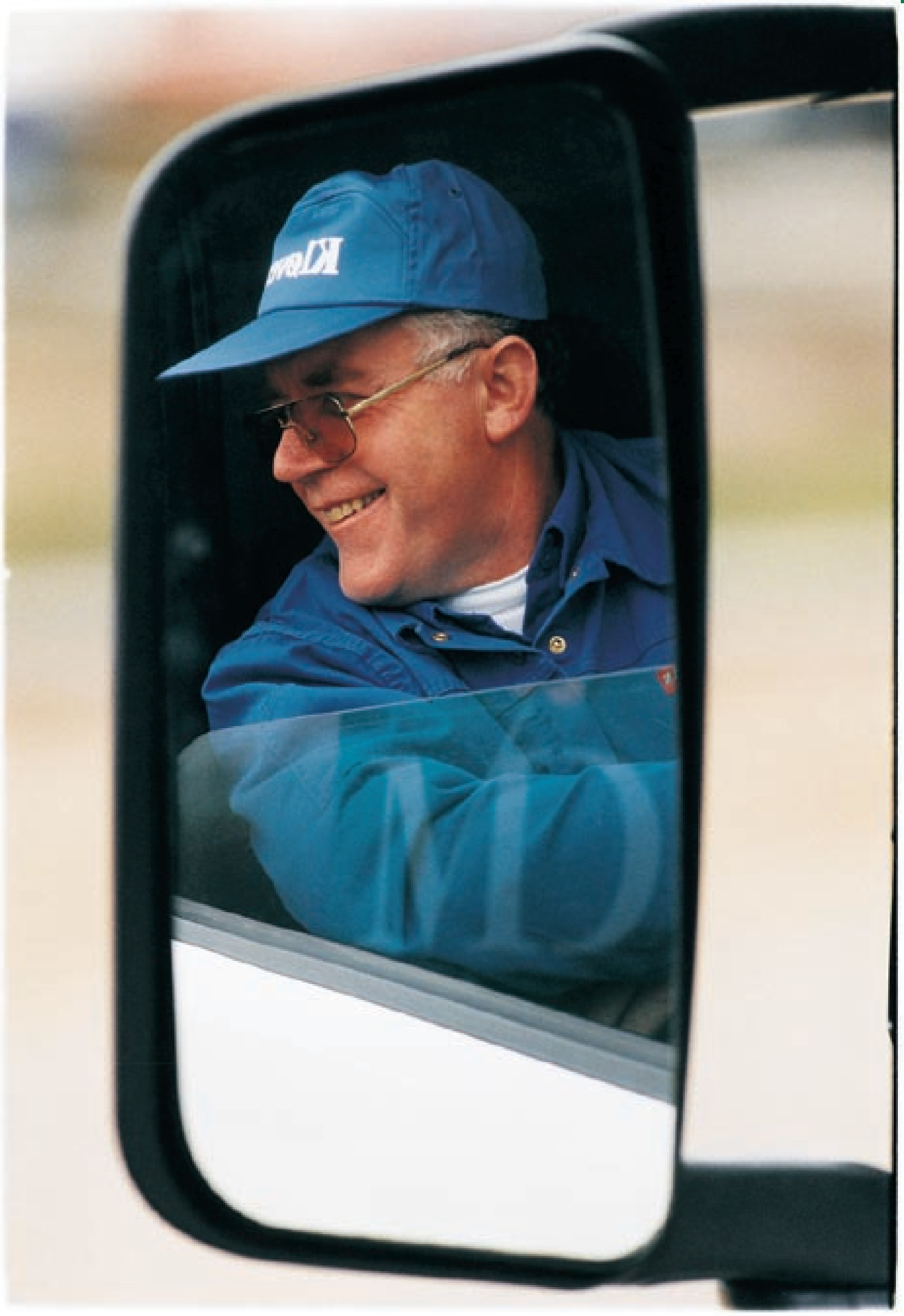
M D FOODS ANNUAL REPORT 1998/99



1998 → 99

SUPERVISORY BOARD

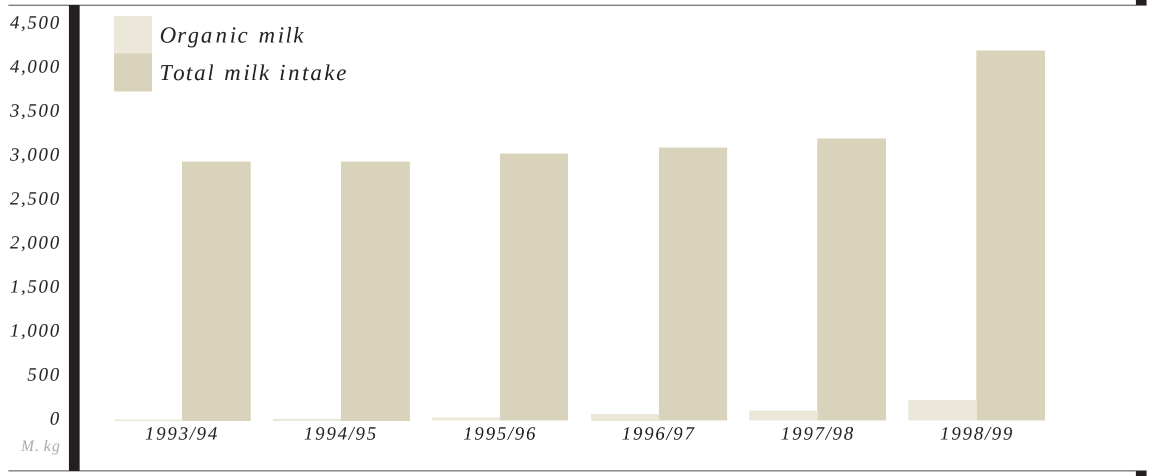
Peter Stoffersen, Hans Peter Nielsen, Søren Rasmussen, John Pedersen, Kristian Nielsen, Hans Jensen Lund, Niels Bøgedal, Kaj Ole Pedersen, Hans Burgaard

Bent Juul Sørensen, Jan Nørgaard, Hans Rasmussen, Ove Møberg, Knud Erik Jensen, Jens Bro Søndergård, Johan Schmidt, Mads Midtiby, Kristian Ole Kristensen, Kaj W. Christensen

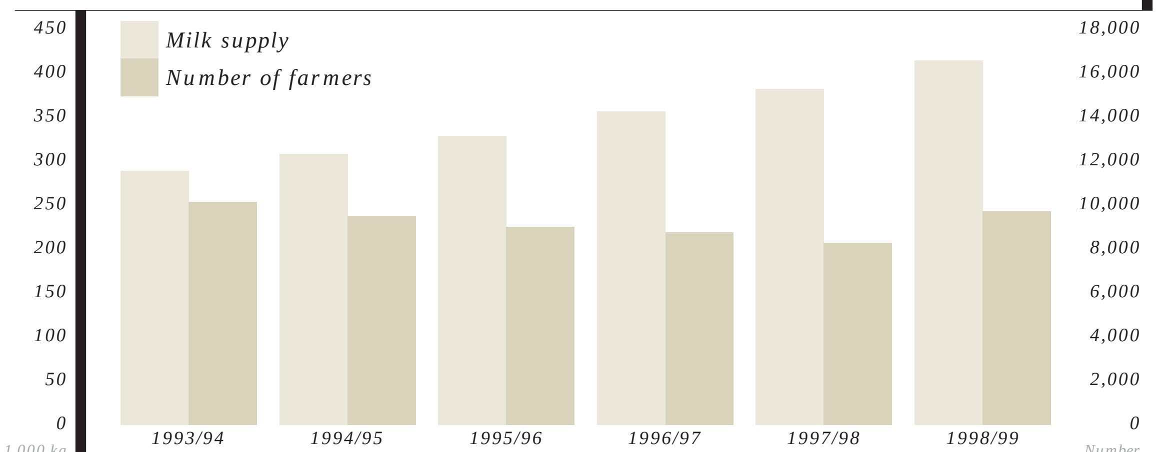
The construction of Taulov Dairy is the overall theme of this Annual Report.
Photography: Lars Wamberg
Design: Jørn Moesgård AS

KEY 00 FIGURES

MILK INTAKE IN DENMARK (million kg)



MILK SUPPLY (average supply per farmer, 1,000 kg) / NUMBER OF FARMERS



PARENT COMPANY

	1994/95	1995/96	1996/97	1997/98	1998/99
Result					
Net result DKK million	503	583	627	556	589
Supplementary payments DKK Million	444	568	580	492	505
Consolidation DKK million	59	15	47	64	65
Interest on personal accounts DKK million	0	0	0	0	19
Financing					
Equity DKK million	2,122	2,569	2,669	2,645	3,380
Safety fund DKK million	297	298	311	314	384
Raw materials purchased					
Raw milk received tonnes	2,966,195	3,007,294	3,165,428	3,219,935	4,095,567*
No. of suppliers	9,461	8,919	8,714	8,180	9,479
Average supply per supplier (kg)	307,835	328,664	353,425	385,994	415,626

GROUP

	1994/95	1995/96	1996/97	1997/98	1998/99
Result					
Turnover DKK million		21,022	23,141	23,771	25,381*
Of which abroad		13,087	15,033	15,138	16,177
% abroad		62	65	64	64
Financing					
Balance sum DKK million		12,488	12,268	12,967	14,329
Fixed assets DKK million		6,101	6,396	6,612	7,414
Gross investments DKK million		1,198	1,017	1,395	1,380
Equity DKK million		3,129	3,090	2,912	3,493
Equity ratio					
In %		25	25	22	24
Employees					
No. of man years		12,782	13,122	13,218	13,604

(NB: Group equity includes minority interests)

** 1998/99 comprise 53 weeks*

USE OF MILK
(MD Foods Group figures in tons)

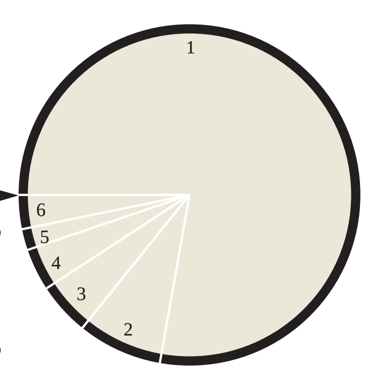
Cheese	1,830,326
Butter and spreads	86,815
Liquid milk	1,561,198
Ingredients	1,471,093
Other	105,929
Total volume	5,055,361

MD FOODS GROUP PRODUCTION
(product break down)

Cheese (tons)	248,918
Butter and spreads (tons)	98,583
Liquid milk (1.000 kg/litres)	1,662,747
Ingredients (tons)	211,724

MD FOODS GROUP TURNOVER (market break down)

1. EU countries	78%
Denmark	*36%*
United Kingdom	*21%*
Germany	*9%*
Holland	*2%*
Italy	*2%*
Sweden	*2%*
Greece	*2%*
Spain	*1%*
France	*1%*
2. Middle East	8%
Saudi Arabia	*4%*
Other	*4%*
4. Asia	5%
3. Centr./South America	4%
5. North America	2%
6. Other	3%
Other Europe	*2%*
Africa	*1%*



OPERATING RESULT EX FARM (Øre/kg)

	1994/95	1995/96	1996/97	1997/98	1998/99
Payments on account	237.10	232.30	233.54	238.43	231.36
Supplementary payments	14.96	18.89	18.32	15.27	12.33
Adjustment to 4.2% fat	–5.04	–4.53	–4.79	–4.56	–3.76
Adjustment to 3.4% protein	–0.72	–0.36	–1.44	–1.45	–0.36
Interest on personal accounts**	0.00	0.00	0.00	0.00	0.47
Paid out standardised	**246.30**	**246.30**	**245.63**	**247.69**	**240.04**
Transfer to equity capital	2.00	0.50	1.50	2.00	1.59
Net result ex farm standardised	**248.30**	**246.80**	**247.13**	**249.69**	**241.63**
Whole milk received (tonnes)	2,966,195	3,007,294	3,165,428	3,219,935	4,095,567
Fat % in whole milk received	4.39	4.37	4.38	4.37	4.34
Protein % in whole milk received	3.42	3.41	3.44	3.44	3.41
Fat adjustment factor	26.52	26.62	26.63	26.80	26.86
Protein adjustment factor	35.95	36.03	35.91	36.17	36.24

Conversion factor from litres to kilograms: 1.02

*** Paid out with personal accounts*

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MD Foods annual report

The chairman's REPORT

Towards the future

It is almost symbolic that the final financial year of the millennium should see the largest merger in MD Foods' history – the merger between Denmark's two leading dairies.

It is almost symbolic that the final financial year of the millennium should see the largest merger in MD Foods' history – the merger between Denmark's two leading dairies.

