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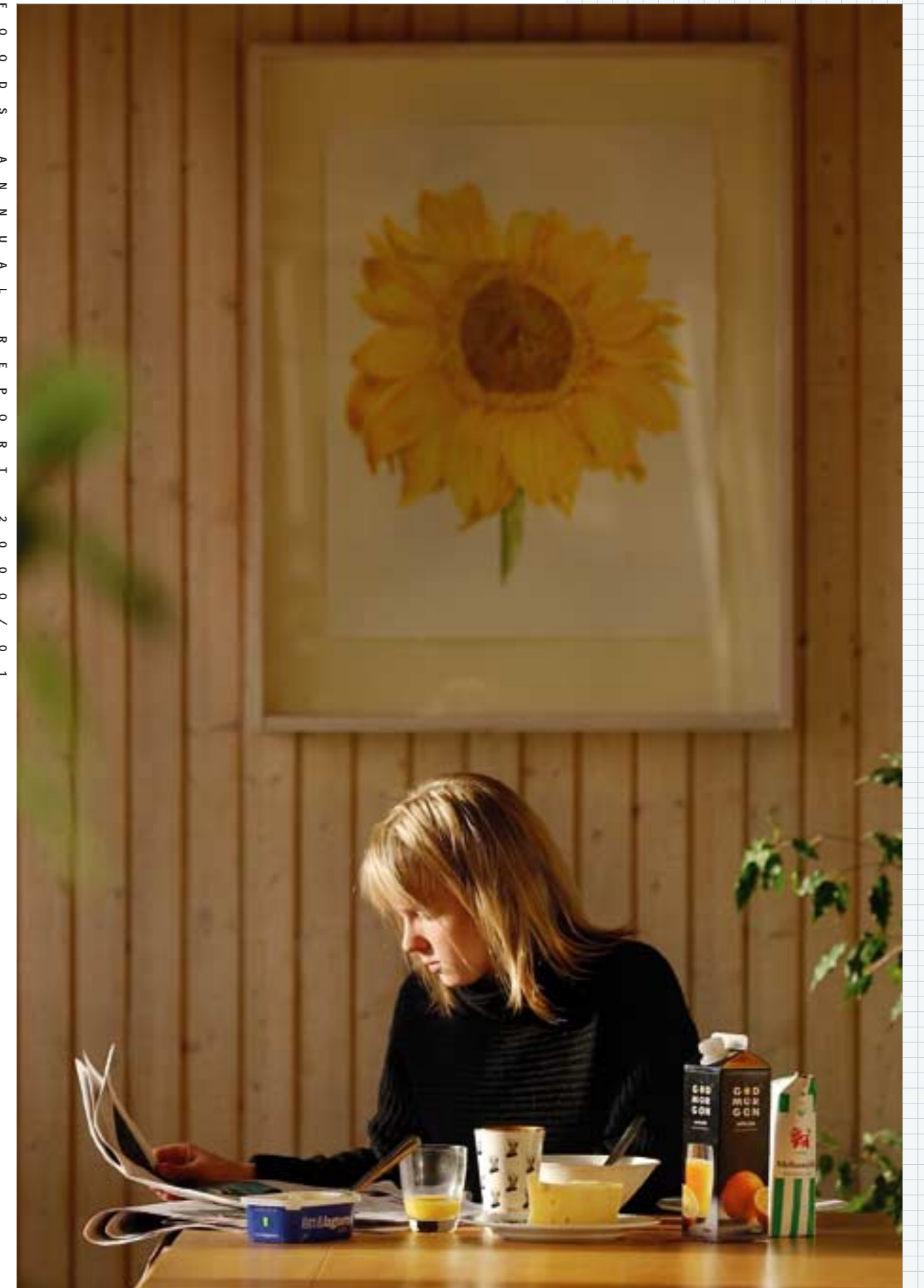
ARLA FOODS ANNUAL REPORT 2000 / 01



AS NIGHT DUTY OFFICER, HANS JØRGEN JENSEN MONITORS THE ELECTRICITY SUPPLY FOR 1 MILLION PEOPLE IN AN AREA NORTH OF COPENHAGEN. THE POWER STATION, WHICH CELEBRATES ITS CENTENARY IN 2002, WAS ORIGINALLY BUILT TO EXPLOIT THE TUBORG BREWERY'S SURPLUS PRODUCTION OF STEAM FOR GENERATING ELECTRICITY. HANS JØRGEN JENSEN WORKS THE NIGHT SHIFT UNTIL 8 AM WHEN HE GOES HOME WHILE THE REST OF THE CITY GETS ON THE MOVE.



Jørn Moesgård as



CONTENTS:

: Arla Foods Annual Report 2000/01



: FRONT COVER

FOR JENNIE MEYER, 22, THE MORNING IS HER FAVOURITE TIME OF DAY, ESPECIALLY AT WEEKENDS WHEN THERE IS TIME TO ENJOY BREAKFAST, READING THE PAPERS AND REFLECTING ON LIFE. BREAKFAST CONSISTS OF YOGHURT, MUESLI, TEA, MILK AND "JULIA" CAKE, A SOFT, FLAT BREAD. IN HER DAILY LIFE, JENNIE STUDIES MEDIA & COMMUNICATION SCIENCE AT THE UNIVERSITY OF TROLLHATTAN/ UDDEVALLA IN SWEDEN.

: ARLA FOODS' NEW STRATEGY IS

AIMED AT EXTENDING THE USE OF DAIRY PRODUCTS TO OTHER CONSUMER GROUPS, TO OTHER TIMES OF THE DAY AND TO NEW PLACES. PHOTOGRAPHER RASMUS BAANER HAS CAPTURED SOME EXAMPLES.

0:02

Key figures

0:04

The Chairman's Report

A better than expected result

0:06

Report

The first full year after the merger

0:12

Management of Arla Foods' financial risks

0:14

The divisions

Round the world, round the clock. Sweden Division, Denmark Division, UK Division, Europe Division with a market review, Overseas Division with a market review, Arla Foods Ingredients with a market review, Production Division, Members' Division.

0:28

The subsidiaries

Growth and advancement: Danapak, De danske Mejeriers Fællesindkøb, Rynkeby Foods, Medipharm, Semper, JO Bolaget, Frödinge, other companies.

0:36

Environment report

Arla Foods' Environment, Health and Safety Policy

0:41

Accounts

02.10.2000 – 30.09.2001

Management report

Auditors' report

0:42

Accounting policies

General

Profit & loss account

Balance sheet

Cash-flow statement

0:45

Profit & loss account

0:46

Balance sheet

0:48

Equity movements

0:49

Cash-flow statement

0:50

Notes

0:56

Group companies

0:58

Arla Foods' Supervisory Board



THE CHAIRMAN:

*: a better than
expected result*

At the time of the merger, the aim was to establish uniform conditions for the co-operative owners in the two countries within a three year period. A possible barrier to this would be if the two countries did not, as hoped, have a common currency within this period. In a referendum, Denmark decided not to join the Euro from the outset, yet in terms of foreign exchange, Denmark is tied to the Euro. So far, Sweden has remained outside the Euro. One consequence is that the falling Swedish krona has made life more difficult for Swedish milk producers than before the merger.



: CHAIRMAN LARS LAMBERG

It gives me great pleasure to state that the result for the year is not only satisfactory, but also better than expected.

The first full financial year of the co-operative group, Arla Foods, was, of course, dominated by efforts directed at harmonising and streamlining the new Group's many activities. This was particularly the case with regard to the Group's owners, the majority of the milk-producing farmers of Sweden and Denmark.

The wide-ranging democracy, which operates across the two countries' legislations and traditions, has indeed felt the impact of the challenges of the past year.

This especially applies to the efforts devoted to harmonising the systems on which the milk price paid to farmers is calculated – and which in many respects has differed in the two countries.

It also applies to such important factors as financing the company's equity capital, which is complicated by differences in co-operative legislations and tax regulations.

The provision of equity capital has been further accentuated because of the extensive strategy plans approved by the co-operative owners. In the coming years, these will require significant investment and will, therefore, place high demands on the size of the equity capital.

Owners have shown great understanding of the importance of this.

This is equally the case with the harmonisation of the structural and democratic rules of play which govern the decision-making processes in a trans-national co-operative company. These fundamental issues have even had to be considered by the relevant bodies where, alongside language differences, there were different articles of association and decision-making processes, even different meeting traditions.

At the time of the merger, the Group gave itself a period of three years to harmonise all this.

The aim was to establish uniform conditions for co-operative owners in the two countries within a three year period. A possible barrier to this would be if the two countries did not, as hoped, have a common currency within this period. In a referendum, Denmark decided not to join the Euro from the outset, yet in terms of foreign exchange, Denmark is tied to the Euro. So far, Sweden has remained outside the Euro. One consequence is that the falling Swedish krona has resulted in increased costs for Swedish dairy farmers and dairies compared to the situation before the merger.

Another important barrier is that no political steps towards the harmonisation of the two countries' legislations within the co-operative area have been taken. Harmonisation on a European level is highly desirable.

Even if the first year's efforts to co-ordinate conditions for co-operative owners in the two countries have not lived up to expectations in all areas, the Supervisory Board has seen a very high level of determination among the elected co-operative owners to achieve results across the cultural divides. This also applies to the backing given to the Group's ambitious strategies.

Moreover, it is also our impression that the majority of co-operative owners are confident that the Group is dedicated, in the longer-term, to paying the highest possible milk price – a milk price at the high end of what is paid by other large European co-operative dairies.

Therefore, there is no doubt either that the owners are determined to support the strategies presented by the Supervisory and Management Boards.

This is especially the case with regard to the support for including the farms themselves in the value chain which extends from the soil to the table – a concept which a co-operative group has particular capacity for exploiting.

The coming year will be dominated by endeavours to enhance the value chain. The same will, of

course, apply to the further harmonisation of the milk price systems etc. We will also examine whether new and more beneficial systems can be introduced which, for shorter or longer periods, can tie co-operative owner capital to the company. This could, for instance, apply to the unexploited potential for co-operative capital in personal accounts. Moreover, the issue of how the company's milk suppliers in the UK can, in one way or another, be linked to the company as co-owners will be considered.

Lars Lamberg

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0:05

GROUP MANAGEMENT BOARD:

: the first full year after the merger

In the first half of the financial year, Arla Foods worked out a strategy based on selected international markets and sectors.

Arla Foods is also committed to an ambitious growth strategy aimed at organic growth as well as mergers and acquisitions of profitable dairy activities in carefully defined markets.

The objective is to achieve an average growth in turnover of 10% per annum over a five year period. This will allow Arla Foods to develop in line with the growth of its large, international retail customers. The intention is for Arla Foods to pay its owners, the Danish and Swedish milk producers, a milk price at the high end of the norm for the European dairy industry.



MANAGING DIRECTOR JENS BIGUM

Report

The result of DKK 1,157 million, which substantially exceeds expectations as well as the budget, can be described as particularly satisfactory.

We have seen a year of excellent economic development and favourable trends where foreign exchange rates have been favourable to exports to markets outside Scandinavia.

Measured in DKK, the decline of the Swedish krona against other European currencies has adversely affected Arla Foods' turnover, balance sheet and results.

During the first full operating year following the merger between MD Foods and Arla, the company has benefited from the subsequent synergies, particularly with regard to international sales.

Synergies such as cost reductions will be achieved through the implementation of the restructuring plan which was presented as a consequence of Arla Foods' new strategy.

The positive trends which have characterised European dairy markets during the year have, in the main, benefited the whole Arla Foods Group.

At the same time, a series of price rises was implemented, both for industrial and retail customers. Consequently, Arla Foods concluded the year with a stronger price structure than twelve months earlier. These price rises, however, do not match the increased price levels for bulk products which have seen significantly upward trends in a market characterised by rising demand.

The stronger demand has provided an opportunity to prioritise raw material supplies in order to exploit the scarcity for deselecting production areas, products and markets where long-term profitability seems less attractive.

Strategy

In the first half of the financial year, Arla Foods' Executive

Management Group presented an in-depth strategy plan focusing on selected markets and segments. Besides organic growth, this ambitious plan targets growth through mergers and acquisitions of profitable dairy activities in carefully selected markets.

The objective is to achieve an average growth in turnover of 10% per year over a five-year period. This will allow Arla Foods to develop in line with its large, international retail customers. The intention is for Arla Foods to pay its owners, the Danish and Swedish milk producers, a milk price at the high end of the norm for the European dairy industry.

The strategy plan's key points are:

- Market expansion for dairy products in Sweden and Denmark through the provision of new products for new consumers.
- Profitable growth in large export markets with emphasis on Arla Foods' extensive range of speciality cheese and butter products.
- To be a global market leader within advanced milk-based ingredients and other powder products for the international food industry.

The strategy plan also lays the foundation for restructuring production in Denmark and Sweden. Major rationalisation measures include the closure of 17 dairies and extraordinary investments in new or improved production facilities of DKK 2.3 billion over the lifetime of the plan.

Approximately 1,000 employees will be affected and approximately 400 jobs are expected to be lost. Due to the added value to the company's product ranges combined with organic growth, overall job levels are, however, likely to remain stable over the period.

Some of the strategic and organisational projects were initiated during the financial year and several others will be implemented during the current year.

Adjustment of the opening balance sheet as at 17 April, 2000

In connection with the merger on 17 April, 2000, unifications of the applied accounting policies as well as certain value adjustments were implemented.

Partly because of the strategic planning, the opening balance sheet as at 17 April, 2000 has been restated. The restatement resulted in participating interests in subsidiaries not regarded as core businesses being adjusted by DKK 300 million at a conservatively calculated market value. A re-evaluation of provisions for restructurings etc. resulted in further provisions of DKK 300 million as at 17 April, 2000.

The equity in the opening balance sheet (17 April, 2000) was, therefore, not affected by the adjustments.

The Swedish and Danish markets

The two domestic markets, Sweden and Denmark, were, of course, given top priority as far as raw material supplies are concerned. Prices here, however, did not match international price developments. In the domestic markets, focus is on long-term, stable prices. Nevertheless competitive pressure from imported products is increasing.

Current trends in the Danish and Swedish retail trade, including strong consolidation and, in particular, trans-national mergers and partnerships have posed significant challenges to the group. Meeting these demands would have been particularly difficult without the merger of Scandinavia's two largest dairy groups, MD Foods and Arla. Consequently, the new Arla Foods organisation is well prepared to meet the future requirements of the retail sector.

The expansion of the market for dairy products has begun with a number of successful product launches aimed at consumers on the move. New products within categories designed to meet con-

sumer requirements for taste and convenience in daily life are also contributing to market expansion.

Close contact with consumers through in-store visibility, products and packaging enables Arla Foods to maintain a regular dialogue with consumers and, therefore, to anticipate consumer wishes and requirements at a very early stage.

To meet consumer demand for variation and innovation, the existing broad range of Arla Foods products will also, to a certain extent, be supplemented by products from other producers.

UK

The financial year proved to be the best ever for Arla Foods in the UK. This applies to exports from Scandinavia as well as to the operations of the UK subsidiary which advanced in both turnover and net earnings.

The positive results derive from increased exports of both branded and own label products from Denmark and Sweden, advances for certain UK-produced products and strong emphasis on cost control.

The newly approved agreement with the New Zealand dairy company, Fonterra, for joint sales of Anchor and Lurpak butter in the UK market is important for the further development of the butter and blends market. The partnership, however, also provides considerable potential in other respects.

Arla Foods' substantial sales in the UK have created an interesting platform for the future direction of the partnerships with UK retailers.

Arla Foods believes that the UK market for liquid milk has yet to find a lasting structure and wishes to contribute to a more permanent structure for dairy production in this important market. The Group has a firm base in the UK and regards the potential here as considerable.

In view of its long-standing history as a leading co-operative dairy group, Arla Foods finds it natural to aim at establishing long-term relations with UK milk producers.

Europe

Sales in Europe have benefited from general price increases for dairy products. This has enabled Arla Foods to define markets and customers with focus on earnings in individual markets.

In Arla Foods' largest export market, Germany, there has been a clear connection between the declining consumption of beef following the BSE and Foot & Mouth crises and the rising consumption of cheese.

Considerable progress with regard to concepts which make daily life easier for the consumer, e.g. sliced cheese, is one of the consequences of the close partnership with certain multiples. This is in line with the group's strategies.

Activities in specific countries are highly differentiated. In Greece, a new joint venture with the country's largest dairy, Delta, is a significant move. In many other countries, focus is on Arla Foods' products with a strong international profile – products for which Arla Foods has special production skills.

Markets further afield

Despite declining export subsidies, markets outside the EU showed satisfactory development.

Sales in the Middle East were affected by intense media attention on the BSE and Foot and Mouth crises in Europe. Convincing these markets of the safety of Arla Foods' products and thus maintaining market share has been somewhat difficult. However, sales appear to have recovered and Arla Foods has regained its position from before the BSE outbreak in 2000.

The relatively rapid recovery of market positions highlights the Group's strong brand position and efficient distribution system, particularly in Saudi Arabia.

On the basis of the positive experiences in Saudi Arabia, the intention is to expand Arla Foods' activities in the region. Initially, this will take the form of a joint venture with the dairy company,

National Food Product Company in the United Arab Emirates. Expectations are that a strong market position similar to that in Saudi Arabia can be achieved here. Other options for strengthening Arla Foods' position in the Middle East will be examined during the current year.

In North America, the combination of imported products from Scandinavia and local licensed production contributed to a good result. Developments in South America, however, were disappointing.

South East Asia, with Japan as the largest market, lived up to expectations. The region has shown stable growth, especially within luxury segments such as western supermarkets and hotel chains.

Japan, which occupies a special position in the region, continues to see strong cheese sales with a corresponding satisfactory result.

Rapidly increasing competition from other international suppliers and local producers and, not least, declining subsidies and world market prices for cheese are giving rise to some uncertainty concerning satisfactory earnings levels.

