MANAGEMENT'S 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 and now also the United Kingdom, Belgium and Luxembourg.

Transition to IFRS
Like the Arla Group, Arla Foods amba transitioned to IFRS in 2012. That means that we have changed our accounting policies in a number of areas. The most significant changes include the recognition of investments at cost instead of equity value and the classification of proposed supplementary payments to members as equity until they are approved at the meeting of the Board of Representatives. The comparative figures for 2011, including the opening financial position as at 1 January 2011, have been adjusted accordingly.

Developments of the year
The activity level of Arla Foods amba was high in 2012, which was mostly a result of the 2011 merger with Arla Foods Ingredients amba and the Group's 2012 mergers with Milk Link and Milch-Union Hocheifel (MUH). In connection with these mergers, the former owners of Milk Link and MUH have become members of Arla Foods amba through enterprises in, respectively, the United Kingdom and Germany. Revenue rose by DKK 5.5 billion to a total DKK 37.7 billion in 2012.

In 2012, we sold the subsidiary Arla Foods S.p.Z.o.o., Poland, and our interest in Mengniu Arla Dairy Products Co. at a total profit of DKK 56 million. Mengniu Arla Dairy Products Co. was sold in connection with our COFCO Dairy Holding investment, which has been recognised as an associated enterprise at DKK 1.75 billion. In 2012, positive returns of DKK 39 million were recognised as income.

Distributions from the Danish Dairy Employers' Association (Mejeribrugets Arbejdsgiverforening) have been recognised under other operating income in the amount of DKK 58 million. Additionally, other operating income and other operating costs are affected by financial instruments.

Profit for the year stood at DKK 2.0 billion (DKK 1.4 billion in 2011). The profit is larger than the consolidated result of the group because of dividends paid from Arla Foods Ingredients P/S.

Outlook
The effects of the mergers with Milk Link and MUH will be seen in full in 2013 and activities will therefore increase further. The results for 2013 are expected to be at 2012 levels.

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

INCOME STATEMENT FOR THE PARENT COMPANY

(mDKK)	NOTE	2012	2011
Revenue		37,741	32,225
Production costs	2.1-2.4	-32,326	-27,870
Gross profit		**5,415**	**4,355**
Research and development costs		-118	-102
Sales and distribution costs	2.2,2.4	-2,790	-2,041
Administration costs	2.2,2.4	-915	-1,018
Other operating income		161	22
Other operating costs		-88	-43
Results after tax in joint ventures	4.3	-74	2
Results after tax in associates	4.3	44	-26
Profit from divestments	4.3	66	-
Earnings before interest and tax (EBIT)		**1,701**	**1,149**
Specification:			
Earnings before interest, tax, depreciation and amortisation (EBITDA)		2,433	1,830
Depreciation, amortisation and impairment		-732	-681
Earnings before interest and tax (EBIT)		1,701	1,149
Financial income	5.1	631	553
Financial costs	5.1	-259	-194
Profit before tax		2,073	**1,508**
Tax	6.1	-54	-5
Profit for the year		**2,019**	**1,503**

STATEMENT OF COMPREHENSIVE INCOME FOR THE PARENT COMPANY

(mDKK)	NOTE	2012	2011
Profit for the year		**2,019**	**1,503**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Value adjustment for the year of hedging instruments		27	-270
Foreign exchange adjustments of foreign entities		-47	-3
Other comprehensive income, net of tax		**-20**	**-273**
Total comprehensive income		**1,999**	**1,230**

BALANCE SHEET FOR THE PARENT COMPANY

(mDKK)	NOTE	2012	2011	2011 JANUARY
ASSETS				
Non-current assets				
Intangible assets				
IT development	4.1	352	377	373
Total intangible assets		**352**	**377**	**373**
Property, plant and equipment				
Land and buildings		1,340	1,324	1,439
Plant and machinery		2,331	2,207	2,338
Fixtures and fittings, tools and equipment		96	87	84
Assets in course of construction		389	356	315
Total property, plant and equipment	4.2	**4,156**	**3,974**	**4,176**
Other non-current assets				
Investments in subsidiaries		2,774	2,451	1,868
Subordinated loans for subsidiaries	4.3	6,573	5,347	5,407
Investments in joint ventures		-	92	70
Investments in associates		1,823	85	81
Other securities and investments, etc.	4.3	144	134	131
Total financial assets		**11,314**	**8,109**	**7,557**
Total non-current assets		**15,822**	**12,460**	**12,106**
Current assets				
Total inventories	3.1	1,885	2,123	1,725
Trade receivables	3.2	1,446	1,779	1,093
Amounts owed by subsidiaries		5,749	4,245	3,684
Derivatives		230	118	0
Other receivables		203	99	61
Prepayments		30	38	38
Securities		1,239	1,249	0
Cash at bank and at hand		39	-	6
Total current assets		**10,821**	**9,651**	**6,607**
TOTAL ASSETS		**26,643**	**22,111**	**18,713**