As it enters its third century, it is symbolic too that Denmark's co-operative movement is also embarking on a process which will increasingly involve cross-border activities. In fact, at the threshold of the new millennium, the Danish co-operative movement is part of an attempt to create one of Europe's largest and most far-sighted dairy groups.

Knud Erik Jensen
Chairman, MD Foods

I am well aware that Danish co-operative farmers are reluctant to broadcast their achievements, but I think we should be proud of the fact that over many years the Danish co-operative movement has created a vibrant, dynamic dairy company, a company which in most respects is the leading dairy of Northern Europe.

For some, this may well strike something of a discord in view of the fact that the milk price has fallen to its lowest level ever.

But we should not forget the circumstances:

– We milk producers bear a great deal of the responsibility for the fact that competition has driven home market prices towards new lows.

– Over the same period we have suffered the toughest competition in European markets for decades following the collapse of the Russian economy.

– There is continuing political pressure to bring European milk prices down to the so-called world market level.

Nevertheless, despite all this we are able to pay one of the highest milk prices in Europe. Moreover, the trends seem to indicate that the price will rise during the coming year.

While this is evidence that the company we have built remains competitive, it is also a signal that our company operates on a basis of strength and resilience. In addition, it highlights the fact that the corporate structures of the co-operative movement are neither outdated nor paralysed.

In fact, quite the reverse.

The deep-rooted Danish wariness of size has surfaced frequently over these past few years as we have been subjected to detailed tests and assessed and scrutinized from all angles. We're not complaining. As a relatively large company in a small country, this is something we have to accept.

In return, however, society must accept that it is possible to create companies with sufficient strength to compete on an equal footing with the best in the community we have chosen to be part of – competing with companies at the top of the European league.

In other words, a small country must still be capable of creating large companies. If not, we Danes will be destined to be relegated from division to division. This is not a future which we, as MD Foods' co-operative owners, would wish for our company at the threshold of the new millennium.

Manament

REPORT

A difficult year

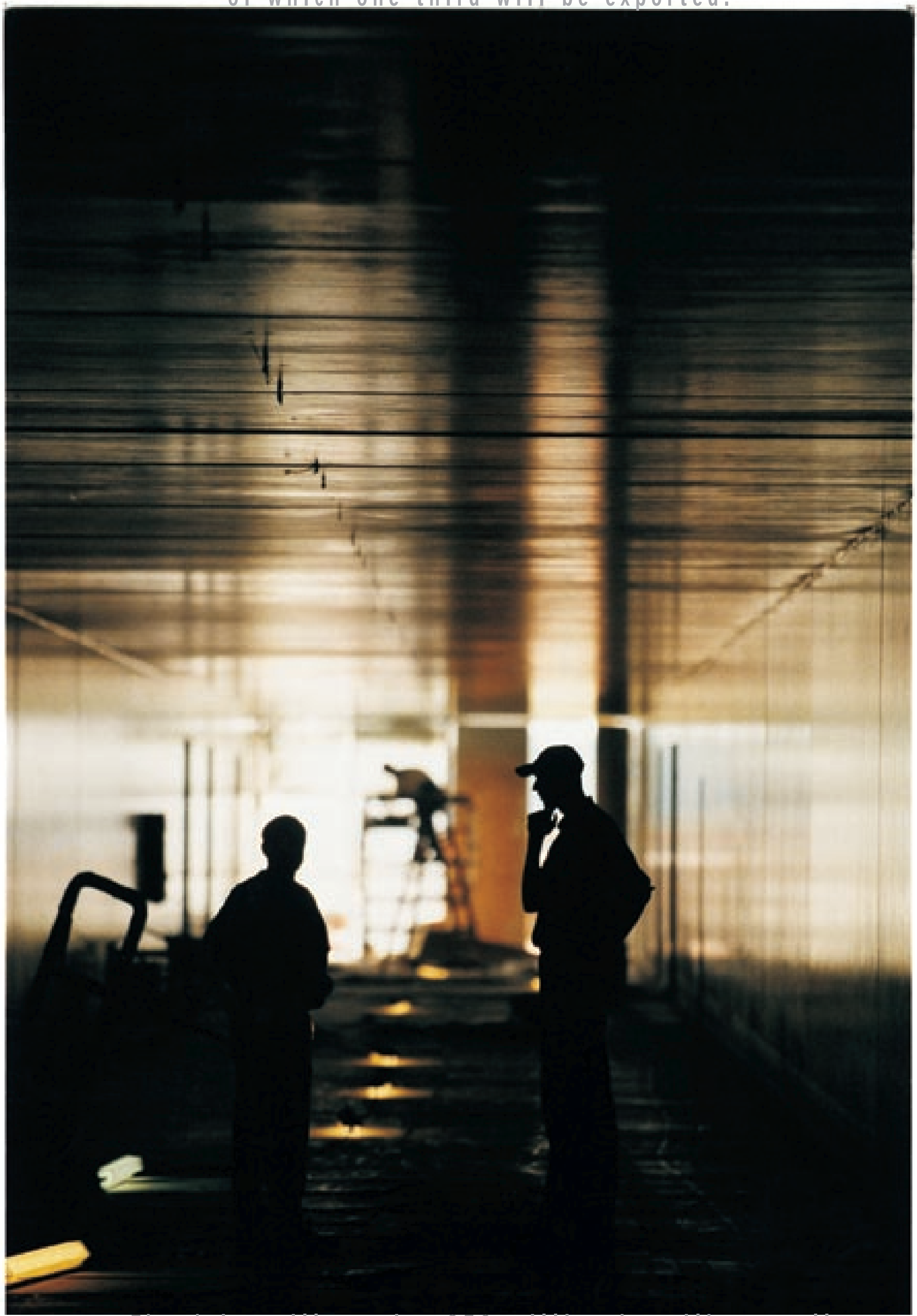
The crises in Russia and South East Asia resulted in a massive supply of cheese and other dairy products being channelled into most of MD Foods' larger markets.

Economically, the financial year 1998/99 was a difficult year. Increasing competition following Russia's financial collapse and the crisis in South East Asia put significant pressure on prices in all larger markets.

In Denmark, the first six months of the year were dominated by the intense battle for market shares. It was this battle which, towards the middle of the year, led to the merger with Kløver Mælk.

Indeed, the pressure on prices in all larger markets and the competition for market shares was particularly marked in MD Foods' largest export market, Germany. Here, MD Foods has adopted a strategy which aims at defending market shares while, to the greatest possible extent, avoiding becoming involved in the tough price competition.

The construction of MD Foods' new, large dairy in Taulov proceeded during 1999.
The DKK 500 million dairy will have an annual production of 25,000 tons of cheese of which one third will be exported.



The dairy will receive 250 million kg milk annually from approximately 35,000 cows.

Although, after a long period of expansion, exported volumes began to stagnate and, in some cases, decline, it is clear that the strategy has largely succeeded. This is not only because the range of speciality cheese in general is less price sensitive than bulk type products, but also because of the strong emphasis on marketing over the same period.

The worst price pressure is now easing

At the same time, the home market was dominated by the fierce competition for market shares between MD Foods and Kløver Mælk, a battle which was largely fought on price. The competition in the home market became so fierce that earnings from a number of products fell to far below export prices. Following the price increases in August some – albeit very modest – recovery has occurred.

The merger with Kløver Mælk

Midway into the financial year, the merger with Kløver Mælk, which MD Foods had favoured for many years, was finalised. The merger had been under consideration since 1992 when the two companies signed a comprehensive co-operation agreement which primarily aimed at maximising milk utilization and home market production.

As described in the report that formed the basis for the two boards' recommendation of the merger to their respective Boards of Representatives, the merger opens up a wide range of opportunities for rationalising operations.

The benefits listed have proved realistic and achievable and a number of decisions have already been implemented which will impact positively on this year's as well as future years' results.

Part of the reason why considerable benefits can be achieved derives from the fact that further scope for rationalisation was identified during the time when the two groups worked closely together.

The merger has significantly strengthened MD Foods' business position. Moreover, it has given MD Foods great satisfaction to note that the process of merging the two organisations has met with considerable understanding and support from employees from both sides.

In recent months the company has taken further steps towards bringing large production areas together into a few, modern plants – a process which is crucial for maintaining MD Foods' competitiveness among Europe's strongest players. These moves will therefore continue over the next few years.

The merger is built upon an agreement with The Danish Competition Authority which contains important - and not very helpful - concessions. Concessions which were in no way less burdensome for the company than those which could have been expected had the merger been approved by the EU.

One encouraging fact was that the merger was approved fairly speedily which, in view of the two companies' competitive situation, was important.

The merger of two such large groups would, of course, not have been possible without strong commitment throughout the organisation.

Product development

MD Foods maintains an extensive product development programme. Approximately 250 new products – or product varieties – are developed each year.

Product development takes place either in partnership with individual retail chains, within MD Foods itself or in co-operation with large ingredients customers within the European food industry. The merger with Kløver Mælk and the possible merger with the Swedish dairy group, Arla, will enable MD Foods to strengthen this vital area further.

Investments

During the year under review, MD Foods has realised its largest-ever investment budget. While the construction of the new cheese dairy in Taulov with a capacity of 25,000 tons of cheese per annum accounts for the most significant part, other large structural projects have been either initiated or implemented.

The financial year 1999/00 will also see significant investments. These, of course, will impose some financial strain on the company and require significant management resources. At the same time, however, such investments are fundamental to maintaining and developing MD Foods' lead on the European dairy scene.

The merger with Kløver Mælk and the potential generated by a merger with Arla will mean increased focus on the basics of the dairy industry rather than on non-essential activities in other areas.

The result for the year

On a background of tough competitive conditions, internationally as well as within the home market, it is hardly surprising that MD Foods' milk price, including that of Kløver Mælk, has declined by 3.3%. Although some of the fall had been predicted in the budget, the result is that, for the first time in many years, it has not been possible to realise budgetted earnings.

Jens Bigum
Group Managing Director

The explanation lies primarily in the sharp price fall in the home market during the early part of the year. Not until the summer did some stabilisation occur.

Subsidiaries

There is no reason to hide MD Foods' satisfaction with the extremely positive development in the UK subsidiary, MD Foods plc, as well as in the UK Division as a whole which has clearly demonstrated its worth. The outlook for the coming years remains positive although competition in the UK market remains fierce. The UK dairy sector has still not found its final stucture and MD Foods continues to monitor developments closely.

The outlook for other subsidiaries is generally positive. The exception is Danapak which only achieved a positive result for the year because of the disposal of its cardboard division.

Danapak's Board has approved a two-year strategy plan with strong emphasis on the company's special competencies in order to regain profitability.

MD Foods' finance company, Medani, and MD Insurance have posted satisfactory results. The fruit juice manufacturer, Rynkeby Foods, has also achieved a satisfactory result in the highly competitive soft drinks market.

The future

At the close of the year, MD Foods is well into a process which, if all goes according to plan, can result in yet another merger in 1999/00 with the large Swedish dairy group Arla under the name of Arla Foods.

Since cross-border mergers of this magnitude are unprecedented, the merger requires far more comprehensive examinations of the legal and tax aspects than has been the case with previous mergers within the co-operative sector. The size of the companies and, of course, their cultural differences have added to the extended period of preparation. On the other hand, the process so far has been characterised by a uniquely positive attitude from both parties.

It is worth noting that, following approval by the respective Boards of Representatives, an extensive round of negotiations with the relevant authorities remain. This phase may well become particularly protracted as well as complex. At the moment, therefore, the outcome of these negotiations cannot be predicted.

For the current year, progress is expected in primary operations not least through the synergies from the merger with Kløver Mælk and the slightly improved international competitive conditions. With regard to exports, foreign exchange rates are also moving in the right direction.

Consequently, it is expected that milk prices will rise slightly during the financial year which has just begun.

The Divisions' REPORTS

Home and abroad

The outlook for sales in the coming year is characterised by considerable uncertainty. Although, with regard to prices as well as volumes, some improvement is evident, it is unlikely that this will compensate for the sharp price falls in 1999.

The Home Market Division

The strong competition in the Danish market in the first half year is the main reason why the Home Market Division experienced its worst result for years.

The second half year was characterised by the merger with Kløver Mælk and the subsequent co-ordination of the two companies' activities.

The merger, the largest in MD Foods' history, primarily affects the Home Market Division. The expected benefits from joining the two companies' operations within production, distribution and organisation and combining product ranges are expected to materialise over a three-year period.

The merger has enabled MD Foods to further strengthen its range of strong branded products.

Firm cheese types such as danbo, samsø and havarti will be produced at Taulov Dairy.