Ingredients

The market for milk powder and milk-based ingredients has been unusually positive. This applies not least to the bulk segment which has seen strong price rises for whole milk and skimmed milk powder. Added-value powder production also achieved satisfactory sales even though price increases here do not normally directly match the movements of bulk products.

The strong trends for whey and milk-based ingredients in recent years have provided a base for increased sales of such added value powder products beyond the existing production capacity and raw material availability.

Accordingly, this business area in which Arla Foods intends to establish itself as a global market

leader has been given a substantial role in the new strategy plan.

Arla Foods is already a supplier to some of the world's largest and most successful food producers and the Group attaches great importance to servicing these companies and meeting their demands for both quality and quantity.

The entire upgrading programme for Arla Foods' production apparatus should be seen within this context. This is particularly the case regarding the construction of a new whey protein factory in

Argentina in partnership with Argentina's largest cheese maker, SanCor, and the extensive upgrading of the Swedish and Danish powder factories.

The key competitive parameter for these products is quality and advanced product development.

During the year under review, the US authorities finally approved the new milk-based sweetener, tagatose, which, due to its low calorie content, opens up a broad range of opportunities within the field of nutrition.

Following the approval, Arla Foods is currently examining how – and under what conditions – this new product should go into production. The potential for sharing production with an international partner is also under consideration.

In both respects decisions are expected to be made within the next few months.

The rate of the dollar will significantly affect developments within both retail-oriented and ingredients-oriented powder production over the next few years. A consid-

erable share of this business area also depends on world market prices which now appear to be declining. If this proves to be the case, it could lead to a marked decline in earnings within this segment from as early as the current financial year.

Personnel

The need for combining craftsmanship and advanced technology poses particular demands on the professional skills of today's dairy



ERNST HANSEN IS THE SIXTH GENERATION AT AVERNAKGÅRD FARM, SOUTH OF ODENSE ON FUNEN, DENMARK. BACK IN 1795, HIS TWO ANCESTORS, BROTHERS HANS AND RASMUS HANSEN, SAILED FROM THE SMALL ISLAND OF AVERNAKØ AND WALKED THE 15 MILES TO BELLINGE WHERE THEY BOUGHT LAND BELONGING TO A LOCAL MANOR, DANESBO. EACH BROTHER BUILT A FARMHOUSE ON THE LAND WHICH HAS BEEN IN THE POSSESSION OF THE FAMILY EVER SINCE. ERNST HANSEN HAS RUN THE FARM SINCE 1964 WHEN HE TOOK OVER FROM HIS FATHER. EACH MORNING AT 10 AM – WHEN MILKING IS OVER – HE ENJOYS A CUP OF COFFEE, A CHEESE SANDWICH AND A GLASS OF MILK.





0:10

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personnel. The substantial requirements on personnel in respect of, e.g. hygiene in modern food production mean that staff must continually upgrade their skills.

The new inter-Scandinavian partnership in respect of professional dairy qualifications at Dalum in Denmark is, therefore, to be greatly welcomed.

Arla Foods' own extensive training programme will also contribute towards raising staff skills. In the current year we shall also work on a management concept for optimising the Group's training programmes.

With the exception of some larger Swedish towns, the personnel situation is generally characterised by considerable stability. Likewise, the recruitment of personnel with a variety of qualifications is relatively easy.

Innovation

The tough competition for providing the maximum share of consumer needs in the form of dairy products and trends in Arla Foods' key markets towards experiences and well-being rather than merely fulfilling a basic need for food, makes product innovation more important than ever.

Arla Foods believes that only companies that continue to provide the best possible product ranges will gain crucial supermarket shelf space. Arla Foods' development staff, in partnership with the appropriate sales and production departments are, therefore, committed to applying the most up-to-date results from the world of research to the development of new and attractive products.

By launching approximately 150 new products each year, Arla Foods ranks among the busiest innovators in the international market.

With the establishment of innovation centres in Denmark (cheese, butter and powder) and Sweden (liquid milk and special nutritional products) Arla Foods has invested substantially in creativity and added value through new products.

In the field of research Arla Foods has, through the Danish Dairy Industry's Research Foundation and Svensk Mjolk FoU, established excellent ties with leading technical universities and other institutions of higher education in Denmark and Sweden. An extensive European network has also contributed to new and relevant knowledge. A new research strategy for the next seven years has recently been approved.

The year saw the signing of a partnership agreement with NASA Food Technology Commercial Space Center for the development of dairy products for use in space shuttles and in the space station, ISS, over a five year period. Arla Foods' competencies within quality, safety, nutrition and tasty products was a strong factor behind NASA's decision.

Investments

The current year is characterised by a very large investment budget. This is primarily due to significant investments in structural projects over and above the normal investment budget.

The structural projects are all distinguished by satisfactory profitability. However, they will, to a certain extent, affect the operating result in the coming years because of larger depreciations.

Besides the budgeted investments, the year is expected to see some acquisitions. These will require further investment capital.

Financing

Arla Foods places considerable importance on allocating appropriate funds as a buffer against future fluctuations in the operating result and thus providing the Group with the means to undertake major investments or acquisitions.

These financial contingency plans are substantial and sufficient to meet expected requirements.

The extensive investments under the strategy plan necessitate a clearly politically anchored equity capital generation.

The debate on the provision of this capital generation is currently under way among the co-operative owners. It is hoped that the process will be completed during the year.

To ensure long-term financial freedom, a solvency ratio of at least 30% is desirable.

The future

All indications are that the favourable international price levels for dairy products, which have characterised the market during the past financial year, are being superseded by a trend towards falling prices in most markets. Although expectations are for fairly moderate price falls, even minor fluctuations may impact on sales in individual markets.

In the longer term it is anticipated that further liberalisation of global trade in dairy products will take place within the framework of WTO. This will lead to lower support levels for exports from the EU of which Arla Foods accounts for a significant share.

EU markets will not only be characterised by largescale supplies of European dairy products, but also increasingly by products from large, professional suppliers from outside Europe.

Besides increased liberalisation – and thus more intense competition – the dairy industry and its people can expect that the EU's expansion towards the East and Agenda 2000 will lead to a fall in EU guideline prices and corresponding support. In the slightly longer-term, we must be prepared for lower EU milk prices and declining prices for dairy products in Europe.

Despite the somewhat less favourable conditions in the current operating year, Arla Foods expects to maintain current earning levels provided no dramatic shift occurs in world markets.

Even so, a result in line with last year's will require a significant effort from everyone across the Group.

Jens Bigum



0:10 : HIGH ABOVE ATHENS' TRAFFIC, VIVI MARGARITI AND HER PARTNER, STEFANOS KARAMANOLAKIS ENJOY THEIR BREAKFAST IN THE SUN. VIVI IS A BRAND MANAGER, AND STEFANOS HAS JUST OPENED A DIGITAL PRINT SHOP IN THE GREEK CAPITAL. A BREAKFAST OF CHEESE, CAKE AND JUICE IS SOMETHING OF A LUXURY WHICH IS NORMALLY RESERVED FOR THE HOLIDAYS. ON NORMAL WEEKDAYS, THEY PREFER TO SLEEP HALF AN HOUR LONGER RATHER THAN GET UP FOR A PROPER BREAKFAST.



: THE VENDING MACHINE CONTAINS "MELLANMJÖLK". AT MEALTIMES, CHILDREN FROM NORSKOLAN IN TÄBY, SWEDEN, DRINK ICE-COLD MILK FROM THE ILLUMINATED COW. ABO, 6, GAINS A MILKY MOUSTACHE AND ROSY CHEEKS FROM HIS DAILY GLASS OF MILK.

Management of Arla Foods' financial risks

Arla Foods' international activities mean that the Group's results and balance sheet are subject to a number of financial risks. Of these the most important ones relate to liquidity, interest rate and foreign exchange. Only to a lesser extent is the Group affected by risks deriving from bonds and stock.

Arla Foods' Supervisory Board has determined the Group's financial policies which govern the general framework, the use of financial instruments and the appropriate partners.

Decisions regarding the hedging of foreign exchange risks are made by the relevant divisions on the basis of market assessments. External hedging is decided by the Group's financial department.

Financial instruments are used to hedge commercial risks.

Liquidity risks

Cash-flows are settled over intra-group accounts and the financial department manages cash-flow centrally. Cash-flows in Sweden and the UK is managed locally.

The Group's long-term financing is the responsibility of the finance department while operating finance is handled locally in consultation with the finance department and the Group's approved partners.

The Group's cash reserves consist of bank deposits and borrowing facilities.

The Group's net interest bearing debt totalled DKK 7,103 million against DKK 7,147 million the previous year. The average repayment period for long-term debt is approximately 5 years.

During the year, Arla Foods amba and Arla Foods AB issued a commercial paper programme in Sweden of up to SEK 2,500 million to be used for the financing of operations.

As at 30 September, 2001 the cash reserves totalled DKK 4.3 billion.

Interest rate risk

The interest rate risk derives from the Group's interest-bearing debt. The Group has no significant interest rate risk from interest bearing assets.

The interest rate risk is offset by matching current assets with short-term debt, while long-term debt finances fixed assets. Long-term debt is undertaken when deemed attractive for the company. The interest rate risk is managed through financial instruments.

As at 30 September, 2001 the duration of the long-term debt was 2.6 years. Financing is primarily in Danish and Swedish kroner and matches the corresponding assets.

As at 30 September, 2001 the apportionment of debt was: 64% in DKK, 23% in SEK, 7% in GBP and 6% in other currencies.

Foreign exchange risks

Currency risks primarily arise from the Group's export activities. The most important currencies are Euro, Sterling and Dollars. Sales in foreign currencies account for approx. DKK 10 billion, of which GBP accounts for DKK 1,800 million and USD for approximately 3,000 million. Accounting for DKK 3,800 million, the Euro is the Group's largest currency.

The Group's exposure to currency fluctuations is considerable.

It is the Group's policy for hedging to take place up to 15 months of the budgeted sales because future sales can be determined with considerable accuracy.

Gains and losses are entered as the hedged transactions are realised.

Credit policy

Credit risks on bank deposits and in connection with the application of financial instruments are reduced by exclusively using financial counterparts with high credit ratings.

Credit risks on receivables are continually monitored by the business units and are not regarded as unusual.



THE DIVISIONS:

: round the world,
round the clock

: RESUMÉ :

Sweden Division: It was a good year for the majority of the Sweden Division's products. The decline in sales of liquid milk has halted and yoghurt consumption increased. The yoghurt market continued to be characterised by strong competition and although Arla Foods' sales increased, the market share fell. The division embarked on changes to the production structure so that production is now centred on fewer, but larger plants. At the same time, the new cheese and fats warehouse facility in Götene was commissioned.

Denmark Division: Danes are drinking more milk, eating more fermented products and using more cheese products in cooking.

As more Danes are eating out, the food service sector is experiencing significant growth. More than 30 new products were launched during the year. Some aim at extending the use of dairy products to other times of the day and to other occasions than traditional ones. Others target the development of existing categories. The greatest change is the marketing of the liquid milk product minimilk containing 0.5% fat, which was first launched in an organic version and subsequently in a conventional version.

Sweden Division

Most of the Sweden Division's product groups experienced a good year.

Another positive factor was the fact that the decline in liquid milk sales was halted. This is partly explained by the fact that many children born in the late 1980s have now become teenagers who drink more milk and partly by the fact that more consumers are taking milk with their coffee.

The greatest challenge in the coming financial year will be to make milk available outside the traditional chilled cabinets. During the first quarter of 2002, therefore, milk in individual packs will be launched, targeted at the food service sector to meet the convenience trend. In view of the good summer, sales of fermented products could be expected to have increased. Products with flavour additives continue to show the strongest growth. Competition from the fruit yoghurt sector has, however, affected the rise in sales. The market for fruit yoghurts continues to be characterised by strong competition between the key players. The product portfolio is large and the market as a whole is seeing considerable growth.

Volumes increased in the Sweden Division while the market share reduced. Yoggi is the leading brand and the launch of the drinking yoghurt, Yoggi Yalla, in individual bottles was particularly well received.

Cream products have been growing for the past 15 years. Product development comprised the launch of products with varying fat content and products specially adapted for cooking. Ready-made sauces and creme-fraiche products with flavour additives therefore saw strong growth. Kelda was the most successful brand. In terms of volume, sales of cream as a whole rose by 1.5%. The fresh cheese portfolio, which comprises the Keso and Kesella brands, had a particularly good year with a 6% increase in sales.

As already mentioned, the most significant growth was in products with flavour additives. Sales of yellow fats fell as increasing numbers of Swedish consumers cut down on the amount of fat used on bread. It was, therefore, decided to launch Lätt&Lagom with a fat content of 30%. Competition in the spreads segment is also increasing. Traditional butter is performing best because it is used in cooking. Bregott is also making strong headway.

It was a good year for fruit drinks, with the strongest increase in chilled, ready-to-drink products. Sales of long-life products, i.e. products which do not require chilling, and concentrates are showing somewhat weaker growth.

Sales of cheese went well during the year under review, with Arla Foods' market share in Sweden now at 51%. The Swedish classics, Grevé, Herrgård, Präst and Svecia, which are sold under the Arla cow trademark, experienced something of a renaissance. Sales of speciality cheese were also good.

Distribution

The majority of the division's products are distributed directly to stores and to customers in the restaurant, catering and food service sector with only a small proportion distributed via wholesalers. Last year, the division had some difficulties in recruiting drivers and staff for the cold stores. As staff turnover is large and absence due to sickness considerable, working environment issues are highly prioritised and will remain so in the coming year.

The new warehouse for cheese and yellow fats at Götene came into service during the year. The capacity is sufficient to store all the cheese produced at the remotest dairies in Sweden. The new facility, which is used for slicing, shredding, packing and price-marking, has led to significant improvements in terms of supply reliability and meets consumer and customer requirements for various types of cheese products.

Production

Recent years' product development has not only provided the basis for launching several new products, but has also generated changes to the production structure, as seen at Östgöta dairy. The intention is to establish a highly efficient facility suitable for all yoghurt and cooking products. The building is all but complete and production of the initial products began in the autumn of 2001. Up to the summer of 2002, over 100 products will be successively transferred to Östgöta dairy. The dairy at Alingsås is being extended to accommodate increased juice production. This project is almost complete. The changes mean that the dairy in Norrköping will be shut down at the end of June 2002.

It has also been decided to transfer production at the dairy in Halmstad to the dairy in Gothenburg during the autumn of 2003 at the latest. Customers in the Halmstad region will, therefore, be supplied from a new distribution terminal in Halmstad. The cold store in Jönköping will also be extended in order to distribute a larger range of dairy products and to centralise order picking and improve the working environment, i.e. through a higher level of automation. Furthermore, it has been decided to expand the production of fresh cheese in Skövde by transferring production from Denmark. It is also planned to expand the cold store in Stockholm and to extend the facilities in Gothenburg in order to rationalise distribution.

The dramatic fall in the Swedish krona adversely affected the dairies' costs. Price rises for certain dairy products in Sweden may be unavoidable in order to keep pace with inflation.

Denmark Division

2000/01 was a good year for the Denmark Division. Sales showed stable growth as Danes are drinking more milk, eating more

fermented products and using more cheese products in cooking. At the same time, Danish consumers have reduced their fat intake. In addition, the food service sector is expanding. Danes are eating out more and snacking more on their way to work, school and leisure activities.

This development is expected to continue to make a positive impact.

During the year, the division worked on the basis of three strategic parameters: development and innovation, customer service and operational rationalisation.

The division's product development is centred upon two strategically important areas: continued development of the current categories of dairy products and extending the use of dairy products to other times of the day and to other occasions than the traditional ones. Activities within these areas meant that the number of product launches in Denmark exceeded 30.

Developments within the existing categories led to the launch of several fat-reduced products. These include fat-reduced versions of Kærgården and Karoline's cream products as well as new fat-reduced Buko products, Karoline's fromage blanc & frais and especially a new Cheasy firm cheese with only 6% fat. These are all signs of the division's attempt to meet consumer demand for low-fat products.

2000/01 was, however, largely centred on milk. The launch of the liquid milk product organic minimilk 0.5% resulted in 37,000 more Danes drinking milk. Consequently, organic minimilk is not only the dairy product with the greatest impact on overall organic development, but is well on its way to changing the milk habits of Denmark which continues to have the world's largest sales of organic milk. Denmark is also one of few countries which is experiencing growth in milk consumption.

In relation to the strategy aimed at consumption development, the division is focusing on convenience and food service. This is seen

in the enhanced competencies and increased marketing within these areas as well as in the number of product launches which provide new use for dairy products. The launch of Matilde Café in glass bottles and drinking yoghurts in new plastic bottles as well as soups and tapenades are significant examples. This work will intensify in the coming year and will increasingly be carried out in co-operation with the Swedish domestic market.

Enhanced customer service

The division aims at establishing itself as the foremost Danish supplier of consumer goods as measured in customer and logistics service as well as the creation of added value for customers. The ability to develop efficient CRM/eBusiness systems will, therefore, become a significant competitive parameter. The first phase of this development is marked by the commissioning of a new central customer service centre in Vejle which will provide customers with professional, fast and uniform customer services.

Competition in Denmark intensified during the year and in several areas, the multiples have imported competing dairy products from neighbouring countries. In addition, the multiples are increasingly focusing on own label products. Arla Foods participates in this competition in order to maintain a sensible balance between own label supplies and the Group's own brands.

It is expected that competition within this field will be intensified in the coming year, particularly in the light of increasing internationalisation of the multiples. The division sees this development as a potential platform for further business development.

Increased operational rationalisation

The Denmark Division is responsible for the production of liquid milk and other fresh dairy products. The division operates sites at Hobro, Århus/Enigheden, Brand, Tyrstrup, Esbjerg, Slagelse

and Ishøj and a logistics unit in Vejle. The production structure has been further consolidated through the implementation of the UHT structural plan in which Esbjerg dairy has acquired UHT production from Kimstad Dairy in Sweden. Distribution was subject to a series of changes resulting in both gain and loss of customers.

