annual report 2010

FINANCIAL HIGHLIGHTS

Group					
DKK million	2010	2009	2008	2007	2006
Results					
Net revenue	49,030	46,230	49,469	47,742	45,491
Of which outside DK/SE	30,600	28,374	29,766	29,339	27,393
% outside DK/SE	62%	61%	60%	61%	60%
Operating profit	1,684	1,412	1,149	1,520	1,161
Net financials	−294	−232	−862	−562	−409
Profit for the year	1,268	971	556	938	933
Supplementary payments	1,031	660	137	503	336
Consolidation:					
Reconsolidation according to Articles of Association	–	0	121	121	122
Change in policy	–	–	0	0	91
Capital account	466	0	0	0	0
Delivery-based owner certificates	0	311	176	174	184
Contributed capital	233	–	–	–	–
Strategy fund	−462	0	122	140	200
Total assets	30,097	30,094	29,280	30,725	26,611
Fixed assets	17,004	16,782	15,205	17,473	15,762
Investment in property, plant and equipment	1,613	1,618	1,447	1,895	1,792
Current assets	13,093	13,312	14,075	13,252	10,849
Equity	8,580	8,281	7,797	8,145	7,971
Long-term liabilities and provisions	9,341	9,917	9,857	10,369	11,037
Short-term liabilities	12,060	11,768	11,482	12,064	7,541
Cash flow from operating activities	2,552	3,402	1,388	3,285	2,354
Cash flow from investing activities	−1,626	−2,392	−1,082	−4,298	−1,268
Cash flow from financing activities	−2,392	−526	733	2,835	−1,075
Free cash flow	926	1,010	306	−1,013	1,086
Financial ratios					
Net interest bearing debt incl. pension commitment/ EBITDA	2.7	3.2	3.7	3.2	3.4
Interest cover	10.0	9.0	3.4	6.3	7.4
Solvency ratio	29%	28%	27%	27%	30%
Inflow of raw milk					
Total million kg milk weighed in by the group	8,713	8,660	8,243	8,360	8,592
Members in DK	4,345	4,253	3,911	3,976	4,047
Members in SE	1,829	1,894	1,943	1,957	2,067
Other	2,539	2,513	2,389	2,427	2,478
Total members at 31 December					
In DK	3 649	3,838	3,906	4,170	4,591
In SE	3 529	3,787	4,090	4,352	4,817
Total	7,178	7,625	7,996	8,522	9,408
Arla earnings					
DKK per kg co-operative member milk	2,52	2,14	2.82	2.47	2.27
SEK per kg co-operative member milk	3,49	2,91	3.61	3.07	2.81
Employees					
Average number of full-time employees	16,215	16,231	16,233	16,559	17,933

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Arla Foods is one of the world's largest dairy companies. Our products are marketed in more than 100 countries. We employ 16,215 people."

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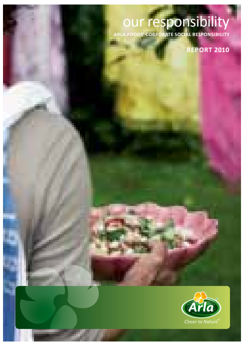
Arla's identity

Work at Arla throughout the year can be illustrated in many different ways. On pages 10-15 we provide examples of how we fulfil Our Vision, Our Mission and Our Strategy. We also report on how we are bringing to life Our Character and utilising Our Resources.

Video clips – a review of the year

An online version of this report is available at www.arla.com/about-us including brief video clips in which our CEO and CFO present Arla's results for 2010.



CSR report 2010

We publish a CSR report in line with the UN Global Compact. This year, our CSR report is published concurrently with the annual report. Read or download the CSR report at www.arla.com/about-us.

Cooperative members invest more in Arla's growth

The cooperative members gave strong backing to Arla by retaining their established ownership structure. At the same time, they approved increased consolidation. During the past year, Arla has enjoyed consistent positive developments which have made it possible to increase the milk price paid to the cooperative members five times. At the end of the year, a proposed merger with the German dairy Hansa-Milch was announced.

Long-awaited milk price increases

I look back on the past year with a sense of relief. I had predicted that 2010 would be a turbulent year with dramatic fluctuations, and I was proved right, and the wisdom of having a growth strategy in all our markets was also clearly demonstrated. Leaders and colleagues have devoted a lot of time and effort to explaining Arla's local and global strategy in dialogue with our cooperative members, not least in Sweden, where we have introduced a new national strategy.

In 2010, Arla welcomed 36 new Swedish cooperative members, who previously delivered their milk to other dairy companies. By contrast, the total number of milk producers in Sweden is falling, as is the total number of Arla cooperative members.

2010 was a good year for Arla on several markets. The company achieved rationalisation gains and benefited from fluctuating exchange rates. Furthermore, the company's result was positively affected by advances in the international milk powder market. By improving utilisation of our production facilities and through sustained focus on cost-saving initiatives, Arla has succeeded in maintaining control of our costs. All our colleagues deserve our sincere thanks for their efforts.

In view of the positive developments during the past year, we were able to raise Arla earnings (payment to cooperative members plus consolidation) by DKK 0.38 to DKK 2.52 per kg of milk (corresponding to SEK 3.49). We should not fail to mention, however, that the milk price at the start of the year was particularly low.

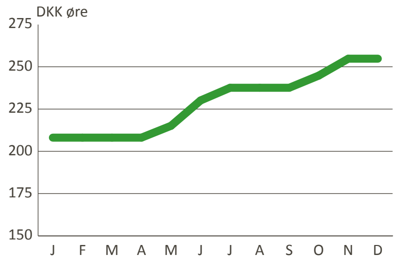
New capital structure

Possibly the most important event for Arla in 2010 was the cooperative members' strong backing for Arla's Group strategy, via the Board of Representatives. Members gave their support to retaining the cooperative ownership structure and increasing consolidation in order to partly finance the Arla growth strategy, which includes plans for major investments.

At the end of 2009, it became clear to us that the financing issue would play a key role in the work of the Board in 2010. Strong commitment and lively discussions characterised the work of the Board, the Board of Representatives and the regional committees, as all parties sought to find the best possible solution.

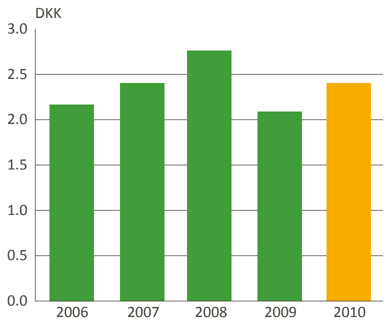
I was pleased to accept the cooperative members' support with great humility, as we are aware that members are under considerable financial pressure. Each and every cooperative member could have invested their money at home on the farm. Fortunately however, the members believe in Arla and support the growth strategy. They share the expectations of the Arla management group and the elected members; that via the strategy we will have a better chance of achieving a higher milk price in future years.

ARLA'S CURRENT MILK PRICE



Higher milk price. During the year, the milk price to the cooperative members was raised five times.

MILK PRICE PAID BY ARLA



Milk price to cooperative members. The graph shows the average price per kg milk, which Arla paid to its cooperative members during the year, including supplementary payments.

Local presence. We are working to strengthen the positions of Swedish milk and Swedish farmers, both in the eyes of consumers and among their peers.

Under the new capital structure 4.5 per cent of Arla earnings will be invested in Arla. This is about double the previous amount. Consolidation will increase Arla's equity by approximately DKK 4-4.5 billion over a six-year period. The extra capital will initially be used in connection with investments related to continued growth but it will also make it easier for Arla to raise capital in connection with acquisitions. The new consolidation policy does not entail changes to the established procedures, therefore the Board of Representatives will still consider the scope of consolidation every year in March.

The journey to the decision to adopt the new capital structure was long, and it was the subject of much healthy debate and dialogue among the cooperative members. The result is not only that we have reached agreement on this important issue, in the process, we addressed the advantages and disadvantages of a number of different potential solutions for Arla, and I believe this will be of benefit to the success of Arla in the long term.

Closer cooperation with milk producers in other countries

Several years ago we established that growth has to be our path to success. Large-scale production presents financial advantages and several of our competitors have merged. It is important that we have close cooperation and sound relationships with milk producers, including those outside Denmark and Sweden, to ensure that we have access to raw milk.

With this in mind, at the end of 2010 we proposed a merger with the German cooperative dairy, Hansa-Milch. The cooperative has modern production facilities and well-established sales channels for its Hansano® brand fresh products. Hansa-Milch compliments Arla well, as Arla in Germany sells branded cheeses and spreadable blended products, such as Arla Kærgården®. The Board sees significant joint potential in a merger, which we expect to contribute to a higher milk price for the cooperative members. The merger will also be another important step towards fulfilling our ambition to become one of the three largest dairy companies in Germany. The Board of Representatives and the Hansa-Milch members will discuss the proposed merger in March 2011.

Since 2008 British milk producers have owned a 3.2 per cent stake in Arla's UK activities via a joint venture with Arla Foods amba. Cooperation has developed positively, and in autumn 2010 we began to discuss increased investment by the British milk producers. A decision is expected in the first half of 2011. We would like the British milk producers to continue to have ownership and to play a role in investments in their own country.

In Finland we have also intensified our cooperation with the milk producers. We have held several meetings with farmers and cooperating dairies in order to involve them more closely in the ongoing development of the company.

Expectations of diversity in global market development

Where 2011 is concerned, we are receiving positive and negative signals from the global market. Many countries outside Europe are experiencing positive developments and improved spending power. Improved spending power is always a good thing for farmers, but optimism within the EU is less easy to spot. In Denmark especially, it is important that consumers regain confidence in the economy.

With our presence spread widely across the globe, the Arla Group strategy means that we are in a position to exploit the potential in selected markets outside the EU. During the past year, the cooperative members have succeeded in reaching consensus on several crucial issues, and I am convinced that these decisions will bear fruit in the form of a good milk price in the long term. There is no doubt that the milk price to the cooperative members will continue to fluctuate, but I do not believe that it will fluctuate as dramatically as it has in the past. Our strategy of processing, growth and focus on selected markets makes us less vulnerable to market fluctuations.

Ove Møberg

Ove Møberg, Chairman of the Board of Directors

COOPERATIVE MEMBERS IN DENMARK AND SWEDEN

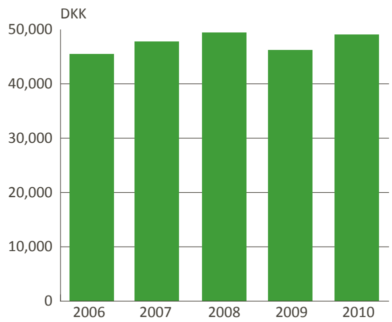
Arla ownership. During 2010 the number of cooperative members in Arla fell by six per cent. However, Danish cooperative members have supplied more milk, while the quantity of milk supplied in Sweden fell.

Greenhouse gases in focus. In cooperation with British milk producers in the Arla Foods Milk Partnership, Arla UK has published an environmental strategy, of which one of the targets is to reduce CO_2 emissions from milk farms.

Sound basis for continued growth

Arla's turnover in 2010 increased by 6.1 per cent compared with the previous year. The increase is primarily due to rising prices for industrial products, retail price increases in all our markets and beneficial developments in exchange rates. Arla has seen positive development on most markets and we have succeeded in keeping tight control of our costs.

NET TURNOVER



Turnover increase. During 2010 Arla's turnover increased by 6.1 per cent to DKK 49,030 million.

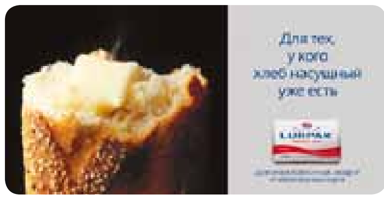
Growth and profitability go hand in hand

Arla's strategy centres on creating value for our customers and owners by means of innovation and processing. During the last few years, the Group has significantly increased investments in its most important brands and strengthened its market position – also in a number of growth markets outside the Nordic region.

We reaped the rewards of these investments in 2010 when, in the wake of several years of stagnating growth, organic growth reached three per cent. There are several reasons for success, for example, we created 19 per cent growth on our growth markets. Our global brands Lurpak® and Castello® grew – Lurpak® turnover has grown by 14 per cent and Castello® turnover is up six per cent. In the industrial sector, there was 22.6 per cent growth in our ingredients business, and Arla gained further market shares in 2010. Furthermore, increasing prices coupled with beneficial developments in exchange rates resulted in a total turnover increase of 6.1 per cent to DKK 49,030 million.

Where costs are concerned, continued focus on cost-saving measures resulted in these remaining almost static. Over the year, Arla raised Arla earnings (payment to cooperative members plus consolidation) by DKK 0.38 to DKK 2.52 per kg of milk (corresponding to SEK 3.49). The net result of DKK 1,268 million represents an increase of DKK 297 million compared to 2009. The improvement in our net result, corresponding to 2.6 per cent of Group turnover, is one of the positive results of our work in the last year. By increasing their investment in the Group, the cooperative members have shown that they have great trust in Arla. Their investment provides a sound basis on which we can embark on our growth strategy and realise our profit targets. Furthermore, increased equity improves our opportunities for making leveraged acquisitions.

Arla succeeded in reducing the Group's total financial gearing in 2010 and this, along with strong capital reserves, ensures that Arla is well-equipped to meet future challenges.



Arla in Russia. Arla Foods Artis in Russia continues to develop. We now have sales representatives and local distributors in 14 cities.

Positive development in our markets

In terms of development, one of the most important events during the last year was our decision to build the world's largest milk dairy, to be located outside London. The UK is our largest market and, having increased our market share, we are now the country's second largest dairy company. Our investment in the new dairy will run to DKK 1.4 billion. It is expected to be completed in 2012. The dairy will have the capacity to process one billion litres of milk a year and is expected to create 700 jobs.

In Sweden there are also plenty of opportunities to develop our business. We

Affulent target group. Arla's high-quality cheeses are particularly popular with affluent Americans. 70 per cent of the cheese we sell in the USA is produced at Arla's two American facilities. The remaining 30 per cent is produced in Denmark.

have launched a national strategy, which describes how we will achieve an ambitious level of growth within the framework of Strategy 2015. We will create growth by increasing sales of value-added products – for example, organic and lactose-free products – and by launching new initiatives related to innovation and culinary inspiration.

In the last year, the Swedish competition authority, Konkurrensverket, decided to discontinue its investigations into Arla's agreements with the Swedish retail chains, on the grounds that nothing has been found to suggest that Arla has infringed the regulations, which is exactly the position we have maintained from the start.

Development on our growth markets – USA, Russia, Poland, Middle East/ North Africa and China – has been positive. In the long term, a greater share of our earnings will come from these markets, where there is huge potential for growth. In the Middle East, Arla has regained sales faster than expected and sales have now returned to the same level as before the consumer boycott.

Growth on several core markets

Despite tough competition, we have increased sales in the UK, Sweden and Germany, where Arla brands have increased their market share. If the proposed merger with the German cooperative Hansa-Milch goes ahead, our growth in Germany will be further strengthened. We achieved growth in the Netherlands too. We launched Arla® as a fresh foods brand and a new range of organic products also met with success.

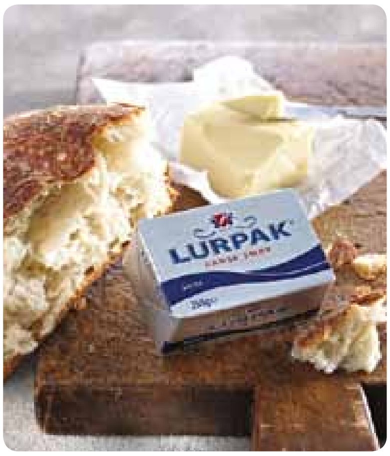
On the Danish market the after-effects of the recession are still being felt, and to some extent consumers continue to choose lower-priced products. We must also face the fact that profitability in Finland has not been satisfactory due to a 'price war' on milk and cheese. However, we have succeeded in achieving our targeted 30 per cent market share.