The dairy will have an annual production of 25,000 tons of cheese with an eventual capacity for 70,000 tons.

Products and sales

The amalgamation of the two companies' ranges aims to enhance profitability by eliminating overlapping as well as to ensure that MD Foods maintains a broad supply of products which meets customer demands in a dynamic and innovative manner.

Several Kløver Mælk brands will continue and the Kløver brand itself will apply to traditional, fermented products where, for instance, it will replace Mejse yoghurt. Rigtig Juice has been transferred to Rynkeby Foods although the Home Market Division continues to handle distribution. Following the merger with Kløver Mælk, MD Foods has taken over sales of products from the French Danone group.

The Danes' consumption of liquid milk and cheese remain stable, while sales of butter and spreads have declined.

Sales of the organic range have recently stagnated and the number of new organic consumers seems to have come to a halt. The utilisation of organic milk available to the company has fallen to below 50%.

Following the merger with Kløver Mælk, competition from foreign dairy companies is expected to increase in line with the multiples' wish for increased competition. Meanwhile, the competition continues unabated within areas such as firm cheese and organic products.

The structural developments within the retail sector continue with the formation of large purchasing associations. Approximately 80% of sales in the Danish retail sector are now accounted for by FDB, Supergros and Dansk Supermarked.

Production

With regard to production, the year has been affected by the running-in period for Kløver Mælk dairies. Most of these were closely linked to MD Foods through the jointly owned Mejeriernes Produktionsselskab. The merger, however, also brought Kløver Mælk's fresh goods terminals and Bov and Snejbjerg dairies into the Home Market Division. In addition, MD Foods has acquired Kløver Mælk's shareholding in Enigheden A/S in Århus.

Mejeriernes Produktionsselskab was closed down at the end of the financial year.

During the year, the management of cheese and liquid milk production was gathered within one organisation.

Liquid milk production and terminal operations in Holstebro ceased in August 1999 concurrently with the expansion of the terminal in Hobro. Englevaad Dairy ceased operations on October 1, 1999. The filling plant at Slagelse Dairy has been rationalised.

The construction and completion of Taulov Dairy, however, remains the division's largest single task. The construction of the dairy, which will have a capacity of 25,000 tons cheese annually, has largely proceeded according to plan. Test production began in October 1999. This will gradually expand early in the new year.

The Europe Division

The Europe Division has had an unsatisfactory year in terms of both sales and earnings. Compared to last year, the division has failed to achieve its customary volume growth of 5-6%.

Sales were affected by the collapse of exports of cheese to Russia at the end of 1998 which led to very low prices for cheese and butter across the European continent and, not least, in MD Foods' largest export market, Germany. Sales of bulk products were particularly badly hit in almost all European markets.

The downturn has been further emphasised by rising competition between European retail chains resulting in demands for lower prices from suppliers.

The outlook for sales in the coming year is characterised by considerable uncertainty. Although there are indications of a slight improvement in prices and volumes, there is little to indicate that this will compensate for the sharp fall in prices in 1999. Exports of cheese to Russia are appearing to recover, albeit on a low level.

Production

Regrettably, 1998/99 became a year when production facilities were insufficiently exploited resulting in poor economy. Sales of firm cheese (the Russian crisis) and the dairies which produce firm cheese were particularly affected.

The operational year has also been characterised by the merger with Kløver Mælk. Operations ceased at Faster-Skjern Dairy, the processed cheese factory at Videbæk and at Gredstedbro Dairy. Further closures will be implemented at Vordingborg Cheese and Rødkærsbro Butter Dairy during the summer 2000. The transfer of production has required particularly large resources.

A significant rise in production of Lurpak Spreadable and mozzarella have led to an expansion of Holstebro and Rødkærsbro dairies.

A total of 194,000 tons cheese and 84,000 tons butter and spreads were produced in 1998/99.

Logistics

Again this year, the Europe Division received a "Supply Chain Efficiency Award" from Logistics Europe/KMPG for "efficient logistics in production and inbound logistics from packaging and additive suppliers".

The year also saw the outbreak of a crisis which had a marked, adverse impact on services to customers. The Belgian Dioxin scandal meant that MD Foods was forced to recall all products containing Belgian cheddar from European markets. A remarkable effort throughout the MD Foods organisation, however, contributed to limiting the damage.

The UK Division

It is gratifying to note that expectations for a significant advance in terms of both result and volumes sold were more than fulfilled. Locally produced products increased to a level of approximately 850 million litres liquid milk and sales of Danish produced goods rose to 46,000 tons. In the coming year, liquid milk is likely to exceed 900 million litres while imported products are set to approach 50,000 tones.

This will take place in a market that continues to be characterised by upheavals on both the supply side and on the sales side. During the past year, for instance, the UK's competition authorities decided that the milk marketing organisation Milk Marque's actitivities amounted to a trade restraint and demanded that the company be split into three smaller regional companies.

These companies are expected to become operational from April 2000 - a difficult process which will hopefully benefit all parties.

1999 was also the year when the Irish dairy industry withdrew from the liquid milk market after Express Dairies acquired Glanbia's milk business which comprised both Waterford's and Avonmore's original activities. Consequently, a simplified supplier structure is now emerging.

Significant events also took place within the retail sector. The progress of the famous Marks & Spencer chain came to a halt and speculations arose about the company's future. Tesco expanded on the continent and the American Wal-Mart made major inroads in Europe by acquiring ASDA in the UK. These events mark the beginning of renewed consolidation, not only in the UK but, in all likelihood, across Europe.

On the backdrop of this, MD Foods' targetted efforts to meet the winning multiples' demands for high-quality suppliers of dairy products are set to benefit the company. At the same time, however, it will remain necessary to work hard and invest extensively as has been the case during the past year, not least in view of the fact that retail competition is fiercer than ever.

The UK Division continues to rationalise and develop its technical skills. The year saw the introduction of equipment which will further enhance milk quality. The test launch of filtered, fresh milk went well and is entering a new phase.

The substantial logistics' challenge of distributing the very large milk volume has been met both with regard to cost and accuracy.

On the organisation side, a restructuring programme has been implemented and the marketing and sales functions strengthened.

Despite declining sales to some retail chains, the UK Division has seen a general advance in milk sales. The market continues to be subject to upheavals as multiples reduce their supplier base.

Within this context, it is encouraging that MD Foods has maintained customer positions. This is due to several factors, especially the broad and attractive range – epitomised by Lurpak which, for the first time in its history, became market leader.

More recently, an organic range, which is expected to attract increasing interest among consumers in the coming years, was launched.

The UK in general is experiencing high business activity and demand has not fallen to the same degree as in the rest of Europe. On a background of intensifying competition in the retail channel, however, there are grounds for some caution regarding the outlook for the retail market, despite the encouraging signs.

The Overseas Division

Economic crises in a number of key markets have adversely affected the division's result. At the same time, however, stable foreign exchange rates and stability in the export subsidies' area had a favourable effect on overall business.

With exports to more than 60 countries outside Europe, sales have inevitably been affected by financial crises in some regions. In particular, the financial turbulence in Brazil from the beginning of the year resulted in falling demand for both locally produced and imported goods. The devaluation of the Brazilian currency has resulted in price rises for imported goods of approximately 35%. The crisis has spread to other areas of the region, most recently Argentina.

Increasing unemployment and generally lower purchasing power in South Korea have

Taulov Dairy is clad with 400,000 red bricks, the equivalent of the number required to build 50 homes.

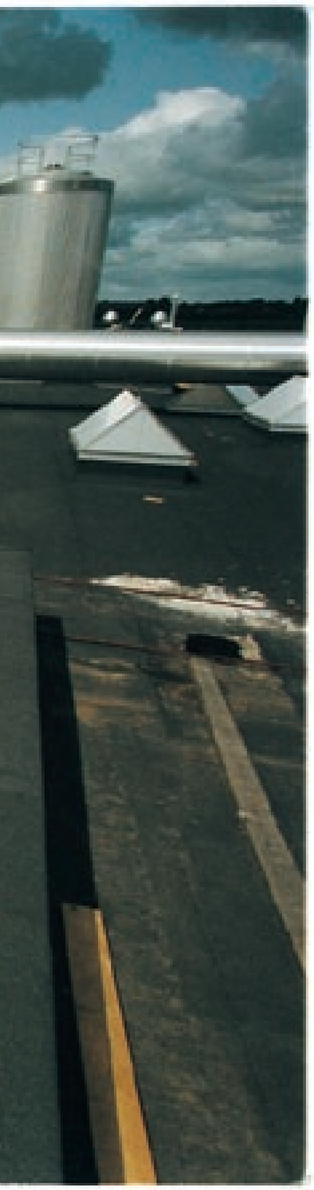
When building activity peaked, a 300-strong workforce was involved in building MD Foods' new large dairy. When in full production, Taulov Dairy will employ around 140 employees.

meant that MD Foods has been unable to increase sales. Instead focus has been on cutting costs and thus achieving a positive result despite the continuing crisis.

The Korean economy, however, is now showing signs of recovery. This is expected to result in rising production and consumption, lower unemployment and a positive balance of trade.

The Belgian Dioxin scandal impacted on exports of food products from the EU for a considerable period. However, exports now seem to be returning to their normal levels.

The division focused strongly on internationalisation. MD Foods' broad product range and Lurpak are valuable assets in the competition with the large international suppliers. Sales of speciality cheese and Lurpak butter in the Greek market have, for instance, suffered only minor price problems. After a strong performance, Lurpak now has more than 20% of the Greek butter market.



Similarly, growth in MD Foods' subsidiary in Saudi Arabia, Danya Foods, stems exclusively from the product areas given the highest priority. The company's strategy of focusing on a limited number of production areas is a major factor behind the growth. The fastest growing products are Puck processed cheese which is growing at a rate of 12% and fruit juice with a growth of 8%.

The positions in the overseas markets are supported by ongoing rationalisation of the subsidiaries in the focus markets. Servicing key customers from Denmark also has high priority.

Despite difficult market conditions, the continued development of added value products, sold under MD Foods' best known brands, has contributed to financial advances for the division.

MD Foods Ingredients

With total sales of 196,000 tons, MD Foods Ingredients has shown good progress in terms of volume. In addition, the division has received contract manufacturing from the Arinco plant following the merger with Kløver Mælk. In terms of earnings, the company has, despite the very unfavourable market conditions, achieved a satisfactory result, even though MD Foods Ingredients has processed and sold the largest milk volume ever during the financial year. The company has also succeeded in maintaining reasonable earnings from speciality and retail products. These products have shown volume growth, too.

As expected, the year was characterised by very low prices for dairy products and ingredients, at least partly due to the crisis in Russia. A relatively favourable foreign exchange rate for the dollar and higher rates for EU subsidies for whole milk and skimmed milk powder have, however, compensated somewhat for the low prices. Similarly, production subsidies for casein were raised during the year.

Production

In line with MD Foods' environmental policies, environmental and energy management within production has been introduced. This involves the ongoing monitoring and improvement of the working environment, disposal of waste water etc.

Since the acquisition of the former Borden-owned production facility, Kjersing, some production has been transferred, including the relocation of filling and packaging of cans, from Akafa to Kjersing.

Following the merger with Kløver Mælk, Arinco was transferred to MD Foods Ingredients and a number of administrative simplifications were implemented. By the close of the financial year, Arinco was fully integrated within the division. Consequently the business area, contract manufacturing, has been given responsibility for the total portfolio of contract manufacturing customers. The area is expected to show a positive development.

Business development

With regard to the project concerning the low-calorie sweetener tagatose, it has been necessary to carry out a series of new researches in order to achieve the so-called GRAS-approval from the US authorities. Approval is expected during the spring of 2000. The project has commercial potential, but the approval procedure has proved more complex than originally envisaged.

During the year the basis was laid for further growth within the field of proteins in South America. A Letter of Intent has been signed with Argentina's largest dairy company, SanCor, for a joint venture for production and sale of milk proteins. The joint venture will contribute to strengthening MD Foods Ingredients' position among global market leaders within added value milk proteins.

The Transport Division

The amalgamation of collection routes following the merger between Kløver Mælk and MD Foods was the division's biggest task during the year followed by the launch of the Fresh Milk concept involving extensive every day and night collection. Significant restructuring of the collection of organic milk due to increased volumes, also took place.

The amalgamation of the routes proceeded at a pace which, to a large extent, exceeded the capacity of the organisation. As this placed considerable strain on all involved, insufficient information was provided to co-operative owners in some cases.

The merger incurred significant one-off costs for the installation of registration equipment in Kløver Mælk's tankers and at the reception locations as well as for training of drivers. The cancellation of haulage contracts and redundancy payments for drivers are other significant items.