BALANCE SHEET FOR THE PARENT COMPANY

(mDKK)	NOTE	2012	2011	2011 JANUARY
EQUITY AND LIABILITIES				
EQUITY				
Capital account		8,151	7,999	7,059
Delivery-based owner certificates		835	840	892
Profit for the period		1,628	682	233
Reservefund B		0	500	500
Reserve for special purposes		969	0	0
Other reserves		-302	-282	-9
Proposed supplementary payments to members		1,112	491	1,031
Total equity		**12,393**	**10,230**	**9,706**
LIABILITIES				
Non-current liabilities				
Subordinate bond loan	5.3		-	1,000
Issued bonds	5.3	1,310	1,251	-
Mortgage credit institutions	5.3	2,680	2,674	1,796
Credit institutions etc.	5.3	969	612	634
Total non-current liabilities		**4,959**	**4,537**	**3,430**
Current liabilities				
Current portion of non-current liabilities	5.3	150	32	33
Bank loans and overdrafts	5.3	1,982	2,254	995
Trade payables		3,012	2,289	1,943
Amounts owed to asubsidiaries		2,881	1,426	1,949
Derivatives		265	422	0
Current tax		6	14	27
Other payables		850	780	585
Provisions	4.6	22	20	10
Deferred income		123	107	35
Total current liabilities		**9,291**	**7,344**	**5,577**
Total liabilities		**14,250**	**11,881**	**9,007**
TOTAL EQUITY AND LIABILITIES		**26,643**	**22,111**	**18,713**

CHANGES IN EQUITY FOR THE PARENT COMPANY

(mDKK)

	CAPITAL ACCOUNT	DELIVERY-BASED OWNER CERTIFICATES	CONTRIBUTED CAPITAL	RESERVE FOR SPECIAL PURPOSES	RESERVE FUND B EARNINGS	RESERVE FOR VALUE ADJUSTMENT OF HEDGING INSTRUMENTS	RESERVE FOR FOREIGN EXCHANGE ADJUSTMENTS	PROPOSED SUPPLEMENTARY PAYMENTS TO MEMBERS	TOTAL
Equity at 1 January 2012	**7,999**	**840**	**682**	**-**	**500**	**-279**	**-3**	**491**	**10,230**
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**
Issued capital to new members	14		678						692
Payments to members		-18	-19						-37
Transfer				500	-500				
Supplementary payments to members								-491	-491
Exchange rate adjustments	-17	13	4						-
Total transactions with members	**-3**	**-5**	**663**	**500**	**-500**	**-**	**-**	**-491**	**164**
EQUITY AT 31 DECEMBER 2012	**8,151**	**835**	**1,628**	**969**	**-**	**-252**	**-50**	**1,112**	**12,393**

	CAPITAL ACCOUNT	DELIVERY-BASED OWNER CERTIFICATES	CONTRIBUTED CAPITAL	RESERVE FOR SPECIAL PURPOSES	RESERVE FUND B EARNINGS	RESERVE FOR VALUE ADJUSTMENT OF HEDGING INSTRUMENTS	RESERVE FOR FOREIGN EXCHANGE ADJUSTMENTS	PROPOSED SUPPLEMENTARY PAYMENTS TO MEMBERS	TOTAL
Equity at 1 January 2011	**7,059**	**892**	**233**	**-**	**500**	**-9**	**-**	**1,031**	**9,706**
Profit for the year	739		273			-		491	1,503
Other comprehensive income	-					-270	-3		-273
Total comprehensive income	**739**	**-**	**273**	**-**	**-**	**-270**	**-3**	**491**	**1,230**
Issued capital to new members	214		167						381
Payments to members		-54	-2						-56
Supplementary payments to members								-1,031	-1,031
Exchange rate adjustments	(13)	2	11						-
Total transactions with members	**201**	**-52**	**176**	**-**	**-**	**-**	**-**	**-1,031**	**-706**
EQUITY AT 31 DECEMBER 2011	**7,999**	**840**	**682**	**-**	**500**	**-279**	**-3**	**491**	**10,230**