Improved production efficiency

In relation to our continuing rationalisation of the company, we have made a number of important decisions during the past year. For example, production and packaging of the British retail chains' own butter brands will be consolidated at Westbury Dairies, of which Arla became a co-owner in 2010. The rationalisation measures will affect established production in Denmark and Sweden, and may also impact production in the UK.

Another rationalisation initiative is the amalgamation of sliced cheese production into three facilities in Denmark, Sweden and Poland. This initiative involves investments in new machinery. In the yellow cheese category, Arla is hoping to make an international impact with Havarti cheese. In 2010, we have therefore expanded production capacity for this type of cheese at Nr. Vium dairy in Denmark. While fully exploiting our current production capacity, production of whey, which is a profitable business area for us, will be increased. To create more capacity, we have begun construction of a new spray-drying tower at our Danish ingredients facility at Videbæk.

Using Lean principles, we have also increased efficiencies by 10-30 per cent at several dairies – without increasing investment. On the basis of these impressive results, we will accelerate the Lean roll-out to remaining dairies.



Lurpak® at the top. Development of Arla's three global brands has been positive in the last year. Lurpak® in particular has been extraordinarily successful.

Closer to Nature™. During the last year we launched the first commercials featuring our Closer to Nature™ message. All our business areas are working to get Closer to Nature™ and we are aware of the need to communicate these initiatives even more successfully.

Good results. During the past year, we have introduced Lean to colleagues at several large dairies in Denmark and the UK. Based on these successes, we are now introducing Lean principles at all the remaining Arla dairies.

Rapid growth in whey

In Argentina, we and our joint-venture partner, have celebrated the official opening of a new spray-drying tower, which will pave the way for permeate sales. Permeate is deproteinised lactose that can be used, for example, in ice cream, chocolate and biscuits. This investment totalled more than DKK 200 million.

New training facility for dairy technologists. Britain's Skills Minister, John Hayes, visits the new facilities at the fully-equipped training dairy for tomorrow's British dairy technologists.

Focus on three brands

Our marketing efforts were stepped up in 2010 and focused on our three global brands: Arla®, Lurpak® and Castello®. This is a milestone for Arla. Previously we distributed our resources across more brands, and the effects of the new brand strategy have been immediate. The development of Castello® and Lurpak® has been especially positive.

We have continued to work with the Closer to Nature™ message in all our markets. During the past year, the first commercial communicating the Closer to Nature™ message was screened in a total of 12 markets.

Minimising environmental and climate impact

One example of how we are fulfilling our Closer to Nature™ ambition is our concentration of production at fewer and more modern facilities, as this helps to reduce our environmental and climate impact. We are currently investigating the feasibility of making even greater use of farmyard manure and residual products from dairy processing to produce biogas to replace fossil fuels. The objective is to reduce the carbon footprint of our facilities.

During 2010 our target was to reduce energy and water consumption by five per cent compared to the 2005 level. We exceeded the 2010 target and are now continuing our work to achieve our overall climate target, which is by 2020 to reduce direct and indirect emissions of greenhouse gases from production, transportation and packaging by 25 per cent, relative to the 2005 level. Read more about environment and climate issues in our latest CSR report which is now accessible on our website.

Our Responsibility. We see Arla's decision to use only certified soya, cocoa and palm oil as soon as practicalities allow as the biggest step taken this year in terms of achieving greater sustainability.

More innovative products in the future

During 2010, Arla launched many new products, for example, within our lactose-free and organic ranges. Another example is Arla Yoggi® Fri, a yogurt with no additives or aroma. In addition, several years' product development work has resulted in the launch, at the beginning of 2011, of a new spreadable product containing only 43 per cent fat. The new blended product is produced at Götene Dairy in Sweden, using state of the art technology. Our strategic target is to continue to double our investment in innovative products until 2015. We still have some way to go to achieve this target.

Colleague development in focus

At Arla we work continuously not only to improve our performance at an overall strategic level, but also to improve the skills of colleagues and departments. By setting clear targets based on our strategic ambitions, we monitor our results and, via the Arla bonus programme, encourage our leaders to deliver positive results.

The dairy industry has long traditions but is also characterised by rapid technological development. To ensure that Arla will continue to attract talented colleagues in the future, and motivated by a general lack of skills in the industry, in

Responsible development. At Arla we are proud of our work on our Code of Conduct and Corporate Social Responsibility (CSR), which has become far more structured – although we feel there is always room for improvement. During the last year, we have updated our Code of Conduct and translated the document into several languages.

2008 Arla encouraged a large number of British dairy companies to join forces to set up a new dairy technologist training course. Just over two years later, we have seen the second intake of students start their training, which includes periods of training at a purpose-built training facility.

Within Arla, in 2010 we launched the Arla Leadership Programme (ALP) for middle and line managers in Denmark, Sweden and the UK. The objective is to focus on the interaction between managers' areas of responsibility and the company's ambitious strategy for growth. Among other materials, the training is based on our shared values which we describe as ONE.

This year's colleague survey

The 2010 Barometer colleague survey was completed by 12,650 colleagues in 26 countries. The survey measures colleagues' commitment and how they view the company's targets, focus and leaders. Due to cost-savings, the survey was not carried out in 2009. The overall results for 2010 indicate continued positive development in colleagues' satisfaction with their work and their understanding of Arla's corporate culture.

Overall colleagues' commitment to the company scores index 77 out of a possible 100. According to the survey supplier, this is 10 per cent above the average for global corporations. Colleagues' commitment is also reflected in the high response rate, which was 86 per cent. Compared to the last survey, which was carried out in 2008, the results show clear improvements in knowledge sharing between different departments and the company's ability to prevent errors. In addition, the report indicates that Arla is a popular workplace with 75 per cent stating that they are willing to recommend Arla as a place of work to friends and acquaintances.

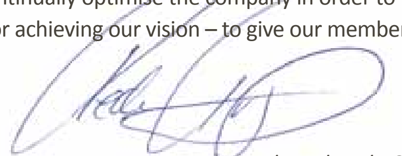
Upcoming activities

In the coming years we must invest more in marketing and developing new products. Our Closer to Nature™ message will be communicated even more clearly to the outside world and it will be incorporated into everything we do within the company.

In March 2011, the Arla Board of Representatives and members of Hansa-Milch will reach a decision on the proposed merger of Arla with the German cooperative. The two companies compliment one another well, and the proposal underpins our ambition to become one of the three leading dairy companies in Germany. A merger will require approval from the EU competition authorities.

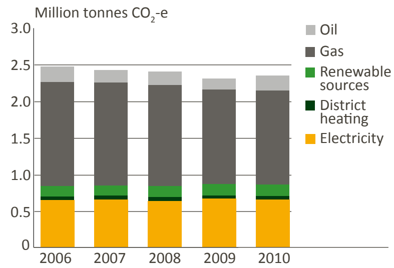
It will be interesting to follow the development of the world's largest and most environmentally-friendly fresh milk dairy, to be located outside London. This is something everyone at Arla can be proud of.

There is a new and exciting year ahead. And there's one thing we can be sure of – that we must continue to be ready to adapt quickly to changing market conditions. With the strong support of our cooperative members, we will be working hard to realise Strategy 2015, with focus on organic growth, acquisitions and new partnerships. The overall aim is to continually optimise the company in order to create the best possible conditions for achieving our vision – to give our members the highest possible milk price.



Peder Tuborgh, CEO

ENERGY CONSUMPTION



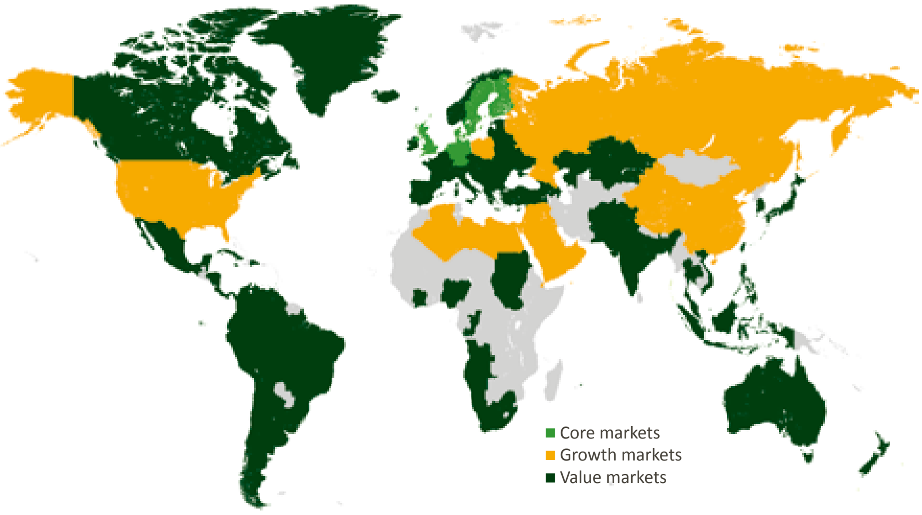
Arla dairies' total energy consumption. During the year, we have introduced a number of energy-saving initiatives, for example, at our milk powder plants. Arla's total energy consumption has been reduced by eight per cent since 2005.

New mega dairy. The new liquid milk dairy to be built outside London will be the largest and most technologically advanced dairy in the world.

OUR VISION

”Our vision is to be the leading dairy company in Europe through strong value creation and active market leadership in order to achieve the highest possible milk price.”

A global dairy company



PRIORITY MARKETS

Core markets: The UK, Sweden, Denmark, Finland, the Netherlands and Germany
Growth markets: Russia, Poland, USA, China and the Middle East and North Africa (MENA)
Value markets: Canada, Spain, Greece, Norway and other export markets

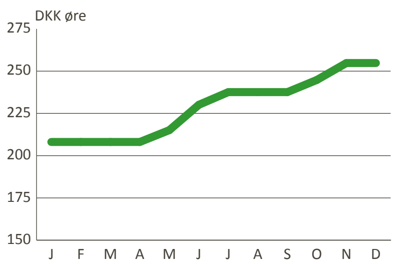
VALUE CREATION IN PRACTICE

Continual improvements and change are some of the driving forces behind Arla’s vision and strategy. Some examples:

- **NEW WORLD-CLASS DAIRY IN THE UK.** Arla has decided to invest DKK 1.5 billion in the world’s most efficient and environmentally-friendly liquid milk dairy. A location just outside London has been identified and it is anticipated that production will begin in 2012.
- **SUCCESSFUL PRODUCT DEVELOPMENT.** At the beginning of 2011, Arla launched a new blended product with only 43 per cent fat content. The new blended product is the result of six years’ innovation work. The product will be sold as Arla Kærgården® Fedtreduceret in Denmark, Bregott® Mindre in Sweden and Arla Ingmariini® in Finland. This blended product is produced using state of the art technology at Götene dairy in Sweden.
- **INVESTMENT IN NEW WHEY TECHNOLOGY.** At our facility in Argentina, permeate is extracted from whey in a new spray-drying tower. The investment ran to DKK 200 million and makes it possible for us to convert a residual product into a source of income.

THE HIGHEST POSSIBLE MILK PRICE

During the year, the milk price to the cooperative members has been raised five times by a total of DKK 0.475 per litre. There are several reasons for the regularly increasing milk price. Among these, the external factors include Arla benefiting from fluctuating currency exchange rates and growth in the international powdered milk market.



Our three global brands

Arla® was established as our overarching brand in 2008 – the brand is used to symbolise the company itself and all our product categories. For our ‘premium’ products, we use Castello® for cheese and Lurpak® for butter and blended products. During the last year we have invested further in marketing these brands and in product innovation and improvements.

Keep track on Arla. We publish company news on our website. There is also an on-line version of the annual report available at www.arla.com, including video films, in which our CEO and CFO briefly present Arla’s results for 2010.

OUR MISSION

Our mission is to provide modern consumers with natural milk-based products that create inspiration, confidence and well-being.”

MORE NATURAL PRODUCTS FROM COW TO CONSUMER

At Arla, making products that are as natural as possible has always come naturally to us. At each stage of production, we strive to minimise our carbon footprint and we work consistently towards achieving carbon neutrality. Some current examples:

On the farm In the UK, Arla has introduced an environmental strategy which also includes the operations of its UK milk suppliers. One of the targets is to reduce CO2 emissions from farms, over time, by supporting farmers with a series of initiatives to increase on-farm efficiencies.

Procurement Arla has decided to use only certified cocoa, soya and palm oil, which means that our production is more sustainable.

At the dairy In Denmark, Arla is considering building a new, large-scale plant to produce biogas from the farmyard manure from Arla farms and residual products from our dairies. The plant will replace the use of fossil fuels by producing energy to supply two dairies. Similar plants are already in production in both Sweden and Denmark.

Transport In Denmark, Sweden and the UK, our drivers receive training in eco-friendly driving, use biofuel and carefully plan and optimise their routes.

The consumer We have changed the recipes for a number of our products so that they contain either a minimum amount of additives – or none at all. Examples include Arla Yoggi® Fri yogurt, the Arla Cultura® sour-milk product and Arla Havarti® cheese. During the past year, the first commercials communicating our Closer to Nature™ message were screened in 12 of our markets.

Waste In the UK the use of recycled plastic in packaging is increasing and plastic milk bottles have become lighter. Another example of improved packaging is the Arla Yoggi® container in Denmark and Sweden. The container is now produced with an external cardboard layer, reducing the carbon footprint of this packaging by 40 per cent.

Clear guidelines for social responsibility

The Arla CSR guidelines for how we work with issues related to ethical, social and environmental responsibility are now collected in a single publication: Our Responsibility – Arla Foods’ Code of Conduct. The Code of Conduct is a guide for us in our daily work, when we are required to take a stand on various issues, consider the positives and negatives and make informed decisions. The Code of Conduct has been revised during the past year.

Distinction for culinary inspiration

Arla was awarded the Swedish Retail Award for the Arla Köket® iPhone application, which was crowned the marketing idea of the year. Arla’s culinary inspiration reaches more consumers through the cookbooks and recipes produced for smartphones and other mobile phones. There are now similar applications available for a large number of different smartphone products in both Denmark and Sweden.

Strict milk quality requirements

Arla’s quality programmes are updated on a regular basis. We strive to make them easier to work with and we adapt them to meet changing market conditions. Arlagården, the Danish-Swedish quality programme, is now available in version 3.0.

Need more information? You can now download the Arlagården quality programme and the latest version of our Code of Conduct from www.arla.com.
Arla in the new media. Our consumers meet there. So do we! Visit us on Facebook and Twitter.

OUR STRATEGY

"Our ambition is to be the best dairy company for 250+ million consumers in Northern Europe and the UK."

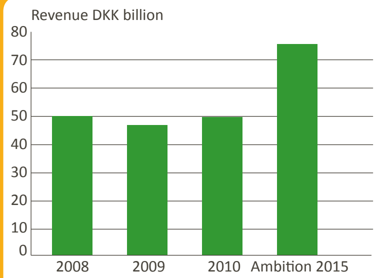
ARLA STRATEGY 2015

The Arla growth strategy was introduced in 2008 and includes a revenue target of DKK 75 billion in 2015. The strategy is built on three cornerstones – innovation, growth and rationalisation – and we will meet our target by means of the following strategic initiatives:

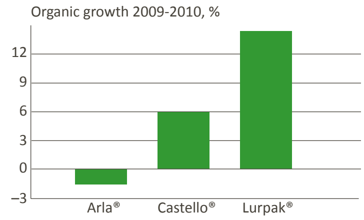
- **NEW CORE MARKETS.** The Netherlands and Germany have now become core markets.
- **OUR THREE GLOBAL BRANDS.** Arla®, Lurpak® and Castello® are our three global product brands. Arla® is also our corporate brand.
- **PRODUCT INNOVATION.** We will increase the number of new and exciting products by doubling our development budget.
- **WHEY PROTEIN INITIATIVE.** We will double sales of whey protein and we aim to become the world's leading producer in this field.
- **MINIMISE CARBON FOOTPRINT.** By 2020 we will have reduced our emissions of greenhouse gases from transportation, production and packaging by 25 per cent.