At year-end, the tanker fleet had been reduced by 20 vehicles compared to the total for the two companies at the beginning of the year.

Average hourly wages have risen markedly, i.e. by DKK 8 per hour. Approximately half this amount is due to the increase in night collection.

In the new operational year, all liquid milk volumes will be Fresh Milk collected at night. Subsequently, an average rise in hourly wages of DKK 10 is envisaged.

In addition, a significant rise in the price of diesel oil can be expected.

During the year under review, it was possible to compensate for rising wage costs by increased efficiency. Consequently, wage costs per litre milk were reduced by 0.13 øre per litre.

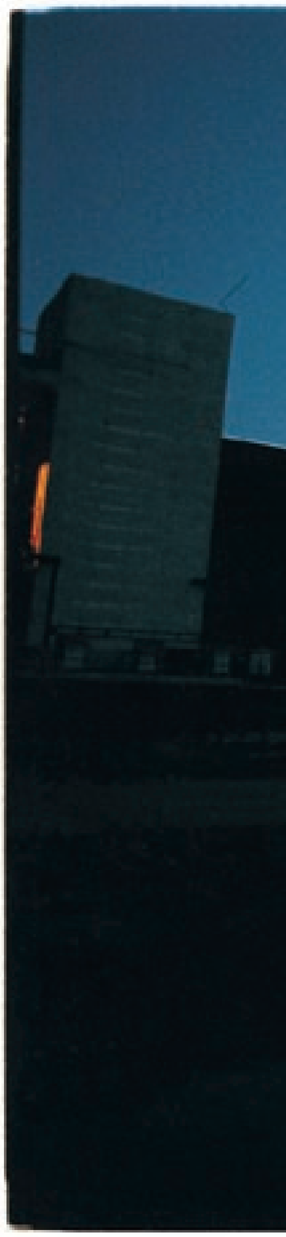
For the current year, a similar reduction in the number of tankers is expected. This is mainly the result of fewer suppliers and a better use of the tankers due to 24-hour operations.

Whey

916 million litres whey was transported at a cost of approximately DKK 29 million, corresponding to 3.18 øre per litre which is much the same as last year.

Inter-dairy transport

No reduction in the amount of inter-dairy transport was achieved during the year. Overall, transport and driving was approximately 12% up on last year. Transported volumes amounted to approximately 1,780 million litres and the total distance driven was 10.5 million km. Approximately 43% of the volume is accounted for by whey and whey products. Total costs amounted to DKK 82.2 million or 4.62 øre per litre against 4.6 øre per litre the previous year. Approximately 33% of the volume was carried by outside hauliers. It remains the intention to reduce costs for inter-dairy transport over the coming years.



Investments

Co-ordinated purchasing of vehicles for the whole group was carried out for the first time - a total of 55 vehicles of which five were for the Transport Division. The remaining 50 were distribution vehicles for the Home Market Division and the UK Division..

The result is satisfactory and vehicle purchases will be co-ordinated again in 1999/00.

150,000 m^3 soil was excavated for the foundations – the equivalent of approximately 10,000 truckloads. This is not the first time construction has taken place at this site.

Before construction began in the autumn of 1998, archaeologists from Vejle Museum discovered finds from an Iron Age settlement.

Market

REPORT

Around the world

1999 saw MD Foods Deutschland's largest ever effort involving an extensive marketing campaign in which former, individual brands such as Buko and Höhlenkäse were gathered under the umbrella brand "MD."

Europe

Germany

The Europe Division's largest market, Germany, was affected by turbulence during the financial year with sharply declining sales of German and Dutch dairy products in Russia leading to oversupply in the German market. For suppliers of branded products such as MD Foods, this had an adverse impact on sales. MD Foods Deutschland, however, was able to maintain its position as number three in the German cheese market despite the increased consolidation following mergers between suppliers of dairy products.

During the spring of 1999, a price war broke out in the daily goods sector, when large retailers began cutting prices on a number of branded products, including cheese products, to an extent never seen before.

The price war resulted in consumer prices falling by up to 6% within certain product categories between January and June. This has put dairy product prices under further pressure.

In 1999, MD Foods Deutschland also launched its largest ever marketing campaign in which the former, individual brands such as Buko and Höhlenkäse were gathered under the umbrella brand “MD.” TV commercials, in-store activities, the internet etc. have established MD’s name and values in the minds of German consumers. The campaign’s objective was to create a stronger cohesion between MD Foods’ total range and to facilitate the launch of new products under the well-established name. The campaign was resumed in the autumn of 1999. Furthermore, the year was characterised by the introduction of a more customer and market-orientated organisational structure.

The coming year will see the launch of a series of organic products in the German market as well as the strengthening of relations with the trade at all levels. The aim is to consolidate sales and achieve satisfactory earnings.

UK

(Please refer to the UK Division, page 13)

Sweden

MD Foods has maintained its market position in a market which has been characterised by imports of cheap firm cheese from Europe.

Advances within the focus areas, feta and mould cheese, have been sustained. Price rises and continued advances for speciality cheese have contributed to satisfactory operating profits

Norway

Cheese imports to Norway from the EU have traditionally been subject to quotas which limits market potential. MD Foods, however, has confirmed its position as the market’s largest and most important supplier of imported cheese. The sales partnership with the private dairy company, Synnøve Finden Mejerier, has enabled increased distribution of MD Foods’ products. The result has been satisfactory.

Finland

MD Foods maintains its position as the most important supplier of imported cheese. Sales of mould cheese, cream cheese, mozzarella and firm cheese take place through wholesalers and the year has seen an increase in the distribution of branded products. Edam has also performed well under tough competition from cheaper German cheese.

Holland/Belgium

Sales to Holland continue to show positive development with added value products showing strong growth. Exports to Belgium have doubled and there has been a particularly positive development for added value products for the food industry.

Poland

Due to Poland’s stringent analysis requirements for EU products following the Belgian Dioxin scandal, the Polish market had a disappointing second half year. Import restrictions have curbed imports since June 1999. Western retail chains continue to expand in Poland. In connection with the merger with Kløver Mælk, MD Foods acquired a 50% shareholding in the local dairy, Lindals Foods, which produces firm cheese.

Spain

Once again Spain experienced a positive development and achieved a growth rate of more than 15%. The development was particularly noticeable within the product areas of cream havarti, mozzarella, danablu and cream cheese. Growth comes from increased business with the large retail chains and from a dedicated effort directed at industrial customers.

Italy

In general, the market has stabilised. Sales of fontal cheese have stagnated due to hard price competition, but added-value products have maintained growth. The development of a national network of agents has enhanced distribution, especially in the central and southern parts of Italy.

France

The two year-old subsidiary in Lyon continues to prosper. Tonnage is in line with last year and sales to the retail trade continue to show a positive development. In financial terms, however, the result is not satisfactory, primarily due to the

Taulov Dairy has been designed around a three-storey West-East central axis with production on the first floor. The visitors’ gallery, control room and staff facilities are on the 2nd floor with the engineering and technical

gallery on the third floor. During 2000, the dairy will be expanded by a storage facility with space for approximately 10,000 pallets cheese.

tough competition for cheese to industrial customers. Despite this, MD Foods is intent on maintaining its activities within this area.

Greece
A 6% rise in sales of cheese and butter has been sufficient to maintain MD Foods' position as one of Greece's largest suppliers in a market where imports account for 25% of the total consumption.

With regard to firm cheese, the year has been a turbulent one with low prices. Towards the end of the financial year, however, the market appeared to firm up. MD Foods Hellas whose range consists of Lurpak and Danish speciality cheese was only slightly affected by price problems. Lurpak further strengthened its position and now has more than 20% of the total market for butter in Greece.

Russia
Around the start of the financial year 1998/99, the Russian market hit rock bottom following the devaluation of the rouble in August 1998.

The credit-based distribution system collapsed almost entirely. Sales to regions outside Moscow and St. Petersburg virtually ground to a halt and have so far shown few signs of recovery. Imports of cheese run at less than 10% of the pre-crisis level which has led to widespread changes in consumer patterns.

The large Russian middle-class have had to cut back on the consumption of imported goods and even the better off have switched to traditional Russian products.

Imports changed from finished goods to raw materials and from cheese to meat as meat products have been comparatively cheaper than cheese for most of the period. Even cheap firm cheese has become something of a luxury item.

Ingredients
Following last year's declining sales, Ingredients succeeded in achieving encouraging progress in European markets. This progress was evident in several markets and is partly due to advances within special products and partly due to the fact that it has been necessary to sell relatively large bulk volumes within Europe.

The Middle East

Saudi Arabia
In 1998/99, Danya Foods Ltd. once again saw satisfactory growth both in turnover and volume. As the growth solely derives from high priority product areas, the strategy of focusing on a few product areas has been a major factor.

The fastest growing product is Puck processed cheese in glass containers with 12 per cent growth during the year, followed by fruit drinks with growth of 8%.

During the year, Danya Foods launched a new children's concept called Power Cow. As approximately 50% of Saudi Arabia's population is below the age of 14, expectations for the concept are strong indeed. During the year, considerable sums were invested in new production equipment for the production of shredded cheese. Towards the end of the year, the company opened its new storage facilities in Jeddah. The company's investment plans for production and marketing for the coming year reflect continued optimism. The company expects to maintain high growth during the coming years.

The Gulf States
Focus on – and consolidation of – the product areas through Puck, Three Cows and Lurpak has been the guiding principle throughout the year. The strengthening of business relations with key customers in the area has also had high priority.

Lebanon
Sales to Lebanon were affected by the deep economic crisis in the country which has, for instance, resulted in major increases in customs duties. Despite this, tonnage was largely maintained.

The Caspian Countries
During the year, the Russian crisis spread to the countries around the Caspian Sea. MD Foods maintained sales of feta in brick packs in Azerbaijan under the Three Cows brand. Developments in other Caspian markets are monitored closely. In the short term, however, there is little likelihood of any significant breakthrough.

Ingredients
Overall, sales to the Middle East developed posi-

tively with Oman making strong headway as a result of sales of bulk milk powder. The market in Yemen, which is an important market for retail products, has, however, had a difficult year. Sales and distribution initiatives, which aim at compensating for this, have been taken.

America

USA

The launch of locally produced cheese has encountered considerable difficulties. In particular, the record high US milk prices have lowered competitiveness for locally produced cheese which has not achieved a satisfactory result. A new strategy, however, makes the outlook for the coming year promising. Efforts directed at key customers and the launch of a number of new products coupled with the high dollar rate contributed to a satisfactory result for imported products. This trend is expected to continue and will, together with continued growth in the added value content of MD Foods' products, form a platform for strong future growth.

Canada

MD Foods Canada strengthened its position as a respected supplier of speciality cheese for the retail trade during the financial year. Both local production and imports achieved good results. The successful distribution development in Quebec gives grounds for optimism for the coming years when focus will remain on the development of existing product and brand positions. Collaboration with Amalgamated Dairies Ltd. is progressing satisfactorily and new joint initiatives are planned for the coming year.

Ingredients North America

Sales to North America have advanced, both in terms of volumes and earnings. The major part of the rise is accounted for by bulk products. Speciality products, however, also showed growth compared to the previous year.

Brazil

MD Foods' activities in Brazil experienced a difficult year. A deep recession, coupled with continuing devaluations of the Brazilian currency, impacted strongly on the business. Although the loss of export volumes was limited, the result was unsatisfactory due to foreign exchange losses. In the joint Danish-Brazilian company, Dan-Vigor, a high level of product development contributed to a reasonable result despite the crisis. Increased competition within the key areas continue to emphasize the need for innovation. In addition, Brazil's retail sector, in line with many other markets, is undergoing extensive structural reorganisation. This means increasing demands for efficiency within all business areas.

Argentina

MD Foods Argentina achieved the budgetted result despite a deepening of the economic crisis in the country. Relations with the leading supermarket chains strengthened and a number of national supply agreements were signed. In the coming year, the Argentinian subsidiary will focus on expanding its distribution and optimising the product range.

Ingredients Central and South America

In general, the area showed satisfactory development in that the decline in volume is solely due to lack of bulk milk powder sales to Venezuela. With regard to earnings, MD Foods Ingredients was affected by the crisis in Brazil, but managed to maintain significant earnings from retail packed milk powder.

Asia

Korea

The financial crisis, which erupted towards the end of 1997, continued to make an impact on the Korean market in 1998/99.

For most of the year, this meant an increasing number of business collapses which, in turn, resulted in widespread redundancies or salary cuts. The consequence has been a general economic downturn.

Because of rising unemployment and generally lower purchasing power, MD Foods Korea failed to increase sales. Instead focus was on reducing costs which made it possible to achieve a satisfactory, positive result despite the continuing crisis.