PROFIT APPROPRIATION

(mDKK)	2012	2011
Profit for the year	2,019	1,503
Proposed profit appropriation:		
Supplementary payment for milk	1,096	483
Interest on contributed capital	16	8
Supplementary payment, total	**1,112**	**491**
Transferred to equity:		
Capital account	155	739
Reserve for special purposes	469	-
Contributed capital	283	273
Transferred to equity, total	**907**	**1,012**
Apportioned profit, total	**2,019**	**1,503**

CASH FLOW STATEMENT FOR THE PARENT COMPANY

(mDKK)	NOTE	2012	2011
Cash flows from operating activities:			
Profit for the period		2,019	1,503
Depreciation and impairment		732	681
Share of results in joint ventures and associates		30	26
Change in inventories		238	-396
Change in trade and other receivables		-813	-1,285
Change in provisions		2	10
Change in trade and other payables etc.		2,007	113
Other operating items without cash impact		-2	44
Financial income		-631	-553
Financial costs		259	194
Tax paid	6.2	-62	-33
Total Cash flow from primary activities		**3,779**	**304**
Dividends received, joint ventures and associates		212	0
Interest paid		419	553
Interest received		-259	-194
Total Cash flow from operating activities		**4,151**	**663**
Cash flows from investing activities:			
Investment in intangible fixed assets	4.1	-79	-117
Investment in property, plant and equipment	4.2	-827	-665
Investment in non-current assets	4.3	-883	-63
Sale of other non-current assets	4.3	97	175
Acquisition of enterprises and mergers	4.4	-2,176	-25
Total Cash flow from investing activities		**-3,868**	**-695**
Cash flows from financing activities:			
Supplementary payment regarding the previous financial year		-491	-1,031
Paid out from equity regarding terminated member contracts		-37	-56
Change in non-current liabilities	5.3	428	1,107
Change in current liabilities	5.3	-154	1,258
Net change in marketable securities		10	-1,252
Total Cash flow from financing activities		**-244**	**26**
Change in cash funds		**39**	**-6**
Cash funds at 1 January		0	6
Exchange rate adjustments of cash funds		0	-
Cash funds at year ended		**39**	**0**

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Accounting policies
In accordance with the specified accounting policies for the consolidated financial statements (see Note xx in the Consolidated Financial Statements), the parent company supplements the accounting policies in the following ways.

Dividends from subsidiaries
Dividends from subsidiaries are recognised in the income statement. If there are indications of impairment, an impairment test is performed.

Participating interests in subsidiaries
Participating interests in subsidiaries are measured at cost. If the carrying amount exceeds the recoverable amount, it will be written down to the recoverable amount. Distribution of profits in the enterprises are recognised 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 recognised as financial income/cost.

New IFRS standards
A number of new standards and interpretations not mandatory for Arla Foods Amba when the 2012 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. EFFECT TRANSITION TO IFRS

The accounting effects of the transition to IFRS for the parent company are:

(mDKK)		1 JANUARY 2011 ASSETS	LIABILITIES	EQUITY	PROFIT FOR THE PERIOD 2011	31 DECEMBER 2011 ASSETS	LIABILITIES	EQUITY
In accordance with the Danish Financial Statements Act		18,674	10,094	8,580	1,311	21,602	12,274	9,328
Members leaving	1		-56	56			-20	20
Supplementary payments	2		-1,031	1,031			-491	491
Inventories	3	-25		-25	3	-22		-22
Subsidiaries at cost	4	64		64	65	289		289
Result subsidiaries	4				124	124		124
Total adjustments		**39**	**-1,087**	**1,126**	**127**	**391**	**-511**	**902**
In accordance with IFRS		**18,713**	**9,007**	**9,706**	**1,503**	**22,111**	**11,881**	**10,230**
Other comprehensive income					-273			
TOTAL COMPREHENSIVE INCOME					**1,230**			

1. Expected payments to retired members are presented under equity until approved by the board of representatives.

2. Expected additional payments are regarded as dividends, which in accordance with IAS 1 are classified under equity until approved by the board of representatives.