	2008	2009
DEVELOPMENT	**Arla introduces** ambitious new strategy for growth (see above).	**Global financial recession** means that the strategic targets have to be postponed from 2013 to 2015. **The Netherlands** becomes a new core market, when Arla is given the opportunity to acquire the Friesland Foods Fresh Nijkerk fresh milk dairy. **Closer to Nature™** launches. **The Sønderhøj Application Centre** officially opens in Denmark. The centre offers innovative product development and close cooperation with food manufacturers who require individually adapted ingredients
GROWTH	**Acquisition** of all of Arla Ingman in Finland (the remaining 70 per cent of shares), so that the company becomes a wholly-owned subsidiary.	**Acquisition** of Friesland Foods Fresh Nijkerk in the Netherlands with a 500-strong workforce and annual turnover of approximately DKK 1.6 billion. Friesland Foods Fresh Nijkerk is the market leader producing fresh dairy products for retailers' own brands. **The property rights** to the Anchor® butter brand in the UK are acquired from Fonterra.
RATIONALISATION	**Decision** to move 140 jobs in accounting to Gdansk in Poland. **JO Bolaget** dissolved. Arla and Skåne Dairies split the brands between them. Arla takes God Morgon® and JO®, and retains marketing responsibilities for Tropicana®. Skåne Dairies takes the Bravo® brand.	**Cost-savings** DKK 1 billion package introduced in response to the global recession. Colleagues at head office and national offices across the world will be reduced by a total of 350. **Lean** intensifies as the method used to improve efficiencies in the company. The aim is to increase capacity by 10-20 per cent without extra investment, to increase productivity by 10-30 per cent, and to increase flexibility at operational facilities. There is an additional target to reduce complexity.

2010: Strategy status.

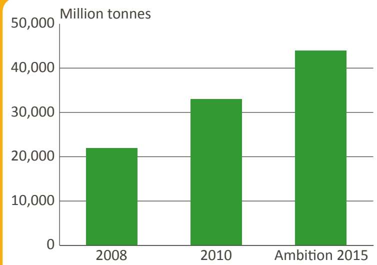


Growth initiatives In 2009 Arla acquired the Dutch dairy, Friesland Foods Fresh Nijkerk, and in 2010 the Board proposed a merger between Arla and the German dairy, Hansa-Milch.

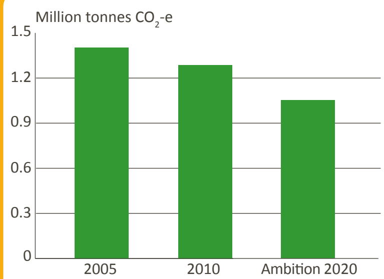


Organic growth Castello® and Lurpak® have developed positively whereas Arla® has declined, partly due to the fact that many consumers are choosing low-price products in preference to branded goods.

Product innovation 2010 The images show examples from Denmark, the UK, Sweden, Germany, Finland, Poland and the Netherlands.



According to plan We are well on the way to reaching our sales targets for whey protein for the food industry.



Climate strategy Emissions from our dairies, transportation and packaging will be reduced by 25 percent by 2020, compared to the 2005 level.

2010

Intensive work started on Arla's equity structure. The objective is to create suitable preconditions for future investments.

The Middle East and North Africa A organisational change affects the Consumer International and Global Ingredients business groups and has resulted in the formation of the new Global Categories & Operations business group and the now independent whey business unit.

Global marketing introduced. Phase Two of our Closer to Nature™ communication includes advertisements, brochures and promotional films.

Arla's Sweden strategy introduced. Arla aims to become Sweden's primary source of culinary inspiration. Our ambition is to make more people like – and buy – Arla products.

In Argentina, Arla and its joint-venture partner celebrate the official opening of a new powder tower – an investment in excess of DKK 200 million.

Arla decides to invest DKK 1.4 billion in the world's largest and most eco-friendly liquid milk dairy. Located just outside London, the dairy will supply milk to more than 11 million people.

The Arla Board proposes a merger with German co-operative Hansa-Milch. The two companies' product portfolios complement each other, and the companies are confident that by joining forces they will grow in the German market. The proposed merger will be the subject of discussions between the Arla Board of Representatives and Hansa-Milch members at a meeting on 2 March 2011. A merger will require approval from the EU competition authorities.

Arla acquires a share in the British Westbury Dairies, which will make it possible to balance excess raw milk. This also means that production and packaging of the British retail chains' own brands of butter are gathered at Westbury Dairies. This rationalisation will affect established production in Denmark and Sweden and may also have some effect on production in the UK. Production at Stourton dairy in the UK increases with, for example, the introduction of 7,000 tonnes of cottage cheese, while the dairy at Northallerton is closed.

Arla invests in new slicing machinery for yellow cheeses and gathers activities into three locations in Denmark, Sweden and Poland. Rationalisation will affect at least 60 positions.

Need more information?
We publish all our news on www.arla.com.

OUR CHARACTER

Arla's corporate culture – Our Character – centres on the words Lead, Sense and Create; we seek to take leadership, we sense our environment and we have a creative culture. We challenge current and future colleagues to be 'a Force of Nature'.

ONE at Arla

Arla aims to unite the organisation across the world as 'ONE'. Our aim is to embed our joint strategy, mission, vision, corporate culture and resources so that all colleagues know exactly how they can contribute to our combined success.

The corporate architecture at the new Arla head office in Viby, Denmark is designed to foster knowledge sharing and creativity.

F15

The Arla leaders of the future

In 2008 Arla introduced The Future Fifteen Graduate Programme® (F15). In autumn 2010 we recruited the third intake of 11 participants from seven different countries. When Danish top class students were asked to rate trainee programmes, F15 was voted the third most attractive training programme in Denmark.

COLLEAGUE SURVEY 2010

A total of 12,650 colleagues in 26 countries, and in 16 languages, responded to this year's Barometer colleague survey. The overall results indicate continuing positive development in colleagues' satisfaction with their work and their understanding of Arla's corporate culture. Some examples:

- **STRONG COMMITMENT.** Overall colleague commitment to the company scored index 77 out of a possible 100. According to the survey supplier, this is 10 per cent above the average for global corporations. Colleague commitment is also reflected in the high response rate, which was 86 per cent.
- **OBVIOUS IMPROVEMENT.** Compared to the last survey, carried out in 2008, the results show clear improvements in knowledge sharing between different departments and the company's ability to prevent errors.
- **POPULAR WORKPLACE.** 75 per cent of colleagues state that they are willing to recommend Arla as a place of work to friends and acquaintances.

Employer branding award

We consistently strive to attract and retain talented colleagues. Our recruitment campaign includes challenging potential new colleagues to become 'a Force of Nature'. In Sweden, Arla received the Employer of the Year award for our long-term recruitment work and our clear corporate profile.

Dairy technologist – the job of the future

We keep a watchful eye on the competencies needed at Arla. For example, in Sweden we have launched a dairy technologist training programme and are heavily involved in a similar initiative in the UK, where no similar training was previously offered. In the UK, a new industry training centre has been built to support the EDEN training programme. Students receive holistic dairy training, including in the production processes used for milk, cheese and butter.

A job at Arla? Search for vacancies at Arla on our website: www.arla.com.

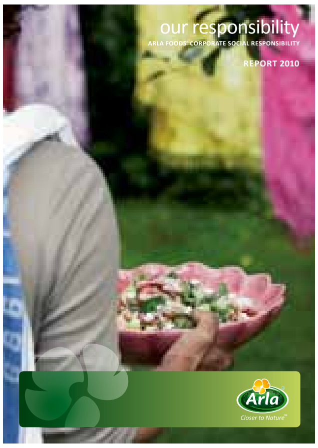
OUR RESOURCES

"At Arla we strive consistently to use our resources as efficiently as possible. Furthermore, Arla aims to conduct its business operations in a responsible and sustainable way."

Cooperative members contribute to Arla's expansion

During the past year, Arla's cooperative members decided to increase their investment in the company. Part of the milk payment to cooperative members (4.5 per cent of the Arla earnings) is retained by Arla. This is twice the previous amount.

The decision means that Arla's equity will be increased by DKK 4-4.5 billion over the next six years. The cooperative members' extra consolidation makes a significant contribution to financing Arla's strategy and also provides a firm basis for future loan financing.



New CSR report

Our work on Corporate Social Responsibility (CSR), including ethical, social and environmental responsibility, is collectively termed 'Our Responsibility' and is carried out in line with the UN Global Compact. This year's CSR report has been published at the same time as this annual report.

25%

Lean improves efficiency

Since introducing Lean principles, Holstebro butter dairy in Denmark has increased production capacity by 25 per cent without additional investment. In addition, the dairy has succeeded in reducing production downtime and switching production runs more quickly. Arla has used Lean principles in corporate development since 2009. The objective of Lean is to create continuous improvement by involving all colleagues and optimising processes.

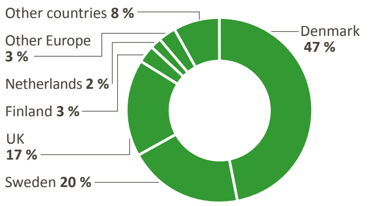
"The Arla environmental target is to reduce the Group's direct and indirect CO2 emissions from production, transportation and packaging by 25 per cent, compared with the 2005 level."

MILK AND DAIRY DEVELOPMENT

We do our utmost to safeguard our key competencies within dairy production in order to achieve competitive advantages. The areas we concentrate on include the following:

- **TECHNOLOGICAL VISION.** We have technological visions for the development of all areas of production over the next 10 years. Both product development and cost-saving initiatives are focus areas.
- **SKILLS DEVELOPMENT.** We will ensure that there is interaction between research, technological developments and product innovation. Furthermore, we will focus on entering into Intellectual Property (IP) agreements.
- **NETWORKING WITH DAIRIES.** In several countries and at different locations, we make use of one another's experience via wide-ranging internal networking.
- **MAXIMISED PRODUCTION.** We focus on increasing the yield from existing production resources without making further investments.
- **ACCESS TO RAW MILK.** Arla weighed in 8,713 million kg of milk in 2010, which is 0.6 per cent more than the previous year. Our cooperative members in Denmark and Sweden supplied 71 per cent of the milk we used, which is unchanged since 2009.

Arla across the world



16,215 colleagues make up Arla's workforce, of whom 67 per cent are employed in Denmark and Sweden. We are working to increase the diversity of our workforce by, for example, increasing the number of nationalities represented in the workforce in Denmark and Sweden.

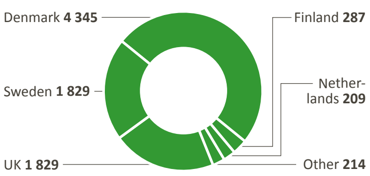
FINANCIAL REVIEW

General developments

The 2010 financial year was characterised by an economic upturn compared to 2009. The positive outlook is reinforced by the fact that the on account price for co-operative members was increased five times over the course of 2010 – by 7.5 Danish øre in May, 15.0 øre in June, 7.5 Danish øre in July, 7.5 Danish øre in October and a further 10 Danish øre in November. This was made possible due to an improved balance between supply and demand in global markets, which consequently resulted in positive price trends primarily in respect of commodity products. Contributory factors included a positive development in foreign exchange rates for the Group's primary export currencies and the Company's extensive savings programme, which was implemented in early summer 2009 and impacted fully in 2010.

Weighed in milk volumes for the year totalled 8,713 million kg (8,660 million kg in 2009) of which co-operative member milk accounts for 6,174 million kg (6,147 million kg in 2009). The majority of non-co-operative member milk relates to the UK, Finland and the Netherlands.

RAW MATERIAL SUPPLIES per country (million kg)



New consolidation policy

As previously mentioned, in 2010 the Board of Representatives adopted a new consolidation policy under which 4.5 per cent of the Arla earnings for the year via profit appropriation will be consolidated on the equity. Of this, two-thirds will be allocated to the collective equity and one-third to the new equity capital instrument, called the 'contributed capital'.

It has been decided that there should be a ceiling on individual consolidation. Moreover, it has been decided that the balance shall accrue interest and that there shall be a payment period with a three year termination period. The rate of return assumes approval by the authorities, which has not yet been obtained.

Income statement

Profits for the year, supplementary payment and consolidation

Profit for the year came in at DKK 1,268 million against DKK 971 million in 2009. Arla Foods' amba earnings per kg milk weighed in by co-operative members reached 252 Danish øre/291 Swedish öre against DKK 214 Danish øre/291 Swedish öre in 2009.

Supplementary payments amount to DKK 569 million against 660 DKK million the previous year. In addition, a proposal has been made with regard to appropriation from the strategy fund of DKK 462 million so that the overall supplementary payment for 2010 amounts to DKK 1,031 million.

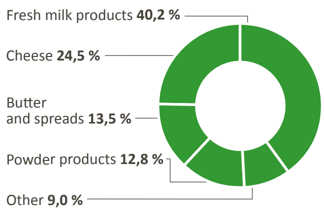
Consolidation based on the year's profits is DKK 699 million, which is allocated to the capital account by 7.5 Danish øre/10.24 Swedish öre per kg weighed in co-operative member milk and 3.8 Danish øre/5.2 Swedish öre per kg weighed in co-operative member milk that is allocated as contributed capital. The year's overall net consolidation is DKK 237 million when account is taken of the strategy fund payment.

Revenue

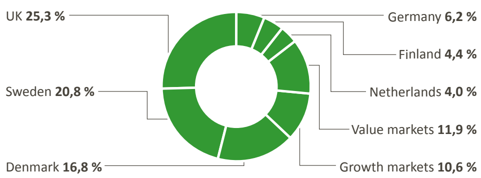
Revenue in 2010 totalled DKK 49,030 million against DKK 46,230 million in 2009 equating to a rise of 6.1 per cent. Of this, organic growth accounts for 3.0 per cent while the rest can be attributed to the change in foreign exchange rates (primarily SEK, GBP and USD).

Revenue distribution according to product groups and markets is shown in the following diagrams.

REVENUE per product group



REVENUE per market



Operating profit and EBITDA

Operating profit totalled DKK 1,684 million in 2010 against DKK 1,412 million in 2009. Operating profit was significantly positively affected by higher prices for dairy products, which are deemed to have impacted positively on the results by approximately DKK 1.8 billion. Production costs include an on-account payment to co-operative members of DKK 14.9 billion against DKK 12.2 billion the previous year.

Other operating income and expenses relate to items of a secondary nature, including revenue and costs in connection with the sale of surplus electricity from the condensation plant.

In addition, there are non-recurring items in connection with the closure and divestment of plants.

The Group's EBITDA, defined as earnings before interest, taxes, depreciation and amortisation, amounted to DKK 3,743 million in 2010 against DKK 3,223 in 2009.

Depreciation/amortisation and impairment

Depreciation/amortisation and impairment amount to DKK 2,059 million, which represents a rise of DKK 248 million. This can be attributed to a higher investment level in 2009 and 2010 coupled with significant writedowns on property, plant and equipment in 2010.

Net financials

Net financials amount to an expense of DKK 294 million against DKK 232 million in 2009. Net financials include the Group's net interest expenses, excluding interest relating to pensions at DKK 333 million against DKK 330 million in 2009. The rise in the Group's financial expenses can primarily be attributed to lower gains on securities and foreign currency.