Production and distribution saw an improvement in the operating result and a general improvement in efficiency throughout the division's supply systems. The coming year will continue to focus on process optimisation and increased efficiency. A number of new logistics systems and new production lines will also be introduced. These will further strengthen the division's competitiveness.

UK Division

The UK Division achieved its largest earnings ever during the financial year. Despite difficult market conditions, sales of both Arla Foods' branded products and the multiples' own label products rose.

In the liquid milk area, the dynamics of the market declined markedly and the multiples continue to cut down on the number of suppliers. This cost Arla Foods some customers, but new ones arrived. Overall, sales of liquid milk exceeded 900 million litres. However, competition for supplying the retail trade continued to be tough and earnings from liquid milk remain under pressure.

The importance of doorstep sales as a sales channel for liquid milk continues to decline. Arla Foods has, therefore, decided to restructure this business area so that the more remote smaller routes are discontinued as part of an increased effort to control costs. Rising consumption of milk and dairy products outside the home has led to the establishment of an Arla Foods' food service centre which will gather the company's business within this area.

Cravendale milk, which has an extended lifetime due to the patented PurFiltre filtering technology, continued its growth. Total sales now exceed 50 million litres per year and the product is now ready for nationwide launch.

In the butter/margarine category, Lurpak maintained its position as the UK's second largest brand. The blended product, Lurpak Spreadable, was a major factor in the rising sales as was the decision to strengthen marketing activities in the southern part of the UK where the north is Lurpak's traditional key market. With the most

UK Division: Despite difficult market conditions, sales increased during the year – both for Arla Foods' own brands and private labels. The UK Division achieved its best ever earnings. Total sales of liquid milk exceeded 900 million litres, of which 50 million litres were Cravendale milk which, owing to a patented filtration technology, has a longer life. Lurpak also maintained its leading position, not least due to Lurpak Spreadable. With its most recent product, Lurpak Lighter Spreadable, Arla Foods has added a product specially targeted at consumers wanting reduced-fat alternatives.



: THE KITCHEN IN THE "EL QUIM DE LA BOQUERIA" TAPAS BAR ONLY TOTALS 8 SQ.M. OF THE 13,631 SQ.M. LARGE MARKET, LA BOQUERIA, IN BARCELONA. HERE, CHEF QUIM MARQUEL AND HIS WIFE, MERCEDES RUIZ, SERVE A WIDE RANGE OF CATALAN SPECIALITIES TO LOCALS AND TOURISTS. SEÑOR SALVADOR PONS VIDAL LOOKS IN TWICE A WEEK TO ENJOY TAPAS BEFORE RETURNING HOME WITH THE DAY'S FRESH PRODUCTS.



Europe Division: The financial year saw satisfactory advances in tonnage and turnover and, in particular, earnings. One reason is that the BSE and Foot & Mouth crises caused consumers in Germany, the division's largest market, to opt for cheese instead of chilled meats. The increased focus on higher margin products and stronger market positions contributed to the result. The work will continue in the coming years.

recent product, Lurpak Lighter Spreadable, Arla Foods now has a product specially targeted at consumers wanting a reduced-fat alternative. During the year, the range was supplemented by Branded Yorkshire Butter from the dairy in Settle and a blended product from Sweden sold as own label through a major multiple.

After the close of the financial year, Arla Foods joined New Zealand's Fonterra in a joint venture which will be responsible for the two companies' future sales of yellow fats in the UK. The joint venture is in the form of a Danish company in which Arla Foods owns 75% and Fonterra 25%. The company will also engage in product development within the yellow fats segment.

Sales of yoghurt and desserts also advanced. Fromage frais products such as the Bob the Builder range, which is a further development of the Thomas the Tank Engine range, have seen particular growth. New licence agreements relating to other popular children's characters are in the pipeline. There are also plans for the launch of a variety of new ranges in collaboration with the multiples.

In the cheese area, growth was mainly within the new Discover range of speciality cheese.

In contrast to the suppliers in Denmark and Sweden, British suppliers are not co-operative owners of the value chain. Arla Foods has, therefore, launched "Project Equity" which aims at bringing UK suppliers closer to the company in some form of co-ownership, perhaps eventually as co-operative owners.

Europe Division

The financial year was particularly satisfactory for the Europe Division. The Division saw satisfactory advances in tonnage, turnover and earnings.

One reason is that the BSE and Foot & Mouth crises have caused many consumers in Germany, the division's largest market, to eat

more cheese rather than chilled meats. All producers – not least the more bulk-oriented producers of firm cheese – have benefited from this.

Focus on more profitable products and market positions contributed to the result. This is set to continue in the coming years as the consolidation and internationalisation of the European retail sector continues. At the same time, there is a clear tendency towards concentration and consolidation within the European dairy industry, too. Several of the largest competitors have also significantly increased investments in the marketing of their products. This means that earnings in the sector continue to be under pressure despite last year's favourable trends.

The launch of the Euro in most European countries – Europe's largest ever money conversion – has forced multiples in most European countries to introduce a voluntary price stop until the early summer of 2002 to ensure a smooth conversion process. In consequence, the coming year will be characterised by some uncertainties concerning consumer price levels for the division's products.

In the Europe Division, largescale strategy planning was implemented in response to the main trends within the European market. The aim is to build up strong market positions in selected geographical markets with corresponding increased investments in marketing and product development. Overall, the goal is to maintain long-term, stable and profitable growth in Europe.

Germany

For the first time in many years, prices of dairy products rose in Germany in response to an extraordinary demand for cheese. Prices of more bulk-oriented consumer products also rose by double digit percentages.

Overall, Arla Foods enjoyed an excellent year with satisfactory advances in both volumes and earnings. The year was charac-

terised by increased focus on concept products with satisfactory margins. Despite the positive trends, price levels and earnings in the German retail sector continued to be among the lowest in Europe. This means that the multiples' demands on suppliers are continually rising, with wholesalers and importers being hit particularly hard. Arla Foods services all major multiples directly.

The goal is to establish Arla Foods as the leading supplier of speciality cheese over a period of several years.

Holland

The Dutch retail sector is characterised by continued consolidation and new initiatives. Sales were satisfactory and the Group has built on its position as the largest foreign supplier of speciality cheese.

Belgium

Overall sales declined due to the planned discontinuation of non-profitable bulk sales. Arla Foods now focuses on supplying to the retail trade. Here, the past year showed satisfactory development.

The Faroe Islands, Greenland and Iceland

Arla Foods has a considerable export of UHT products, yoghurt and fats as well as a broad range of cheese products to the North Atlantic markets. Sales developed positively in the past year.

Poland

Poland's economic climate has been somewhat turbulent. Several years of economic progress have been reversed, leading to unemployment, rising inflation and reduced purchasing power. Lack of state intervention purchases of powder meant a serious overproduction of firm cheese resulting in lower prices. As exports from Denmark did not develop as expected, the overall result in Poland was unsatisfactory. Consequently, a large cost and organisational restructuring was implemented. The coming year will be

characterised by a strategic adjustment of Arla Foods' activities in Poland.

Other Eastern European markets

Eastern Europe's new economies are now more stable, but are still subject to some economic uncertainty. Arla Foods uses well established distributors that primarily service the western European retail chains. Once again, the year showed a positive development in sales of speciality cheese and fats. Purchasing power, however, remained limited.

Finland

Following the Arla and MD Foods merger, the Finnish organisation was restructured in accordance with the new business base. The company showed satisfactory sales and earnings. Arla Foods is the largest importer by far of cheese in Finland. A number of new initiatives will be taken in the coming year, including launches of profitable speciality cheese and a resumption of the full marketing effort.

Norway

Norway had an excellent year with satisfactory sales growth. Larger volumes were imported outside the quota.

During the year, Kraft cancelled the agreement for production of cream cheese for the Norwegian market at Disenä Dairy. Despite extensive efforts, alternative production at the plant proved not to be economically viable. This removed the basis for continuing production in Norway.

The Baltic Area

Purchasing power in the region remains limited and there are currently no signs of improvement within the foreseeable future. Arla Foods even suffered a fall in sales. Consequently, the sales subsidiary in Estonia was closed in the spring of 2001.

Italy

Sales showed satisfactory progress

as did earnings in a market which has benefited from rising prices of bulk cheese. Sales of speciality cheese also progressed during the year.

The local company adjusted its business strategy and organisation in order to enhance profitability in the Italian market.

Spain

Cheese sales continued to grow, with mozzarella accounting for the most positive developments. It is particularly encouraging that direct sales to the retail sector are rising. The Spanish retail sector is undergoing particularly rapid development and almost all European multiples are currently establishing themselves in the market. This will place new demands on Arla Foods' activities in the Spanish market.

France

During the year a decision was made to close down the more bulk-oriented sales to industrial customers in France. The business is now focusing on the large French retail chains which dominate most of southern Europe. Sales to these multiples showed satisfactory progress during the year.

Greece

The year was characterised by the formation of a joint venture with Greece's leading dairy company, Delta. Besides selling and marketing Arla Foods' products, the company produces and markets Greek sheep/goats' milk feta and other local specialities. The new company will secure Arla Foods' leading position within cheese and butter in Greece. Although the activities and new launches did not entirely meet original expectations, sales and the economic result for the year as a whole almost reached budgeted levels.

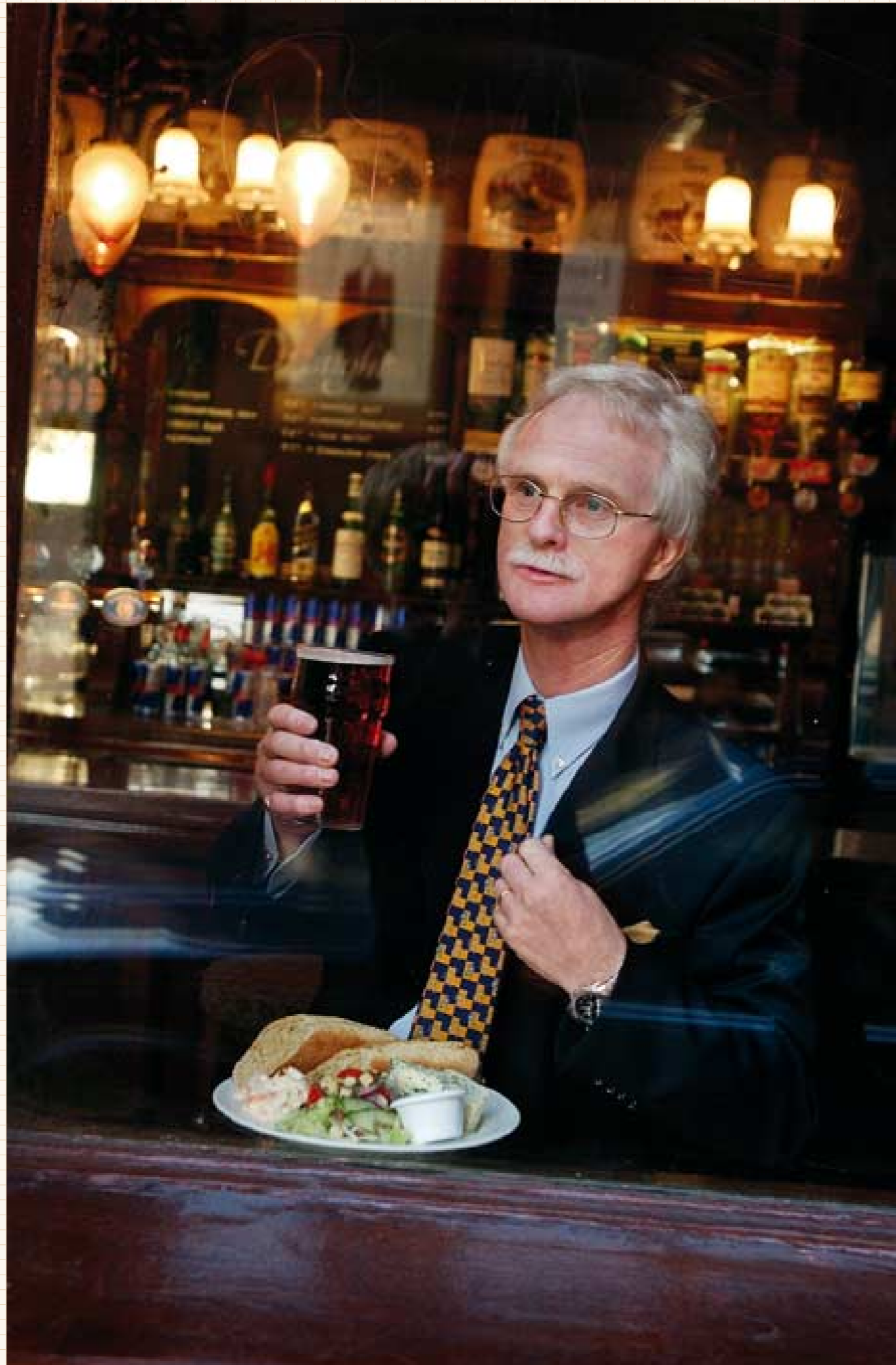
Overseas Division

The Overseas Division achieved good sales and an excellent result.



: PUB REGULAR PETER JAMIESON ENJOYS A PINT OF BITTER AND A PLOUGHMAN'S LUNCH AT THE BUNCH OF GRAPES PUB IN THE HEART OF LONDON. ALTHOUGH THE PUB'S INTERIOR HAS RECENTLY UNDERGONE REFURBISHMENT, THE ATMOSPHERE CONTINUES TO EVOKE IMAGES OF BYGONE DAYS. A "BUNCH OF GRAPES" IS AN ANCIENT SYMBOL OF AN INN AND DATES BACK TO ROMAN LONDON.

: RESUMÉ :



Overseas Division: The year was characterised by strong sales. Favourable, stable foreign exchange markets contributed to a particularly good result which compensated for falling EU export subsidies during the year. The economic downturn in the US, Japan and South America, however, had an adverse impact on sales. By contrast, economic stability benefited the markets in the Middle East where Arla Foods has further strengthened its position through a new subsidiary in the United Arab Emirates.

Favourable, stable foreign exchange markets contributed to a particularly good result which compensated for declining EU export subsidies during the year.

Continued emphasis on sales of added value products rather than bulk-oriented products also had a positive impact – not least because of the ongoing endeavours to strengthen and enhance the company's brand positions.

Added value and brand build-up proved to be key elements in the division's improved competitiveness, with positive developments in market shares and earnings.

There were no direct problems in the form of import embargos or similar trade barriers following the outbreak of BSE and Foot & Mouth. In certain markets, however, the so-called "European food problems" had an adverse impact on consumption.

Other negative factors include the fact that some of the division's overseas markets suffered an economic downturn during the year. This was the case in the US and Japan and, not least, in South America where the substantial devaluation in Brazil created very difficult conditions for imported products.

In contrast, markets in the Middle East were stable. The Russian market, too, benefited from noticeable improvements – strengthened by synergies from the Arla and MD Foods merger.

Events in recent months may extend and even accelerate the downturn, especially in the US. This, however, is not expected to affect sales potential to any significant extent.

With the current establishing of a market position in the United Arab Emirates, and significant purchases of import quotas in Canada, the move towards increased internationalisation continued over the past year. These activities will remain highly prioritised in the coming years.

THE MIDDLE EAST

Saudi Arabia

Sales to Saudi Arabia were affected by the outbreak of Foot & Mouth in Europe.

The BSE and Foot & Mouth crises both affected the Saudi consumers' perception of, and attitude to, food safety in Europe and in Denmark.

During the year, Arla Foods made significant resources available to regain and extend the market positions for branded products. The chosen strategy with focus on selected product areas proved sound and helped to lessen the impact of the imports embargo after the outbreak of BSE in the spring of 2000.

Major investments in production in Saudi Arabia continued. Bottling

capacity, especially for cheese in glass containers, has, for instance, been significantly expanded. Coupled with the population growth, stable oil prices are creating positive expectations for the country's economic development.

Seen on the backdrop of the BSE and Foot & Mouth outbreaks in Europe, earnings for the year were satisfactory. The strategy for growth is expected to be maintained.

The Gulf States and Lebanon

Focus and consolidation were again key concepts for other countries in the Middle East. Through close partnership with selected customers, the company experienced reasonable growth – not least in the Emirates. During the year, the company's brands gained market shares. The positive development is expected to continue over the coming years.

The Caspian area

Sales to the Caspian Sea region were satisfactory, albeit characterised by the economic slowdown. Expectations are closely linked to the exploitation of the large oil and gas finds and economic developments in Russia.

North Africa and Egypt

Sales of Lurpak to Egypt saw a sharp increase. The other North African countries also showed

significant activity. Expectations for the future are positive.

AMERICA

US

In the US, Arla Foods had a satisfactory financial year where the continued focus on added value products strengthened the positions of Arla Foods' brands, especially within blue mould cheese. Not all sales potential was fully exploited due to the strong demand for dairy products in Europe. This, however, contributed to maintaining US prices at a high and stable level.

Despite fluctuations in the US milk price, local production of feta and havarti in partnership with White Clover Dairy also developed positively.

In spite of the downturn in the US, an excellent result is expected for the coming year with regard to both imported and locally produced products.

Canada

In Canada, Arla Foods also achieved a good result. Local production in partnership with Amalgamated Dairies Ltd. increased both in volume and value and this is expected to continue. The same applies to sales of imported products where Arla Foods acquired a significant import quota during the year.

Brazil

Brazil's economic crisis and the subsequent devaluation of the Brazilian real has had an adverse impact on the competitiveness of imported dairy products. The difficult situation is expected to continue and will reduce certain activities in the market.

DanVigor, the joint venture between Arla Foods and a local dairy company, also felt the decline in private consumption. However, a significant effort was channelled into product development and updating the ranges. The results are expected to be evident within the coming year.

