

Arla Foods Energy A/S

Sønderhøj 14

8260 Viby J

CVR No. 87469816

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

Arla Foods Energy A/S

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Arla Foods Energy A/S

Management's Statement

Today, Management has considered and approved the Annual Report of Arla Foods 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

Carsten Just Andersen
Director

Board of Directors

John Duus Andresen
Chairman

Lars Jepsen

Joris Andersen

Independent Auditors' Report

To the shareholders of Arla Foods Energy A/S

Opinion

We have audited the financial statements of Arla Foods 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 represents 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, 22-05-2020

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 Energy A/S

Company details

Company	Arla Foods Energy A/S Sønderhøj 14 8260 Viby J
Telephone	89381000
CVR No.	87469816
Board of Directors	John Duus Andresen, Chairman Lars Jepsen Joris Andersen
Executive Board	Carsten Just Andersen, Director
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 eight combined heat and power stations in connection with eight of Arla Foods a/s's factories.

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 317 and the Balance Sheet at 31 December 2019 a balance sheet total of kDKK 272.878 and an equity of kDKK -1.982. The result is in line with the expectations for the year.

Capital losses

Management is aware that the company has lost more than 50% of the company's capital and is therefor covered by the Danish Companies Act §119. Equity is expected to be re-established through a capital injection from the owner company, and it is the management's opinion that the annual report can be completed with continued operation in mind.

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 Company expects a positive result before tax between 500 and 600 kDKK for the coming year.

Financial highlights

kDKK

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

	2019	2018	2017	2016	2015
Revenue	417.506	346.908	249.149	175.097	145.722
Operating profit/loss	901	-19.115	6.038	26.441	542
Financial costs	-526	-1.151	-1.429	-562	-236
Profit/loss for the year	317	-18.225	6.809	20.514	-521
Total assets	272.878	260.036	230.130	242.626	43.313
Total equity	-1.982	-5.299	12.926	26.117	5.603
Profit margin (%)	0,22	-5,51	2,42	15,10	0,37
Return on capital employed (%)	0,34	-7,80	2,55	18,71	1,42
Solvency ratio (%)	-0,73	-2,04	5,62	10,76	12,94
Return on equity (ROE) (%)	-8,71	-477,91	34,88	129,34	-8,89

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

Profit margin (%) = Operating profit/loss X 100 / Revenue

Return on capital employed (%) = (Operating profit/loss + Financial income) X 100 / avg. assets

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

Return on equity (ROE) (%) = Profit/loss for the year / avg. equity X 100

Accounting Policies

Reporting Class

The Annual Report of Arla Foods Energy 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.

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

Revenue

Revenue consist of this year's invoiced sales of electricity, gas steam and heated water. Revenue is measured inclusive price adjustments, but exclusive. VAT, duties and 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.

Amortisation and impairment of tangible and intangible assets

Depreciation, amortisation and impairment of intangible and 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.

Financial income and costs

Financial income and costs 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

Intangible assets

Intangible assets are measured at cost on initial recognition and subsequently at cost less accumulated amortisation and impairment losses.

Intangible assets are amortised on a straight-line basis over the expected useful life of 3 years.

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:

Properties:	30 years
Fixture, fittings, tools and equipment:	5-12 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 intangible assets and 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. An impairment test is carried out annually of ongoing development projects, whether or not there is any indication of impairment.

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.

Accrued income, assets

Accrued income recognised in assets comprises prepaid costs regarding subsequent financial years.

Accounting Policies

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.

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.

Arla Foods Energy A/S

Income Statement

	Note	2019 kDKK	2018 kDKK
Revenue		417.506	346.908
Raw materials and cosumables used		-383.057	-304.047
Other external expenses		-20.719	-29.033
Gross profit		13.730	13.828
Depreciation, amortisation and impairment losses		-12.829	-12.192
Other operating expenses	1	0	-20.751
Operating profit		901	-19.115
Financial costs from group companies		-526	-1.139
Other financial costs		0	-12
Profit before tax		375	-20.266
Tax	2	-58	2.041
Profit for the year		317	-18.225
Proposed distribution of results	3		
Retained earnings		317	-18.225
Distribution of profit		317	-18.225