Tax

Expensed tax declined during the year which is primarily attributable to an adjustment to the previous year's tax.

Balance sheet

Balance sheet total

The balance sheet total amounted to DKK 30,097 million at 31 December 2010, which is largely unchanged on the year. The effect of the higher exchange rates for, in the main GBP and SEK, compared to 2009 contributes to an increase in the balance sheet total of DKK 1.3 billion. Conversely, the securities and liquid assets portfolio was reduced by DKK 1.4 billion.

The primary working capital defined as the sum of inventories and trade receivables less payables stood at DKK 4,691 million at 31 December 2010.

Fixed assets

Intangible assets came in at DKK 4,452 million against DKK 4,728 million last year and consist, for the most part, of goodwill arising from the acquisition of Arla Foods UK, Tholstrup Cheese and Arla Ingman as well as IT development projects.

Additions for the year on intangible fixed assets can be attributed to IT development projects. Tangible fixed assets amount to DKK 11,218 million compared to DKK 10,743 million last year. The year's additions of DKK 1,613 million primarily comprise investments in existing dairy plants in the UK, Denmark and Sweden.

Investments reached DKK 1,334 million, which is on par with last year.

Current assets

Inventories total DKK 4,385 million at 31 December 2010 against DKK 3,614 million last year. The increase can largely be attributed to increased activity and significantly increased inventories compared to 31 December 2009 when inventories were extraordinarily low. In addition, the stock has a higher value as a result of the higher milk price at the end of 2010 compared to 31 December 2009.

Receivables total DKK 5,372 million against DKK 4,981 million the previous year. The increase can primarily be attributed to the increasing revenue.

Securities and cash at bank and in hand together amount to DKK 3,336 million against DKK 4,717 million the previous year. This includes bonds pledged from purchase and resale transactions (repo) at DKK 2,765 million against DKK 3,139 million in 2009.

Equity

Equity at 31 December 2010 was DKK 8,580 million, representing a rise of DKK 299 million compared to 31 December 2009.

The share of the profits used for consolidation totals DKK 699 million. Conditional upon the approval of the Board of Representatives, it is proposed that the balance in the strategy fund of DKK 462 million will be paid out from the equity. The year's value adjustments of hedging instruments amount to DKK 62 million and relate primarily to the value adjustment of interest rate hedging instruments. In addition, exchange rate adjustments etc. have increased the equity by DKK 142 million.

The equity ratio measured as equity in proportion to the balance sheet total rose to 29 per cent as at 31 December 2010 against 28 per cent last year.

Provisions

Net pension commitments in the UK and Sweden are recognised at DKK 1,584 million against DKK 1,670 million the previous year.

Other provisions total DKK 204 million at 31 December 2010, and are at the same level as last year. Other provisions primarily relate to insurance-related provisions, for example, for industrial injuries.

Liabilities

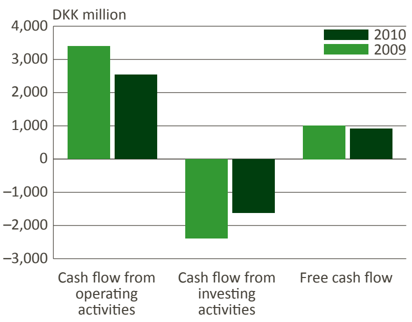
Most of the Group's long-term liabilities are based on Danish mortgage loans with terms of up to 20 years with security in the Group's plants in Denmark, Sweden and the UK.

In addition, the Group has loans from other credit institutions as well as a subordinate bond loan of DKK 1 billion that expires in 2014. Arla Foods has an option to redeem the loan in 2011.

Cash flow

Free cash flow totalled DKK 926 million in 2010. The free cash flow is calculated as the cash flow from operating activities less cash flow for investing activities.

CASH FLOW



Cash flow from operating activities totalled DKK 2,552 million in 2010 against DKK 3,402 million in 2009. The reduction in the cash flow from operating activities of DKK 850 million can primarily be attributed to increased capital tie-up in the Group's net working capital through 2010 where capital tie-up in 2009 was significantly reduced.

Cash flow for investing activities totalled DKK – 1,626 million against DKK – 2,392 million in 2009. The year's investments in property, plant and equipment amounts to DKK 1,508 million. There was no acquisition of enterprises in 2010.

Events after the balance sheet date

On 17 December 2010 Arla Foods announced a possible merger with the German co-operative dairy Hansa-Milch eG. The final decision on the proposed merger must be made by both Arla Foods and Hansa-Milch's owners. It is expected that, if the merger goes ahead, Arla Foods will acquire Hansa Milch's eG's operating activities in return for Hansa Milch eG becoming a co-operative member of Arla Foods amba. A decision is expected in March 2011 and must be approved by the competition authorities.

In February 2011, Arla Foods acquired Boxholm Mejeri AB in Sweden. Furthermore on 1 July 2011, Arla Foods expects to acquire a dairy in Sundsvall in Sweden from the Milko Company. The acquisition will be subject to approval from the Swedish competition authorities.

The accounting consequences of the above-mentioned transactions will be included in the Annual Report for 2011.

Expected developments

In January 2011, Arla Foods' Board of Directors approved the Group's budget for 2011, which forecasts organic growth in revenue of 5-6 per cent. An increased Arla earnings has also been included in the budget for 2011.

With a view to achieving the Arla Foods Group's growth targets up to 2015, the Group's investment budget for 2011 contains expected investments of DKK 2 billion, equating to almost 4 per cent of the budgeted revenue.

Arla Foods intends to strengthen its focus on increasing cash flow from operating activities in 2011. This is expected to have a positive effect on capital tie-up in working capital.

Developments in the parent company

Developments in the parent company in 2010 were characterised by an economic upturn compared to the previous year. Contributory factors have been increased sales prices and a positive development in foreign exchange rates for the parent company's main export currencies.

The co-operative structure

The parent company Arla Foods amba has a branch in Sweden, which is solely responsible for the weighing in of deliveries from Arla Foods amba's Swedish co-operative members whereafter the milk is sold to Arla Foods AB. This construction ensures that Danish and Swedish co-operative members are paid in accordance with common guidelines and that they exercise influence in the co-operative system, including elections to the parent company's supreme body, the Board of Representatives and the Board of Directors, in accordance with the provisions of the Articles of Association for Arla Foods amba. Arla Foods' dairy activities in Denmark and the related fixed assets and employees etc. are predominantly placed in Arla Foods amba while all dairy activities in Sweden, apart from weigh-in from the Swedish members, are placed in the subsidiary Arla Foods AB.

FINANCIAL RISKS

The Group's general policy for managing financial risks

The overall objectives and policies of Arla Foods' financial risk management are laid down in the Group's finance policy, which is approved by the Board of Directors.

The Group's financial risks are monitored and managed centrally by Corporate Treasury in accordance with the finance policy which lays down the framework for the Group's foreign exchange, financing, interest, liquidity and credit risks and which financial instruments and counterparts the Group can use.

Foreign exchange risks

Foreign exchange risks are a significant factor for Arla Foods and have a major impact on earnings and the balance sheet. Foreign exchange risks are, to a wide extent, hedged.

The majority of the Group's revenue as well as production and other operating expenses are incurred in GBP, SEK, DKK, EUR and USD. There is ongoing focus on ensuring that purchasing is undertaken in currencies that reduce the Group's overall currency exposure. In accordance with the finance policy, hedging of the expected currency flow may be undertaken for up to 15 months by way of forward exchange and option contracts. Of the Group's total revenue of DKK 49,030 million, approx. 83 per cent was accounted for by currencies other than DKK compared to 81 per cent last year.

As at 31 December 2010, DKK 5 million (DKK 1 million at 31 December 2009) was taken directly to equity, equating to the market value of the hedging instruments used to hedge cash flow after the balance sheet date.

The Group is exposed to foreign exchange risks relating to the translation of investments in foreign subsidiaries. As a general rule, these currency risks are unhedged albeit with some exceptions. At 31 December 2010, the currency-related translation risks on net investments in Finland are hedged by EUR loans.

Financing and interest rate risks

The finance policy underpins the Group's objectives and strategies and one of the targets is to reduce the risk of refinancing. The Group's policy is to hold long-term debt with diversified maturity.

Long-term, fixed-interest rate loans represent the Group's most important source of financing. New loans are raised as floating-rate loans, and interest swaps and interest options are used for managing the interest rate risk, ensuring efficient interest rate management and a higher degree of flexibility.

As a consequence of the adjustment to international standards, financial covenants have been accepted in committed loan facilities. The current financial covenants are measured on solvency and minimum equity as well as on EBITDA in relation to net interest and net interest bearing debt. At 31 December 2010, all financial covenants were complied with. To reduce interest expenses and achieve greater flexibility in liquidity management, the Group's bond portfolio is actively used as a financing source through sales and repurchase transactions (repo).

At 31 December 2010, the total interest-bearing liabilities, excluding the Group's pension commitments, amounted to DKK 12,050 million (DKK 13,565 million at 31 December 2009). The average term to maturity of long-term interest-bearing liabilities is approx. 5.3 years against approx. 5.4 years at 31 December 2009. The Group's net interest-bearing liabilities, including pension commitments, totalled DKK 10,041 million at 31 December 2010 (DKK 10,257 million at 31 December 2009).

The following chart shows the Group's net interest bearing debt excluding pension commitments according to due dates.

The Group's interest bearing debt excluding pension commitments

		Falls due (number of years after the financial year)						
Equivalent value DKK million	Total	0–1	1–2	2–3	3–5	5–7	7–10	Over 10
DKK	5,727	–251	45	92	1,177	351	1,162	3,151
EUR	1,018	69	12	18	570	347	2	0
GBP	42	–46	33	14	29	12	0	0
SEK	1,354	1,322	20	0	0	0	0	12
Other	316	4	0	1	309	0	1	1
Total 2010	**8,457**	**1,098**	**110**	**125**	**2,085**	**710**	**1,165**	**3,164**
Total 2009	**8,587**	**798**	**866**	**376**	**1,337**	**607**	**863**	**3,740**

Interest rate risks

At the start to 2010, a large portion of the Group's debt was floating rate, which has helped to keep interest expenses low. With due regard for the Group's growth strategy and the low interest rate level, a significant part of the Group's financing in 2010 was converted to fixed interest via interest rate hedging. The term of the interest hedging of the debt amounts to approx. four years against almost three years at the start of the year. The fair value of the hedging instruments entered into to hedge the Group's interest expenses amounts to DKK – 75 million at 31 December 2010 which is recognised directly in the equity (DKK – 14 million at 31 December 2009).

The Group's results are affected by interest rate developments. A change in interest rates of 1 per centage point in the next financial year is deemed at 31 December 2010 to impact on the results by approx. DKK 30 million.

Liquidity risks

The Group manages its liquidity risk by ensuring the availability of sufficient operating liquidity and credit facilities for operations. Financing of company acquisitions and important investments are assessed separately.

To a significant extent, the management of day-to-day liquidity flow is conducted through the Group's financing company, Arla Foods Finance A/S, via cash pool arrangements with the Group's bankers. The companies with excess liquidity finance the companies with a liquidity deficit whereby individual companies and the Group as a whole achieve a better return. In Sweden, Arla Foods AB and Arla Foods amba have a joint Commercial Paper programme of SEK 2.5 billion, under which bonds can be issued with terms of up to one year. At 31 December 2010, the CP programme was used to the sum of SEK 1,203 million equating to DKK 995 million.

As at 31 December 2010, the Group's liquidity reserve increased by DKK 280 million to DKK 6,364 million compared to 31 December 2009.

Liquidity reserve

DKK million	2010	2009
Cash at bank and at hand	448	1 397
Securities (free)	123	176
Undrawn commited facilities	1,182	1,191
Undrawn facilities	4,611	3,320
Total liquidity reserves at 31 December	**6,364**	**6,084**

The majority of the undrawn facilities are short-dated.

Credit risks

Arla Foods' trade receivables are not deemed to be exposed to any unusual risks. Bad debt losses on receivables are, despite the economic crisis, at the same modest level as in previous years. In order to minimise credit risk, credit management is central to the Group's entities and the Group regularly credit rates its customers and co-operative partners.

Raw material risks

The supply of raw milk constitutes the Group's greatest raw material risk. Besides milk, the Group is exposed to a range of other raw material risks. The most important risks relate to energy where purchasing is hedged directly with the suppliers according to fixed price agreements or through derivatives. The purpose of hedging is to ensure price predictability. The fair value of hedging instruments contracted to hedge the Group's raw material risks is DKK 9 million at 31 December 2010, which is recognised directy in the equity.

STATEMENT BY THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT BOARD

The Board of Directors and Executive Board have today discussed and approved the annual report of Arla Foods amba for 2010.

The annual report has been prepared in accordance with the Danish Financial Statements Act and the company's Articles of Association. We are of the opinion that the consolidated accounts and the annual accounts give a true and fair view of the Group and company's assets, liabilities and financial position at 31 December 2010 and of the results of the Group and company's activities and consolidated cash flows for the financial year, 1 January – 31 December 2010.

Moreover, in our view, the management report comprises a true and fair account of the development of the Group and company's financial position as a whole and a description of the key risks and uncertainties that the Group and company face.

We recommend that the annual report be submitted to the Board of Representatives for approval.

Copenhagen, 22 February 2011

Executive Board

Peder Tuborgh *CEO*	Povl Krogsgaard *Vice CEO*	Andreas Lundby *Vice CEO*

Board of Directors

Ove Møberg *Chairman*	Åke Hantoft *Deputy Chairman*		
Viggo Ø. Bloch	Leif Eriksson	Steen Nørgaard Madsen	Gunnar Pleijert
Steen Bolvig	Heléne Gunnarson	Torben Myrup	Ingela Svensson
Palle Borgström	Björn Jakobsson	Anne-Lie Nielsen	Pejter Søndergaard
Bjarne Bundesen	Thomas Johansen	Jan Toft Nørgaard	Bent Juul Sørensen

INDEPENDENT AUDITORS' REPORT

To the members of Arla Foods amba

We have audited the consolidated accounts and the annual accounts for Arla Foods amba for the financial year 1 January –31 December 2010, pages 23–43. The consolidated accounts and the annual accounts comprise the accounting policies, income statement, balance sheet, statement of changes in equity and notes for both the Group and the company as well as the consolidated cash flow. The consolidated accounts and the annual accounts have been prepared in accordance with the Danish Financial Statements Act.

As part of the audit, we have examined the management's review, which is prepared in accordance with the Danish Financial Statements Act, and have provided an opinion.

The Executive Board's and Board of Directors' responsibility for the annual report

The Executive Board and Board of Directors are responsible for the preparation and fair presentation of the consolidated accounts and annual accounts in accordance with the Danish Financial Statements Act. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated accounts and annual accounts that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Moreover, the Executive Board and Board of Directors are responsible for preparing a management review that contains a true and fair account in accordance with the Danish Financial Statements Act.

Auditors' responsibility and basis of opinion

Our responsibility is to express an opinion on the consolidated accounts and annual accounts based on our audit. We have conducted our audit in accordance with Danish Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the consolidated accounts and annual accounts do not contain material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts and annual accounts. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement in the consolidated accounts and annual accounts, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the company's preparation and fair presentation of the consolidated accounts and annual accounts 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Executive Board and Board of Directors as well as evaluating the overall presentation of the consolidated accounts and annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit did not result in any qualification.

Opinion

In our opinion, the consolidated accounts and annual accounts provide a true and fair view of the Group and company's assets, liabilities and financial position at 31 December 2009 and of the results of the Group and company's operations and consolidated cash flows for the financial year, 1 January–31 December 2010 in accordance with the Danish Financial Statements Act.

Opinion on the Management Review

In accordance with the Danish Financial Statements Act, we have examined the management's review. We have not undertaken further actions additional to the audit of the consolidated accounts and the annual accounts. On this basis, we are of the opinion that the information provided in the management review is in accordance with the consolidated accounts and the annual accounts.