The Korean economy is now showing signs of recovery with rising production and consumption, falling unemployment and a positive balance of trade.

With an expected, modest rise in sales and continued focus on cost-control, the result for 1999/00 is expected to be positive.

South East Asia

In general, the year showed positive trends with sales in the region rising by 30%.

During the year, Lurpak strengthened its position as the leading butter brand in Hong Kong's retail market. This is primarily due to the launch of Lurpak Spreadable which now accounts for approx. 33% of retail butter sales.

MD Foods' range of retail-packed cheese has also shown a positive trend within almost all markets. The aim for the coming year is to expand distribution within all markets.

Japan

The consumption of cheese stagnated during the year under review. As a consequence of the economic downturn, consumers have less money for consumption and spend less on restaurant meals.

For the first time in a decade, Japan's total cheese imports have declined over an extended period.

On this background, Danish cheese exports to Japan must be regarded as satisfactory. Besides the general economic factors mentioned above, the small decline in exports primarily derives from the loss of a major customer.

Japan, therefore, maintains its position as one of the large, significant export markets for Danish cheese and for MD Foods.

Ingredients Asia

Some markets have not yet regained the levels from before Asia's economic crisis. Overall, however, MD Foods Ingredients achieved a satisfactory result within the region. In particular, the satisfactory development in sales of speciality ingredients to Japan and contract manufacturing in Taiwan should be mentioned. Moreover, the retail area has succeeded in recovering last year's lost positions in Bangladesh where MD Foods Ingredients now maintains key positions through the Dano brand.

Subsidiaries' REPORT

A brief review

The outlook for MD Foods' subsidiaries is generally good. The exception is the Danapak group which has only achieved a positive result by selling off the Cardboard Division.

Danapak

The Danapak group achieved a result after tax of DKK 50 million in the year under review. The group's net turnover amounted to DKK 1,015 against DKK 1,656 million in 1997/98.

The year's result was strongly affected by significant extraordinary income from the divestment of Danapak Papemballage A/S as well as the group's extensive reorganisation which has incurred significant extra costs. The group's ordinary operating profit remains unsatisfactory.

On February 1, 1999, a fundamental reorganisation was implemented replacing the original divisional structure with a new structure for the whole group. New management was appointed in September 1998.

The markets

Sales were affected by the ongoing restructuring which increased focus on major brand producers as well as the food industry. Sales of cardboard articles and cartons developed positively while sales of flexible packaging were affected by the restructuring. Sales of plastic packaging were still influenced by lack of sales to Eastern Europe, including Russia.

Divestment

On February 4 1999, Danapak sold off its cardboard division, Danapak Papemballage A/S, to the Swedish group, SCA, backdated to October 1, 1998. The reason for the sale was partly the increasing international power of the very large forestry companies and paper producers within the field of corrugated cardboard products and partly Danapak's intention to concentrate on production of inner and display packaging.

Production

During the financial year, extensive rationalisation was implemented within production, a result of which is that staff levels have been reduced from approximately 1,200 to 900.

The flexibles factory in Odense is currently being closed down, a process which is expected to be completed by the end of 1999. Production will be transferred to the flexibles factories in Slagelse and Horsens.

The crisis in Russia resulted in the Swedish plastic factory in Svedala losing a significant share of its turnover. Subsequently, it was decided to move production to the plastic factories in Nummela in Finland and Stilling near Skanderborg in Denmark. The Swedish factory was closed down at the end of November 1999.

In Northampton in the UK, the original factory was sold and the activities transferred to more suitable, rented premises. The factory now functions as a satellite factory for the cardboard factory in Bremen. The UK factory will exclusively focus on production for the fast food market and carry out the final labelling process and customer service only.

In the autumn of 1998, Danapak closed its headquarters in Holte. Following the reorganisation, the group's headquarters is now located in Odense.

In the spring of 1999, the buildings belonging to the former plastic factory in Vemmelev were sold.

By increasing focus on quality, Danapak has initiated a systematic management follow-up on the key figures and, therefore, on strengthening control. An extensive training course programme has been introduced for hygiene and quality. The work towards obtaining ISO and HACCP certification, most recently the HACCP certification of the factory in Herning, continues.

Product development

During the year, Danapak's research and development activities were gathered at an innovation centre in Odense. Besides the development of packaging, the centre is engaged in the development of packaging machinery and processes and industrial and graphic design. In close collaboration with the sales department, there has been considerable focus on development. Danapak has continued the targeted work with patenting with the result that in 1999, Danapak was nominated for the Danish Patent Award for the first time.

New strategy

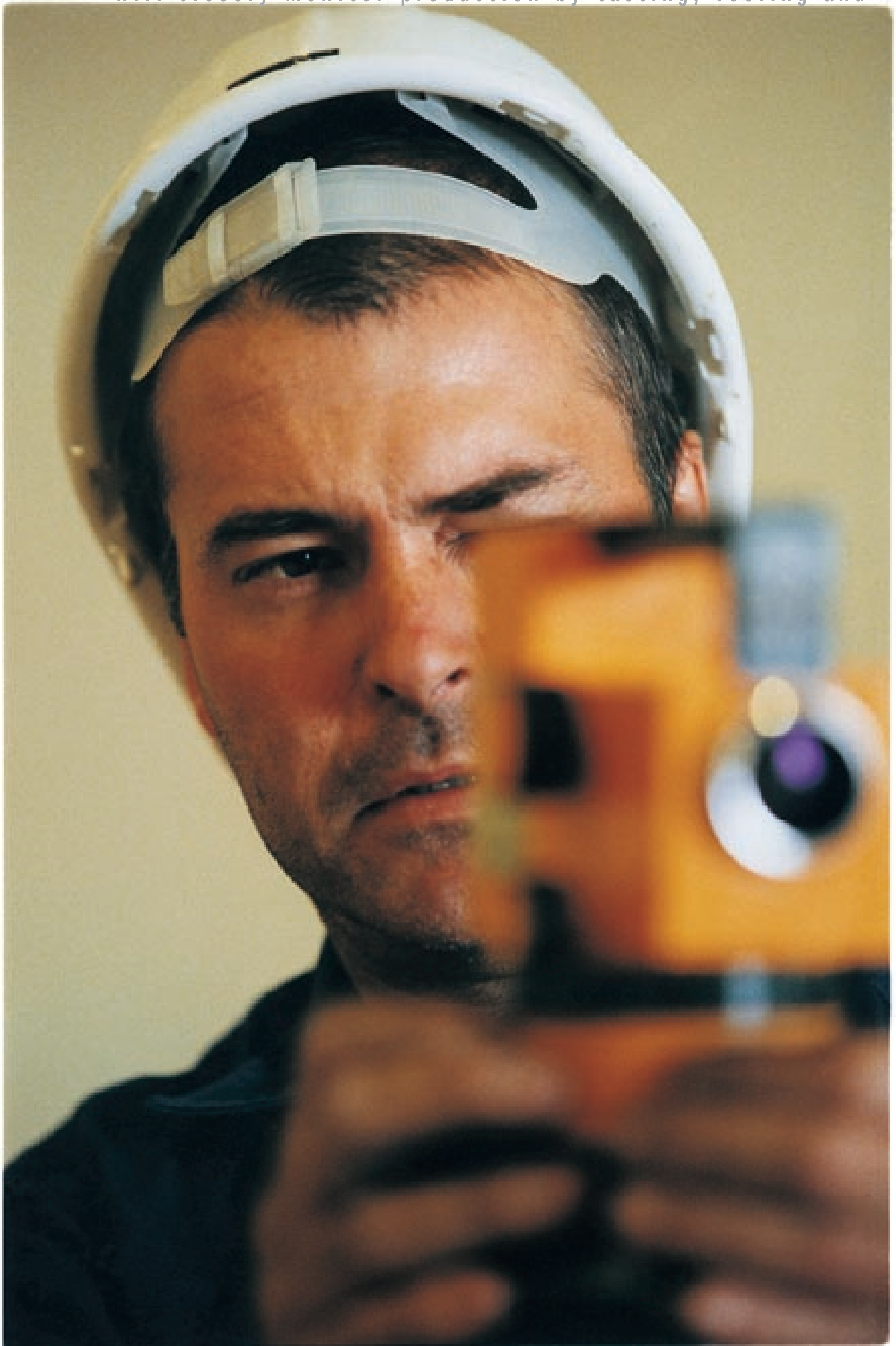
During the financial year, an intense effort was directed at introducing a new strategy for the coming 3-5 years. The objective of the strategy is to generate profitable organic growth of DKK 300 million through a geographical, customer and product-wise focus on areas in which the company has particular competencies. On the European level, Danapak intends to be a preferred supplier of a strong niche range with special focus on the major brand producers. In the Nordic countries, Danapak aims at establishing itself as the preferred packaging partner for the food industry with regard to cardboard products, plastic and flexible packaging.

The new strategy for growth is supported by a three-year investment programme of approximately DKK 340 million.

De danske Mejeriers Fællesindkøb

The financial year 1998/99 was characterised by

Taulov dairy will combine state-of-the art dairy technology with the sound dairy craftsmanship for which MD Foods is renowned across the world. Although the dairy will be fully automatised, the dairy experts working here will closely monitor production by tasting, feeling and



smelling the milk and cheese thus ensuring the high quality which is the hallmark of MD Foods' products. At MD Foods, it will always be people, not machinery, who are responsible for the quality of the products.

intense activity in all areas. The satisfactory result shows a positive development compared to the year before.

Turnover totalled DKK 766 million against DKK 735 million the previous year, i.e. an advance of approximately 4%, somewhat less than expected.

Member turnover rose from 44% to 46% of the total turnover as a result of closer purchasing collaboration with MD Foods.

The result of primary operations improved significantly from DKK 15.7 million in 1997/98 to DKK 24.5 million. Pre-tax profits totalled DKK 25.9 million against a loss of DKK 195,000 in 1997/98.

In the Trade Department, the Food Division saw an advance in turnover with regard to the dairy and food industries. The latter is, however, still characterised by stagnation within several product areas where major customers export to the Russian market.

In the non-food area sales of cheese wax and laboratory equipment increased.

Within clothing, sales were transferred to the subsidiary, Kongstad A/S, in order to offer dairy customers the greater expertise and competence offered by Kongstad.

The Odense-based Dairy Fruits' expectations for increased sales to Germany and Sweden were, in the case of the German market, met. A number of development projects were initiated during the year, while sales to the Swedish market were, unfortunately, disappointing.

Within the Danish market demand for organic products continues to rise. The raw material situation has been normalised in line with the good growth conditions for all raw materials in most of Europe.

Novadan saw a modest increase in turnover and a highly satisfactory advance in the financial result. Despite a continuing decline in the number of dairy farmers and production units, sales were maintained. In fact, a minor increase in sales to dairy companies was recorded.

During the year, several environmental-friendly cleaning agents were developed so that Novadan has now established itself as the producer with the largest range of products bearing the environmental stamp, the "Swan mark". During the year, Novadan increased exports, especially to the near markets.

Crispy Food developed its sales capacity and a new oven was installed enabling a significant increase in roasting capacity for muesli products. Sales rose by more than 35% over the previous year and 71% of turnover is now accounted for by exports. Several new products were developed for the Top Cup concept. Participation in international exhibitions confirms rising demand from the dessert and snack markets.

Kongstad A/S suffered a minor fall in turnover, but a reasonable rise in the result. Following the acquisition of Fællesindkøbet's clothing sales, increased sales of both clothing and safety equipment for the dairy industry are expected. In particular, sales of own produced goods for export have increased.

The Lionsafe concept for gloves will now be sold in large parts of Scandinavia.

All companies and departments prepared a long-term strategy plan during 1999. A positive development is expected for all companies through increased integrated purchasing cooperation with the company's owners. A strong rise in exports is expected.

Rynkeby Foods

The past financial year saw further advances in Rynkeby Foods A/S. Turnover totalled DKK 720 million against DKK 589 million last year. The ordinary result before tax and extraordinary items was DKK 30.7 million against DKK 25.7 million. The result is regarded as satisfactory.

The advance is primarily due to two factors: The market for fruit juice and drinks continues to rise steadily, i.e. 6% and 3% on the year while at the same time, Rynkeby has succeeded in gaining market share. In particular, 2 litre cartons, including the new series and the product "16 Sweet Oranges" have contributed positively.

On May 10, Rynkeby Foods A/S took over Kløver Mælk's juice/soft drinks factory in Esbjerg and was given responsibility for brands, such as Rigtig Juice and Harilds Kildevand. Sales of these and other products from the Esbjerg factory contributed approx. DKK 50 million to the year's turnover.

