

AF A/S

Sønderhøj 14,

8260 Viby J

CVR No. 49649428

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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AF A/S

Management's Statement

Today, Management has considered and approved the Annual Report of AF 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

Lars Jepsen

Board of directors

Peder Tuborgh
Chairman

John Duus Andresen

Independent Auditor's Report

To the shareholders of AF A/S

Opinion

We have audited the financial statements of AF 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 operations for the financial year 1 January 2019 - 31 December 2019 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 responsibility under those standards and requirements are further described in our auditors' report under "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 the 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 to cease operations, or has no realistic alternative but to do so.

The auditor's responsibility 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 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 May 2020

Ernst & Young

Godkendt Revisionspartnerselskab

CVR-no. 30700228

Henrik Kronborg Iversen
State Authorised Public Accountant
mne24687

Jan Krarup Mortensen
State Authorised Public Accountant
mne40030

AF A/S

Company details

Company	AF A/S Sønderhøj 14, 8260 Viby J
CVR No.	49649428
Registered office	Aarhus
Board of directors	Peder Tuborgh, Chairman John Duus Andresen
Executive Board	Lars Jepsen
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25 8000 Aarhus C CVR-no.: 30700228

Management's Review

The Company's principal activities

The Company acts as a holding-company for a couple of the Arla Food Group companies. Except from this, the company has no business activities.

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 -36.798 and the Balance Sheet at 31 December 2019 a balance sheet total of kDKK 632.058 and an equity of kDKK 595.250. The result of kDKK -36.798 is below the expectations and is driven by a lower income from investments in subsidiaries.

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.

Expectations for the future

The profit before tax and income from investments in subsidiaries is expected to fall within a range of -1 to 0 mDKK for the coming year.

Key Figures and Financial Ratios

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

Numbers below appear in DKK millions

	2019	2018	2017	2016	2015
Operating profit	0	0	0	-4	-1
Financial income/costs, net	-37	-14	83	944	84
Profit/loss for the year	-37	-12	83	948	84
Total assets	632	698	1.344	2.050	1.170
Total equity	595	666	679	1.365	491
Return on equity (%)	-6,02	-1,79	8,15	102,16	18,52
Return on capital employed (%)	0	0	0	-0,25	-0,09
Solvency ratio (%)	94,17	95,42	50,53	66,59	41,97

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

Return on capital employed (%) = Operating profit X 100 / Avg. assets

Solvency ratio (%) = Total equity X 100 / Total liabilities

Accounting Policies

Reporting Class

The Annual Report of AF A/S for 2019 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.

Changed accounting policies

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.

Consolidated Financial Statements

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

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

Other external costs

Other external costs include costs for management and 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.

Financial income and costs

Financial income and costs consist of interests and 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 entities are taxed jointly. The Danish income tax is distributed between profit- and loss-making Danish entities in relation to their taxable income (full distribution).

AF A/S

Accounting Policies

Balance Sheet

Investments in subsidiaries

Investments in subsidiaries are recognized in the balance sheet at the proportionate share of the equity value of the enterprises, calculated according to the parents accounting policies with the deduction or addition of unrealised intercompany profits or losses.

Equity

The accumulated fair value adjustment under investment in subsidiaries are showed as a "reserve for net revaluation according to equity method" under equity. The reserve is reduced with dividends from subsidiaries and is adjusted with other equity movements in the subsidiaries.

Current tax receivable

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.

Liabilities

Liabilities are measured at amortised cost.

Income Statement

	Note	2019 kDKK	2018 kDKK
Other external costs		-26	-169
Gross profit		-26	-169
Income from investments in subsidiaries		-36.239	-10.636
Other financial income		0	581
Financial costs	1	-348	-4.109
Profit before tax		-36.613	-14.333
Tax	2	-185	2.290
Profit for the year		-36.798	-12.043
Proposed distribution of results	3		
Reserve for net revaluation according to equity method		-36.239	-10.636
Retained earnings		-559	-1.407
Distribution of profit		-36.798	-12.043

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Balance Sheet as of 31 December

	Note	2019 kDKK	2018 kDKK
Assets			
Investments in subsidiaries	4, 5	631.976	697.600
Investments		631.976	697.600
Non-current assets		631.976	697.600
Joint taxation receivables		82	814
Receivables		82	814
Current assets		82	814
Assets		632.058	698.414

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Balance Sheet as of 31 December

	Note	2019 kDKK	2018 kDKK
Liabilities and equity			
Contributed capital		20.000	20.000
Reserve for net revaluation according to equity method		388.237	458.861
Retained earnings		187.013	187.572
Equity		595.250	666.433
Payables to group companies		36.808	31.981
Long-term liabilities		36.808	31.981
Liabilities		36.808	31.981
Liabilities and equity		632.058	698.414
Contingent liabilities	6		
Deferred tax assets and liabilities	7		

Statement of changes in Equity
kDKK

	Contributed capital	Reserve for net re- valuation ac- cording to equity method	Retained earnings	Total
Equity 1 January 2019	20.000	458.861	187.572	666.433
Net adjustments of hedging instruments	0	-44.084	0	-44.084
Tax on hedge instruments	0	9.699	0	9.699
Profit (loss)	0	-36.239	-559	-36.798
Equity 31 December 2019	20.000	388.237	187.013	595.250

The Company's share capital is kDKK 20,000 divided into shares of kDKK 1 or any multiple thereof.

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

Notes

	2019 kDKK	2018 kDKK
1. Financial costs		
Financial costs regarding group companies	348	4.109
	348	4.109
2. Tax		
Current tax	-82	-813
Current tax, previous years	267	-1.477
	185	-2.290
3. Distribution of profit		
Reserve for net revaluation according to equity method	-36.239	-10.636
Retained earnings	-559	-1.407
	-36.798	-12.043
4. Investments in subsidiaries		
Cost at the beginning of the year	122.731	122.731
Addition during the year	5.000	0
Cost at the end of the year	127.731	122.731
Value adjustments at the beginning of the year	574.869	586.294
Adjustment of hedge instruments	-34.385	-789
Profit for the year	-36.239	-10.636
Value adjustments at the end of the year	504.245	574.869
Carrying amount at the end of the year	631.976	697.600

5. Disclosure of investments in subsidiaries*Subsidiaries*

Name	Registered office	Share held in %
Arla Foods Finance A/S	Aarhus	100,00
- Kingdom Foods Products ApS	Aarhus	100,00
- Ejendomsanpartsselskabet St.	Aarhus	100,00
Arla Foods Trading A/S	Aarhus	100,00
Arla Insurance Company Ltd.	Guernsey	100,00
Arla Foods Energy A/S	Aarhus	100,00

6. Contingent liabilities

No contingent liabilities exist at the balance sheet date.

Notes

7. Deferred tax assets and liabilities

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.

At 31.12.2019 the company has a unrecognised tax asset of kDKK 4.380 due to uncertainty about when it can be used.

8. Related parties

AF A/S related parties are the company's management and other companies in the Arla Foods Group.

Group annual report:

The Company is a wholly-owned subsidiary of Arla Foods Holding 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 adress: Arla Foods Amba, Sønderhøj 14, 8260 Viby J.

The company's transactions with related parties:

Consolidated	2019	2018
	kDKK	kDKK
Interest on intercompany loans at	348	4.109
Payables to group companies	36.808	31.981
Parent company		
Other internal cost recharges	25	19