Copenhagen, 22 February 2011

KPMG
Statsautoriseret Revisionspartnerselskab

Finn L. Meyer
Statsaut. revisor

KPMG AB, Sverige

Carl Lindgren
Auktoriserad revisor

ACCOUNTING POLICIES

General information

The annual report of Arla Foods amba for 2010 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

The accounting policies, described below, are unchanged. Some reclassifications have been carried out compared to previously. These, however, have no impact on the annual results or the equity.

The annual report is presented in Danish kroner, which is the functional currency of the parent company.

Basis for preparation

Income is recognised in the income statement as earned while costs incurred are recognised with the amounts relating to the financial year. Value adjustments concerning financial assets and liabilities are recognised in the income statement as financial income or financial costs.

Assets are recognised in the balance sheet when, as a result of a previous event, it is probable that future economic benefits will accrue to the group and the value of the asset can be reliably measured.

Liabilities are recognised in the balance sheet when the group, as a result of a previous event, has a legal or actual liability and an outflow of economic benefits is probable and when the liability can be reliably measured.

Initial recognition of assets and liabilities is made at cost. Assets and liabilities are subsequently measured as described below for each individual item.

In recognising and measuring assets and liabilities, any information concerning foreseeable risks and losses occurring prior to the presentation of the annual report that evidence conditions existing on the balance sheet date are taken into account.

Accounting estimates, assumptions and uncertainties

To determine the carrying amount of assets and liabilities, estimates are required of how future events will affect the value on the balance sheet date.

Estimates that are significant to the financial reporting are made in connection with the acquisition of companies, the determination of inventory, depreciation, amortisation and writedowns, pensions, provisions, contingent assets and contingent liabilities.

The estimates are based on assumptions that are deemed to be reliable but which are inherently uncertain.

Please refer to the individual sections in the accounting policies for each of the above items for a detailed examination of the accounting estimates.

Consolidated financial statements

The consolidated financial statements comprise the parent company, Arla Foods amba, and subsidiaries in which the parent company directly or indirectly holds more than 50 per cent of the voting rights or which, in some other way, it controls. Enterprises in which the Group exercises significant, but not controlling influence, are regarded as associates. Significant influence is typically achieved through directly or indirectly holding more than 20 per cent but less than 50 per cent of the voting rights. The Group chart appears on pages 42–43.

The consolidated financial statements are prepared by aggregating the parent company's and the individual subsidiaries' accounts compiled according to the Group's accounting policies. Intra-group income, expenses, shareholdings, balances, dividends and realised and unrealised gains and losses on transactions between the consolidated companies are eliminated. Unrealised gains on transactions with associates are eliminated in proportion to the Group's ownership share in the company. Unrealised losses are eliminated in the same way to the extent that no deterioration in value occurs.

The subsidiaries' accounting items are recognised 100 per cent in the consolidated financial statements.

Business combinations

In the event of the purchase of enterprises, these are included in the consolidated financial statements from the time of acquisition and for the part of the year in which the enterprises have been owned by the Arla Foods Group. Investments in subsidiaries are offset against the proportional share of the enterprises' net assets on the date of acquisition at fair value. Sold or divested companies are recognised in the consolidated income statement until the time of handing over. Comparative figures are not adjusted for newly acquired and divested enterprises.

Acquisitions of enterprises are accounted for using the purchase method, according to which the identifiable assets, liabilities and contingent liabilities acquired are measured at their fair values at the date of acquisition. Provision is made for costs related to adopted and stated plans to restructure the acquired enterprise. The tax effect of fair value adjustments is taken into account.

The cost price of an enterprise comprises the fair value of the agreed fee with the addition of costs that can be directly accounted for by the acquisition. If parts of the fee are conditional upon future events, such parts are recognised in the cost price to the extent that the events are likely and the payment can be reliably calculated.

Positive differences between the cost of the acquired investment and the fair value of the assets and liabilities (goodwill) are recognised as intangible assets. Where fair value adjustments of the assets and liabilities acquired result in a negative net asset value of the acquired enterprise, minority interests' share is included in the positive difference. Any positive balances are amortised in the income statement based on an individual assessment of the useful life, not exceeding 20 years.

Any negative balances (negative goodwill) representing an estimated adverse development in the acquired enterprises are recognised as deferred income and recognised under liabilities and recognised in the income statement as the adverse development is realised.

Gains or losses on disposal, in whole or in part, of subsidiaries or associates are stated as the difference between the sales amount and the carrying amount of net assets at the time of disposal plus non-amortised goodwill and disposal costs. Gains and losses are recognised in the income statement under Gains on disposal of enterprises etc.

Minority interests

Minority interests are initially measured at the proportional share of the acquired enterprise's identified assets and liabilities. The minority interests' proportional share of the subsidiaries' results and equity are recognised separately in the income statement and balance sheet.

Foreign currency translation

For each of the reporting companies in the group, a functional currency has been set. This functional currency is the currency used in the main financial environment in which the individual reporting company operates. Transactions in currencies other than the functional currency are transactions in foreign currency.

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or the exchange rate recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

In recognition of enterprises with a functional currency other than DKK, the income statements are translated at average exchange rates per month to the extent that this does not give a significantly different picture than if the rate on the transaction day was applied. The balance sheet items are translated at the exchange rates at the balance sheet date.

On recognition of foreign associates, the share of profits is recognised at average exchange rates and the share of net asset value is recognised at the exchange rates at the balance sheet date.

Foreign exchange differences arising on translation of the opening equity of foreign subsidiaries at the exchange rates at the balance sheet date and on translation of the income statements from average exchange rates to the exchange rates at the balance sheet date are recognised directly in equity.

Exchange rate adjustments of outstandings with independent foreign subsidiaries where the outstandings are deemed to be part of the total investment in the company in question are taken directly to equity. Correspondingly, exchange rate adjustments on loans and derivatives that are entered into to hedge net investments in foreign companies are taken directly to equity to the extent they effectively secure the exchange rate risks on the net investment.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are recognised under other receivables and payables, respectively. Setting off of positive and negative values is exclusively carried out when the Group has the right and intention to settle several financial instruments net. The fair value is calculated on the basis of current market data and accepted valuation methods.

Fair value hedging

Changes in the fair value of derivative financial instruments designated as, and meeting the criteria for, hedging the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability as far as relates to the portion that is hedged.

Cash flow hedging

Changes in the fair value of derivative financial instruments designated as, and qualifying for recognition as, a hedge of future cash flow are recognised directly in equity. Income and expenses relating to such hedging transactions are transferred from equity on realisation of the hedged item and recognised in the same item as the hedged item.

Hedging of net investments

Changes in the fair value of derivative financial instruments used to hedge net investments in foreign subsidiaries and which effectively hedge against exchange rate changes in such enterprises are recognised directly in the equity under exchange rate adjustment.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement as financial income or financial expenses.

Public subsidies
Public subsidies comprise subsidies and the financing of development projects as well as subsidies for investments etc. If the subsidy is recognised then there is reasonable assurance that they will be received. Subsidies from the EU and other public authorities for investments in fixed assets and development projects recognised in the balance sheet, are deducted from the purchase price.

Subsidies granted for product development, etc. are entered as income under the item other operating income at the time they are received. Refundable subsidies are recognised as obligations until it is more than probable that the refunding conditions are met.

Segment information
Information on business segments and geographical markets is provided in so far as it relates to net revenue apportionment. Segment information complies with the Group's accounting policies and internal financial controls.

Income statement

Revenue
Revenue is recognised in the income statement provided that transfer of risk to the buyer has taken place and comprises the year's invoiced sales less sales discounts. Any restitutions and production subsidies from the EU are included in revenue.

The revenue for Arla Foods amba also includes declared supplementary payments from other sales companies within the Arla Foods Group.

Production costs
Production costs include cost of sales, including purchase of milk from Arla Foods' members as well as direct and indirect costs, including depreciation and impairment of plant, etc. and wages and salaries incurred to realise the revenue for the year. Purchase of milk from members are recognised at on-account prices for the year and therefore do not include supplementary payments.

Product development costs not meeting the criteria for capitalisation in the balance sheet are expensed in the income statement.

Sales and distribution costs
Costs incurred in distributing goods sold during the year and in conducting sales campaigns etc. during the year are recognised as sales and distribution costs. Also, costs relating to sales staff, write downs on trade receivables, sponsorship, advertising, exhibitions and depreciation and impairment are recognised as sales and distribution costs.

Administration and joint costs
Administration and joint costs comprise expenses incurred during the year for group management and administration, including expenses for administrative staff, office premises and office expenses and depreciation and impairment.

Other operating income and costs
Other operating income and costs comprise items secondary to the principal activities of the enterprise, including gains and losses on disposal of intangible assets and property, plant and equipment. Gains and losses are stated as the difference between the sales price less sales costs and the carrying amount at the time of sale.

Profits/losses from investments in subsidiaries and associates
The proportionate share of the results after tax of the individual subsidiaries is recognised in the income statement of the parent company after full elimination of intra-group profits/losses and less declared supplementary payments.

The proportionate share of the results after tax of the associates is recognised in both the parent company and the consolidated income statement after elimination of the proportionate share of intra-group profits/losses.

Financial income and expenses
Interest income and expenses and exchange gains and losses etc. are recognised in the income statement at amounts relating to the financial year.

Furthermore, financial income and expenses comprise both realised and unrealised value adjustments of securities and foreign currency, the amortisation of financial assets and liabilities as well as the interest part of the financial leasing instalments. Moreover, realised and unrealised gains and losses relating to derivative financial instruments that cannot be classified as hedging contracts are recognised.

Tax
The taxable income of the companies is calculated in accordance with the national rules in force. Tax is computed based on either co-operative taxation or corporate taxation. The allocation of tax between the jointly taxed companies is according to the full absorption method.

Tax for the year comprises the year's current tax and the difference in deferred tax and is recognised in the income statement with the part that is attributable to the year's results and directly on the equity with the part that is attributable to items directly on the equity.

Balance sheet

Intangible assets
Intangible assets are measured at cost less accumulated amortisation and impairment.

Goodwill is initially recognised as stated under "Business combinations".

Product development projects qualifying for recognition in the balance sheet are measured at cost, including indirect costs incurred. Other development costs are recognised in the income statement as they arise.

For IT development projects, only external costs for the establishment of the Group's IT systems are recognised. Internal system development costs are recognised in the income statement when they occur. Intangible assets are amortised on a straight-line basis over their expected useful lives:

Goodwill	up to 20 years
Licences and trademarks, etc.	up to 20 years
Product development	3 years
IT development projects	5–8 years

Intangible assets are amortised from the date of acquisition or when the assets are taken into use.

Intangible assets are assessed regularly and are amortised at the recoverable amount (net realisable value). The recoverable amount is generally calculated as the present value of the expected future net cash flows of the business or activity (cash generating unit) to which the goodwill relates.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. Interest expenses are not included in the production period.

Property, plant and equipment are depreciated on a straight-line basis from the time of acquisition or commissioning, based on an assessment of the useful life which is:

Office buildings	50 years
Production buildings	20 years
Plant and machinery	5–20 years
Fixtures and fittings, tools and equipment	3–7 years

Assets are written down to the highest value of the capital and fair value equating to the recoverable amount (net realisable value).

Assets in the course of construction, land and discontinued plants that are written down at the net realisable value are not depreciated.

Assets with a short useful life, minor acquisitions and minor costs of improvement that individually and together are insignificant are expensed in the year of acquisition.

Lease contracts regarding property, plant and equipment, where the Group holds all major risks and rewards incident to ownership (financial leasing), are measured at their initial recognition in the balance sheet at the lower of fair value or the present value of the future lease payments. For the calculation of the net present value, the interest rate implicit in the lease or an approximation thereof is used as the discount rate. Assets held under finance lease are hereafter treated as the Group's other property, plant and equipment.

Investments

Investments in subsidiaries and associates are measured according to the equity method.

Investments in subsidiaries and associates are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies minus or plus non-depreciated positive or negative Group goodwill and unrealised intra-group profits and losses.

For those cooperative societies that form part of the Group, the ownership share, and thereby the share of the net asset value, has been calculated in accordance with the Articles of Association of the individual companies.

Investments in subsidiaries and associates with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such enterprises are written down by the Group's share of the negative net asset value if the amount owed is irrecoverable. If the negative net asset value exceeds the receivable, the remaining amount is recognised under provisions to the extent the Group has a legal or constructive obligation to cover the deficit of the enterprise.

Net revaluation of investments in subsidiaries and associates is transferred to the reserve for net revaluation according to the equity method in equity to the extent that the carrying amount exceeds cost.

Subordinate loans to subsidiaries are measured at the amortised cost price. Any exchange rate adjustments to the closing rate are carried to equity.

Other securities and investments etc. are measured at fair value at the balance sheet date. Changes in the fair value are carried under financial income and expenses.

Inventories

Raw materials, consumables and goods for resale are measured at cost plus delivery costs. The cost of the milk included in inventories has been recognised at the settlement price, including expected supplementary payments to Arla Foods amba's members.

Work in progress and finished goods are measured at cost consisting of the cost of raw materials and consumables with the addition of processing costs and other costs directly or indirectly related to the individual goods. Indirect production overheads comprise indirect materials and wages and salaries as well as depreciation of production equipment.

Inventories are measured at cost in accordance with the

FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is determined taking into account marketability, obsolescence and development in expected sales price less completion costs and costs incurred to effectuate the sale.

Receivables

Receivables are measured at amortised cost less write-down for bad debt losses based on an individual assessment or receivables or at the portfolio level. Amortised cost corresponds in all material respects to nominal value.

Prepayments comprise costs incurred concerning subsequent financial years.

Securities

Securities are measured at the current market value at the balance sheet date.

Changes in the fair value are recognised in the income statement under financial income and expenses.

Liquid assets

Liquid assets in foreign currency are translated at the closing rate.

Provisions

Deferred tax

Deferred tax and the year's adjustment thereof are measured using the balance sheet liability method as the tax value of all temporary differences between the carrying amount and the tax base of assets and liabilities.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the enterprises within the same legal tax entity and jurisdiction.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

The change in deferred tax assets and tax liabilities as a consequence of the changes in the tax rates are recognised in the income statement.

Pensions:

The Group has entered into pension agreements with many of its employees.

The pension schemes comprise defined contribution schemes and defined benefit schemes.

As regards the defined contribution schemes, the Group currently pays fixed contributions to independent pension funds. The Group has no commitments of additional payments.

Defined benefit schemes are those for which the company is committed to pay a certain amount from the date of retirement, depending on the employee's length of service and final salary.

The commitment regarding defined benefit schemes is calculated annually by means of an actuarial computation based on the expected future development in interest rates, inflation and average life expectancy.

Costs in the income statement regarding defined benefit schemes are based on the above-mentioned actuarial calculations.

The actuarially calculated present value of defined benefit obligations less the market value of any assets related to the schemes are recognised in the balance sheet under pension commitments.

If the actuarial assumptions change, gains and losses exceeding 10 per cent of the present value of the pension commitments or 10 per cent of the fair value of the plan assets will consequently only be recognised in the income statement over the average remaining service life of the employees covered by the pension scheme (the corridor method).

Other provisions

Provisions are recognised when the Group, as a result of an event occurring prior to or on the balance sheet date has a legal or actual liability and an outflow of economic benefits is probable to meet the liability.

Other provisions include insurance provisions and obligations in connection with business combinations, restructuring, loss-making contracts, guarantee commitments and lawsuits, etc. that are measured on the basis of the best estimate of the costs that, on the balance sheet date, are necessary to terminate the obligation.

Liabilities

Amounts-owed to mortgage banks, credit institutions etc, as well as the subordinate bond loan are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at the capitalised value using the effective interest method.