It has been decided to close the Esbjerg factory's operations as from the end of March 2000. Until then, production will be gradually transferred to the factories in Ringe and Rynkeby.

During the year, activities concerning the sale of raw materials and semi-finished goods were sold off through a management buy-out in which the head of the department holds 75% of the shares in the new company while Rynkeby Foods A/S retains the remaining 25%.

Furthermore, with effect from May 10, 1999 Rynkeby Foods acquired the shares of Kildevandskompagniet from MD Foods. After the close of the financial year, these shares were sold. The proceeds will figure in the accounts for 1999/00.

Expectations for 1999/00 are for continued growth in both turnover and earnings. Extra efforts will be made within the field of chilled juice, led by Rigtig Juice, so that this attractive segment will achieve new growth. The retail distribution of Harilds Kildevand will be strengthened.

Mejeriernes Kondensselskab amba

The production of cheese powder, milk powder, milk proteins and other condensed products for MD Foods and Kløver Mælk is handled by Mejeriernes Kondensselskab amba, which is owned by Mejeriernes Mælkedisponerings-selskab. The result for the year has been transferred to this company. The company's activities will be transferred to MD Foods amba with effect from the financial year 1999/00.

AM Foods

On October 28, 1996, MD Foods and Arla set up a joint company for the production and sale of cappuccino and instant chocolate products for the food service sector and retail segments. MD Foods owns 67% of the company, while Arla owns 33%.

AM Foods' first two years have been characterised by a series of initiatives and measures aiming at laying the foundation for the company's future position and earnings.

The accounts for 1998/99 show that these endeavours are now beginning to bear fruit. The result is regarded as satisfactory.

MD-Holding A/S

The company, wholly-owned by MD Foods, is the holding company for a number of MD Foods' shareholdings, including Medani A/S and Rynkeby Foods A/S.

With profits of DKK 35 million against a loss of DKK 3 million last year, MD-Holding's overall result is satisfactory

Medani A/S

The company is responsible for financing and investment activities as well as for the Group's internal leasing activities. Medani also owns MD Foods' headquarters, Ravnsbjerg Erhvervscenter. The company's result is satisfactory.

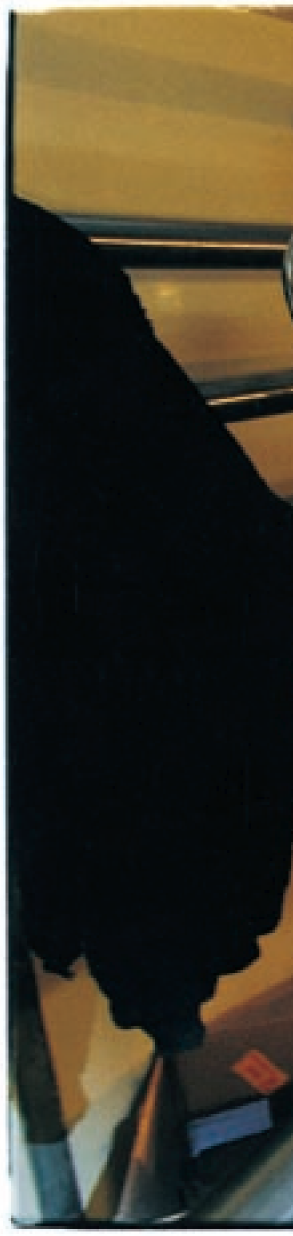
MD Insurance Company Ltd

The company's objective is to reinsure a range of MD Foods' insurance risks. Registered in the Cayman Islands, the company is wholly owned by MD Foods. With no major insurance claims during the year and a favourable development for re-insurance rates, the result for 1998/99 is satisfactory.

Danske Landmænd K/S

(Danish Dairy Farms K/S)

The company ceased trading from the end of the financial year and its activities were transferred to the Overseas Division. The result for the company's final year was satisfactory.



Taulov Dairy is equipped with a visitors' gallery from where the entire production process, from milk to finished cheese, can be observed.

MD Foods already has two dairies receiving visitors which together attract 10,000 per year.

Andelssmør A.m.b.a.

MD Foods has a share of approximately 95% of the company which handles the majority of Denmark's butter exports. The company operates as an integral part of MD Foods. The year's result is satisfactory.

Environment REPORT

Environmental effort starts to pay dividends

MD Foods' environmental objectives:

THE WORKING ENVIRONMENT	
Repetitive Strain Injury - no. of "red" strains	– 65%
Heavy Lifting - no. of "red" strains	– 65%
Noise - no. of "red" strains"	– 65%
Work-related accidents	– 80%
EXTERNAL ENVIRONMENT	
Energy consumption (kWh/tons raw materials received)	– 10%
Water consumption (m^3/tons raw materials received)	– 20%
Consumption of cleaning agents	– 20%
Milk waste	– 20%

A significant fall in Repetitive Strain Injury and in the amount of heavy lifting has resulted from MD Foods' efforts within the field of the working environment in 1998/99.

Repetitive Strain Injury and heavy lifting have declined from index 100 in 1996/97 to index 65 and index 57 in 1998/99 respectively. The objective for both areas is to achieve an index of 35 by 2002/03.

In accordance with this, MD Foods has set out targets for selected areas within both the working and the external environment. Although responsibility for frameworking and the achievement of the targets lie with Group management, it is the staff at the dairies who have to devise action plans and, therefore, plan how the targets are achieved.

The environmental targets are based on data from the financial year 1996/97 and must be achieved no later than the financial year 2002/03.

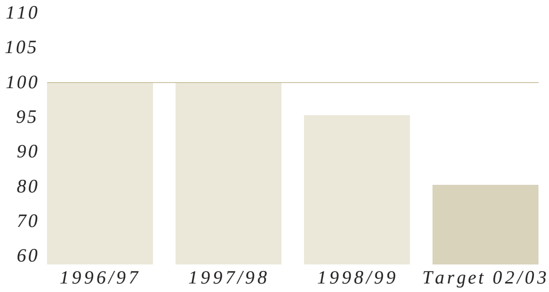
Currently, the environmental strategy is being implemented at all MD Foods' Danish dairy activities right from the farm cooling tank to the shop. The Group's other activities will be covered by the strategy from the beginning of the year 2001.

The overall framework for the environmental work rests on the formulation of environmental policies, environmental targets and action plans. Each dairy has appointed an environment liaison person and has set up inter-dairy environmental co-operation.

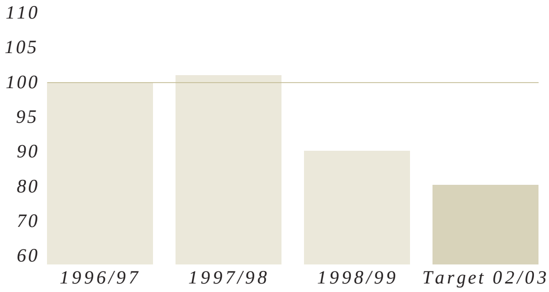
In addition, the intention is to introduce half-year management evaluations and an annual environmental audit of the individual dairies. Systems have also been set up for environmental data and knowledge and for the provision of increased information about the Group's environmental endeavours.

The environmental handbook, a central component of the environmental work, sets out the guidelines for the individual departments' handling of the environmental work. Within these, the individual dairies have a significant degree of freedom to plan the work in the most efficient manner.

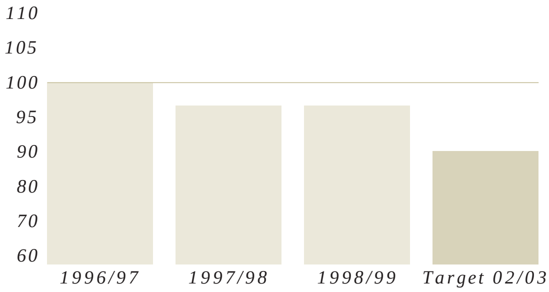
WATER CONSUMPTION (m^3/tons raw materials)



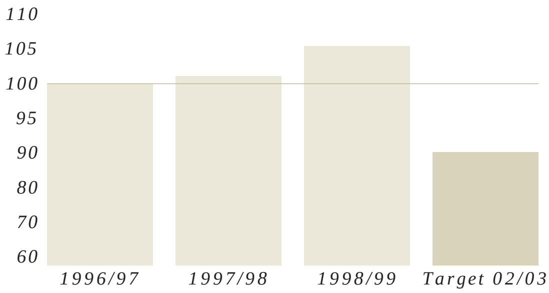
MILK WASTE (per cent)



ENERGY CONSUMPTION (kWh/tons raw materials)



CLEANING AGENTS (tons/tons raw materials)



Environmental impact

Dairy companies which process raw milk into products such as cheese, butter, fresh products and milk powder all consume raw materials and energy and therefore impact on the surrounding environment.

For the dairies, the most important impact on the surrounding environment comes from the consumption of milk, water, energy and cleaning agents.

Water

Water is used for cleaning equipment, production premises and tankers at the dairies. From here, waste water is led to own or local authority waste water plants.

Over the past decade, there has been a significant fall in waste water discharge – with regard to volume as well as pollution.

Despite this, MD Foods' objective remains for water consumption and milk waste to be

Taulov Dairy has a total of 31 silos. Five silos, with a capacity of 250,000 litres milk each, have been built for milk reception. The silos are lower than normal, but their diameter is slightly larger in order to treat

the milk more gently during the pumping process. Every day, 60 tanker drivers collect the milk from approximately 625 farmers.

reduced by a further 20 per cent over a five year period. The objective can be reached by means of an active commitment by the dairies and their staff, exchange of experience, planning and benchmarking.

The fact that it is possible to make a difference was demonstrated in the year's result which shows a reduction of water consumption of 5 per cent and milk waste of 9 per cent.

Energy

Considerable focus has been on energy for a number of years. Documentation, energy surveys, new technology and targetted efforts, combined with changed attitudes and habits have paved the way for significant savings.

Nevertheless, MD Foods' environmental action plan aims at cutting energy consumption by 10 per cent. Measures will be taken on a broad front – from the tankers' fuel economy via the cooling compressors' energy consumption to ventilation and cleaning of processing plants.

Many of the operational units have systematised the effort to reduce energy consumption and the experience gained will be disseminated throughout the organisation. Energy consumption has been cut by 3 per cent over the past 2 years.

Cleaning agents

The dairies have a large daily consumption of cleaning agents to ensure a high standard of hygiene and thereby the high quality of MD Foods' products. The aim is to reduce consumption of cleaning agents by 20 per cent over a five year period.

Staff must have knowledge of the cleaning agents in use as well as actual consumption. It is important to use efficient products which, at the same time, do not harm the surrounding environment or the employees' working environment. The choice and optimisation of cleaning agents takes place in close co-operation with suppliers.

The consumption of cleaning agents is currently stable in relation to raw material consumption. The amount of cleaning agents does not, however, provide a uniform picture of the environmental impact. This environmental indicator will, therefore, be developed so that the composition of the cleaning agents will be part of the calculations.

Working environment

On the working environment side, MD Foods has set targets for reducing work-related injuries and "red" personal strains due to Repetitive Strain Injury, heavy lifting and noise (red personal strain signify work strains where an individual is exposed to a health risk).

Work-related accidents

The highly ambitious objectives aim at reducing the number of work-related accidents by 80 per cent over a 5 year period. In order for this to happen, a committed effort across the board is required. One initiative will be that MD Foods will record incidents with a potential risk of personal injury. This will enable such incidents to be analysed which will be important for preventive work.

In co-operation with the dairy industry's Industrial Health Service, a project aiming at preventing work-related accidents has been launched. The project covers three dairies which will develop and test usable methods and tools during the year.

Noise, RSI and heavy lifting

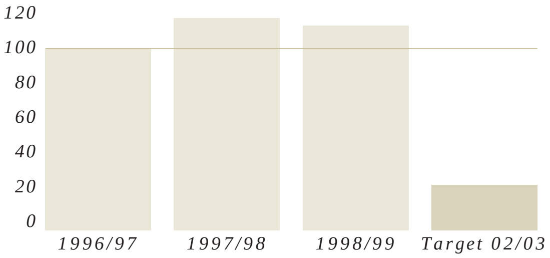
In recent years, considerable effort has been devoted to noise monitoring, RSI and heavy lifting at all MD Foods' dairies. This has provided a useful overview of the nature of the problems and forms the foundation for achieving the objectives of reducing the level of "red" personal strain due to noise, RSI and heavy lifting by 65%.

The improvements will typically take place through changes to working procedures and production plant and will often require considerable investment. It is, therefore, important that, in future, there are clear requirements for new plant or changes to existing plants to avoid "red" personal strains. MD Foods intends to incorporate this in the requirements to suppliers in order for the environment to become a natural part of all supplier services.