Argentina

In Argentina Arla Foods achieved significant economic growth despite the continuing economic crisis. The government's tightening of import restrictions reduced the competitiveness of imported dairy products.

The year saw the beginning of a promising partnership with two local producers of speciality cheese. This is expected to develop further. Moreover, a new partnership with a producer of strong brands concerning distribution for the food service sector has begun.

EUROPE

Russia

The stabilised Russian economy contributed to a highly satisfactory development in exports to Russia.

Close collaboration with selected partners and importers enhanced distribution and provided a continuity which has strengthened Arla Foods' reputation as a supplier of quality cheese and butter.

The synergy effects from the merger of the Swedish and Danish organisations and their ranges are now materialising. Arla Foods is regarded as an attractive supplier of a broad range of cheeses for the specialised trade and delicatessens and retail packed cheese and butter for self-service supermarkets.

This development is expected to continue in the coming year, provided the Russian economy remains stable.

ASIA

Japan

Japan continues to be in recession and domestic demand and retail turnover are declining as deflation has set in. This is impacting on the retail sector's demand for cheese. Part of the slowdown can be ascribed to the prolonged effect of last year's food scandal which hit Japan's largest dairy company.

The recession appears to have had less impact on the major part

of cheese consumption, i.e. cheese as an ingredient in cooking, for pizzas, burgers, snacks, etc. Total cheese imports, however, showed a declining trend for the first time in a decade.

Imports of fresh cheese, including cream cheese, showed a significant fall.

Despite the development in consumption, Arla Foods' exports to Japan showed satisfactory trends during the year. Part of the lost market shares were regained and imports of cheese from Denmark are increasing, particularly rindless cheese for further processing. Sales of rindless cheese such as samsø, maribo and nippon, from Taulov Dairy rose. Arla Foods' position as the third largest supplier of cheese to the Japanese market after Australia and New Zealand was consolidated further.

Providing there are no substantial changes in the form of strongly falling world market prices for cheese or dramatic falls in export subsidies, expectations are that this position can be maintained and that sales for the coming financial year will be in line with the current year despite stagnating consumption.

South East Asia

The region is characterised by economic stagnation. The slowdown in the American economy had an immediate and direct impact on the South East Asian countries.

Within this context, the past year should be regarded as satisfactory with unchanged sales of Lurpak butter, a modest increase in sales of retail packed cheese and a significant rise in the sale of long-life consumer products.

Efforts in the Chinese market were intensified, especially focusing on international hotels and restaurants and western oriented supermarket chains.

Unless the region's economy deteriorates and world market prices for dairy products come under significant pressure or export subsidies fall, sales are expected to be maintained in the coming year, possibly even rising slightly.



: CHORIATIKI IS THE LOCAL NAME FOR GREEK SALAD IN GREECE. NEKTARIOS SARAOKINOS IN RESTAURANT ALGEBEVRA USES 1 KG FETA EACH DAY FOR THE RESTAURANT'S VERSION OF THE CLASSIC GREEK DISH OF TOMATO, CUCUMBER, GARLIC, GREEN PEPPER, GREEN OLIVES, LEMON-MARINATED ZUCCHINI AND MUSHROOMS, OREGANO, OLIVE OIL AND FRESHLY PRESSED LEMON JUICE.



Pakistan

The division had a good year, with advances exceeding 30% for both cheese and Lurpak butter.

India

India officially opened its borders to imported dairy products on April 1. Protectionist and complex customs procedures have, however, acted as a barrier to imports. Despite the problems, Arla Foods has made headway.

Korea

The year has been a difficult one. Economic conditions remain tight and consumers are reluctant to spend after the lengthy economic crisis. The result is a modest downturn in exports. Regrettably there are no immediate signs of improvement.

Arla Foods Ingredients

The division confirmed its position as the leading and preferred supplier of added value milk-based ingredients and powder products to selected customers. The result was satisfactory and positively affected by rising prices and strong demand. Dramatic reductions in the EU's export subsidies have, however, had an adverse impact.

A total of 1.7 billion kg milk as well as all whey from the Group's cheese dairies in Denmark, a significant part of the whey from the cheese dairies in Sweden and whey from Germany were processed into 288,000 tons ingredients and powder products.

Arla Foods' production capacity in Denmark and Sweden was fully utilised. Consequently, the structural plan includes a new plant structure for Arla Foods Ingredients. A milk powder plant will be built in Sweden while two milk powder factories will be closed down. Milk powder production at the cheese dairies will be discontinued. It has also been decided to close down one factory and upgrade and expand two milk powder factories in Denmark.

The new production structure will enable increased production of added value ingredients for global industrial customers and retail packed milk powder products. This partly replaces bulk products sold at world market prices.

Industry

Expectations remain positive for the development of the Industry business area which comprises production and sales of added value ingredients for global industrial customers. In particular, there is significant potential within added value whey proteins, an area in which Arla Foods ranks among the global market leaders.

Scarcity of raw materials and insufficient production capacity currently represent the biggest barrier to increased turnover. Consequently, whey from the Swedish cheese dairies will be sent to Denmark in concentrated form for further processing. This whey was previously used for animal fodder.

In Argentina, the construction of South America's first major WPC factory is on schedule. The factory, a joint venture between Arla Foods and Argentina's largest dairy company, SanCor, is expected to be completed in the summer of 2002. The factory's raw material, whey, will originate from SanCor's cheese dairies and sales will primarily be to large South American customers. The sales and service functions in the region will be strengthened through the construction of a pilot plant for fermented products and cheese.

Development work continues to focus on the various milk protein products' functional and nutritional properties and their application. So far, this has resulted in a new generation of milk proteins with substantially increased functional properties. One example is Alphalactalbumin, a whey protein which has been developed especially for infant formula. Sales of infant formula were also encouraging.

The milk-based low-calorie sweetener, Tagatose, obtained the

American GRAS approval in the spring. After the close of the financial year, the product also received the approval of the American Food & Drug Administration. Focus is now on setting up production capacity – within or outside Arla Foods – and establishing sales channels, primarily for the US market. Once the necessary approvals have been obtained, it is intended to launch the product in Europe and Japan too.

Retail

The market position for consumer-packed milk powder products improved during the year, not least owing to intensive product development activities. A new product aimed at the 1-5 year age group is showing promising sales in Latin American markets.

Results for the Dominican Republic, one of Arla Foods' largest markets for retail packed milk powder products, met expectations despite problems in gaining free access to the market caused by the quota system.

Sales in another large retail market, Bangladesh, are on the rise again and the potential is regarded as substantial. Sales to Yemen were also satisfactory, particularly due to the expansion of the local distribution system.

Licensed production

Some food suppliers that use ingredients from Arla Foods Ingredients have chosen to outsource their production to Arla Foods Ingredients. These include some of the world's largest suppliers of baby food. The financial year saw significant advances in the number of products as well as in tonnage.

Ingredients sales

Sales of bulk products in world markets exceeded expectations. Throughout the financial year, world market prices of both skimmed and whole milk powder remained high. In the longer term, developments in South America and Asia, in particular, give grounds for some concern because

of the anticipated rise in the supply of commodity products in these markets.

Production Division

The Production Division is responsible for the production of cheese, butter and blended products in Sweden and Denmark. The division operates 36 plants, 12 in Sweden and 24 in Denmark.

The division is organised into two large production groups - one handles production of firm cheese, hard cheese and mozzarella as well as operating the packaging plants. The other production group handles production of speciality cheese, butter and blended products.

In addition, the division is active within the fields of category management, finance/IT, quality, engineering and supply chain. Sales to exporters also come under the Production Division.

The division produces approx. 475,000 tons of which 330,000 is cheese and approx. 145,000 tons is butter and blended products. Of the total of 475,000 tons, approx. 127,000 tons is produced at the Swedish dairies with 348,000 tons in Denmark. The production is primarily sold through Arla Foods' other divisions. The division employs 4,600 people.

Highlights of the division's work during the financial year include:

- Structuring the division following the merger
- Implementation of approved structural projects
- Development and approval of a new overall organisational structure.

With approx. 27,500 tons per year, the new large dairy at Taulov in Fredericia is now in full production. This has meant that Ribe Dairy was shut down in the spring of 2001. Snebjerg cheese packaging plant is also under closure and its operations will be transferred to

Vejle cheese packaging plant and Taulov. At Taulov, a new large warehouse for the storage of firm cheese has been commissioned, allowing several small warehouses in Denmark to be closed.

In the speciality cheese area, Troldhede Dairy has been expanded, allowing the transfer of production from Høng. Høng Dairy suffered considerable fire damage in December 1999 and is now closed.

Moreover, production of feta will be transferred from Grøndal Dairy to Bislev from the beginning of 2002. As part of the merger agreements with the Danish competition authorities, Grøndal Dairy was sold.

Finally, production capacity at Holstebro Cream Cheese will be significantly expanded in the near future.

In Sweden, the largest structural project was the commissioning on July 1 of the new large cheese warehouse and packaging plant in Götene. Subsequently, the cheese packaging plants in Kalmar and Stenstorp and the cheese warehouses at Nyköping, Sävsjö, Lidköping and Jönköping were closed. Although this large and complex project has not been without some initial teething problems, all indications are that production is well under control.

During 2000/01, the Production Division developed an overall structural plan for the Swedish and Danish dairies. The plan means a reduction from the current 36 plants to around 21 over a five-year period. The division's proposals were approved in principle by Arla Foods' Supervisory Board in June 2001 and the first stages of the plan have been initiated, including a decision to expand Falkenberg Dairy. This means that Stånga Dairy at Gotland can be shut down in 2003. Milk from Gotland will be used for new powder production at Visby Dairy.

A decision to close Borgholm Dairy on Öland was also taken. Consequently, production of large, round cheeses will be centred on

Arla Foods Ingredients: On a backdrop of rising prices and strong demand, the division's result is satisfactory. The construction of South America's first large whey protein concentrate factory in Argentina in a joint venture with the largest Argentinian dairy group commenced during the year. The milk-based low calorie sweetener, Tagatose, obtained the American GRAS approval.

The Production Division: The division's work was dominated by structuring of the division, implementation of approved structural projects and the development and approval of a new overall organisation structure. The restructuring means that the number of plants in Sweden and Denmark will be reduced from 36 to around 21 over five years. The first stages of the plan have already been initiated.

Kalmar Dairy from the end of 2003. The plan's other components will be considered by the Board on an ongoing basis.

In view of Arla Foods' objective of producing the world's most sought after cheese and butter range, work in the current financial year will focus on the following:

- Structural projects and structural plan
- Cost and efficiency measures
- Category management
- Quality – including a new quality management system
- Services to sales divisions
- New IT and administrative systems
- Organisation and staff development

Members' Division

The Members' Division is responsible for supplying Arla Foods' dairies with raw milk from the 14,900 milk producers in Denmark and Sweden.

The structural development for Arla Foods' Danish and Swedish milk producers continues. During the year, the number of co-operative owners in Sweden declined by 7% to 7,000 and in Denmark by 9% to 7,900. Production of organic milk continues to rise and now accounts for 7.5% of the total, which is unchanged from last year.

Despite significant increases in the price of diesel fuel and wages, transport costs relating to milk collection from farms were maintained at last year's level. Improved pumping capacity of the tankers, fewer and larger farms and more efficient use of the tanker fleet have all contributed to this. The outbreak of Foot and Mouth disease in Europe had a significant effect on operations at the farms as well as on transport.

A substantial part of the division's work was dedicated to harmonising the two companies' regulations and activities, a task which will be completed by October 2003. One important area is the harmonisation of the milk price. Proposals for a new milk pricing model, reflecting the company's quality policies and future consolidation needs, will be discussed in depth with the co-operative owners.

Another challenge for the division is to enhance the value chain "from soil to table", which is one of the resources of an agricultural co-operative. Further steps towards increased harmonisation will be yet another important part of the division's work.



: AT RESTAURANT VILLA KÄLLHAGEN, 10 MINUTES FROM STOCKHOLM'S CITY CENTRE, CHEF FREDERIK ERIKSSON WORKS WONDERS WITH CHEESE. HERE HE'S CREATING A MINOR MASTERPIECE FOR THE CHEESE BOARD: AN OPEN SANDWICH WITH KVIBILLE ADEL CHEESE AND HOMEMADE MALT CRISPBREAD, A SMALL GLASS OF SHREDDED PRÄST CHEESE AND CUMIN, A CENTREPIECE CONTAINING KVIBILLE CHEDDAR AND A "BREAD BASKET" OF GREVÉ AND CELERY. FREDERIK ERIKSSON WAS VOTED "CHEF OF THE YEAR" IN SWEDEN IN 1987.



THE SUBSIDIARIES:

: growth and advancement

: RESUMÉ :

Danapak: Allowing for the sell-off of Danapak Plast, turnover rose by 6% and the company achieved a positive result. In the cartons area, Danapak has entered into a strategic alliance with Westergaard & Philipson to offer a full range for the majority of the cartons market. Within flexible packaging, Danapak has focused on a number of selected niche areas.

De danske Mejeriers Fællesindkøb: Turnover rose by 8%, primarily due to the Trade Department's increased collaboration with Arla Foods on Global Purchasing. 71% of the company's turnover now derives from dairies that are members of the company against 62% the previous year. The subsidiary, Kongstad A/S, was sold while the fruit factory in Odense has been spun off as an independent subsidiary under the name of Dairy Fruit A/S.

Danapak

The Danapak group achieved profits of DKK 1.5 million for the financial year 2000/01, which is an improvement of DKK 100 million on the previous year. Of this, the revenue from the sale of the plastic tub division accounted for approx. DKK 28 million.

Turnover was DKK 1,038 million, corresponding to an advance of 6% allowing for disposals. The overall operating result improved significantly on previous years as a direct consequence of tight cost control, high quality levels and considerable supply reliability.

Within the cartons area, developments in Cartons Europe, that operates production facilities in Germany and UK, have been particularly positive. Cartons Nordic, with production in Korsør and Herning, also advanced.

With regard to flexible packaging, the year was a turbulent one with certain capacity problems, the running-in of new machinery and strongly rising international competition. The result for Danapak Flexibel is an improvement on last year, but these improvements remain insufficient. However, in the latter part of the financial year, developments were positive. This indicates that the foundation for further improvements in the coming year is in place.

Sales growth

Despite significant changes and rising international competition, all result centres showed growth in turnover due, in part, to selected niche products in flexible packaging. The stronger focus on niche products has increased these products' share of total sales of flexible packaging products. The emphasis on niche products has resulted in fast lead times and stable, less complex production procedures.

Restructuring of the cartons industry

In August 2001, Danapak entered into a strategic alliance with the

Danish cartons company, Westergaard & Philipson (WP). The purpose of the alliance is to pool the two companies' respective strengths in the cartons area. The alliance secures Danapak and WP's leading position in the Danish cartons market and marks the beginning of a restructuring of the Danish cartons industry. WP is a leading niche supplier and between them, Danapak and WP offer a full packaging range for the majority of the cartons market through a particularly competitive production apparatus.

Innovation

During the year, Danapak focused further on innovation resources. In October 2000, the company was awarded the Nordic packaging award, ScanStar and in April 2001, it also won the WorldStar for the packaging design for an exclusive gift series. In November 2000, the French packaging institute, IFEC, awarded a French "Oscar" to a butter foil with built-in tear strength developed by Danapak for one of Europe's largest dairy companies.

Investments in new technology

As part of a three-year investment programme, Danapak invested approx. DKK 48 million during the year, mainly in new and more efficient technology for increased quality and profitability. Significant amounts were also channelled into environmental investments of which the largest were at the cartons factory in Korsør and at the flexibles factory in Slagelse.

The sale of Danapak Plast

On August 10, 2001, Danapak sold off its smallest business area, Danapak Plast, which produced plastic tubs and lids, to Rexam Ltd, London, at a price of DKK 192 million. The sale comprised the factory in Stilling, in Denmark and machinery, fixtures and fittings at the factory in Nummela in Finland. The Finnish factory is under closure and the buildings are up for sale. The disposal was a natural progression in the consolidation of

the industry for plastic tubs and lids.

The future

Danapak will continue to pursue a strategy of growth. Within the cartons business, Danapak will maintain and enhance its position as market leader in Denmark on the basis of an international production platform. At the same time, Danapak will participate in the industry's consolidation. Within flexible packaging, focus will be on competitiveness. The current activities aimed at enhancing efficiency will be maintained and developed and there will be increased focus on core technologies and segments. Endeavours to build alliances with European partners, e.g. with regard to international tenders, will be further strengthened.

Danapak expects significant improvements in the result for the coming year.

De danske Mejeriers Fællesindkøb

De danske Mejeriers Fællesindkøb achieved a consolidated turnover of DKK 599 million in 2000/01 against DKK 553 million in 1999/00. The 8% rise primarily derives from Fællesindkøbet's Trading Department's increased collaboration with Arla Foods on Global Purchasing. Sales to other food industry customers also showed satisfactory progress as did the production activities of Crispy Food and Dairy Fruit.

Member turnover accounted for 71% of the turnover in 2000/01 against 62% in 1999/00.

The result before tax and extraordinary items was DKK 24.7 million against DKK 4.8 million the year before. The result for the year was DKK 29 million against DKK 34.4 million in 1999/00.

As Kongstad A/S was sold to the Swedish company, Prokurator Safe-mann AB, in May 2001, the company is not included in the figures.

The Trade Department's purchasing partnership with Arla

Foods was further expanded during the year. Especially within ingredients, Fællesindkøbet is responsible for most ingredients for the production of cheese, butter and fermented milk products. Likewise, the Trade Department's industrial section, which comprises several new foreign agencies, performed well. The bakery and cake segment, the confectionary industry and the brewery sector are the most important customer areas.