Amounts owed to credit institutions etc. also include the capitalised residual obligation on financial leasing contracts. The interest portion of the leasing instalment is recognised over the term of the contract in the income statement.

Supplementary payment to co-operative members

The supplementary payment to co-operative members is recognised as a liability with the share of the year's results that the Board of Directors recommends to the Board of Representatives be paid to co-operative members. The amount is recorded via profit appropriation.

Current tax liabilities

Current tax liabilities and current tax receivable are recognised in the balance sheet as computed tax on the year's taxable income adjusted for any tax relating to previous years' taxable income and for on account tax paid.

Other liabilities

Trade payables, amounts owed to subsidiaries and associates and other payables are measured at amortised cost – usually corresponding to the nominal value.

Deferred income

Deferred income, recognised under liabilities, comprises payments received concerning income in subsequent years as well as negative goodwill. Deferred income is measured at amortised cost price, which usually equates to the nominal amount.

Cash flow statement

The consolidated cash flow statement is prepared in accordance with the indirect method on the basis of the consolidated results. A separate cash flow statement for the parent company has not been prepared.

The statement shows the cash flows divided into operating, investing and financing activities and how these cash flows have affected the Group's cash funds.

The cash flow from operating activities is calculated as the consolidated results adjusted for non-cash operating items such as depreciation and impairment, provisions and changes in the working capital.

The cash flow from investing activities comprises cash flows in connection with the purchase and sale of intangible assets and property, plant and equipment as well as investments. The effect on liquidity of the purchase and sale of companies is shown separately under Cash Flows from Investing Activities. In the Cash Flow Statement, cash flow relating to purchased companies from the time of acquisition and cash flow relating to sold companies is recognised until the point of sale.

The cash flow from financing activities comprises the raising and repayment of long-term and short-term debt to financial institutions, mortgage lenders, supplementary payments to co-operative members relating to the previous financial year and payments from equity.

The cash funds are made up of cash at bank and in hand and listed bonds which can readily be converted to cash at bank and in hand and where there is only an insignificant risk of value changes.

The cash flow statement cannot be derived solely from the consolidated financial statements.

Financial key figures

Net interest-carrying liabilities, including pension commitments/EBITDA are calculated as net interest-carrying liabilities including pension commitments in relation to EBITDA.

Interest cover is calculated as EBITDA in relation to interest expenses, net.

The solvency ratio is calculated as equity in relation to the balance sheet total.

The Arla earnings is calculated as the average on account price paid (standardised to 4.2 per cent fat/3.4 per cent protein) plus the year's profits converted to øre per kg co-operative member milk.

INCOME STATEMENT

Parent company				Group	
2009	2010	DKK million	Not	2010	2009
24,012	**26,804**	**Revenue**	1	**49,030**	**46,230**
–21,296	–23,090	Production costs	2/3	–39,154	–37,052
2,716	**3,714**	**Gross profit**		**9,876**	**9,178**
–1,388	–1,625	Sales and distribution costs	2/3	–5,926	–5,518
–655	–583	Administration and joint costs	2/3/4	–2,313	–2,237
32	42	Other operating income		123	168
–13	–15	Other operating expenses		–76	–179
692	**1,533**	**Operating profit**		**1,684**	**1,412**
173	–310	Results in subsidiaries	9	–	–
0	–4	Results in associates	9	23	20
336	375	Financial income	5	147	267
–193	–270	Financial expenses	5	–441	–499
1,008	**1,324**	**Profit from ordinary activities before tax**		**1,413**	**1,200**
–37	–56	Tax	6	–160	–229
971	**1,268**	**Profit for the year**		**1,253**	**971**
–	–	Minority interests	10	15	0
971	**1,268**	**Arla Foods amba’s share of results for the year**		**1,268**	**971**
		Proposed profit appropriation:			
660	**569**	**Supplementary payment to Arla Foods amba’s cooperative owners**		**569**	**660**
		Transferred to equity:			
–	466	Capital account		466	–
311	0	Deliverybased owner certificates		0	311
–	233	Contributed capital		233	–
311	**699**	**Transferred to equity, total**		**699**	**311**
971	**1,268**	**Apportioned profit, total**		**1,268**	**971**

Conditional upon the approval of the Board of Representatives, it is proposed that the balance in the strategy fund of DKK 462 million be paid out together with the supplementary payment. The total supplementary payment will thus total DKK 1,031 million.

BALANCE SHEET

Parent company		Assets		Group	
Balance at 31.12.09	Balance at 31.12.10	DKK million	Note	Balance at 31.12.10	Balance at 31.12.09
		Fixed assets			
		Intangible assets	7		
0	0	Licences and trademarks etc.		328	360
18	0	Goodwill		3,744	3,896
23	0	Product development		0	33
429	373	IT development		380	439
470	**373**	**Total intangible assets**		**4,452**	**4,728**
		Property, plant and equipment	8		
1,530	1,439	Land and buildings		4,728	4,583
2,436	2,338	Plant and machinery		5,189	4,972
80	84	Fixtures and fittings, tools and equipment		649	272
279	315	Assets in course of construction		652	916
4,325	**4,176**	**Total property, plant and quipment**		**11,218**	**10,743**
		Investments	9		
1,970	1,776	Investments in subsidiaries		–	–
5,231	5,407	Subordinate loan to subsidiaries		–	–
170	179	Investments in associates		634	585
–	–	Deferred tax assets		150	215
122	131	Other securities and investments, etc.		550	511
7,493	**7,493**	**Total investments**		**1,334**	**1,311**
12,288	**12,042**	**Total fixed assets**		**17,004**	**16,782**
		Current assets			
		Inventories			
518	749	Raw materials and consumables		1,281	838
650	329	Work in progress		530	806
277	672	Finished goods and goods for resale		2,574	1,970
1,445	**1,750**	**Total inventories**		**4,385**	**3,614**
		Receivables			
1,050	1,093	Trade receivables		4,781	4,272
3,249	3,684	Amounts owed by subsidiaries		–	–
0	0	Amounts owned by associates		65	57
51	61	Other receivables		340	453
86	38	Prepayments		186	199
4,436	**4,876**	**Total receivables**		**5,372**	**4,981**
387	**0**	**Securities**		**2,888**	**3,320**
5	**6**	**Cash at bank and in hand**		**448**	**1,397**
6,273	**6,632**	**Total current assets**		**13,093**	**13,312**
18,561	**18,674**	**Total**		**30,097**	**30,094**

Parent company		Equity, minority interests and liabilities		Group	
Balance at 31.12.09	Balance at 31.12.10	DKK million	Not	Balance at 31.12.10	Balance at 31.12.09
		Equity			
6,452	7,020	Capital account		7,082	6,471
857	838	Delivery-based owner certificates		838	857
–	231	Contributed capital		231	–
462	0	Strategy fund		0	462
500	500	Reserve fund B		500	500
10	–9	Value adjustments of hedging instruments		–71	–9
8,281	**8,580**	**Total equity**		**8,580**	**8,281**
–	**–**	**Minority interests**	10	**116**	**128**
		Provisions			
0	0	Deferred tax	11	194	229
0	0	Pension commitments	12	1,584	1,670
1	10	Other provisions	13	204	202
1	**10**	**Total provisions**		**1,982**	**2,101**
		Liabilities			
		Long-term liabilities	14		
1,000	1,000	Subordinate bond loan		1,000	1,000
1,807	1,796	Mortgage credit institutions		4,932	5,074
643	634	Credit institutions, etc.		1,427	1,742
3,450	**3,430**	**Total**		**7,359**	**7,816**
		Short-term liabilities			
11	33	Short-term portion of long-term liabilities		104	36
1,220	995	Bank loans and overdrafts		4,587	5,713
660	1,031	Supplementary payments		1,031	660
1,422	1,943	Trade payables		4,475	3,340
2,854	1,949	Amounts owed to subsidiaries		–	–
5	0	Amounts owed to associates		1	15
8	27	Tax		51	104
635	641	Other payables		1,630	1,699
14	35	Deferred income		181	201
6,829	**6,654**	**Total**		**12,060**	**11,768**
10,279	**10,084**	**Total liabilities**		**19,419**	**19,584**
18,561	**18,674**	**Total equity, minority interests and liabilities**		**30,097**	**30,094**
		Contingent liabilities and securities	15		
		Financial instruments	16		
		Contractual obligations	17		
		Related parties	18		
		Co-operative members' liability	19		

STATEMENT OF CHANGES IN EQUITY

	Group					
DKK million	Balance at 01.01.10	Results for the year	Exchange rate adjustments	Other adjustments	Payments for the year	Balance at 31.12.10
Capital account	6,471	466	107	38	0	7,082
Delivery-based owner certificates	857	0	35[1)]	0	–54	838
Contributed capital	–	233	0	0	–2	231
Strategy fund	462	0	0	0	–462	0
Reserve fund B	500	0	0	0	0	500
Value adjustments of hedging instruments	–9	0	–	–62	0	–71
Total equity	**8,281**	**699**	**142**	**–24**	**–518**	**8,580**

	Parent company					
MDKK	Balance at 01.01.10	Results for the year	Exchange rate adjustments	Other adjustments	Payments for the year	Balance at 31.12.10
Capital account	6,452	466	107	–5	0	7,020
Delivery-based owner certificates	857	0	35[1)]	0	–54	838
Contributed capital	–	233	0	0	–2	231
Strategy fund	462	0	0	0	–462	0
Reserve fund B	500	0	0	0	0	500
Value adjustments of hedging instruments	10	0	0	–19	0	–9
Total equity	**8,281**	**699**	**142**	**–24**	**–518**	**8,580**

[1)] Exchange adjustments at 31 December 2010 relating to the portion of delivery-based owner certificates registered in SEK totals DKK 35 million. The amount has been transferred from exchange rate adjustment capital account.

Capital account:
The capital account consists of the undistributed equity of the company.

Delivery-based owner certificates:
These were established in accordance with Section 19, sub-section 1 (ii) of the Articles of Association and accompanying regulations. Deposits on the certificates of each owner are payable on termination of membership of Arla Foods amba in accordance with the provisions of the regulations and subject to the approval of the Board of Representatives. The account is held in DKK and SEK.

Strategy fund:
This was established in accordance with Section 19, sub-section 1 (vii) of the Articles of Association. The Board of Representatives may decide to use the strategy fund to offset significant and temporary negative liquidity effects arising on acquisitions and integration of large companies or strategic structural measures. Notwithstanding the above objective of the fund, the Board of Representatives may use any given year's payment to the fund after a period of five years including the year in which the contribution was made.

Changes to the strategy fund for the year:

Allocated / Used	2006	2007	2008	Total
	200	184	262	646
2007	–44	0	0	–44
2008	–140	0	0	–140
2009	0	0	0	0
2010	–16	–184	–262	–462
Saldo	**0**	**0**	**0**	**0**

Conditional upon the approval of the Board of Representatives, it is proposed that the balance of the strategy fund of DKK 462 million be paid out in accordance with the Articles of Association.

Contributed capital:
This was established in 2010 in accordance with Section 19, sub-section 1, (iii) of the Articles of Association and accompanying regulations. The individual member's balance as contributed capital is only payable on termination of membership of Arla Foods amba in accordance with the provisions of the regulations and subject to the approval of the Board of Representatives.

Reserve fund B:
Reserve fund B comprises the reserves set aside on the incorporation of the company, and following a proposal by the Board of Directors, the Board of Representatives can decide to use the fund to cover extraordinary losses or write-downs, but solely in respect of such activities or business that are not primarily based on the milk volumes sourced from co-operative members and only if such losses are not covered by other reserves under the equity.

Value adjustments of hedging instruments:
The item comprises the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future cash flows.

Net revaluation under the equity method:
Net revaluation under the equity method is negative.

No payments shall be made to the members of Arla Foods amba that reduce the total of the company's capital account and any transfers from the annual profits appropriation to net revaluation under the equity method.

CASH FLOW STATEMENT

	Group	
DKK million	2010	2009
Cash flow from operating activities		
Profits for the year	1,268	971
Depreciation and impairment	2,059	1,811
Other operating items without cash impact	–285	91
Share of results in associates	–23	–20
Gains on disposals of enterprises and properties, etc.	0	–8
Change in deferred taxes	96	101
Change in inventories	–618	743
Change in receivables	–316	931
Change in provisions	–272	–147
Change in trade payables and other payables etc.	795	–1,030
Tax paid	–152	–41
Cash flow from operating activities	**2,552**	**3,402**
Cash flow from investing activities		
Investment in intangible fixed assets	–110	–303
Sale of intangible fixed assets	0	24
Investment in property, plant and equipment	–1,508	–1,618
Sale of property, plant and equipment	3	158
Investments, etc.	–11	76
Purchase of enterprises	0	–729
Sale of enterprises	0	0
Cash flow from investing activities	**–1,626**	**–2,392**
Cash flow from financing activities		
Supplementary payments regarding the previous financial year	–660	–137
Paid out from equity re. co-operative members who have terminated their contract	–34	–32
Change in non-current liabilities	–102	23
Change in short-term liabilities	–1,596	–380
Cash flow from financing activities	**–2,392**	**–526**
Change in cash funds and securities	**–1,466**	**484**
Cash funds and securities at 1 January	4,717	4,200
Exchange rate adjustments of cash funds	85	33
Cash funds at 31 December	**3,336**	**4,717**

NOTES

1 REVENUE

DKK million	Group 2010	Group 2009
Consumer Nordic	19,765	19,353
Consumer UK	12,184	11,852
Consumer International	10,093	7,840
Global Categories & Operations	4,775	–
Global Ingredients	–	6,305
Other	2,213	880
Total revenue	**49,030**	**46,230**

An organisational change in May 2010 affected Consumer International and Global Ingredients and established the new business area Global Categories & Operations. A large proportion of international sales activities have been combined into Consumer International. In addition, the whey business, which is a separate business, has been transferred to other business areas. It has not been possible to adjust the comparative figures. Distribution of revenue according to product groups and geographical markets is shown in the financial report.

2 STAFF COSTS

Parent company			Group	
2009	2010	MDKK	2010	2009
–2,343	–2,312	Wages, salaries and remuneration	–5,411	–5,488
–194	–214	Pensions	–520	–468
–14	–31	Other social security costs	–623	–437
–2,551	**–2,557**	**Total**	**–6,554**	**–6,393**
		Staff costs relate to:		
–2,029	–2,002	Production costs	–3,780	–3,709
–208	–229	Sales and distribution costs	–2,006	–1,867
–314	–326	Administration and joint costs	–768	–817
–2,551	**–2,557**	**Total**	**–6,554**	**–6,393**
		Of which:		
–3	–2	Fees to parent company's Board of Representatives	–3	–3
–4	–5	Fees to the parent company's Board of Directors	–5	–5
–17	–18	Fees to parent company's Executive Management Board	–18	–17
5,563	**5,715**	**Average number of full-time employees**	**16,215**	**16,231**

3 DEPRECIATION/AMORTISATION AND IMPAIRMENT

Parent company			Group	
2009	2010	DKK million	2010	2009
–176	–196	Intangible assets	–485	–463
–640	–658	Property, plant and equipment	–1,574	–1,348
–816	–854	**Total**	**–2,059**	**–1,811**
		Depreciation/amortisation and impairment relate to:		
–624	–659	Production costs	–1,436	–1,247
–25	–43	Sales and distribution costs	–185	–139
–167	–152	Administration and joint costs	–438	–425
–816	–854	**Total**	**–2,059**	**–1,811**

The Group's writedowns for the year amount to DKK 22 million for intangible assets and DKK 113 million for property, plant and equipment.