3. Expected additional payments are regarded as dividends and are therefore not included in the cost price of milk of the inventory.

4. The costs of investments in subsidiaries are set at their intrinsic value as at 1 January 2011. This means that the results and other regulations in 2011 are reversed.

Reclassifications
In addition to the change in accounting policy, the following reclassifications and changes in the presentation form have been implemented with adapted 2011 comparative figures.
- The assets are presented as either non-current or current assets whereas previously they had been classified as property, plant and equipment or current assets.
- Provisions are no longer presented as a separate principal group in the statement of financial position but under non-current and current liabilities.
- Costs related to research and development are reclassified and presented in a separate line in the income statement.
- Under IFRS, investments in financial assets including bonds are classified only as cash and cash equivalents in the cash flow statement if the maturity at the time of acquisition does not exceed three months.

Applied mitigation measures
In connection with the transition to IFRS, the Group has applied the following mitigation measures in IFRS 1:

Borrowing costs
In accordance with IFRS 1, Arla has omitted recognising borrowing costs for qualified assets, if construction was commenced before 1 January 2011.

Business combinations
In accordance with the mitigation options specified in IFRS 1, Arla Foods has decided to implement IFRS 3 prospectively for business combinations executed after the transition date. The carrying value of goodwill as at 1 January 2011 under the Group's previous accounting policy is considered the new cost price for good will in the opening financial position. Value impairment testing of goodwill at the time of transition has not given rise to impairment of the recognised goodwill, since the recoverable amount exceeds the carrying amount of the goodwill.

NOTE 2. COSTS

NOTE 2.1. PRODUCTION COSTS	2012	2011
(mDKK)		
Production costs	-32,326	-27,870
Research and development costs	-118	-102
Sales and distribution costs	-2,790	-2,041
Administration costs	-887	-1,018
Total function costs	**-36,121**	**-31,031**
of this:		
Cost of raw milk	-19,127	-17,634
Staff costs	-2,607	-2,593
Depreciation, amortisation and impairment	-732	-681
Other costs	-13,655	-10,123
Total function costs	**-36,121**	**-31,031**

NOTE 2.2.STAFF COSTS	2012	2011
(mDKK)		
Wages, salaries and remuneration	-2,260	-2,347
Pensions	-215	-213
Other social security costs	-32	-33
Total staff costs	**-2,607**	**-2,593**
Staff costs relate to:		
Production costs	-1,864	-1,900
Research and development	-34	-40
Sales and distribution costs	-270	-249
Administration costs	-439	-404
Total staff costs	**-2,607**	**-2,593**
Average number of full time employees	5,974	5,986

NOTE 2.3. DEPRECIATION, AMORTISATION AND IMPAIRMENT ON NON-CURRENT ASSETS	2012	2011
(mDKK)		
Depreciation, amortisation and impairment		
Intangible assets, amortisation	-101	-118
Property, plant and equipment, depreciation	-587	-563
Property, plant and equipment, impairment writedowns	-44	0
Total depreciation, amortisation and impairment	**-732**	**-681**
Depreciation/amortisation and impairment relate to:		
Production costs	-622	-561
Research and development	-4	-5
Sales and distrìcution costs	-10	-10
Administration costs	-96	-105
Total depreciation, amortisation and impairment	**-732**	**-681**

NOTE 3. NET WORKING CAPITAL

NOTE 3.1. INVENTORY	2012	2011
(mDKK)		
Inventory, gross	1,934	2,150
Provision for writedowns	-49	-27
Total inventory	**1,885**	**2,123**
Raw materials and consumables	673	886
Work in progress	323	326
Finished goods and goods for resale	889	911
Total inventory	**1,885**	**2,123**

NOTE 3.2. TRADE RECEIVABLES		
(mDKK)		
Trade receivables before provision for bad debt	1,468	1,807
Provision for bad debt	-22	-28
Total trade receivables, net	**1,446**	**1,779**
Provision for bad debt 1. January	28	28
Additions regarding M&A	0	10
New provisions	-6	-10
Provision for bad debt 31. December	**22**	**28**