The Production Division, which produces cheese wax and filters and handles blending activities for both dry and wet blends, has not met expectations in respect of the sale of cheese wax. Fællesindkøbet continues to provide these products, primarily to the Danish market, where the company is market leader.

The Production Division's FI blend works in tandem with the Industrial Department in offering total solutions for finished blends to, e.g. the bakery industry. By acquiring IFEG International ApS, the division is further focusing on supplies to the bakery industry. A joint sales strategy is under development.

At the beginning of 2001, Fællesindkøbet's fruit factory in Odense was established as an independent limited company under the name, Dairy Fruit A/S. The company's turnover rose by 24% and both domestic sales and exports have advanced, particularly to the Swedish market. Due to the relatively good summer, the fruit harvest in most supplier countries was good leading to stable raw material prices. The market for fermented products and desserts of which fruit is a major component continues to develop positively.

With a rise in turnover of 38%, Crispy Food in Gørlev, Denmark, had a satisfactory result. In the Danish market, sales of tops for MiniMeal were stable. In conjunction with Arla Foods' Development Department, a range of new tops for the UK was developed and sales are promising. Late in the year, the company began to export

0:28

0:29



: IN LONDON'S LUXURIOUS LANDMARK HOTEL, THE TABLES ARE SET FOR TEA IN THE EIGHTH STOREY ATRIUM. THE LARGE SELECTION OF SCONES, SANDWICHES AND CAKES SERVED ON CAKE STANDS ARE MADE AT THE HOTEL'S OWN BAKERY. THE FRENETIC PACE OF LONDON LIFE IS, FOR A SHORT TIME, REPLACED BY THE SOUND OF A FLUTE AND HARP IN THE ATRIUM. ORIGINALLY, THE HOTEL, OPENED DURING THE REIGN OF QUEEN VICTORIA IN 1899, WAS KNOWN AS THE GREAT CENTRAL HOTEL. THE LANDMARK HOTEL WAS AWARDED THE TITLE OF HOTEL OF YEAR 2001 BY THE LONDON TOURIST BOARD.

: RESUMÉ :

Rynkeby Foods A/S: Sales to the Danish retail and catering sectors rose by 4% while exports and sales to industrial customers fell by 12%, primarily as a consequence of the termination of a number of contracts. Overall, however, turnover and earnings rose. During the year, a series of new, modern packaging and new flavours were launched. A new logo and relatively strong marketing effort contributed to the company's increased profile in the market.

muesli tops to Japan where consumers like to combine muesli and fermented milk products. Sales of muesli as own label products are developing satisfactorily in the Danish market, although exports have been disappointing.

Fællesindkøbet's expectations for the coming year are positive. Following the disposal of Kongstad, the company intends to become the preferred supplier of ingredients to the dairy sector and other important customers within the food industry.

The production companies, Dairy Fruit and Crispy Food, continue to look forward to a positive development in turnover, mainly in exports. Fællesindkøbet's Trading Department plans to extend the collaboration with Arla Foods on global purchasing. With respect to industry, the strategy has been updated to focus on the core businesses.

Rynkeby Foods A/S

On a foundation of market growth and strong marketing effort, Rynkeby Foods' sales to the Danish retail and catering sectors rose by 4% while export sales and sales to industrial customers fell by 12%. This was primarily a consequence of the cessation of a series of trading agreements in 1999/2000. Turnover rose from DKK 797 million to DKK 804 million. The ordinary result before extraordinary items and tax was DKK 27 million against DKK -21 million. The year's result after tax was DKK 27 million against DKK 8 million the previous year.

The positive development in the ordinary result compared to the previous year is primarily due to a rise in gross profit. The main explanation is that raw material prices have been at a somewhat lower level than the year before. This trend has, however, partly been counterbalanced by the high rate of the US dollar.

A second positive element was the targeted effort to improve

profitability. This has resulted in a satisfactory rise in productivity compared to the previous year.

Rynkeby Foods A/S' most important business areas are the development, production and sale of fruit-based drinks, primarily to the Danish market. The majority of these products are produced at the factories in Ringe and Rynkeby.

More than 80% of the Danish turnover falls within the juice and fruit juice market. As in previous years, juice saw a satisfactory growth of 10%. The market for fruit juice was a couple of percent above last year's.

Rynkeby Foods' position as market leader within these two market segments was further underlined during the year, although competition increased significantly. This is especially the case with own label products. In consequence, the market has seen a rising level of campaign activities and price pressure.

A third important product area is spring water where Rynkeby Foods' Harilds Kilde has a satisfactory share of the Danish market. The market for spring water has seen continued growth. Many active suppliers of branded products have, however, intensified competitive pressures.

To maintain and develop its position as market leader, Rynkeby Foods launched a range of new and modern packaging and new flavours during the year.

A new Rynkeby logo and a relatively strong marketing effort contributed to increased visibility in the market.

Other matters

In June Rynkeby Foods won its case in the Danish High Court against the Ministry of Foods, Agriculture and Fisheries concerning "Rigtig Juice" (= "real juice"). The Court upheld Rynkeby Foods' claim that the term "Rigtig Juice" should be regarded as a brand name and, therefore, does not constitute a misleading statement under consumer regulations.

Rynkeby Foods' internal logistics has, in recent years, been ham-



pered by insufficient storage capacity for finished goods. Consequently, a major part of the finished goods was transferred to external storage resulting in increased costs and complex warehouse management. To alleviate the situation, a new fully automated warehouse was planned for the storage and dispatch of all finished goods from the factory in Ringe. The project has been submitted to Ringe local council, which has prepared a local zoning proposal for the purpose of reaching a final decision early in 2002.

The future

Expectations for the 2001/02 financial year are for a moderate increase in turnover and a continued positive result. Rising raw material prices, which have already impacted on the start of the financial year, will be countered by increased sales prices and internal efficiency measures.

Medipharm AB

Medipharm AB, which produces bacteria cultures for agriculture and the food industry, markets its products in, as well as outside, Sweden. In the last financial year (15 months) the company achieved a turnover of SEK 74 million which represents a significant rise. The result rose from SEK 5.4 million to SEK 10.7 million.

Despite the Foot & Mouth epidemic, Medipharm's sales of microbiological ensiling agents in the UK increased markedly.

The Czech Republic, Germany, Poland and the UK achieved the greatest growth. The Czech subsidiary, in particular, managed to improve on its already very strong domestic position.

Sales of Enzobact for the production of reduced-fat cheese increased once again following a modest decline. Interest in the product is considerable and volume sales have increased by approx. 40%.

Due to approval by the EU

authorities and the rising interest in antibiotic-free production, the downward curve for the product area, probiotics for feed, has now been reversed. This has consolidated Medipharm's position further.

The sales and marketing organisation in Kågeröd in Sweden has been further strengthened. The same is the case with the Czech organisation which can now work more efficiently with probiotics for feed in the European market. This represents the first step towards the co-ordination of the European companies' activities which will be necessary once the Central European countries join the EU.

In general, the debate concerning animal welfare among European consumers will strengthen the natural alternatives' market position. Demand for Enzobact for production of reduced-fat cheese is also expected to have a positive impact on the company's future.

Semper AB

Semper, the Swedish market leader in baby food, gained further market shares during the year. Under the Friggs brand, the company also supplies a broad range of health food. Within the field of special dietary products, the company develops and markets products for consumers with special food and nutritional requirements. Semper also offers a broad range of products for the food service sector.

2000/01 exceeded expectations for both sales and result which, at SEK 32.0 million, was a substantial improvement on last year. Sales rose by 10% to SEK 1,064 million. Exports rose by 33% and now account for 19% of turnover.

Retail products

With regard to baby food, Semper renewed its range during the year. Although Sweden's birth rate only rose by 2%, turnover in Sweden increased by 7%.

Exports of baby food increased by 18%. During the year, Semper has, in the main, directed its efforts

towards two markets – Finland and Russia. In Finland, Semper is now the second largest supplier and in Russia, sales have been substantially above last year. This development is expected to continue in the coming year.

Friggs health food benefited from the continued growth in the retail sector. At the same time, the company's range has been streamlined. Friggs is now the market leader in respect of vitamins, anti-

Medipharm AB: Sales of microbiological ensiling agents increased significantly, primarily in countries such as the Czech Republic, Germany, Poland and the UK. The decline in sales of probiotics for feed was also reversed, not least due to increased interest in antibiotic-free production. Interest in the product, Enzobact, which is used in the production of reduced-fat cheese, is on the rise, with sales increasing by 40%.

Semper AB: Semper's total sales rose by 10%. Exports increased by 33% and now account for 19% of the turnover. Finland and Russia are major export markets within baby food while Norway, UK and Germany are the most important export markets for special nutritional products. Semper has taken over responsibility for sales in Norway, which increased by 50% during the year.



: BJARNE BACHMANN AND OLE BÖCKMAN ARE MAKING A DESSERT ASSISTED BY OLE'S WIFE HANNE. THE SCENE IS MALLING SCHOOL, SOUTH OF ÅRHUS IN DENMARK, WHERE THE TWO EXPERIENCED AMATEUR CHEFS ARE TACKLING THE TASK OF THE EVENING: FILO-BAKED APPLES WITH LEMON CUSTARD. IN HIS WORKING LIFE, OLE BÖCKMAN IS A BAILIFF IN ÅRHUS WHILE BJARNE BACHMANN IS A TEACHER. TOGETHER WITH A GROUP OF FRIENDS, OLE AND BJARNE HAVE BEEN PARTICIPATING IN THE COOKERY CLASSES FOR TWENTY YEARS.



JO Bolaget: Overall sales of juice, fruit drinks, fruit soups and stewed fruit rose by 7%. One important reason for this is the hot summer, although a series of product launches and campaigns have all had a positive effect. In spite of the high dollar rate, the price of orange concentrate was low during the year. Recently, however, price levels have risen markedly.

Frödinge Dairy AB: While sales in the domestic Swedish market declined, exports, supported by a weak Swedish krona, increased. Volumes only rose marginally whereas turnover increased by 10%. In the early summer, a new product line for layer cake was commissioned. The line has increased capacity by 50%.

cold remedies, Omega 3 fish oil, and rice cakes. Friggs is continuing its strong development within the product areas of tea, natural medicines and minerals.

Semper Nutrition

Within the field of special dietary products, Semper develops and sells products for clinical nutrition, primarily in Nordic markets. This growth market saw sales increase by 17% during the year. One important strategic move was the decision to assume responsibility for sales in Norway in late 2000. This has meant a rise in sales of no less than 50%. During the year, production of special dietary products was transferred from Kimstad in Sweden to Esbjerg in Denmark.

Part of the special dietary product range is gluten-free products which are primarily marketed in the Nordic countries. Sales in this rapidly rising segment rose by 22%. The range has been expanded by, for instance, pasta and bread products. In the UK, where the products are marketed under the Juvel brand, sales rose by 39%. During the year, gluten-free products were also launched in Germany.

Food service

Within food service, total sales in Sweden rose by 2% while Semper's turnover in the area of catering increased by 8%. Deep-frozen products such as pancakes and crêpes saw the largest increase. Total exports of pancakes rose by 8%.

Sales of the chocolate milk drink, Pucko, rose by 22%. When Arla Foods launched the chocolate milk, Matilde Café, in Denmark, production at the plant in Laholm doubled. Together with the increased production of the pancake and crêpes ranges, this has led to a high level of capacity utilization, major changes and increased staff levels.

The future

Despite weaker trends and a con-

tinuing low Swedish birth rate, the outlook is for continued growth within all product areas. New products are in the pipeline and the company's marketing will be strengthened.

JO Bolaget

JO Bolaget, which is 50/50 owned by Arla Foods and Skånemejerier, operates within the field of fruit juice, fruit drinks, fruit soup and stewed fruit.

In 2000/01, total sales increased to 123.6 million litres, a rise of 4.3 million litres while turnover rose by 7% to SEK 879 million. The hot summer of 2001 contributed significantly to this. A series of product launches and campaigns also contributed positively.

The price of apple concentrate, the company's largest raw material after oranges, remained unchanged during the year whereas the price of orange concentrate was at an unusually low level. Despite the high dollar rate, this meant that overall raw material costs declined.

JO Bolaget is the Swedish market leader within concentrated juice, ready-to-drink unchilled juice and chilled ready-to-drink juice. Juice accounts for 90% of the turnover and sales of chilled, ready-to-drink juice products have shown the largest increase. Sales of the chilled juice, God Morgon, rose by more than 20%, partly due to a new, modernised design, the introduction of screw tops and the launch of two new products, God Morgon Florida and God Morgon+ Järn.

The outlook for 2001/02 is positive. Sales continue to develop positively and a series of exciting product launches are on the way. Recently, however, the price of orange concentrate has risen markedly.

Frödinge Mejeri AB

Frödinge Mejeri, which in Sweden is best known for cheese cake, also produces deep-frozen tarts and

layer cake. Exports increased over the past year, while sales in the domestic market fell. Turnover totalled SEK 302 million, an increase of 10%. The operating result was SEK 22 million.

Sales volumes saw a marginal increase during the year. Sales fell in the domestic market, while exports increased and now account for 40%. The weak Swedish krona had a positive impact on the export result.

Sales to the UK continued to show a positive trend and Frödinge is now one of the largest suppliers of deep-frozen layer cake. As customer requirements are high, Frödinge has, besides the current ISO accreditations, been third party accredited in accordance with British standards.

Sales in Germany increased marginally. Competition in the market intensified significantly when the largest supplier merged with one of its competitors.

Sales to Finland developed particularly well, and Frödinge is well established in the market. Five different products are currently marketed under Frödinge's own brand.

In the spring of 2001, a new production line for layer cake was commissioned, resulting in a 50% increase in capacity. The investment, which also includes improved warehouse and raw material handling facilities, amounts to SEK 60 million. The project has succeeded in improving product flow, improving quality and safety and enhancing the working environment for staff.

The company will see further efficiency measures over the coming year in order to address the increased demand for deep-frozen layer cake in export markets.

Arla Foods Holding A/S

Wholly-owned by Arla Foods, Arla Foods Holding A/S is the holding company for a number of Arla Foods' shareholdings, including Medani A/S and Rynkeby Foods A/S.

Overall, Arla Foods Holding's result showed a profit of DKK 3 million against DKK 4 million in 1999/00. The result was positively influenced by stronger earnings in Rynkeby Foods A/S, while the result for Medani A/S failed to meet budgeted levels.

Medani A/S

The company owns Arla Foods' head office, Ravnsbjerg Erhvervscenter. The company was previously responsible for a number of financing and investment activities as well as the Group's internal leasing business, but these activities have been severely curtailed in recent years and are now being disposed of.

To a certain extent, Medani was adversely affected by the turbulence in financial markets in September 2001, which has resulted in a small loss for 2000/01.

Arla Insurance Company Ltd.

Arla Insurance Company Ltd. on the Cayman Islands also acted as a reinsurance company for the Arla Foods group in 2000/01. The claims situation was substantially more favourable than the previous year and the net result of DKK 12 million is above budget.

To reduce administrative costs, it was decided to liquidate the company on the Cayman Islands with effect from the 2000/01 financial year. A new reinsurance company, Arla Insurance Co. (Guernsey) Ltd. has been registered in Guernsey. With effect from 2001/02, the company will be responsible for the Group's reinsurance business.

Andelssmør A.m.b.a.

Arla Foods holds a stake of approx. 92% in the company, which handles the majority of Danish butter exports. The company operates as an integral part of Arla Foods. The result for the year is satisfactory.

AM Foods

In 1996, MD Foods (67%) and Arla (33%) established a joint company for the production and sale of capuccino and chocolate instant products for the food service sector and retail segments.

The company has now entered a period of consolidation and is showing remarkably positive results. The 2000/01 financial year is satisfactory.

ENVIRONMENT:

: Arla Foods Environment,
Health and Safety

Arla Foods' policy is to produce and supply products in a healthy and safe working environment while striving to minimise the impact of our activities on the surrounding environment. The Group's overall environment, health and safety policy is reflected in a series of specific objectives.



0:36



: DINNER TIME, "LA CENA", IN A SPANISH HOUSEHOLD. AT GAVÀ-MAR, ON THE COAST SOUTH OF BARCELONA, DUSK HAS SET IN. THE FATHER, ORIOL VALLES, THE MOTHER, PATRICIA DE VILLAMORE AND THEIR CHILDREN, IAN, 6, AND PAULA, 4, ARE GATHERED AROUND THE TABLE FOR PASTA AND SALAD. AS IN MOST OTHER SPANISH HOMES, THE TV FLICKERS IN THE BACKGROUND. IT'S 10 PM, ALMOST TIME FOR THE CHILDREN TO GO TO BED.

Arla Foods' Environment, Health and Safety Policy

An overall Environment, Health and Safety (EH&S) policy has now been adopted for the Arla Foods group. The basis of the EH&S policy is Arla Foods' commitment to meeting the needs of society, customers and consumers in an environmentally sound, safe and sustainable manner. To achieve this the group employs a range of active EH&S measures across the entire food chain – from the farm to consumer.

Arla Foods' policy is to produce and supply products in a healthy and safe working environment

while striving to minimise the impact of our activities on the surrounding environment.

In concrete terms, this means Arla Foods will:

- continually improve the Environment, Health and Safety (EH&S) performance of products and activities
- conserve energy and raw material, reduce waste, and explore opportunities for reuse and recycling
- minimise potential EH&S impact when developing new products

and business and when planning capital projects

- actively co-operate with authorities and other relevant stakeholders
- encourage our suppliers to develop and supply EH&S superior products and services through cooperation and in line with our requirements
- ensure that our employees are aware of Arla Foods' EH&S policy and motivated to apply it, are aware of their own responsibilities and are given the support

and training necessary to fulfil them

- plan, prepare and regularly review company objectives, targets and action plans for EH&S issues
- monitor and communicate our EH&S activities and performance against our plans both internally and externally

Corporate objectives

Environment, Health and Safety Management

Arla Foods uses a proprietary environment, health and safety management system developed in accordance with the ISO 14001 and OHSAS 18001 standards for all dairy activities.