4 FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES

Parent company			Group	
2009	2010	DKK million	2010	2009
		KPMG:		
–4	–4	Statutory audit	–14	–14
–2	–3	Tax assistance	–5	–4
0	0	Other assurance statements	0	0
–4	–1	Other services	–4	–5
–10	**–8**	**Total**	**–23**	**–23**

Other services comprise, inter alia, fees relating to due diligence in connection with acquisitions of companies and advice on the Group's pension commitments

5 NET FINANCIALS

Parent company			Group	
2009	2010	DKK million	2010	2009
		Income		
294	369	From subsidiaries	–	–
42	6	Other financing income	147	267
336	**375**	**Total**	**147**	**267**
		Costs:		
–8	–22	For subsidiaries	–	–
–185	–248	Other financing expenses	–441	–499
–193	**–270**	**Total**	**–441**	**–499**

6 TAX

Parent company			Group	
2009	2010	DKK million	2010	2009
–37	–56	Tax on taxable income for the year	–182	–130
0	0	Adjustment, deferred tax	–7	–90
0	0	Change in tax rate	–5	0
0	0	Adjustment of tax from previous year	34	–9
–37	**–56**	**Total**	**–160**	**–229**

7 INTANGIBLE ASSETS

DKK million	Group Licences and trademarks mv.	Goodwill	Product development	IT development
Cost at 1 January 2010	548	5 133	111	1,248
Exchange rate adjustments	41	168	5	0
Additions	0	0	0	110
Disposals	–2	–231	–30	–320
Cost at 31 December 2010	**587**	**5,070**	**86**	**1,038**
Amortisation and impairment at 1 January 2010	–188	–1,237	–78	–809
Exchange rate adjustments	–19	–47	–4	0
Amortisation and impairment for the year	–53	–265	–21	–163
Write-downs	–1	–8	–13	0
Amortisation and impairment on disposals	2	231	30	314
Amortisation and impairment at 31 December 2010	**–259**	**–1,326**	**86**	–658
Carrying amount at 31 December 2010	**328**	**3,744**	**0**	**380**

DKK million	Parent company Licences and trademarks mv.	Goodwill	Product development	IT development
Cost at 1 January 2010	0	48	76	1,211
Additions	0	0	0	96
Disposals	0	0	–20	–314
Cost at 31 December 2010	**0**	**48**	**56**	**993**
Amortisation and impairment at 1 January 2010	0	–30	–53	–782
Depreciation and amortisation	0	–10	–23	–152
Write-downs	0	–8	0	0
Amortisation and impairment on disposals	0	0	20	314
Amortisation and impairment at 31 December 2010	**0**	–48	–56	–620
Carrying amount at 31 December 2010	**0**	**0**	**0**	**373**

8 PROPERTY, PLANT AND EQUIPMENT

DKK million	Group Land and buildings	Plant and machinery	Fixture and fittings, tools and equipment	Assets in course of construction
Cost at 1 January, 2010	6 395	10,885	1,196	916
Exchange rate adjustment	268	480	110	41
Additions	93	535	102	883
Transferred from Assets in course of construction	267	748	169	–1,184
Reclassification	30	–895	1,202	0
Disposals	–7	–491	–127	–4
Cost at 31 December 2010	**7,046**	**11,262**	**2,652**	**652**
Depreciation and impairment at 1 January 2010	–1,812	–5 913	–924	0
Exchange rate adjustments	–66	–265	–93	0
Depreciation and amortisation	–336	–934	–191	0
Write-downs	–60	–53	0	0
Reclassification	–44	609	–902	0
Amortisation and impairment on disposals	0	483	107	0
Amortisation and impairment at 31 December 2010	**–2,318**	**–6,073**	**–2,003**	**0**
Carrying amount at 31 December 2010	**4,728**	**5,189**	**649**	**652**
Of which assets held under financial lease	**46**	**170**	**1**	**0**

8 PROPERTY, PLANT AND EQUIPMENT (cont.)

	Parent company			
DKK million	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Assets in course of construction
Cost at 1 January 2010	2,699	5,674	194	279
Additions	60	100	38	317
Transferred from Assets in course of construction	0	279	0	–279
Disposals	–4	–331	–12	–2
Cost at 31 December 2010	**2,755**	**5,722**	**220**	**315**
Depreciation and impairment at 1 January 2010	–1,169	–3,238	–114	0
Depreciation and amortisation	–132	–460	–34	0
Writedowns	–15	–17	0	0
Amortisation and impairment on disposals	0	331	12	0
Amortisation and impairment at 31 December 2010	**–1,316**	–3,384	**–136**	**0**
Carrying amount at 31 December 2010	**1,439**	**2,338**	**84**	**315**
Of which assets held under financial lease	**81**	**65**	**2**	**0**

9 INVESTMENTS

	Group		
DKK million	Investments in associates	Deferred tax assets	Other securities etc.
Cost at 1 January 2010	665	815	591
Additions	2	0	29
Disposals	0	0	–10
Cost at 31 December 2010	**667**	**815**	**610**
Adjustments at 1 January 2010	–80	–600	–80
Dividends	–12	–	0
Results for the year	23	–75	10
Exchange rate adjustments	34	11	10
Other adjustments	2	–1	0
Adjustments at 31 December 2010	**–33**	**–665**	**–60**
Carrying amount at 31 December 2010	**634**	**150**	**550**

Deferred tax assets relate predominantly to pension liabilities in the UK.
A deferred tax asset of DKK 82 million (DKK 92 million at 31 December 2009) has not been recognised as it is not expected to be utilised.

	Parent company				
DKK million	Investments in subsidiaries	Subordinate loans to subsidiaries	Investments in associates	Deferred tax assets	Other securities etc.
Cost at 1 January 2010	2,667	5,849	279	–	107
Additions	170	0	0	–	0
Disposals	0	0	0	–	–4
Cost at 31 December 2010	**2,837**	**5,849**	**279**	**–**	**103**
Adjustments at 1 January 2010	–697	–618	–109	–	15
Dividends	–	–	–6		0
Results for the year	–224	–	–4	–	4
Goodwill amortisation	–86	–	–	–	–
Changes to intra-group profit on inventories etc.	3	–	–	–	–
Exchange rate adjustments	–113	176	19	–	9
Other adjustments	56	0	0	–	0
Adjustments at 31 December 2010	**–1,061**	**–442**	**–100**	**–**	**28**
Carrying amount at 31 December 2010	**1,776**	**5,407**	**179**	**–**	**131**

10 MINORITY INTERESTS

DKK million	Group 2010	Group 2009
Minority interests at 1 January	128	144
Share of results	−15	0
Additions and disposals, changes in ownership shares etc.	3	−16
Minority interests at 31 December	**116**	**128**

11 DEFERRED TAX

Parent company 2009	Parent company 2010	DKK million	Group 2010	Group 2009
0	0	Deferred tax at 1 January	229	172
0	0	Exchange rate adjustments	21	6
–	–	Acquisition of enterprises	0	5
0	0	Other changes during the year	−56	46
0	**0**	**Deferred tax at 31 December**	**194**	**229**

Deferred tax predominantly relates to property, plant and equipment in Sweden and Finland.

12 PENSIONS

The provision comprises defined benefit schemes in UK, Sweden and the Netherlands. The defined benefit schemes ensure pensions to the employees covered, based on seniority and final salary.

The net pension commitment is recognised in the balance sheet as follows:

DKK million	Group 31.12.10	Group 31.12.09
Present value of defined benefit schemes	7,042	6,583
Fair value of plan assets	−5,218	−4,530
Net pension liabilities	1,824	2,053
Non-recognised actuarial gains/losses, net	−240	−383
Net pension liabilities recognised in balance sheet	**1,584**	**1,670**

UK:
The defined benefit schemes in the UK are administered by independent pension funds that invest the amounts paid to cover the liabilities. The actuarial present value of the liabilities (DKK 5,846 million at 31 December 2010 against DKK 5,557 million at 31 December 2009) less the fair value of the assets (DKK 5,218 million at 31 December 2010 against DKK 4,530 million at 31 December 2009) amounts to DKK 627 million (DKK 1,027 million at 31 December 2009).

Following the use of the corridor method, the actuarial gains of DKK 51 million (loss of DKK 130 million at 31 December 2009) has not decreased the provision and consequently, the net commitment at 31 December 2010 is DKK 679 million (DKK 897 million at 31 December 2009).

Sweden:
The defined benefit schemes in Sweden are not covered by payments to pension funds.

The actuarial present value of the commitment totals DKK 1,196 million (DKK 1,026 million at 31 December 2009). Following the use of the corridor method, the actuarial loss of DKK 291 million (DKK 253 million at 31 December 2009) has not increased the provision and consequently the net commitment at 31 December 2010 is DKK 905 million (DKK 773 million at 31 December 2009).

12 PENSIONS (cont)

Development in net pension commitment:

DKK million	Group 2010	2009
Net pension commitment recognised in balance sheet at 1 January	1,670	1,719
Exchange rate adjustments	161	125
Expensed in the income statement, net	74	87
The Group's payments to the schemes	–321	–261
Net pension commitments recogised in the balance sheet at 31 December	**1,584**	**1,670**

Assets invested in pension funds comprise:

	Group			
DKK million	%	31,12,10	%	31,12,09
Equities	39	2,048	45	2,027
Bonds	40	2,075	37	1,656
Properties	13	653	9	421
Other assets	8	442	9	426
Total	**100**	**5,218**	**100**	**4,530**

Return on pension assets:

DKK million	2010	2009
Expected return on plan assets	327	268
Actuarial gains/losses on plan assets for the year (not recognised)	110	288
Actual return on plan assets	**437**	**556**

The Group expects to pay DKK 315 million to defined pension schemes in 2011.

Assumptions for the actuarial calculations at the balance sheet date are:

	31.12.10	31.12.09
Discounting rate, Sweden	3,9%	3,9%
Discounting rate, UK	5,6%	5,7%
Expected payroll increase Sweden	3,0%	3,0%
Expected payroll increase UK	4,7%	4,7%
Expected average return on plan assets	6,7%	6,6%

Expected return on plan assets is determined by external actuaries on the basis of the composition of the assets and general expectations of economic developments.

13 OTHER PROVISIONS

Parent company			Group	
2009	2010	DKK milllion	2010	2009
14	1	Other provisions at 1 January	202	173
0	0	Exchange rate adjustments	5	2
0	10	Provisions during the year	66	96
–13	–1	Used during the year	–69	–69
0	0	Reversed	0	0
1	**10**	**Other provisions at 31 December**	**204**	**202**
31.12.09	31.12.10	DKK million	31.12.10	31.12.09
0	0	Insurance provisions	117	126
1	10	Other provisions	87	76
1	**10**	**Total other provisions, totalt**	**204**	**202**

Insurance provisions can essentially be attributed to occupational compensation insurance etc. while other provisions relate to provisions for restructuring and litigation etc.

14 LONG-TERM LIABILITIES

Parent company			Group	
31.12.09	31.12.10	DKK million	31.12.10	31.12.09
		Long-term liabilities that fall due more than five years after the balance sheet date:		
1,669	1,611	Mortgage credit institutions	4,667	4,823
20	14	Credit institutions etc.	372	387
1,689	**1,625**	**Total**	**5,039**	**5,210**

15 CONTINGENT LIABILITIES AND SECURITIES

To guarantee the debt, the Group has provided security in property at a nominal value of DKK 5,208 million (DKK 5,168 million at 31 December 2009). The book value of property is DKK 3,054 million (DKK 2,870 million at 31 December 2009). With regard to the parent company, property with a nominal value of DKK 1,925 million (DKK 1,936 million at 31 December 2009) has been pledged as security for debt. The book value of property in the parent company totals DKK 1,183 million (DKK 1,179 million as at 31 December 2009).

With regard to open standing sales and repos at 31 December 2010, bonds at a value of DKK 2,765 million have been pledged as security for bank loans (DKK 3,139 million at 31 December 2009). With regard to the parent company, there were no open standing sales and repos at 31 December 2010. At 31 December 2009, bonds at a value of DKK 378 million were pledged as security for bank loans.

The group and parent company are party to a few 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.

16 FINANCIAL INSTRUMENTS

Parent company			Group	
31.12.09	31.12.10	DKK million	31.12.10	31.12.09
		To cover exchange and interest rate risks, the following forward contracts have been entered into:		
0	890	Cross currency swaps	867	0
1,756	2,506	Interest swaps	5,499	5,373
378	0	Securities through sales and repurchase agreements (repo)	2,765	3,139
		Net nominal sales on forward contracts and options:		
3,125	1,304	EUR	1,975	3,572
1,474	817	GBP	1,321	2,552
–724	162	SEK	282	–715
1,335	1,444	USD	1,873	1,599
368	434	Other	453	438

17 CONTRACTUAL LIABILITIES

Parent company			Group	
31.12.09	31.12.10	DKK million	31.12.10	31.12.09
6 702	5 808	Surety and guarantee commitments	129	178
79	362	Operational rent commitments	532	280
79	117	Operational leasing commitments	704	644
190	93	Commitments in relation to agreements on the purchase of fixed assets	225	310

18 RELATED PARTIES

Arla Foods amba 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 and associates c.f. Group Chart on pages 42-43 are related parties.

Members of the Board of Representatives and/or the Board of Directors are paid for milk supplies to Arla Foods amba on equal terms with other members of the company.

In addition, there have been no other transactions with related parties during the year apart from intra-group transactions that have been eliminated in the consolidated financial statements.

Salaries and remuneration have been disclosed separately in Note 2 regarding staff costs.

19 CO-OPERATIVE MEMBERS' LIABILITY

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

GROUP CHART

Subsidiaries

100 % ownership

Arla Foods AB, Sweden

Arla Foods Holding A/S, Denmark

Arla Foods AS, Norway

Arla Foods Inc., Canada

Arla Foods S.r.l., Italy

Arla Foods Inc., USA

Arla Foods S.A.R.L., France

Arla Foods S.A., Spain

Arla Foods Hellas S.A., Greece

Arla Foods Ingredients amba, Denmark

Cocio Chokolademælk A/S, Denmark [2]

Cocio Beverage International P/S

AFF P/S, Denmark

Arla Foods Sp. Z o.o., Poland

Arla Foods SA, Poland

Arla Foods Financial Services Centre Sp.Z.o.o., Poland

Aktieselskabet J. Hansen, Denmark

Rasmus Hansen Eksport K/S, Denmark [3]

Danos Eksport K/S, Denmark [3]

Danland Foods Export K/S, Denmark [3]

Kohave Foods Eksport K/S, Denmark [3]

Chesco Cheese Eksport K/S, Denmark [3]

Rasmus Hansen Oversøisk K/S, Denmark [3]

DOFO Cheese Eksport K/S, Denmark [3]

Danske Landmænd Eksport K/S, Denmark [3]

Oerum Dairies Eksport K/S, Denmark [3]

Boel Foods Eksport K/S, Denmark [3]

Marygold Trading K/S, Denmark [3]

Enico Trading K/S, Denmark [3]

99 % ownership

Andelssmør A.m.b.a., Denmark

93 % ownership

Mejeriforeningen, Danmark

- L&L International (Sweden) AB, Sweden (100%)
- Arla Foods Russia Holding AB, Sweden (75%)
  - Arla Foods Artis Ltd., Russia (100%)
- Arla Ingman Oy AB, Finland (100%)
  - Ranuan Meijeri Oy, Finland (100%)
  - Kiteen Meijeri Oy, Finland (100%)
  - Halkivahan Meijeri Oy, Finland (100%)
  - Massby Facility & Services Oy, Finland (60%)
  - Jk Juusto Kaira Oy, Finland (58%)
- FRAS Integration AB, Sweden (69%)
- Rynkeby Foods HB, Sweden(100%)
- Rynkeby Foods Förvaltning AB, Sweden 100 %)
- Arla Foods UK Holding Ltd, UK (33%) [1]

