 8260 Viby J.