NOTE 4. OTHER OPERATING ASSETS AND LIABILITIES

NOTE 4.1 IT DEVELOPMENT	2012	2011
(mDKK)		
Cost at 1 january	1,107	993
Additions	79	131
Disposals	-15	-17
Cost at 31 December	**1,171**	**1,107**
Amortisation and impairments at 1 January	-730	-620
Amortisation for the year	-101	-118
Amortisation on disposals	12	8
Amortisation and impairment at 31 December	**-819**	**-730**
Carrying amount at 31 December	**352**	**377**

NOTE 4.2 PROPERTY, PLANT AND EQUIPMENT

(mDKK)

2012	LAND AND BUILDINGS	PLANT AND MACHINERY	FIXTURE AND FITTING, TOOLS AND EQUIPMENT	ASSETS IN COURSE OF CONTRUCTION
Cost at 1 january 2012	2,669	5,710	250	356
Additions	-	-	-	827
Transferred from assets in course of construction	135	617	42	-794
Disposals	-	-380	-2	-
Cost at 31 December 2012	**2,804**	**5,947**	**290**	**389**
Depreciation and impairments at 1 January 2012	-1,345	-3,503	-163	-
Depreciation for the year	-117	-437	-33	-
Impairment for the year	-2	-42	-	-
Depreciation on disposals	-	366	2	-
Depreciation and impairment at 31 December 2012	**-1,464**	**-3,616**	**-194**	**-**
Carrying amount at 31 December 2012	**1,340**	**2,331**	**96**	**389**
Of which assets held under finance lease	**61**	**69**	**2**	**-**

2011				
Cost at 1 january 2011	2,755	5,722	220	315
Additions		9		665
Transferred from assets in course of construction	38	525	41	-604
Disposals	-124	-546	-11	-20
Cost at 31 December 2011	**2,669**	**5,710**	**250**	**356**
Depreciation and impairments at 1 January 2011	-1,316	-3,384	-136	-
Depreciation for the year	-107	-423	-33	-
Depreciation on disposals	78	304	6	-
Depreciation and impairment at 31 December 2011	**-1,345**	**-3,503**	**-163**	**-**
Carrying amount at 31 December 2011	**1,324**	**2,207**	**87**	**356**
Of which assets held under finance lease	**71**	**75**	**2**	**-**

NOTE 4.3 OTHER NON-CURRENT ASSETS

(mDKK)

	2012		2011	
	SUBORDINATED LOANS TO SUBSIDIARIES	OTHER SECURITIES, ETC.	SUBORDINATED LOANS TO SUBSIDIARIES	OTHER SECURITIES, ETC.
Cost at 1 january	5,724	115	5,849	103
Additions	1,214	16	-	17
Disposals	-45	-14	-125	-5
Cost at 31 December	**6,893**	**117**	**5,724**	**115**
Adjustments at 1 January 2012	-377	19	-442	28
Exchange rate adjustments	57	4	65	1
Result		4	-	-10
Adjustments at 31 December	**-320**	**27**	**-377**	**19**
Carrying amount at 31 December	6,573	144	5,347	134

NOTE 4.4. BUSINESS COMBINATIONS

(mDKK)

Reference to consolidated financial statements

NOTE 4.5. ASSETS HELD FOR SALE

(mDKK)

Reference to consolidated financial statements

NOTE 4.6. PROVISIONS

(mDKK)	2012	2011
Provisions at 1 January	20	10
New provivions during the year	10	23
Used during the year	-1	-3
Reversed during the year	-7	-10
Other provisions at 31 December	22	20

NOTE 5. FINANCIAL MATTERS

NOTE 5.1 FINANCIAL INCOME AND FINANCIAL COSTS	2012	2011
(mDKK)		
Financial income:		
Financial income on financial instruments measured at amortised cost	15	19
Dividends from subsidiaries	200	0
Interest from subsidiaries	389	434
Exchange rate gains (net)	0	100
Other	9	0
Total financial income	**613**	**553**
Financial costs:		
Financial expenses on financial instruments measured at amortised cost	-179	-171
Exchange rate gains (net)	-68	0
Other	-12	-23
Total financial costs	**-259**	**-194**

NOTE 5.2.a NET INTEREST-BEARING DEBT, MATURITY	2012	2011
(mDKK)		
Securities and cash funds	-39	0
Other interest-bearing assets	-1,241	-1,246
Current liabilities	1,755	2,246
Net current liabilities	**475**	**1,000**
Non-current liabilities	5,109	4,570
Net interest-bearing debt	**5,584**	**5,570**