The aim is:

- for all operating plants and divisions in Denmark and Sweden to be accredited according to ISO 14001 by 2005/2006.

Water and energy

Arla Foods wishes to minimise the impact on the surrounding environment by efficient use of water and energy resources for production and transport.

The aims are:

- to reduce water consumption by 7.5% over a five year period – relative reduction of water consumption compared to the base year 2000/01.
- to reduce energy consumption by 5% over a five year period – relative reduction of energy consumption compared to the base year 2000/01.

Health and Safety at Work

Arla Foods wishes to work actively to ensure a good working environment and to avoid the occurrence of accidents. The aims are:

- to gather data as a basis for setting out concrete targets no later than the end of the budget year 2001/2002.

Where such data already exists (DK), the aims are

- to reduce the work-related accident frequency by 25% over a five year period from the end of the budget year 2000/01 to the end of 2005/06.
- to reduce the number of work-related injuries by 25% over a

five year period from the end of the budget year 2000/01 to the end of 2005/06.

Emissions to air

Arla Foods is intent on contributing towards a reduction in global warming and acidification of water and air by reducing gaseous emissions from production and transport.

The aims are:

- to reduce the emission of CO₂ by 5% over a five year period – relative reduction compared to the base year 2000/01.
- to reduce NO_x emission by 10% over a five year period – relative reduction compared to the base year 2000/01.

Chemicals

Arla Foods will pay strong attention to the use of chemicals carrying a risk to health or having a negative impact on the environment.

The aims are that:

- a risk assessment of all chemicals used at each production plant is carried out no later than the end of the budget year 2005/06.
- once a year, the group monitors the use of chemicals with particularly undesirable effects on health and the environment and draws up aims and action plans with a view to substitution or phasing out.

Based on the Environment, Health & Safety Management policy and the group objectives, focus will be on strategies and action plans designed to ensure that the established aims are achieved within the agreed time frame. An important element in this respect will be the collation of comparative cross-border data as a basis for the ongoing work. In addition, this data will serve to highlight developments in this area from year to year.

Analyses result in fewer work-related accidents

For several years, Arla Foods has focused on reducing the number of work-related accidents at its Danish plants. Part of this work is centred upon analyses of the cause of such accidents, where the number of “incidents with a potential risk of personal injury” has been registered and a series of preventive measures carried out, not least in connection with the introduction of new staff. These initiatives have resulted in an 11% fall in work-related accidents at Danish plants over the past three years.

To maintain this positive trend, Arla Foods has entered into a partnership with Mejeriindustriens Bedriftssundhedstjeneste (MB) (The Dairy Industry’s Occupational Health Service) on a joint action plan. The initial aim is to reduce the number of work-related accidents in the Denmark Division which accounts for approximately 40% of all work-related accidents at Arla Foods’ Danish plants. The action plan consists of three elements, i.e. an analysis of work-related accidents during 2000/01, the preparation of a so-called “safety-culture analysis” and the use of specific preventive tools.

The analysis and the culture-analysis is well under way. The culture-analysis is intended to examine the safety-culture – i.e. the values, habits and perceptions affecting management’s and staff’s attitude to prevention, risk and accidents. MB is responsible for this stage, including interviews and observations at the specific plants.

On the basis of the culture-analysis, concrete initiatives for improving accident prevention will be decided.

Experiences from the Denmark Division will later be applied to the rest of the group.

Fewer work-related injuries

A link exists between work-related injuries and heavy lifting and

Repetitive Strain Injury (RSI). In consequence, all production and work stations in Denmark have been surveyed with regard to heavy lifting and RSI in order to pave the way for a targeted effort to reduce the number of work functions carrying a risk of injury.

This effort is now beginning to show an effect on the number of work-related injuries reported to the Danish National Labour Inspection. As is shown in the table below, the number of RSI/heavy lifting work functions between 1997/98 and 1999/00 fell from index 100 to index 69. Over the same period the number of reported work-related injuries fell from index 100 to index 61.

(Index fig.)	RSI/Heavy lift.	Work-related injuries
1997/98	100	100
1998/99	85	76
1999/00	69	61

Reduction in use of chemicals

Although chemicals have an important role in ensuring higher hygienic standards, their use must be reduced as far as possible. Consequently, the consumption of cleaning agents is closely monitored at plant level in order to optimise their use. In addition, staff are given detailed instructions in the correct use of the agents in relation to the working environment and the external environment.

At Akafa, the milk powder factory, the used lye is nanofiltered for recycling, which has resulted in annual savings of approx. 300 tons lye. Moreover, consumption of acid in the purification plant and energy consumption for the heating of cleaning agents has also been reduced.

New driving techniques reduce fuel consumption

To reduce energy consumption in connection with milk transport,

units in Sweden have introduced the Heavy Eco Driving programme which has been developed in Finland, but adapted to Swedish conditions. The programme, which is aimed at drivers of heavy vehicles, comprises a series of measurements using special traffic computers which teach drivers new techniques. Experienced HGV drivers are often surprised to see how fuel consumption can be reduced without losing time. Savings of 5-10% are not unusual – with a corresponding reduction in gas emissions.

All plants to be ISO 14001 accredited

Since the dairy in Skövde was accredited in accordance with ISO 14001 in 1998 – the first plant to be so – accreditation has proceeded fast in Sweden. Currently, approx. 66% of Arla Foods’ Swedish plants have been ISO 14001 accredited.

In Denmark, too, accreditation is proceeding rapidly. So far, Akafa and Kjersing (in 2001) have been accredited. The aim is that all Arla Foods’ plants in Denmark and Sweden will be accredited according to the ISO 14001 environmental standards.

Accreditation is a natural consequence of several years’ systematic environmental work, with specified procedures and clearly defined areas of responsibility. One important reason for accreditation is that it ensures the optimum use of both energy and raw materials.



ACCOUNTS:

: 02.10.2000 - 30.09.2001



Management Report

ÅRHUS, 28 NOVEMBER 2001

Group Management Board of Arla Foods amba

Jens Bigum Åke Modig /Jørn Wendel Andersen
MANAGING DIRECTOR DEP. MANAGING DIRECTOR FINANCE DIRECTOR

Supervisory Board for Arla Foods amba

Lars Lamberg Knud Erik Jensen
CHAIRMAN DEPUTY CHAIRMAN

Bertil Andersson

Leif Backstad

Niels Bøgedal

Kaj W. Christensen

Christer Eliasson

Anders Ericsson

Leif Eriksson

Elisabeth Gauffin

Åke Hantoft

Tommy Jacobsson

Sören Kihlberg

Kr. Ole Kristensen

Ove Møberg

Hans Peter Nielsen

Per Norstedt

Jan Nørgaard

Kaj Ole Pedersen

Søren Rasmussen

Peter Stoffersen

Bent Juul Sørensen

Auditors' Report

We have audited the consolidated accounts and the annual accounts of Arla Foods amba for the 2000/2001 financial year presented by the Supervisory Board and Management.

Basis of opinion

We planned and performed our audit in accordance with generally accepted international auditing standards and Danish auditing principles with a view to ascertaining that the accounts are free from material errors or defects. In the course of our examinations we have, on the basis of the criteria of materiality and risk, checked the basis of and documentation for the account figures and other accounting data. In doing so, we evaluated the accounting policies applied and the estimates made. In our opinion, the information contained in the accounts as a whole is satisfactory. Our audit did not result in any qualifications.

Opinion

In our opinion, the consolidated accounts and the annual accounts have been prepared in accordance with the stipulations contained in Danish legislation governing the presentation of accounts. The accounts give a true and fair view of the assets and liabilities, financial position and results for the financial year of the group and the parent company.

Århus, 28 November 2001

KPMG C.Jespersen

E. Black Pedersen

STATE AUTHORISED PUBLIC ACCOUNTANT

J. Bräuner Knudsen

STATE AUTHORISED PUBLIC ACCOUNTANT

PricewaterhouseCoopers

Göran Tidström

AUTHORISED ACCOUNTANT

Jesper Lund

STATE AUTHORISED PUBLIC ACCOUNTANT



: WHEN FRIENDS TURN UP UNEXPECTEDLY, A QUICK, PIPING HOT PIZZA DELIVERED STRAIGHT TO YOUR DOOR CAN SAVE THE DAY! KJELL SKOGBERG FROM PIZZA EXPRESS IN STOCKHOLM KNOWS THE CITY LIKE THE BACK OF HIS HAND. KJELL DELIVERS MALIN ARNESSON, 25, AND ANDREAS BJÖWI, 24, ONE OF THE CHAIN'S SPECIALITIES CONTAINING MOZZARELLA CHEESE.



ACCOUNTS:

: *accounting policies*

General

The accounts of the parent company Arla Foods a/s and the consolidated accounts of the Arla Foods Group as a whole have been presented in accordance with the Danish Company Accounts Act (Årsregnskabsloven) with such deviations as follow from the special circumstances of the parent company and the Group. These deviations relate, in particular, to the presentation of the results of the non-dairy subsidiaries and associated companies in the Profit and Loss Account for the parent company, cf. below.

As mentioned on page 7 of the Annual Report, the opening balance sheet was revised as at 17 April 2000. The revision has resulted in goodwill as of this date of DKK 300 million, which is amortised over a period of 20 years.

Furthermore, a reassessment has been made in respect of provisions for structural rationalisation, which has resulted in additional provisions as at 17 April 2000 of DKK 300 million.

The comparative figures have consequently been revised.

The comparative figures in the Profit and Loss Account pertain to the company's first financial year, covering the period 17 April – 1 October 2000, and do therefore not allow direct comparison.

The accounting policies remain unchanged in comparison with last year.

Consolidation

The consolidated accounts comprise Arla Foods a/s (the parent company) and those subsidiaries, (subsidiaries, cf. the list of Group companies on pages 56-57), in which the parent company has a direct or indirect share of more than 50 per cent of the voting rights or in which the parent company in other ways has a controlling interest.

The accounts used for the consolidation have, in all materiality, been prepared in accordance with the accounting policies of the parent company.

The consolidation of the accounts has been achieved through a consolidation of the identical items from the annual accounts of the parent company and those of the individual subsidiaries. Intra-group income and expenses have been eliminated as have shareholdings, balances, dividends and non-netted profits and losses.

The Profit and Loss Accounts of foreign subsidiaries have been translated into Danish kroner using the average foreign exchange rates, while their Balance Sheets have been translated using the foreign exchange rates in effect on the Balance Sheet date.

The foreign exchange rate adjustment of the equity of foreign subsidiaries at the beginning of the financial year using the exchange rates in effect on the Balance Sheet date and the adjustments following from the translation of the Profit and Loss Accounts of foreign subsidiaries using average exchange rates have been carried out against equity.

As regards the acquisition and sale of subsidiaries, the operations of such subsidiaries have been included in the consolidated accounts for that part of the year in which the subsidiaries have been owned by the Arla Foods Group. In connection with the acquisition of companies, the added value has been distributed on the individual assets and liabilities, and Group goodwill has been capitalised and amortised.

Foreign currency and financial instruments

Financial instruments comprise, in particular, foreign exchange forward contracts and options, etc.

For financial instruments entered into to hedge receivables and debt in foreign currency, the foreign exchange forward contract rate is used to value the hedged item. The financial instruments are thus not valued as an independent item. Foreign exchange rate adjustments of financial instruments which are used to hedge the

income and expenditure in the coming year are, however, postponed until such income and expenditure is realised.

Financial instruments not used to hedge income and expenditure are valued at their market values as at the Balance Sheet date. Both realised and unrealised gains and losses on these are included in the Profit and Loss Account.

Debtors and creditors denominated in foreign currencies which have not been hedged are entered at the foreign exchange rates prevailing on the Balance Sheet date.

Subsidies

EU subsidies and subsidies from other public authorities for investments in fixed assets are deducted from the purchase sum.

Subsidies granted for product development, etc. are entered as income under the item Other operating income at the time when a repayment obligation is no longer contingent.

Profit and Loss Account

Net turnover

Net turnover includes the year's invoiced sales of finished products less sales discounts. Any refunds and production subsidies from the EU are included in the net turnover.

The net turnover for Arla Foods a/s also includes declared supplementary payments from other sales companies within the Arla Foods Group.

Variable costs

The item Variable costs includes the consumption of goods, including purchases from Arla Foods' cooperative owners as well as costs, including depreciation, wages and salaries, incurred to realise the turnover for the year.

Development costs

The costs of developing new products are entered as expenses as they are incurred.



Result in subsidiaries and associated companies

The Profit and Loss Account of the parent company includes the proportional share of the profits or losses of the individual *dairy-related* subsidiaries after tax and after the deduction of declared supplementary payments and non-netted internal profits.

Dairy-related subsidiaries are defined as subsidiaries which are *primarily* involved in the processing/selling of the milk weighed in from Arla Foods' co-operative owners. These companies are listed separately in the chart on pages 56-57.

The share of results after tax of non-dairy subsidiaries have not been included in the parent company's Profit and Loss Account, but have been added directly to equity under the item *Revaluation reserves*.

Undertakings in which the Group holds between 20 per cent and 50 per cent of the voting rights without having a controlling interest are regarded as associated. These undertakings are included under one item in the Profit and Loss Account and the Balance Sheet, and their turnover has thus not been included in the consolidated turnover.

The difference between the way in which shares of profits in dairy-related and non-dairy undertakings are presented in the Profit and Loss Account of the parent company serves to show the direct income from the milk supplied by the co-operative owners of Arla Foods amba.

Financial items

Interest income and interest expenditure are entered in the Profit and Loss Account with the income earned and expenditure paid in the course of the financial year.

Furthermore, financial items comprise both netted and non-netted value adjustments of securities and exchange rate adjustments.

Extraordinary items

Extraordinary items comprise mate-

rial items of income and expenditure relating to events or circumstances which are of a non-recurring nature and which do not derive from the ordinary activities of the Group.

Corporation tax

The taxable income of the companies in the Group is calculated in accordance with the national rules in force from time to time. For companies which are jointly taxed, tax on the results for the financial year is entered at the current rates of taxation, calculated on the basis of the pre-tax results for the year, adjusted for non-taxable income and expenses. Deferred tax is calculated as one figure for jointly taxed companies. The deferred tax is entered at the current rate of taxation of all periodic differences between the results for accounting and tax purposes.

Balance Sheet

Fixed assets in general

The acquisition costs of the fixed assets correspond to the book value of the founding companies and their subsidiaries as at 16 April 2000, adjusted for the value adjustments made in the opening balance sheet.

Intangible fixed assets

Intangible fixed assets are valued at acquisition cost less accumulated amortisation and write-downs.

Intangible fixed assets comprise goodwill from the acquisition of undertakings, licences, trademarks, etc. as well as the equalisation sum for former members of Kløver Mælk A.m.b.A.

The assets are amortised on the basis of an estimation of their expected useful lives:

- Goodwill
5-20 years
- Licences and trademarks, etc.
10 years
- Equalisation sum
3 years

Tangible fixed assets

Tangible fixed assets are valued at

acquisition cost less accumulated depreciation and write-downs.

Assets are depreciated according to the straight-line method as from the time of acquisition or commissioning on the basis of an estimation of the expected useful lives of the assets, as follows:

- Office buildings:
50 years
- Production buildings:
20-30 years
- Plant and machinery:
5-10 years
- Operating equipment,
fixtures and fittings:
3-7 years

The book value of plant and machinery, operating equipment, fixtures and fittings as at 17 April 2000 is, however, depreciated according to the straight-line method over five years from this date.

Plants under construction are not depreciated.

Assets with a short useful life, minor assets and minor improvement expenses and computer software are expensed in the year of acquisition.

Investments

Participating interests in subsidiaries and associated companies are entered at the ownership share of the companies' equity value at the end of the financial year, calculated in accordance with the Group's accounting policies. Furthermore, non-netted intra-group profits have been deducted.

For those cooperative societies which form part of the Group, the ownership share has been calculated in accordance with the Articles of Association of the individual companies.

Other financial fixed assets (shares, mortgage deeds, bond holdings, etc.) are entered at acquisition value, although written down to market values, if such values are consistently lower.

Stocks

Raw materials, consumables and goods for resale are entered at the



acquisition price. The cost price of the milk which forms part of stock has been entered at the price paid, including supplementary payments, to Arla Foods amba's co-operative owners.

Goods in process and finished goods are valued at the cost price, including the acquisition costs of raw materials and ancillary materials with the addition of processing costs and other costs directly or indirectly related to the individual goods.

Stocks are valued according to the FIFO method. In the event of the acquisition or cost price exceeding the net realisable value, write-down is made to this lower value.

The net realisable value is determined with account being taken of the turnover rate, marketability and development in expected sales price of the goods.

Receivables

Receivables are entered at nominal value less write-downs for bad debts carried out on the basis of individual assessments of debtors.

Other current assets

Securities are entered at market value as at the end of the financial year.

Equity

As per Article 15 of the Articles of Association, the company's equity consists of:

Capital account:

The company's capital account consists of the undistributed equity of the company.

Reserve A:

Reserve A consists of reserves in personal accounts in MD Foods amba, for which the following terms apply:

1. The Board of Representatives may decide to service deposits in the personal accounts at a rate of interest not exceeding the official Danish discount rate.
2. Any decisions concerning

payments from the personal accounts shall be made by the Board of Representatives.

3. The plan is for the reserve to be paid out in the course of the 2000/2001 - 2007/2008 financial years.

No payments shall be made to the members of Arla Foods amba which reduce the total of the company capital account and Reserve A. Upon the effecting of such payments from Reserve A, a corresponding amount shall be paid into the capital account, the reserve thereby being successively phased out.

In addition, DKK 280 million shall be added to the capital account through consolidation and concurrently with payments from Reserve A.

Reserve B:

Reserve B comprises the provisions made on the incorporation of the company.