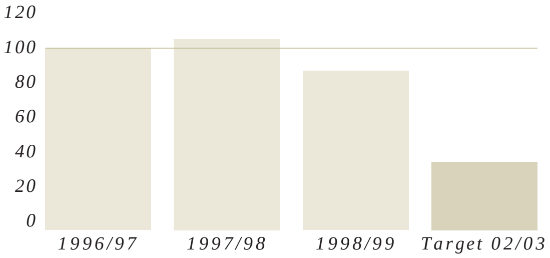
Environmental network

As the dairies and the various departments possess considerable environmental knowledge and experience, it is important to establish an internal network to further the exchange of such

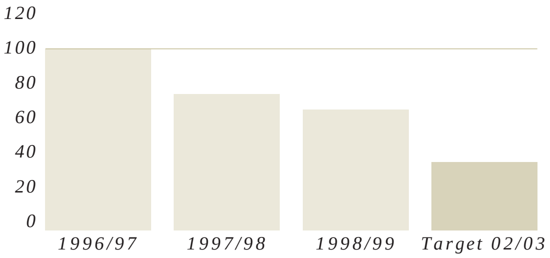
WORK-RELATED ACCIDENTS (number)



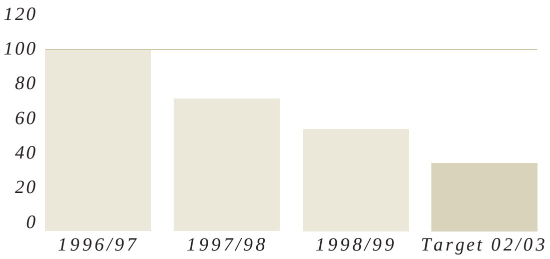
INTERNAL NOISE



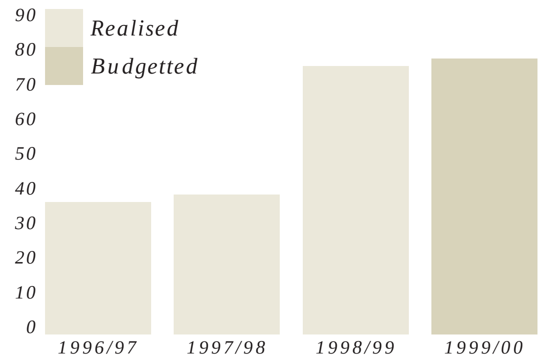
REPETITIVE STRAIN INJURY



HEAVY LIFTING



ENVIRONMENTAL INVESTMENTS (DKK million)



knowledge and experience throughout the organisation.

The first step in the formation of an environmental network was taken with the appointment of environmental representatives at each of the operational units. In April, these environmental liaison appointees met at MD Foods' first annual environment day – an event which attracted approximately 70 individuals from across the organisation in addition to some external environment consultants. Among its results, the environment day demonstrated that the need for information and exchange of experience within this area is significant.

Among the tools to be used are two computer systems:-

- an Environmental Data System in which all operational units' environmental data will be gathered and processed.

- an Environment Knowledge Database containing all relevant information for use in environmental work – from legal texts and regulations to concrete guidance on environmental solutions for the dairy sector.

To further strengthen the environmental network, internal theme days and meetings are arranged and all dairies are subject to an annual environmental audit during which colleagues from other operational units account for 75 per cent of the auditors. The remaining 25 per cent will be external consultants.

The audits focus on subjects such as environmental management, environmental control, communication, training, environmental data, etc.

Environmental investments

Investments in the environment have increased significantly in recent years. Each year, large sums are spent on improving the working environment as well as on projects relating to the external environment.

Within the working environment, initiatives aimed at alleviating internal noise, RSI and heavy lifting have required particular investments.

With regard to the external environment, most investments are in water purification, noise reduction and projects aimed at energy and water savings.

Accounts

1998/99

GROUP MANAGEMENT BOARD OF MD FOODS AMBA

Århus, 23rd November 1999

J. Bigum
Group Managing Director

H. P. Sørensen
O. Willemann
K. Nielsen
P. Krogsgaard
A. Lundby */A. Mejnertz*

SUPERVISORY BOARD OF MD FOODS AMBA

Knud Erik Jensen Chairman	*Niels Bøgedal* Deputy Chairman
Hans B. Andersen	*Aage Boye*
Kaj W. Christensen	*Kristian Ole Kristensen*
Hans Jensen Lund	*Mads Midtiby*
Ove Møberg	*Hans Peter Nielsen*
Kristian Nielsen	*Jan Nørgaard*
John Pedersen	*Kaj Ole Pedersen*
Hans Rasmussen	*Søren Rasmussen*
Johan Schmidt	*Peter Stoffersen*
Jens Bro Søndergård	*Bent Juul Sørensen*

Auditors' Report

We have audited the consolidated and annual accounts for 1998/99 for MD Foods amba.

Audit
We have planned and carried out our audit in accordance with generally recognised 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 significance and risk, checked the basis of and documentation for the account figures and other accounting data. In doing so, we have considered the accounting policies applied and the estimates made. In our opinion, the information contained in the accounts as a whole is satisfactory.

The audit has not occasioned us to make any reservations.

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

Århus, 23rd November 1999
KPMG C. Jespersen

E. Black Pedersen
State-authorized
public accountant

J. Bräuner Knudsen
State-authorized
public accountant

Accounting Policies

General

The accounts of the parent company MD Foods amba and the consolidated accounts of the MD Foods Group as a whole have been presented in accordance with the Danish Presentation of 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 affiliated companies in the Profit and Loss Account for the parent company, cf. below, and in some respects also to the layout of the Profit and Loss Account.

The accounting policies have been applied consistently with last year with the exception of the foreign currency translation of the profit and loss accounts of foreign subsidiaries. The comparative figures for 1997/98 have not been corrected accordingly, as the effect is deemed to be immaterial.

The accounting policies below are largely identical for the parent company and the Group.

Consolidation

The consolidated accounts comprise MD Foods amba (the parent company) and those companies (subsidiaries, cf. the list of Group companies on page 48) in which the parent company have 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 consolidation of the accounts has been achieved through a consolidation of the annual accounts of the parent company and of the individual subsidiaries. Intra-group income and expenses has been eliminated as have share holdings, balances, dividends and non-netted profits and losses.

In 1997/98, the Profit and Loss Accounts and the Balance Sheets of foreign subsidiaries were translated into Danish kroner using the official exchange rates prevailing at the end of the financial year. As of 1998/99 this translation is based on average rates of exchange. The changed basis of computation has resulted in reduced Group profits in the order of DKK 5 million.

The translation of the Balance Sheets of foreign subsidiaries is unchanged and based on official rates of exchange at the end of the financial year.

The foreign exchange rate adjustment of the equity of foreign subsidiaries at the beginning of the financial year has been carried out against equity.

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

Companies in which the Group has a 20 to 50 per cent stake without enjoying controlling interest are considered affiliated companies. These companies are included with only one item in the Profit and Loss Account and the Balance Sheet, their turnover thus not being included in the total consolidated turnover figure.

Financial instruments and foreign currency

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

As a general rule, financial instruments are valued at market value on the Balance Sheet day. Both netted and non-netted foreign exchange rate adjustments are included in the Profit and Loss Account. 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.

For foreign exchange forward contracts entered into to hedge receivables and debt in foreign currencies, the foreign exchange forward contract rate is used to value the hedged item. The foreign exchange forward contracts are thus not valued as an independent item.

Receivables and debt in foreign currency which have not been hedged are entered at the foreign exchange rates prevailing on the Balance Sheet date.

Subsidies

EU subsidies and subsidies from the Danish state 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.

The 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 received from the EU are included in the net turnover.

The net turnover for MD Foods amba also includes declared supplementary payments from other sales companies within the MD Foods Group.

Variable costs

In addition to purchases from MD Foods' members and other consumption of milk, raw materials and other finished products, this item includes consumption of other variable costs.

Other variable costs include variable pay, packaging and additives as well as variable freight costs in connection with the purchase and sale of raw materials and finished products, including tanker costs and the costs of running the fleet of distribution vehicles.

Development costs

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

Result in subsidiaries

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 the deduction of declared supplementary payments and non-netted internal profits.

Dairy-related subsidiaries are defined as subsidiaries which are involved in the processing and selling of the milk weighed in by MD Foods' members. See chart on page 49.

Non-distributed profits in dairy-related subsidiaries are transferred to equity under Subsidiary reserves via the appropriation account.

The results of other subsidiaries have not been included in the parent company's Profit and Loss Account, but have been added directly to equity under Revaluation reserves.

The difference between the presentation in the parent company's account of the results of dairy-related subsidiaries and those of non-dairy subsidiaries serves to show the direct earnings in the parent company's Profit and Loss Account of the milk weighed in by the members of MD Foods.

Results of affiliated companies

The consolidated Profit and Loss Account includes the proportional share of the profits or losses of affiliated companies after deduction of the proportional share of the internal profit.

In the parent company, the results of affiliated companies have not been included in the Profit and Loss Account, but have been entered under equity under the item of Revaluation reserves.

Financial items

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

Financial items also include both netted and non-netted value adjustments of securities and exchange rate adjustments.

Extraordinary items

Extraordinary items include material income and expenditure items resulting from non-recurring events or circumstances which deviate from the ordinary operations of the Group.

Corporation tax

MD Foods amba and a number of subsidiaries calculate their taxable income on the basis of the taxable assets at the end of the financial year. The tax thus calculated is entered as an expense. The taxable income of the other companies in the Group is calculated in accordance with the rules which apply to limited companies. For these companies, of which some are jointly taxed, tax on the result for the financial year is entered at a rate of 32 per cent of the pre-tax result 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 a rate of 32 per cent of all periodic differences between the results for accounting and tax purposes.

The Balance Sheet

Intangible fixed assets

The acquisition price as at 01.10.1995 includes the book value at the time. The value has been increased by subsequent acquisition sums and reduced by subsequent depreciation and write-downs.

These sums primarily include goodwill on the acquisition of companies as well as the equalisation sum for former members of Kløver Mælk A.m.b.A., (cf. the Annual Report, p. 8).

As a principal rule, goodwill is amortised according to the straight-line method over a period of up to 10 years. However, the equalisation sum for the former members of Kløver Mælk A.m.b.A. has not been amortised in 1998/99, but will be amortised according to the straight-line method over the next three financial years.

Tangible fixed assets

The acquisition price as at 01.10.1995 includes the book value at the time. The value has been increased by subsequent acquisition sums and reduced by subsequent depreciation and write-downs.

For those companies whose tangible fixed assets were depreciated in accordance with the declining-balance method up until 01.10.1995, depreciation of the balance as at that time is as follows:

Buildings: Over 15 years in accordance with a diminishing scale. In 1998/99, 8 per cent of the balance as at 01.10.1995 has been depreciated (as compared with 9 per cent in 1997/98).

Other tangible assets (machinery, etc.): Over 5 years in accordance with a diminishing scale. In 1998/99, 15 per cent of the balance as at 01.10.1995 has been depreciated (as compared with 20 per cent in 1997/98).

For those companies in which, even before 01.10.1995, depreciation was in accordance with the straight-line method over the expected useful lives of the assets and for all acquisitions in the MD Foods Group made as from 01.10.1995, depreciation is in accordance with the straight-line method over the expected useful lives of the assets, as follows:

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

Plants under construction are not depreciated.

Assets with a short useful life, minor assets and minor improvement expenses are entered as expenditure items in the year of acquisition.

Financial fixed assets

Capital shares in subsidiaries are entered at the ownership share of the companies' intrinsic value at the end of the financial year after the deduction of non-netted intra-group profits.

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.

Capital shares in affiliated companies are entered at the ownership share of their intrinsic value.

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, additives and trade products are entered at the acquisition price on the basis of the FIFO principle. Goods in process, finished goods and contract work in progress are valued at the cost price of direct material and labour costs incurred. The value of the indirect production costs is not activated.

The cost price of the milk which forms part of stock has been entered at the on account price paid to MD Foods' cooperative members.

Write-down is made to net realisation value, if this is lower than the acquisition price or cost price. Goods with a slow turnover rate and unmarketable goods are also written down.

Trade debtors

Trade debtors are entered after write-downs for bad debts carried out on the basis of individual assessments of debtors.

Other current assets

Securities are entered at day prices as at the end of the financial year.

Equity

Capital account:

The account primarily includes annual consolidation via retained profits and additions to equity through mergers with other dairy companies, etc. made in MD Foods amba since the foundation of the company on 01.10.1970.