NOTE 5.2.b NET INTEREST-BEARING DEBT, MATURITY

(mDKK)

Net interest-bearing debt, maturity

Total 31. december 2012	Total	0-1	1-2	2-3	3-5	5-7	7-10	10+
DKK	3,168	145	68	214	406	248	516	1.571
EUR	560	0	560	0	0	0	0	0
SEK	1,856	549	0	0	1,307	0	0	0
Total	**5,584**	**694**	**628**	**214**	**1,713**	**248**	**516**	**1,571**

Total 31. December 2011	Total	0-1	1-2	2-3	3-5	5-7	7-10	10+
DKK	2,770	41	69	66	190	248	425	1,731
EUR	558	0	0	558	0	0	0	0
SEK	2,242	990	0	0	1,252	0	0	0
Total	**5,570**	**1,031**	**69**	**624**	**1,442**	**248**	**425**	**1,731**

NOTE 5.3. LIQUIDITY RESERVES	2012	2011
(mDKK)		
Cash refunds	39	0
Securities (free cash flow)	23	20
Unutilised committed loan facilities	2,777	1,177
Unutilised other loan facilities	3,939	3,359
	6,778	4,556

NOTE 5.4. FINANCIAL RISKS

Financial risk management
Financial risks are an inherent part of Arla operating activiees 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 Managment is described in the consolidated report on page 87.

NOTE 5.4.a CURRENCY RISKS

(mDKK)

Currency Risk 31 december 2012	EUR/DKK	USD/DKK	GBP/DKK	SEK/DKK
Applied sensitivity	1%	5%	5%	5%
Profit or loss	-14	-17	179	-38
Equity		-34	-25	-13
Currency Risk 31 december 2011				
Applied sensitivity	1%	5%	5%	5%
Profit or loss	-6	-20	-48	35
Equity	-31	-48	-49	-4

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 unrecognised 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 5.4.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 92.

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 5.4.c 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 Liquiity management is described in the consolidated report on page 88.

The below table shows the maturity analysis for the financial liabilities recognised as at 31 December 2012.

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.

LIQUIDITY RISK

		Non-discounted contractual cash flows				
31.12.2012	CARRYING AMOUNT	TOTAL	0-1 YEAR	1-5 YEARS	5-10 YEARS	>10 YEARS
Financial liabilities						
Issued bonds	1,310	1,575	68	1,507	0	0
Mortgage credit institutions	2,680	3,170	93	525	866	1,686
Credit institutions	3,101	3,162	2,206	930	26	0
Trade payables etc.	5,893	5,893	5,893	0	0	0
Derivative instruments	265	462	99	238	125	0
Loans and credit facilities	0	6,934	6,934	0	0	0
Total	**13,249**	**21,196**	**15,293**	**3,200**	**1,017**	**1,686**
31.12.2011						
Financial liabilities						
Issued bonds	1,251	1,610	74	1,536	0	0
Mortgage credit institutions	2,674	3,460	78	545	844	1,993
Credit institutions	2,898	3,088	2,471	610	7	0
Trade payables etc.	3,715	3,715	3,715	0	0	0
Derivative instruments	422	445	262	77	106	0
Loans and credit facilities	0	5,964	5,964	0	0	0
Total	**10,960**	**18,282**	**12,564**	**2,768**	**957**	**1,993**

NOTE 5.4.d CREDIT RISK

Arla's exposure towards credit risk arises from its operating activities and its financial contracts with financial intuitions. Arla's risk management policies are described on page 93.

Further information on trade receivables is provided in note 3.2.

The maximum exposure to credit risk is approximately equal to the carrying amount as at 31 December 2012 and 2011.

NOTE 5.5 TRANSFER FOR 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 by raise 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 recognised a repurchase obligation. If Arla is not able to settle the repurchase obligation, the counter-party 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	CARRYING VALUE	NOTIONAL AMOUNT	FAIR VALUE
(mDKK)			
31.12.2012			
Mortgage bonds	1,235	1,297	1,235
Repurchase liability	-1,243	-1,297	-1,243
Net position	-8	0	-8
31.12.2011			
Mortgage bonds	1,246	1,308	1,246
Repurchase liability	-1,257	-1,308	-1,257
Net position	-11	0	-11

NOTE 5.6 FINANCIAL INSTRUMENTS

NOTE 5.6.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 recognised in the income statement as financial items.