Revaluation reserve:

The account includes net revaluation in accordance with the equity method for subsidiaries and non-dairy associated companies. Furthermore, non-netted gains on securities which are current assets are included.

Subsidiary reserves:

The account includes net revaluation of dairy subsidiaries in accordance with the equity method.

Subordinate loan capital

In pursuance of the Memorandum of Association, Arla ekonomisk förening contributed SEK 330 million in the form of subordinate loan capital, which in the event of the bankruptcy of the company ranks after other claims. The loan, on which interest accrues at the same rate as Reserve A, shall be repaid by one eighth annually, the first time in the 2001/2002 financial year.

Provisions

Other provisions comprise, in

particular, the provisions for structural rationalisations allocated in the opening balance sheet as at 17 April 2000.

Provisions for pensions in Sweden are made on the basis of actuarial valuations.

Cash-flow statement

The cash-flow statement is prepared according to the indirect method on the basis of the consolidated results. The statement shows the cash-flows of the Group, divided into operating, investment and financing activities and how these cash-flows have affected the Group's cash funds.

The cash-flow from operations is calculated as the consolidated result adjusted for non-cash operating items such as depreciation and write-downs and changes to the operating capital.

The cash-flow for investments comprises cash-flows in connection with the purchase and sale of intangible, tangible and financial fixed assets.

The cash-flow from financing comprises the arrangement and repayment of long-term and short-term debt to financial institutions as well as mortgage lenders.

The cash funds are made up of cash funds and listed bonds entered in the Balance Sheet as current assets.

The cash-flow statement cannot be deducted solely from the consolidated accounts.

: PARENT COMPANY :

: PROFIT/ LOSS	: PROFIT/ LOSS
17.04.2000	02.10.2000
01.10.2000	30.09.2001

11,020	24,526
-9,824	-21,772
1,196	2,754
-608	-1,311
-154	-320
17	31
-25	-41
426	1,113
7	76
0	-10
-41	-165
392	1,014
-13	-26
379	988
-	-
379	988
276	690
72	222
24	0
7	76
-	-
379	988

NOTE

	: PROFIT/ LOSS	: PROFIT/ LOSS
	02.10.2000	17.04.2000
	30.09.2001	01.10.2000
1 Turnover	38,133	17,453
2 Variable costs	-30,919	-14,371
Gross income	7,214	3,082
2 Sales and distribution costs	-4,548	-2,028
2/3 Administration and joint costs	-1,128	-480
Other operating income	156	41
Other operating expenditure	-98	-68
Results of primary operations	1,596	547
4 Results in subsidiaries	-	-
Results in associated companies	0	12
5 Net financial items	-381	-159
Results for the year before tax	1,215	400
6 Corporation tax	-57	-13
Results for the year	1,158	387
Minority interest share of results in subsidiaries	-1	5
ARLA FOODS AMBA'S SHARE OF RESULTS FOR THE YEAR	1,157	392
Proposed allocation:		
Supplementary payments to Arla Foods' co-operative owners	690	276
Transferred to Capital account	222	72
Transferred to Reserve A	0	24
Transferred to subsidiary reserves	-	-
Transferred to other reserves	245	20
Total	1,157	392

ARLA FOODS AMBA'S SHARE OF RESULTS FOR THE YEAR

Proposed allocation:

Supplementary payments to Arla Foods' co-operative owners
Transferred to Capital account
Transferred to Reserve A
Transferred to subsidiary reserves
Transferred to other reserves

Total

: GROUP :

: PROFIT/ LOSS	: PROFIT/ LOSS
02.10.2000	17.04.2000
30.09.2001	01.10.2000

38,133	17,453
-30,919	-14,371
7,214	3,082
-4,548	-2,028
-1,128	-480
156	41
-98	-68
1,596	547
-	-
0	12
-381	-159
1,215	400
-57	-13
1,158	387
-1	5
1,157	392
690	276
222	72
0	24
-	-
245	20
1,157	392

0:45

BALANCE SHEET:

: DKKm

: PARENT COMPANY :

: BALANCE SHEET AS AT	: BALANCE SHEET AS AT
01.10.2000	30.09.2001

NOTE

ASSETS

Fixed assets

7 Intangible fixed assets

Licences, trademarks, etc.	0	0
Goodwill, incl. consolidated goodwill	317	296
Equalisation sum	276	184
Total	593	480

7 Tangible fixed assets

Land and buildings	1,367	1,380
Plant and machinery	1,516	1,682
Other plant, operating equipment, fixtures and fittings	58	60
Tangible fixed assets under construction	74	151
Total	3,015	3,273

8 Investments

Participating interests in subsidiaries	2,596	2,734
Participating interests associated companies	33	94
Other securities and participating interests	843	814
Other receivables	0	0
Total	3,472	3,642

TOTAL FIXED ASSETS

Current assets

Stocks

Raw materials and consumables	389	428
Goods in progress	724	766
Finished products and goods for sales	172	153
Total	1,285	1,347

Debtors

Trade debtors	1,087	1,121
Amounts owed by affiliated companies	4,346	3,477
Amounts owed by associated companies	0	204
Land and buildings for disposal	17	32
Other debtors	102	190
Prepayments and accrued income	16	7
Total	5,568	5,031

Securities

Cash

TOTAL CURRENT ASSETS

TOTAL ASSETS

: GROUP :

: BALANCE SHEET AS AT	: BALANCE SHEET AS AT
30.09.2001	01.10.2000

	94	53
	594	658
	184	276
Total	872	987
	3,659	3,571
	3,393	3,278
	521	584
	472	599
Total	8,045	8,032
	-	-
	273	122
	1,324	1,904
	9	10
Total	1,606	2,036
TOTAL FIXED ASSETS	10,523	11,055
	745	777
	1,163	1,178
	1,575	1,628
Total	3,483	3,583
	3,988	4,213
	0	0
	210	11
	62	48
	630	490
	97	55
Total	4,987	4,817
	560	472
	1,305	1,348
TOTAL CURRENT ASSETS	10,335	10,220
TOTAL ASSETS	20,858	21,275

: PARENT COMPANY :

: BALANCE SHEET AS AT	: BALANCE SHEET AS AT
01.10.2000	30.09.2001

NOTE

EQUITY AND LIABILITIES

Equity

Capital account	4,928	4,706
Reserve A	649	743
Reserve B	500	500
Revaluation reserve	-	-
Subsidiary reserves	-	-
Other reserves	34	17
Total equity	6,111	5,966

9 Minority interests

10 Subordinate loan capital

TOTAL LIABLE CAPITAL

Provisions

11 Deferred tax	370	421
12 Pensions, Sweden	609	671
13 Other provisions	735	800
Total	1,714	1,892

TOTAL PROVISIONS

Creditors

14 Long-term creditors

Mortgage lenders	1,574	1,175
Financial institutions, etc.	2,319	3,256
Total	3,893	4,431

Short-term creditors

Short-term portion of long-term creditors	171	144
Financial institutions	3,040	2,572
Supplementary payments	690	276
Trade creditors	2,292	2,409
Amounts owing to affiliated companies	1,074	1,808
Amounts owing to associated companies	7	4
Corporation tax	60	25
Other debt	1,432	1,352
Accrued expenses and deferred income	37	19
Total	8,803	8,609

TOTAL CREDITORS

TOTAL EQUITY AND LIABILITIES

15 Contingencies, guarantees, etc.

: GROUP :

: BALANCE SHEET AS AT	: BALANCE SHEET AS AT
30.09.2001	01.10.2000

	4,928	4,706
	649	743
	500	500
	-	-
	-	-
	34	17
Total equity	6,111	5,966
9 Minority interests	85	89
10 Subordinate loan capital	252	288
TOTAL LIABLE CAPITAL	6,448	6,343
	370	421
	609	671
	735	800
Total	1,714	1,892
	1,574	1,175
	2,319	3,256
Total	3,893	4,431
	171	144
	3,040	2,572
	690	276
	2,292	2,409
	1,074	1,808
	7	4
	60	25
	1,432	1,352
	37	19
Total	8,803	8,609
TOTAL CREDITORS	12,696	13,040
TOTAL EQUITY AND LIABILITIES	20,858	21,275

EQUITY:

: movements
DKKm

: PARENT COMPANY :

: CAPITAL
AS AT
30.09.2001

4,706
300
-300
4,706
222
4,928
743
-94
649
500
500
30
-7
23
169
-115
77
-6
76
-113
-43
-
-
-
-
-
6,111

Capital account

Balance at 2 October 2000
Revision of opening balance sheet, cf. Annual Report p. 7
Participating interests
Provisions for structural rationalisations
Corrected balance at 2 October 2000
Transferred from result for the year

Total

Reserve A

Balance at 2 October 2000
Paid to MD Foods amba

Total

Reserve B

Balance at 2 October 2000

Total

Revaluation reserve

Balance at 2 October 2000
Adjustment on account of revision of opening balance sheet
Corrected balance at 2 October 2000
Profit in non-dairy subsidiaries and associated companies, net
Other adjustments, etc.

Total

Subsidiary reserves

Balance at 2 October 2000
Transferred from result for the year
Other adjustments, etc.

Total

Other reserves

Balance at 2 October 2000
Adjustment on account of revision of opening balance sheet
Corrected balance at 2 October 2000
Transferred from result for the year
Other adjustments, etc.

Total

TOTAL EQUITY

: GROUP :

: CAPITAL
AS AT
30.09.2001

4,706
300
-300
4,706
222
4,928
743
-94
649
500
500
-
-
-
-
-
-
-
-
24
-7
17
245
-228
34
6,111

CASH-FLOW:

: statement
DKKm

: GROUP :

: AMOUNTS : AMOUNTS
02.10.2000 17.04.2000
30.09.2001 01.10.2000

Cash-flow from operations

Results for the year	1,157	392
Depreciation and corporation tax	1,336	546
Share of results in associated companies	0	-12
Change in provisions	-40	-188
Change in stocks	100	-74
Change in debtors	-170	104
Change in trade creditors and other creditors, etc.	-1,118	-296
Corporation tax paid	-21	-2

Cash-flow from operations

Cash-flow for investments

Investments in intangible fixed assets, net	-70	-28
Investments in tangible fixed assets, net	-1,476	-807
Investments in participating interests etc., net	390	112

Cash-flow for investments

Cash-flow from financing

Change in debt to financial institutions and mortgage lenders	-43	-285
---	-----	------

Cash-flow from financing

CHANGE IN CASH FUNDS AND SECURITIES

Cash funds and securities at 1 October 2000	1,820	2,358
Cash funds and securities at 30 September 2001	1,865	1,820

1,244	470
-70	-28
-1,476	-807
390	112
-1,156	-723
-43	-285
-43	-285
45	-538



NOTES:

: DKKm

: PARENT COMPANY :

: AMOUNTS : AMOUNTS
17.04.2000 02.10.2000
01.10.2000 30.09.2001

NOTE

1 TURNOVER

Divided into markets

Sweden	10,062	5,060
Denmark	9,248	4,193
Other EU countries	12,396	5,305
Rest of Europe	782	330
Middle East	2,103	885
North America	928	412
Central and South America	932	601
Asia	1,225	477
Africa	430	175
Other	27	15
Total	38,133	17,453

Turnover in markets outside Sweden and Denmark
Corresponding to

18,823 8,200
49% 47%

Divided into product categories

Fresh products	15,430	7,061
Cheese	10,640	4,652
Butter and spreads	4,289	2,033
Condensed milk products	5,573	2,574
Packaging and additives	1,065	502
Other turnover	1,136	631
Total	38,133	17,453

2 Costs

Employee costs:

By function

Production	-818	-1,840	-3,663	-1,844
Sales and distribution	-74	-176	-1,565	-579
Administration	-59	-191	-534	-222
Total	-951	-2,207	-5,762	-2,645

By type

Pay and remuneration	-898	-2,083	-4,926	-2,232
Pensions	-47	-110	-314	-107
Other social security costs	-6	-14	-522	-306
Total	-951	-2,207	-5,762	-2,645

AVERAGE NUMBER OF EMPLOYEES
(MAN YEARS)

6,763 6,775

The item Pay and remuneration, including pensions for the Group, includes the parent company's Management Board with DKK 6 million (17 April – 1 October 2000: DKK 3 million) and remuneration to the parent company's Supervisory Board and Board of Representatives being DKK 10 million (17 April – 1 October 2000: DKK 3 million).

NOTES:

: DKKm

: PARENT COMPANY :

: AMOUNTS : AMOUNTS
17.04.2000 02.10.2000
01.10.2000 30.09.2001

NOTE

2 Costs (continued)

Depreciation:

By function

Equalisation sum (production)	-92	-
Production	-903	-396
Sales and distribution	-128	-71
Administration	-156	-66
Net profit/loss on sale of intangible and tangible fixed assets	-12	6
Total	-1,291	-527

3 Remuneration for auditors elected by the Board of Representatives

KPMG C. Jespersen
PricewaterhouseCoopers
Other services:
KPMG C. Jespersen
PricewaterhouseCoopers

-2 -4
-2 -2
-2 -2
-2 0
-8 -8

4 Results in subsidiaries

Profit in subsidiaries after tax
Loss in subsidiaries after tax

21 102
-14 -26
7 76

Total

13 169

5 Net financial items

Expenditure:

Interest expenditure to affiliated companies	-20	-23
Other financing expenditure	-601	-223
Total	-621	-246

Income:

Interest income from affiliated companies	8	0
Other financing income	232	87
Total	240	87

NET FINANCIAL ITEMS

-381 -159

6 Corporation tax

Tax on taxable income for the year
Adjustment of deferred tax
Correction of tax for previous years

-13 -25
0 -1
0 0
-13 -26

Total

-54 -25
1 18
-4 -6
-57 -13

Corporation tax paid in (including on-account tax) in the course of the year

21 2

0:50

0:51

NOTES:

: DKKm

Note

7 INTANGIBLE AND TANGIBLE FIXED ASSETS

Acquisition cost 02.10.2000	57	390	276	3,689	3,574	667	599
Revision of opening balance sheet	0	300	0	0	0	0	0
Corrected acquisition cost 02.10.2000	57	690	276	3,689	3,574	667	599
Foreign exchange adjustments	-7	-5	0	-165	-142	-32	-58
Additions for the year	56	17	0	296	984	177	347
Transfers during the year	0	0	0	305	94	17	-416
Disposals for the year	0	-3	0	-139	-152	-47	0
Acquisition sum 30.09.2001	106	699	276	3,986	4,358	782	472
Deprec. and write-downs 02.10.2000	-4	-25	0	-118	-296	-83	0
Depreciation of revaluation	0	-7	0	0	0	0	0
Corrected depreciation and write-downs 02.10.2000	-4	-32	0	-118	-296	-83	0
Foreign exchange adjustments	1	0	0	14	23	2	0
Deprec. and write-downs for the year	-9	-73	-92	-229	-693	-183	0
Depreciation and write-downs of discontinued assets	0	0	0	6	1	3	0
Depreciation and write-downs 30.09.2001	-12	-105	-92	-327	-965	-261	0
BOOK VALUE 30.09.2001	94	594	184	3,659	3,393	521	472

New acquisitions for the year have been reduced by EU subsidies and subsidies from other public authorities of DKK 6 million. At the annual adjustment as per 1 January 2001, the total property valuation of Danish properties with a book value of DKK 1,917 million amounted to DKK 1,946 million, to which should be added investments subsequent to this date.

INTANGIBLE AND TANGIBLE FIXED ASSETS

Acquisition cost 02.10.2000	26	276	1,413	1,633	63	74
Revision of opening balance	300	0	0	0	0	0
Corrected acquisition cost 02.10.2000	326	276	1,413	1,633	63	74
Additions for the year	0	0	164	443	22	151
Transfers during the year	0	0	30	44	0	-74
Disposals for the year	-3	0	-87	-16	-7	0
Acquisition sum 30.09.2001	323	276	1,520	2,104	78	151
Deprec. and write-downs 02.10.2000	-2	0	-46	-117	-5	0
Depreciation of revaluation	-7	0	0	0	0	0
Corrected depreciation and write-downs 02.10.2000	-9	0	-46	-117	-5	0
Deprec. and write-downs for the year	-18	-92	-97	-308	-13	0
Depreciation and write-downs of discontinued assets	0	0	3	3	0	0
Depreciation and write-downs 30.09.2001	-27	-92	-140	-422	-18	0
BOOK VALUE 30.09.2001	296	184	1,380	1,682	60	151

New acquisitions for the year have been reduced by EU subsidies and subsidies from other public authorities of DKK 6 million. The cash value of land and buildings in Denmark as at 1 January 2001 is valued at DKK 1,394 million, to which should be added investments subsequent to this date.