Arla Foods Energy A/S

Balance Sheet as of 31 December

	Note	2019 kDKK	2018 kDKK
Assets			
IT	4	30	64
Intangible assets		30	64
Land and buildings	5	8.879	9.202
Fixtures, fittings, tools and equipment	6	89.176	97.547
Asset in course of construction	7	0	4.101
Property, plant and equipment		98.055	110.850
Non-current assets		98.085	110.914
Trade receivables		5.556	0
Receivables from group companies		142.450	89.352
Current tax		163	5.204
Other receivables		26.624	54.566
Receivables		174.793	149.122
Current assets		174.793	149.122
Assets		272.878	260.036

Arla Foods Energy A/S

Balance Sheet as of 31 December

	Note	2019 kDKK	2018 kDKK
Liabilities and equity			
Contributed capital		501	501
Retained earnings		-2.483	-5.800
Equity		-1.982	-5.299
Deferred tax		2.492	3.163
Provisions		2.492	3.163
Trade payables		141.992	192.420
Payables to group companies		128.478	69.752
Other payables		1.898	0
Short-term liabilities		272.368	262.172
Liabilities		272.368	262.172
Liabilities and equity		272.878	260.036

Contingent liabilities

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Arla Foods Energy A/S

Statement of changes in Equity

kDKK

	Contributed capital	Retained earnings	Total
Equity 1 January 2019	501	-5.800	-5.299
Increase of capital	0	3.000	3.000
Profit (loss)	0	317	317
Equity 31 December 2019	501	-2.483	-1.982

The share capital is divided into shares of DKK 1.000 or multiples thereof.

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. Tax		
Current tax for the year	163	5.204
Adjustment of tax for previous years	-892	0
Adjustment deferred tax for the year	-246	-3.163
Adjustment tax for previous years	917	0
	-58	2.041
3. Distribution of profit		
Retained earnings	317	-18.225
	317	-18.225
4. Intangible assets		
Cost at the beginning of the year	101	101
Cost at the end of the year	101	101
Amortisation and impairment at the beginning of the year	-37	-3
Amortisation for the year	-34	-34
Amortisation and impairment at the end of the year	-71	-37
Carrying amount at the end of the year	30	64
5. Land and buildings		
Cost at the beginning of the year	9.701	9.701
Cost at the end of the year	9.701	9.701
Depreciation and impairment at the beginning of the year	-499	-176
Depreciation for the year	-323	-323
Depreciation and impairment at the end of the year	-822	-499
Carrying amount at the end of the year	8.879	9.202

Notes

	2019 kDKK	2018 kDKK
6. Fixtures, fittings, tools and equipment		
Cost at the beginning of the year	143.782	138.523
Disposal	-22.719	0
Transfers from asset in course of construction	4.101	5.259
Cost at the end of the year	125.164	143.782
Depreciation and impairment at the beginning of the year	-46.235	-34.400
Depreciation for the year	-12.472	-11.835
Depreciation on disposals	22.719	0
Depreciation and impairment at the end of the year	-35.988	-46.235
Carrying amount at the end of the year	89.176	97.547
7. Asset in course of construction		
Cost at the beginning of the year	4.101	5.524
Addition during the year, incl. improvements	0	3.836
Transfers during the year	-4.101	-5.259
Cost at the end of the year	0	4.101
Carrying amount at the end of the year	0	4.101

8. Contingent 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.

No contingent liabilities exist at the balance sheet date.

Notes

9. Related parties

Consolidated financial statements:

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. The consolidated financial statements can be obtained at the following address: Arla Foods Amba, Sønderhøj 14, 8260 Viby J.

Related party transactions:

Consolidated:	2019	2018
	kDKK	kDKK
Sale of goods and services	69.779	0
Interests on intercompany loans	-435	-1.110
Receivables from group companies	13.093	2.031
Payables to group companies	128.796	69.591
Parent company:		
Sale of goods and services	230.318	186.369
Interests on intercompany loans	-91	-128
Receivables from group companies	129.357	87.321
Payables to group companies	58	161
Contributed capital	3.000	0