As at 31 December 2012 and 2011 Arla has entered into

- currency option strategies which are hedging forecasted sales and purchases. These option strategies does not qualify for hedge accounting and hence, the fair value adjustment is recognised directly in profit or loss.
- currency swaps 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 5.6.b HEDGING OF FORECAST TRANSACTION (CASH FLOW HEDGE)

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

(mDKK)

			Expected recognition				
2012	CARRYING VALUE	FAIR VALUE RECOGNISED IN OCI	2013	2014	2015	2016	LATER THAN 2016
Currency contracts	26	26	26	0	0	0	0
Interest rate contracts	-265	-265	-55	-55	-46	-23	-86

			Expected recognition				
2011	CARRYING VALUE	FAIR VALUE RECOGNISED IN OCI	2012	2013	2014	2015	LATER THAN 2015
Currency contracts	-108	-108	-108	0	0	0	0
Interest rate contracts	**-178**	**-178**	**-40**	**-40**	**-35**	**-10**	**-54**

NOTE 5.7.c CATEGORIES OF FINANCIAL INSTRUMENTS

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

(mDKK)	2012	2011
Available for sale financial assets	1,239	1,249
Loans and receivables	7,195	6,021
Financial assets measured at fair value through profit or loss	255	141
Financial liabilities measured at fair value through profit or loss	265	422
Financial liabilities measured at amortised cost	12,984	10,538

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

NOTE 5.7.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.

2012	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Bonds	1,239	0	0	1,239
Shares	23	0	0	23
Derivatives	0	230	0	230
Total financial assets	**1,262**	**230**	**0**	**1,492**
Financial liabilities				
Derivatives	0	265	0	265
Total financial liabilities	**0**	**265**	**0**	**265**

2011				
Financial assets				
Bonds	1,271	0	0	1,271
Shares	20	0	0	20
Derivatives	0	118	0	118
Total financial assets	1,291	118	0	1,409
Financial liabilities				
Derivatives	0	422	0	422
Total financial liabilities	0	422	0	422

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 6. OTHER AREAS

NOTE 6.1 TAX	**2012**	**2011**
(mDKK)		
Taxes in the income statement		
Tax on taxable equity	-49	-33
Regulation regarding previous years, actual tax	-5	28
Total corporation tax	**-54**	**-5**
Computation of effective tax rate		
Statutory corporate income tax rate in Denmark	25%	25%
Deviation due to cooperative taxation	-23%	-23%
Other changes	0%	-2%
Effective tax rate	**2%**	**0%**

NOTE 6.2 FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES	**2012**	**2011**
(mDKK)		
KPMG		
Statutory audit	-3	-4
Tax assistance	-4	-4
Other services	-8	-5
Total fees to auditors	**-15**	**-13**

NOTE 6.3. MANAGEMENT PAYMENT

(mDKK)

Please refer to the consolidated financial statements.

NOTE 6.4. CONTRACTUAL COMMITMENTS AND CONTINGENT LIABILITIES	**2012**	**2011**
(mDKK)		
Surety and guarantee commitments	8,528	7,469
Operational rent commitments	265	289
0-1 year	27	29
1-5 years	86	86
Above 5 years	152	174
Operational leasing commitments:	141	158
0-1 year	57	57
1-5 years	81	95
Above 5 years	3	6

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

NOTE 6.5. RELATED PARTIES

Arla Foods amba is the parent company in the group. The company has no related parties exercising control. Related parties exercising significant influence comprise the Board of Representatives, the Board of Directors and the Executive Management Board. In addition, subsidiaries, joint ventures and associates are related parties (see Group Chart in note 7). Members of the Board of Representatives and the Board of Directors are paid for milk supplies to Arla Foods amba on equal terms with other members of the company.

Salaries and remuneration have been disclosed separately in Note 6

	2012	2011
Board of Directors		
Purchase of goods	84,932	70,994
Received supplementary payment	2,122	2,873
Trade payables	7,408	4,545
Member accounts	8,409	4,607

NOTE 6.6 CO-OPERATIVE MEMBER'S LIABILITY

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