NOTES:

: DKKm

Note

8 INVESTMENTS

Acquisition cost 02.10.2000	110	1,893	10
Foreign exchange adjustments	-19	-21	0
Additions for the year	184	271	3
Disposals for the year	0	-830	-4
Acquisition cost 30.09.2001	275	1,313	9
Adjustments 02.10.2000	12	11	0
Result for the year	0	0	0
Other adjustments	-14	0	0
Adjustments 30.09.2001	-2	11	0
BOOK VALUE 30.09.2001	273	1,324	9

Acquisition cost 02.10.2000	2,869	31	832
Revision of opening balance	-300	0	0
Corrected acquisition cost 02.10.2000	2,569	31	832
Foreign exchange adjustments	-164	0	-19
Additions for the year	83	68	0
Disposals for the year	-10	0	-10
Acquisition cost 30.09.2001	2,478	99	803
Adjustments 02.10.2000	27	2	11
Foreign exchange adjustments	-15	0	0
Results for the year	239	-4	0
Change, in-group stock profit	16	0	0
Other adjustments	-11	-3	0
Adjustments 30.09.2001	256	-5	11
BOOK VALUE 30.09.2001	2,734	94	814

: GROUP :

PARTICIPAT. INTERESTS IN SUBSIDIARIES
 PARTICIPAT. INTERESTS IN ASSOCIATED COMPANIES
 OTHER SECURITIES AND PARTICIPAT. INTERESTS
 OTHER RECEIVABLES

: INVESTMENTS

Acquisition cost 02.10.2000	110	1,893	10
Foreign exchange adjustments	-19	-21	0
Additions for the year	184	271	3
Disposals for the year	0	-830	-4
Acquisition cost 30.09.2001	275	1,313	9
Adjustments 02.10.2000	12	11	0
Result for the year	0	0	0
Other adjustments	-14	0	0
Adjustments 30.09.2001	-2	11	0
BOOK VALUE 30.09.2001	273	1,324	9

: PARENT COMPANY :

Acquisition cost 02.10.2000	26	276	1,413	1,633	63	74
Revision of opening balance	300	0	0	0	0	0
Corrected acquisition cost 02.10.2000	326	276	1,413	1,633	63	74
Additions for the year	0	0	164	443	22	151
Transfers during the year	0	0	30	44	0	-74
Disposals for the year	-3	0	-87	-16	-7	0
Acquisition sum 30.09.2001	323	276	1,520	2,104	78	151
Deprec. and write-downs 02.10.2000	-2	0	-46	-117	-5	0
Depreciation of revaluation	-7	0	0	0	0	0
Corrected depreciation and write-downs 02.10.2000	-9	0	-46	-117	-5	0
Deprec. and write-downs for the year	-18	-92	-97	-308	-13	0
Depreciation and write-downs of discontinued assets	0	0	3	3	0	0
Depreciation and write-downs 30.09.2001	-27	-92	-140	-422	-18	0
BOOK VALUE 30.09.2001	296	184	1,380	1,682	60	151

New acquisitions for the year have been reduced by EU subsidies and subsidies from other public authorities of DKK 6 million. The cash value of land and buildings in Denmark as at 1 January 2001 is valued at DKK 1,394 million, to which should be added investments subsequent to this date.

NOTES:

: DKKm

: PARENT COMPANY :

: AMOUNTS : AMOUNTS
17.04.2000 02.10.2000
01.10.2000 30.09.2001

NOTE

AMOUNTS	AMOUNTS
17.04.2000	02.10.2000
01.10.2000	30.09.2001
296	288
-8	-36
288	252
37	36
-1	-4
0	1
36	33
257	2
0	0
257	2
5	0
-69	-2
193	0
1,481	1,312

: FIGURES : FIGURES
AS AT AS AT
01.10.2000 30.09.2001

9 Minority interests

Minority interests beginning of year
Share of results for the year
Change in ownership share

Minority interests end of year

10 Subordinate loan capital

Subordinate loan capital beginning of year
Foreign exchange adjustments

Subordinate loan capital end of year

11 Deferred tax

Deferred tax beginning of year
Foreign exchange adjustments
Change in deferred tax for the year

Deferred tax end of year

12 Pensions, Sweden

Pensions beginning of year
Foreign exchange adjustments
Provisions for the year

Pensions end of year

13 Other provisions

Other provisions beginning of year
Revision of opening balance
Corrected other provisions beginning of year
Provisions for the year
Applied during the year

Other provisions end of year

14 Long-term debt

Long-term debt falling due after 5 years

: GROUP :

: AMOUNTS : AMOUNTS
02.10.2000 17.04.2000
30.09.2001 01.10.2000

89	101
1	-5
-5	-7
85	89
288	296
-36	-8
252	288
421	453
-50	-14
-1	-18
370	421
671	673
-87	-17
25	15
609	671
2	498
0	300
2	798
0	8
-2	-71
0	735
1,876	1,622

: FIGURES : FIGURES
AS AT AS AT
30.09.2001 01.10.2000

NOTES:

: DKKm

: PARENT COMPANY :

: AMOUNTS : AMOUNTS
AS AT AS AT
01.10.2000 30.09.2001

NOTE

2,786	3,100
94	142
272	219
0	1,521
3,531	4,665
170	170
415	468
0	0
580	573

15 Contingencies, guarantees, etc.

Surety and guarantee obligations

Leasing obligation (total)

Obligations relating to agreements concerning the supply of fixed assets

To cover exchange risks, the following foreign exchange forward contracts have been entered into:

Forward exchange (buying)

Forward exchange (selling)

As security for debt, the following assets have been deposited:

Mortgage deed registered to the owner of property with a book value of

Securities, book value

Arla Foods amba has received guarantee certificates co-operative members. The basis for these guarantees is the individual member's deliveries over the past 5 financial years, calculated as DKK 20 per 1,000 kg milk or part thereof.

DKK 0 has been placed as security for debt.

The Group is party to a few lawsuits. The outcome of these cases is not expected to significantly affect the profit for the year or the assessment of the Group's financial position.

: AMOUNTS : AMOUNTS
AS AT AS AT
30.09.2001 01.10.2000

1,167	1,058
310	134
417	412
1,777	136
4,889	3,787
444	602
1,421	1,681
0	208
573	580

0:55

GROUP:

: subsidiaries,
associated companies
and participating interests

The companies marked with ● are defined as dairy-related, and their results are included in the Profit and Loss Account of the parent company. The other companies are defined as non-dairy, and their results are therefore taken directly to the equity of the parent company.

SUBSIDIARIES that are all included in the consolidated accounts

	OWNERSHIP SHARE
● Arla Foods AB, Sweden	100.0%
● ASM Mjölksocker AB, Sweden (100.0%)	
● Arla Ost och Smör Produktion AB, Sweden (100.0%)	
● Bregott AB, Sweden (62.4%)	
● Arla Foods Distribution amba, Denmark	100.0%
● Danos A/S, Denmark (100.0%)	
● Gredstedbro Ost A/S, Denmark (100.0%)	
● Mejerigrossisten Fyn ApS, Denmark	100.0%
● Kirkeby Mejeri A/S, Denmark	100.0%
● Arla Foods Holding AB, Sweden	100.0%
● Oy Arla Foods Ab, Finland (100.0%)	
● Arla Foods AB, Norway (100.0%)	
● Arla Foods Inc., Canada	100.0%
● Arla Foods GmbH, Germany	100.0%
● Arla Foods S.r.l., Italy	100.0%
● Arla Foods Specialost AB, Sweden	100.0%
● Arla Foods Inc., USA	100.0%
● Arla Foods S.A.R.L., France	100.0%
● Andelssmør A.m.b.a., Denmark	92.4%
● Enigheden A/S, Denmark	51.0%
● Arla Foods Ingredients amba, Denmark	100.0%
● Arla Foods Ingredients GmbH, Germany (100.0%)	
● Arla Foods Ingredients Inc., USA (100.0%)	
● Arla Foods Ingredients KK, Japan (100.0%)	
● Arla Foods Ingredients AB, Sweden (100.0%)	
● Arla Foods Ingredients Ltd., England (100.0%)	
● Arla Foods Ingredients Korea Co. Ltd., South Korea (70.0%)	
AM Produktion K/B, Sweden (66.7%. The remaining 33.3% is owned by Arla Foods AB)	
AM Foods K/S, Denmark (66.7%. The remaining 33.3% is owned by Arla Foods amba)	
Arla Foods Sp. Z o.o., Poland	100.0%
Arla Foods International A/S, Denmark	100.0%
Danya Foods Ltd., Saudi Arabia	
Arla Foods Plc., England	
Arla Foods Argentina S.A., Argentina	
Frödinge Holding AB, Sweden	100.0%
Frödinge Mejeri AB, Sweden (100.0%)	
Medipharm Holding AB, Sweden	100.0%
Medipharm AB, Sweden (100.0%)	
Munka Invest AB, Sweden (100.0%)	
Medipharm Investments Ltd., USA (100.0%)	
Medipharm CZ s.r.o., the Czech Republic (100.0%)	
Medipharm Hungary Kft, Hungary (51.0%)	
Semper Holding AB, Sweden	100.0%
Semper AB, Sweden (100.0%)	
Friggs AB, Sweden (100.0%)	
Eterna Näringsprodukter AB, Sweden (100.0%)	
Anjo Holding AB, Sweden	100.0%
A/S Anjo, Denmark (100.0%)	

GROUP:

: subsidiaries,
associated companies
and participating interests

SUBSIDIARIES that are all included in the consolidated accounts (continued)

	OWNERSHIP SHARE
Arla Foods Holding A/S, Denmark	100.0%
Medani A/S, Denmark (100.0%)	
Kingdom Food Products ApS, Denmark (100.0%)	
Arla Foods Leasing A/S, Denmark (100.0%)	
Ejendomsanpartsselskabet St. Ravnsbjerg, Denmark (100.0%)	
Rynkeby Foods A/S Denmark (50.0%. The remaining 50.0% is owned by Kinmaco ApS)	
Kinmaco ApS, Denmark (100.0%)	
GB Finans A/S, Denmark (100.0%)	
Arla Insurance Co. Ltd., Cayman Islands	100.0%
Arla Foods Fastighetsförvaltning AB, Sweden	100.0%
De Danske Mejeriers Fællesindkøb Amba, Denmark	96.1%
Dairy Fruit A/S, Denmark (100.0%)	
A/S Crispy Food International, Denmark (100.0%)	
IFEG International ApS, Denmark (100.0%)	
Ejendomsselskabet Østre Gjesingvej 19 A/S, Denmark (100.0%)	
Danapak A.m.b.a., Denmark	93.1%
Danapak A/S, Denmark (100.0%)	
Danapak Flexibel A/S, Denmark (100.0%)	
Danapak Kartonnage A/S, Denmark (100.0%)	
Danapak Plast A/S, Denmark (100.0%)	
Tölkki OY, Finland (100.0%)	
Norsk Danapak A/S, Norway (100.0%)	
Danapak Faltschachtelsysteme GmbH, Germany (100.0%)	
Danapak Cartons Ltd., England (100.0%)	
Danapak R&D Center A/S, Denmark (100.0%)	
Danapak leasing ApS, Denmark (100.0%)	
Dana-Green 2000 A/S, Denmark (51.0%)	

Associated companies

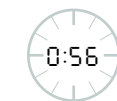
● JO-Bolaget Fruktprodukter HB, Sweden (owned through Arla Foods AB)	50.0%
● HB Grådö Produktion, Sweden (owned through Arla Foods AB)	50.0%
● Synbiotics AB, Sweden (owned through Arla Foods AB)	49.0%
● Arla Foods Hellas S.A., Greece	60.0%
Biolac GmbH, Germany	50.0%
Arla Foods Ingredients S.A., Argentina (owned through Arla Foods Ingredients amba)	50.0%
Dan Vigor Ltd., Brazil (owned through Arla Foods International A/S)	50.0%
Matpartner R&S AB, Sweden (owned through Semper Holding AB)	50.0%
Medipharm USA, USA (owned through Medipharm Holding AB)	50.0%
Delimo A/S, Denmark (owned through Arla Foods Holding A/S)	48.0%

Participating interests

Danish Dairy Board, Denmark	90.1%
Svensk Mjolk ekonomisk förening, Sweden	42.0%
Lantbrukarnas Riksförbund, förening upa, Sweden	19.0%

Pursuant to Section 43, Subsection 2 of the Danish Company Accounts Act (Årsregnskabsloven) and Section 22, Subsection 5 of the Danish Company Accounts Order, information about individual subsidiaries has been omitted as it is deemed that such information may cause considerable damage to these companies.

The Group owns other companies without commercial activities.



ARLA FOODS:

: *Supervisory Board and
Management Board*



JENS BIGUM
: MANAGING DIRECTOR



ÅKE MODIG
: DEP. MANAGING DIR.



LARS LAMBERG
: CHAIRMAN



KNUD ERIK JENSEN
: DEPUTY CHAIRMAN



BERTIL ANDERSSON



LEIF BACKSTAD



NIELS BØGEDAL



KAJ W. CHRISTENSEN



CHRISTER ELIASSON



ANDERS ERICSSON



LEIF ERIKSSON



ELISABETH GAUFFIN



ÅKE HANTOFT



TOMMY JACOBSSON



SØREN KIHMBERG



KR. OLE KRISTENSEN



OVE MØBERG



HANS PETER NIELSEN



PER NORSTEDT



JAN NØRGAARD



KAJ OLE PEDERSEN



SØREN RASMUSSEN



PETER STOFFERENSEN



BENT JUUL SØRENSEN

0:58



KEY FIGURES:

: 02.10.2000 - 30.09.2001

DKK million

: GROUP :

: PERIOD : PERIOD
02.10.2000 17.04.2000
30.09.2001 01.10.2000

Profit

Net turnover	38,133	17,453
outside DK/SE	18,823	8,200

% outside DK/SE	49%	47%
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Net profit	1,157	392
Supplementary payments	690	276
Consolidation	467	116

Financing

Balance sheet total	20,858	21,275
Fixed assets	10,523	11,055
Gross investments	1,877	905
Capital base	6,448	6,343

Equity ratio

In %	31%	30%
------	-----	-----

Raw materials

Milch recieved (the Group) million kg	7,085	3,344
Denmark	3,967	1,914
Sweden	2,167	993
Other countries	951	437

No. of co-operative owners

	14,909	16,121
Denmark	7,921	8,639
Sweden	6,988	7,482

Employees

No. of employees (man years)	18,200	18,622
------------------------------	--------	--------

TURNOVER

02.10.2000 - 30.09.2001

Divided into markets

1. Sweden	10,062	5,060
2. Denmark	9,248	4,193
3. Other EU countries	12,396	5,305
4. Rest of Europe	782	330
5. Middle East	2,103	885
6. North America	928	412
7. Central and South America	932	601
8. Asia	1,225	477
9. Africa	430	175
10. Other	27	15
Total	38,133	17,453

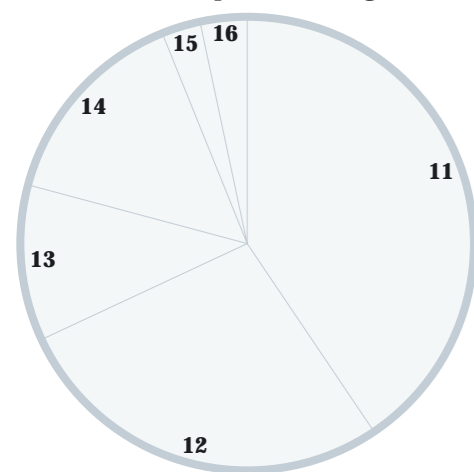
Divided into product categories

11. Fresh products	15,430	7,061
12. Cheese	10,640	4,652
13. Butter and spreads	4,289	2,033
14. Condensed milk products	5,573	2,574
15. Packaging and additives	1,065	502
16. Other turnover	1,136	631
Total	38,133	17,453

Divided into markets



Divided into product categories



Arla Foods in Denmark

- HJØRRING MEJERI
- AKAFA
- BISLEV MEJERI
- AARS MEJERI
- FARSO MEJERI
- HØBRO MEJERICENTER
- GRENÅ MEJERI
- VELLEV MEJERI
- HOCO
- HOLSTEBRO FLØDEOST
- HOLSTEBRO SMØRMEJERI
- RODKÆRSBRO MEJERI
- VRINNERS FLØDEOST
- ÅRHUS MEJERICENTER
- BRABRAND MEJERI
- VIBY INNOVATION
- IT-CENTRE
- SNEJBJERG MEJERI
- DANMARK PROTEIN NR. VIUM MEJERI
- ARINCO
- TROLDHEDE MEJERI
- KLOVBORG MEJERI
- TISTRUP MEJERI
- VARDE SMØRMEJERI
- VEJLE OSTELAGER OG PAKKERI
- DENMARK DIVISION SALES
- TAULOV MEJERI
- KJERSING
- ESBJERG MEJERI
- ESBJERG EKSPORTTERMINAL
- GLEJBJERG MEJERI
- KOLDING EKSPORTTERMINAL
- CENTRALVÆRKSTEDET
- TYRSTRUP MEJERICENTER
- HØGELUND MEJERI
- BRANDERUP MEJERI
- SAMDEN
- BOV MEJERI
- GRØNDAL MEJERI
- CREMO
- BIRKUM OST
- SLAGELSE MEJERICENTER
- ISHØJ FRISKVARETERMINAL
- COPENHAGEN

Arla Foods in Sweden

- KÅGERÖD
- HALMSTAD MEJERI
- KVIBILLE MEJERI
- FALKENBERG MEJERI
- ÅSEDA MEJERI
- KARLSKRONA MEJERI
- KALMAR MEJERI
- BORGHOLM MEJERI
- STANGÅ MEJERI
- VISBY MEJERI
- VÄSTERVIK MEJERI
- JÖNKÖPING MEJERI
- GÖTEBORG MEJERI
- HJÖ UTVECKLINGSMEJERI
- ALINGSÅS MEJERI
- MJOLBY
- OSTGÖTA MEJERI
- LINKÖPING
- KIMSTAD
- OSTGÖTA MEJERI
- NORRKÖPING
- SKOVDE MEJERI
- GÖTENE MEJERI
- GÖTENE OST-DISTRIBUTUNAL
- SÖDERTÄLJE
- TERMINAL
- ENSKEDE TERMINAL
- STOCKHOLM
- TORSGATAN
- STOCKHOLM MEJERI
- ÖREBRO MEJERI
- VÄSTERAS
- TERMINAL
- UPPSALA TERMINAL

Arla Foods UK

- NEWCASTLE
- SETTLE
- LEEDS
- BAMBER BRIDGE
- KETERING
- HATFIELD PEVEREL
- OAKTHORPE

Arla Foods globally

- NORWAY
- FINLAND
- POLAND
- GERMANY
- HOLLAND
- FRANCE
- SPAIN
- ITALY
- GREECE
- CANADA
- USA
- BRAZIL
- ARGENTINA
- SAUDI ARABIA
- UNITED ARAB EMIRATES
- BANGLADESH
- MALAYSIA
- KOREA
- JAPAN