- Arla Foods International A/S, Denmark (100%)
  - Danya Foods Ltd., Saudi Arabia (75%)
  - Arla Foods Holding NL B.V., Netherlands (100 %)
    - Arla Foods B.V., Holland (100 %)
  - Arla Foods UK Holding Ltd., UK (67%) [1]
    - Arla Foods UK Plc., UK (94%) 1)
      - Arla Foods Finance Ltd., UK (100%)
      - Arla Foods Holdings Co. Ltd., UK (100%)
        - Arla Foods UK Services Ltd., UK (100%)
          - Arla Foods Creamery Ltd., UK (100%)
          - Arla Foods Nairn Ltd., UK (100%)
      - Arla Foods Ltd., UK (100%)
      - Arla Foods UK Property Co. Ltd., UK (100%)
- AF A/S, Danmark (100%)
  - Arla Foods Finance A/S, Denmark (100%)
    - Kingdom Food Products ApS, Denmark (100%)
    - Ejendomsanpartsselskabet St. Ravnsbjerg, Denmark (100%)
  - Rynkeby Foods A/S, Denmark (50%) [1]
  - Kinmaco ApS, Denmark (100%)
    - Arla Foods Energy A/S, Denmark (100%)
    - Rynkeby Foods A/S, Denmark (50%) [1]
  - Arla Insurance Company (Guernsey) Ltd., Guernsey (100%)
  - Arla Foods Trading A/S, Denmark (100%)
- Arla Foods Distribution A/S, Denmark (100%)
  - Danmark Protein A/S, Denmark (100%)
- Medlemsartikler ApS, Denmark (100%)
- Arla Foods Ingredients GmbH, Germany (100%)
- Fidan A/S, Denmark (100%)
  - Dairy Fruit A/S, Denmark (100%)
- Danapak Holding A/S, Denmark (100%)
  - Danapak A/S, Denmark (100%)
    - Danapak Flexibles A/S (100%)
- Tholstrup International B.V., Netherlands (100%)
  - Tholstrup Cheese Holding A/S, Denmark (100%)
    - Tholstrup Cheese A/S, Denmark (100%)
      - Arla Foods GmbH, Germany (100%)
      - Tholstrup Cheese USA Inc., USA (100%)
- Arla Kallassi Foods Lebanon S.A.L., Lebanon (50%)

- Arla Foods Ingredients Inc., USA (100%)
- Arla Foods Ingredients KK, Japan (100%)
- Arla Foods Ingredients AB, Sweden (100%)
- Arla Foods Ingredients S.A. de C.V., Mexico (100%)
- Arla Foods Ingredients Korea Co. Ltd., South Korea (100%)

Associates

Arla Foods Ingredients S.A., Argentina (owned via Arla Foods Ingredients amba, 50 % ownership)

Arla Foods Kuwait Company LLC, Kuwait (owned via Arla Foods Holding A/S, 49 % ownership)

Arla Foods Qatar WLL, Qatar (owned via Arla Foods Holding A/S, 40 % ownership)

Arla National Food Products LLC, United Arab Emirates (owned by Arla Foods amba, 40 % ownership)

Arla Foods UK Farmers JV Company Ltd., UK (owned via Arla Foods UK Holding Ltd., 50 % ownership) [4)]

Agri-Norcold A/S, Denmark (owned via Mejeriforeningen, 50 % ownership)

Al Berit Alban LLC, Bahrain (owned via Arla Foods Holding A/S, 25 % ownership)

Biolac GmbH & Co. KG, Germany (owned via Arla Foods Ingredients GmbH, 50 % ownership)

Dan Vigor Ltda., Brazil (owned via Arla Foods International A/S, 50 % ownership)

HB Grådö Produktion, Sweden (owned via Arla Foods AB, 50 % ownership)

K/S Danske Immobilien, Denmark (owned via Arla Foods Finance A/S, 35 % ownership)

Mengniu Arla (inner Mongolia) Dairy Products Co., Ltd., People's Republic of China (owned by Arla Foods amba, 49 % ownership)

Restaurangakadamien AB, Sweden (owned via Arla Foods AB, 50 % ownership)

Svensk Mjölk Ekonomisk förening, Sweden (owned via Arla Foods amba, 42 % ownership)

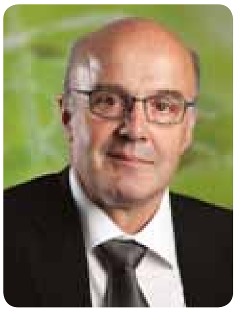
1) The company appears elsewhere in the Group chart.
2) The company is owned equally by Arla Foods amba and Danmark Protein A/S.
3) These companies are owned equally by Arla Foods amba and Arla Foods Ingredients amba.
4) This company owns 6.3% of the shares in Arla Foods UK Plc., UK.

The Group also owns a number of companies without commercial activities.

THE BOARD OF DIRECTORS

ELECTED BY MEMBERS

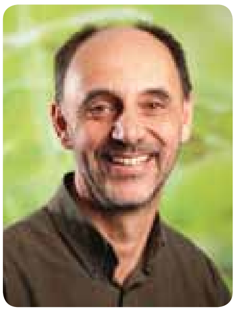
The Board of Directors comprises 14 regularly elected milk producers, eight Danes and six Swedes. In Denmark, the elected Chairman in each of the four regions has an automatic seat on the Board. The remaining four Danish members of the Board are elected by the Board of Representatives, Arla's supreme decision-making body. In Sweden, the electoral committee proposes candidates. All six Swedish members of the Board of Directors are elected by the Board of Representatives. All elected members have to stand for re-election in uneven years.



Ove Møberg
Chairman
Hejnsvig, Denmark
Born 1948
Board Member since 1992.

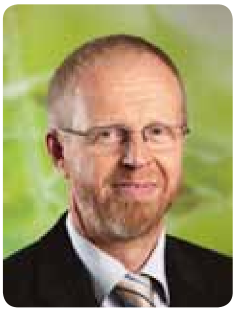
Åke Hantoft
Vice Chairman
Laholm, Sweden
Born 1952
Board Member since 1998.

Viggo Ø. Bloch
Varde, Denmark
Born 1955
Board Member since 2003.

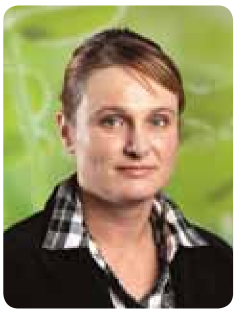


Björn Jakobsson
Norrtälje, Sweden
Born 1958
Board Member since May 2010.

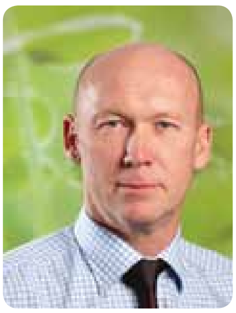
Palle Borgström
Älvängen, Sweden
Born 1960
Board Member since 2008.



Steen Nørgaard Madsen
Silkeborg, Denmark
Born 1956
Board Member since 2005.



Heléne Gunnarson
Tvååker, Sweden
Born 1969
Board Member since 2008.



Torben Myrup
Gundersted, Denmark
Born 1956
Board Member since 2006.

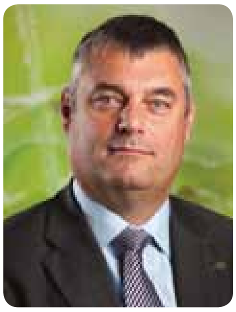
Thomas Johansen
Egtved, Denmark
Born 1959
Board Member since 2002.

Ingela Svensson
Gamleby, Sweden
Born 1957
Board Member since 2007.

Jan Toft Nørgaard
Ribe, Denmark
Born 1960
Board Member since 1998.

Pejter Søndergaard
Vestervig, Denmark
Born 1947
Board Member since 2002.

Gunnar Pleijert
Mörlunda, Sweden
Born 1949
Board Member since 2003.

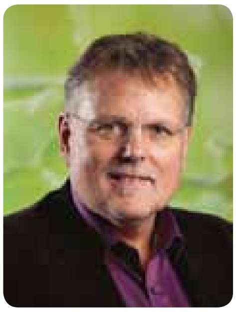


Bent Juul Sørensen
Ærøskøbing, Denmark
Born 1958
Board Member since 1998.

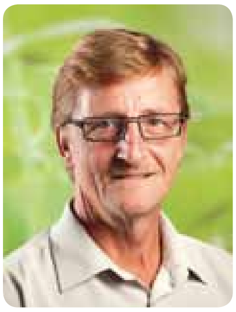
EMPLOYEE REPRESENTATIVES

There are four employee representatives on the Arla Board of Directors: two from Denmark and two from Sweden. In Denmark, the employees, assisted by an election committee, elect six employees to seats on the Board of Representatives. These six people then select two among them to represent the employees on the Board of Directors. In Sweden, employee representatives are elected to seats on the Board of Directors and the Board of Representatives at a joint annual meeting for all the union organisations. An election committee provides a list of candidates. The Danish employee representatives are elected for a two-year period, while the Swedish employee representatives are elected for a three-year period. All the employee representatives are up for election in 2011, with the exception of Anne-Lie Nielsen, who is not up for election until 2013.

Anne-Lie Nielsen
Linköping, Sweden
Employee at Linköping Dairy
Born 1970
Board Member since May 2010.



Bjarne Bundesen
Christiansfeld, Denmark
Employee at Christiansfeld Dairy Centre
Born 1958
Board Member since 2003.



Steen Bolvig
Holstebro, Denmark
Employee at Hoco powder factory
Born 1956
Board Member since 2003.

Leif Eriksson
Lidköping, Sweden
Employee at Götene Dairy
Born 1951
Board Member since 1998.

EXECUTIVE MANAGEMENT GROUP

CORPORATE CENTRE, EXECUTIVE MANAGEMENT BOARD

Povl Krogsgaard
Vice CEO

Peder Tuborgh
CEO

Andreas Lundby
Vice CEO

CORPORATE CENTRE AND GLOBAL BUSINESS SERVICES

Global tasks, which extend across the entire organisation, are handled by five global business service functions which are responsible for long-term development and provide operational support.

- Corporate Affairs includes communication and group development under the management of Peder Tuborgh.
- Corporate Supply Chain – handles contact with owners, technical issues, quality, environment, global procurement and investment under the management of Povl Krogsgaard.
- Corporate Commerce handles group marketing, and national and international legislation under the management of Andreas Lundby.
- Corporate Human Resources handles workforce and organisational development, under the management of Ola Arvidsson.
- Corporate Finance & IT is responsible for finance, IT and legal affairs under the management of Frederik Lotz.

BUSINESS GROUPS

Arla has four business groups for production, innovation and sales:

- Consumer Nordic
- Consumer UK
- Consumer International
- Global Categories & Operations

Whey protein activities is the most important independent business unit under 'Other activities'.

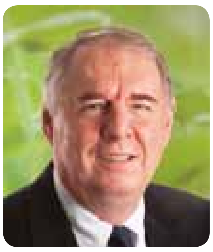
Frederik Lotz
Executive Vice President /CFO
CORPORATE FINANCE & IT

Ola Arvidsson
Executive Vice President
CORPORATE HUMAN RESOURCES

Hans-Åke Hammarström
Executive Vice President
CONSUMER NORDIC

Consumer Nordic is responsible for sales of fresh products, cheese and butter in Sweden, Denmark, Finland and Norway. Consumer Nordic also has overall responsibility for production, innovation and marketing of fresh products.

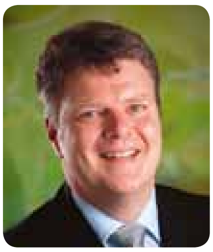
Employees: 4,909
Turnover: 19.8 DKK 19.8 billion



Peter Lauritzen
Executive Vice President
CONSUMER UK

Consumer UK comprises the subsidiary, Arla Foods UK plc, and produces fresh milk, butter and cream products in the UK. In addition to local production, Consumer UK handles exports from Denmark and Sweden to the UK.

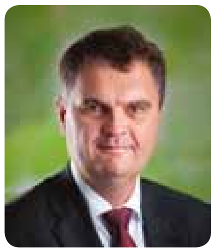
Employees: 2,731
Turnover: DKK 12.2 billion



Tim Ørting Jørgensen
Executive Vice President
CONSUMER INTERNATIONAL

Consumer International focuses on sales and marketing in all the international markets except the Nordic countries and the UK, including retail sales and marketing of powdered milk.

Employees: 2,017
Turnover: DKK 10.1 billion

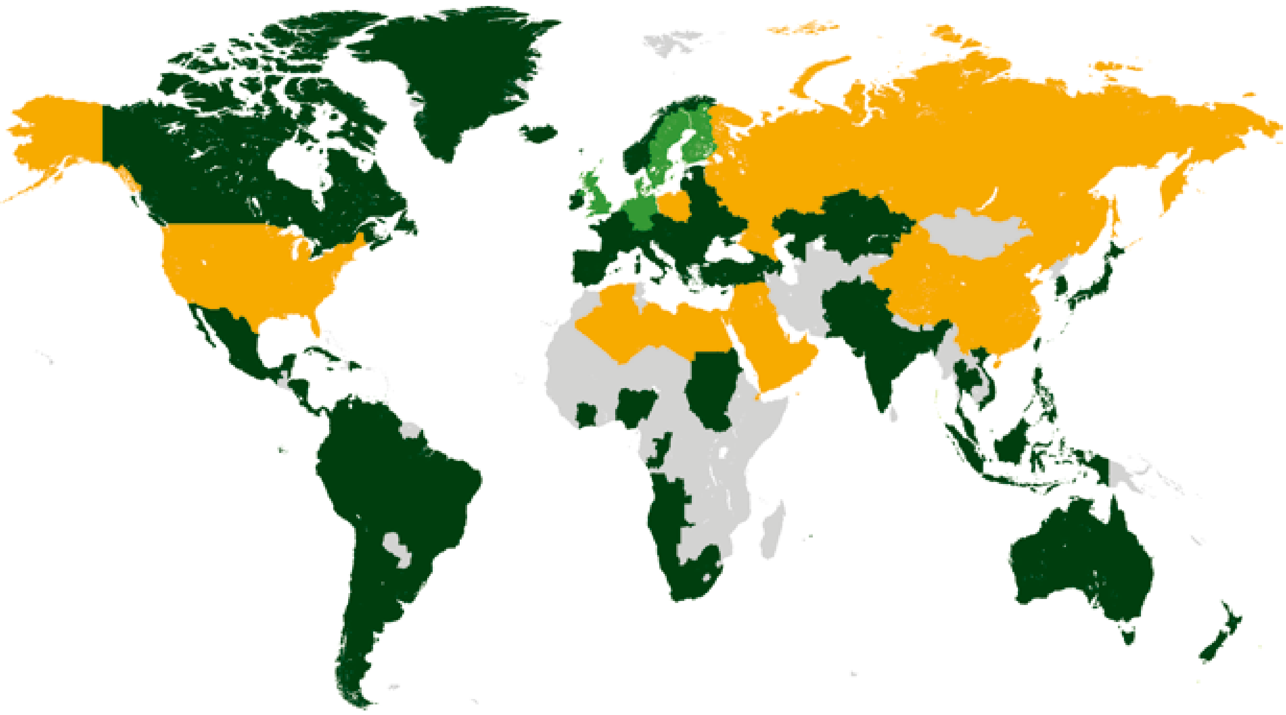


Jais Valeur
Executive Vice President
GLOBAL CATEGORIES & OPERATIONS

Global Categories & Operations is responsible for strategy, innovation and Arla's global butter and cheese brands, including milk collection, planning and production of butter, cheese and milk powder, and Arla's sales of industrial products.

Employees: 5,196
Turnover: DKK 4.8 billion

LEADING DAIRY COMPANY WITH A LOCAL AND GLOBAL PRESENCE



■ Core markets
■ Growth markets
■ Value markets

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