Personal accounts:

Following the merger between MD Foods amba and Kløver Mælk A.m.b.A. a transfer was made from the capital account for each financial year in the period 1993/94 - 1997/98 in the amount of DKK 0.05 per kg of milk, which in the years in question had been supplied by the members of MD Foods amba. This arrangement applied only to those members who had supplied MD Foods amba with milk before as well as after 27.09.1998. Following the merger, the Articles of Association of MD Foods amba now include the following provision concerning the personal accounts:

1. The Board of Representatives may decide to service deposits on 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. No payments can be effected in the financial years 1998/99 and 1999/00. After that period the aim is to pay the personal accounts during the financial years 2000/01 - 2007/08.
4. Upon the effecting of such payments, an amount must be transferred to MD Foods equity (the capital account or the personal accounts) via the profit reserve for the individual financial year, corresponding at least to the amount paid from the personal accounts in the financial year in question.

Revaluation reserve

The account includes net revaluation in accordance with the equity method for non-dairy subsidiaries and affiliated 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.

PROFIT & LOSS

PARENT COMPANY			Profit and loss account for the period 28.09.1998 - 03.10.1999	GROUP	
1997/98	*1998/99*	*Note*	*(DKK million)*	*1998/99*	*1997/98*
13,661	16,584	*1*	Net turnover	25,381	23,771
–11,671	–14,269	*2/3*	Variable costs	–19,436	–18,380
1,990	**2,315**		***Profit margin***	**5,945**	**5,391**
–522	–690	*3*	Fixed production costs	–2,041	–1,817
–418	–530	*3*	Sales costs	–1,371	–1,182
–185	–225	*3/4*	Administration and overhead costs	–638	–580
–228	–271	*5*	Depreciation	–1,011	–927
58	101		Other operating income	101	79
–33	–43		Other operating expenditure	–83	–86
662	**657**		***Result of primary operations***	**902**	**878**
–20	–25	*6*	Result of subsidiaries	–	–
–	–		Result of affiliated companies	–10	10
–58	–26	*7*	Net financial items	–247	–306
584	**606**		***Result before extraordinary items and tax***	**645**	**582**
–19	–9	*8*	Extraordinary items, net	148	–74
565	**597**		***Result before tax***	**793**	**508**
–9	–8	*9*	Corporation tax	–25	–27
556	**589**		***Result for the year***	**768**	**481**
–	–		Minority interest share of result	–6	9
556	**589**		**MD FOODS AMBA'S SHARE OF THE RESULT FOR THE FINANCIAL YEAR**	**762**	**490**
			Proposed distribution:		
492	505		Supplementary payments to MD Foods' members	505	492
–	19		Transferred to personal accounts (interest)	19	–
84	90		Transferred to capital account	90	84
–20	–25		Transferred to subsidiary reserves	–	–
–	–		Transferred to other reserves	148	–86
556	**589**		***Total***	**762**	**490**

BALANCE

PARENT COMPANY			Balance sheet at 03.10.1999	GROUP	
1997/98	*1998/99*	*Note*	*(DKK million)*	*1998/99*	*1997/98*
			Assets		
			FIXED ASSETS		
		10	***Intangible fixed assets***		
3	**279**		Intangible fixed assets	**636**	**416**
		10	***Tangible fixed assets***		
829	1,036		Land and buildings	2,289	2,124
390	419		Plant and machinery	1,834	1,859
49	60		Other plant, operating equipment, fixtures and fittings	410	381
31	49		Plant under construction	589	288
1,299	**1,564**		***Total***	**5,122**	**4,652**
		11	***Financial fixed assets***		
1,564	1,940		Capital shares in subsidiaries	–	–
50	0		Receivables from subsidiaries	–	–
29	1		Capital shares in affiliated companies	79	76
84	94		Other securities and capital shares	1,479	1,393
73	89		Other receivables	98	75
1,800	**2,124**		***Total***	**1,656**	**1,544**
3,102	**3,967**		**TOTAL FIXED ASSETS**	**7,414**	**6,612**
			CURRENT ASSETS		
			Stocks and receivables		
656	646	*12*	Stocks	2,170	2,204
887	1,047		Receivables from sales and services	3,298	2,913
2,719	3,157		Receivables from subsidiaries	–	–
0	0		Receivables from affiliated companies	0	0
4	4		Land and buildings for disposal	57	58
178	106		Other receivables	158	166
11	20		Accrued income and deferred expenses	67	37
4,455	**4,980**		***Total***	**5,750**	**5,378**
			Securities and cash		
1	0	*13*	Securities	630	345
398	264		Cash	535	632
399	**264**		***Total***	**1,165**	**977**
4,854	**5,244**		**TOTAL CURRENT ASSETS**	**6,915**	**6,355**
7,956	**9,211**		**TOTAL ASSETS**	**14,329**	**12,967**

PARENT COMPANY			Balance sheet at 03.10.1999	GROUP	
1997/98	*1998/99*	*Note*	*(DKK million)*	*1998/99*	*1997/98*
			Liabilities		
			Equity		
2,019	1,751		Capital account	1,751	2,019
–	719		Personal accounts	719	–
466	754		Revaluation reserves	–	–
160	156		Subsidiary reserves	–	–
–	–		Other reserves	910	626
2,645	**3,380**	*14*		**3,380**	**2,645**
–	–		Minority interest share of subsidiaries' equity	113	267
2,645	**3,380**		**TOTAL EQUITY**	**3,493**	**2,912**
			Provisions		
0	0	*15*	Deferred tax	44	46
30	92	*16*	Other provisions	214	124
30	**92**		**TOTAL PROVISIONS**	**258**	**170**
		17	***Debt***		
492	505		Supplementary payments	505	492
–	276		Equalisation amount	276	–
432	796		Mortgage debt	1,271	1,014
2,915	2,687		Credit institutions	5,473	5,282
662	891		Trade creditors	2,026	1,825
208	51		Subsidiaries	–	–
12	7		Affiliated companies	16	13
2	0		Corporation tax	0	1
558	526		Other debt	1,001	1,250
0	0		Accrued expenses and deferred income	10	8
5,281	**5,739**		**TOTAL DEBT**	**10,578**	**9,885**
7,956	**9,211**		**TOTAL LIABILITIES**	**14,329**	**12,967**
		18	***Contingencies, guarantees, etc.***		

PARENT COMPANY 1997/98	PARENT COMPANY 1998/99	Note	Notes (DKK million)	GROUP 1998/99	GROUP 1997/98
		1	**NET TURNOVER**		
			Divided into product categories:		
2,597	2,522		Butter and spreads	2,898	2,636
6,528	7,118		Cheese	7,772	7,532
2,257	3,540		Fresh products	8,168	7,299
209	1,005		Condensed milk products	4,311	3,841
2,055	2,383		Sale of raw milk	562	377
0	0		Additives	422	444
0	0		Packaging	808	1,296
0	0		Transport service	372	294
15	16		Other turnover	68	52
13,661	**16,584**		***Total***	**25,381**	**23,771**
			Divided into markets:		
			Denmark	9,204	8,633
			Other EU countries	10,627	9,931
			Other European countries	480	608
			Middle East	2,056	1,800
			North America	630	535
			Central and South America	906	1,205
			Asia	1,219	847
			Africa	235	151
			Other	24	61
			Total	**25,381**	**23,771**
			TOTAL TURNOVER IN FOREIGN MARKETS	**16,177**	**15,138**
			corresponding to (%)	64%	64%
		2	***Variable costs***		
–7,677	–9,476		Purchases from MD Foods' members	–9,476	–7,677
–2,842	–3,355		Other products consumed	–6,712	–7,713
–1,152	–1,438		Other variable costs	–3,248	–2,990
–11,671	**–14,269**		***Total***	**–19,436**	**–18,380**
		3	***Management and employees***		
–1,005	–1,288		Salaries and remuneration	–3,664	–3,345
–41	–57		Pensions	–152	–132
–8	–9		Other social security costs	–110	–118
–1,054	**–1,354**		***Total***	**–3,926**	**–3,595**
3,784	4,524		***Average number of employees (man years)***	13,604	13,218

The item Salaries and remuneration, including pensions for the Group, includes the parent company's Management Board with DKK -12 million (1997/98: DKK -10 million) and remuneration to the parent company's Supervisory Board and Board of Representatives being DKK -6 million (1997/98: DKK -4 million).

PARENT COMPANY			Notes	GROUP	
1997/98	*1998/99*	*Note*	*(DKK million)*	*1998/99*	*1997/98*
		4	***Fee to the parent company's auditors elected by the Board of Representatives, KPMG C. Jespersen:***		
–3	–3		Audits		
–2	–4		Other services		
–5	**–7**		***Total***		
		5	***Depreciation:***		
–233	–271		Depreciation of intangible and tangible fixed assets	–1,012	–932
5	0		Gain/loss on the sale of intangible and tangible fixed assets	1	5
–228	**–271**		***Total***	**–1,011**	**–927**
		6	***Result in subsidiaries:***		
6	12		Profit in subsidiaries after tax		
–26	–37		Loss in subsidiaries after tax		
–20	**–25**		***Total***		
–70	173		The figures include only the results of dairy subsidiaries. Non-dairy subsidiaries have achieved the following net result which has been entered directly to equity:		
		7	***Financial items, net***		
			Income:		
53	64		Financing income	188	168
91	145		From subsidiaries	–	–
0	0		From affiliated companies	0	0
144	**209**		***Total***	**188**	**168**
			Expenditure:		
–167	–212		Financing expenditure	–435	–474
–35	–23		To subsidiaries	–	–
0	0		To affiliated companies	0	0
–202	**–235**		***Total***	**–435**	**–474**
–58	**–26**		**FINANCIAL ITEMS, NET:**	**–247**	**–306**
		8	***Extraordinary items, net:***		
0	72		Profit from divestment of companies	313	0
–16	–60		Structural rationalisations (incl. provisions for the discontinuation of plants)	–135	–71
–3	–21		Other extraordinary items incl. merger costs, net	–30	–3
–19	**–9**		***Total***	**148**	**–74**
		9	***Corporation tax:***		
–10	–10		Tax on the taxable income for the year	–30	–33
0	0		Adjustment of deferred tax	2	5
1	2		Adjustment of tax for previous years	3	1
–9	**–8**		***Total***	**–25**	**–27**
–17	–9		Corporation tax paid (including on account tax) in the course of the year	–32	–15

Notes

Note (DKK million)

10 ***Intangible and tangible fixed assets:***

The net book value at 01.10.1995 has been entered at the acquisition price.
Consequently, depreciation and write-downs include only figures from the 1995/96 financial year.

	INTANGIBLE FIXED ASSETS		TANGIBLE FIXED ASSETS			
	Goodwill, etc. incl. group goodwill	*Equalisation amount*	*Land and buildings*	*Plant and machinery*	*Other plants, operating equipment fixtures and fittings*	*Plant under construction*
GROUP						
Total acquisition 28.09.1998	694	0	2,455	3,210	626	288
Foreign exch. adjustments beg. of the year	8	0	35	46	18	4
Additions through mergers	0	0	296	60	54	0
Additions for the year	13	276	174	628	169	396
Disposals for the year	0	0	–234	–409	–73	0
Transfers	0	0	34	65	0	–99
Total acquisition price 03.10.1999	**715**	**276**	**2,760**	**3,600**	**794**	**589**
Depreciation/write-downs 28.09.1998	–278	0	–331	–1,351	–245	0
Foreign exch. adjustments beg. of the year	–1	0	–7	–20	–9	0
Depreciation/write-downs for the year	–76	0	–153	–646	–141	0
Depreciation/write-downs/discont. plants	0	0	20	251	11	0
Total deprec./write-downs 03.10.1999	**–355**	**0**	**–471**	**–1,766**	**–384**	**0**
BOOK VALUE 03.10.1999	**360**	**276**	**2,289**	**1,834**	**410**	**589**

New acquisitions for the year have been reduced by EU and public subsidies of DKK 35 million.

The book value of land and buildings in Denmark totals DKK 1,744 million. The cash value of properties in Denmark at 01.01.1999 is assessed at DKK 1,761 million, to which should be added investments after 01.01.1999.

PARENT COMPANY	*Goodwill, etc. incl. group goodwill*	*Equalisation amount*	*Land and buildings*	*Plant and machinery*	*Other plants, operating equipment fixtures and fittings*	*Plant under construction*
Acquisition price 28.09.1998	27	0	1,045	735	112	31
Additions through mergers	0	0	245	46	39	0
Additions for the year	4	276	62	133	27	45
Disposals for the year	0	0	–5	–36	–33	0
Transfers	0	0	2	25	0	–27
Total acquisition price 03.10.1999	**31**	**276**	**1,349**	**903**	**145**	**49**
Depreciation/write-downs 28.09.1998	–24	0	–216	–345	–63	0
Depreciation/write-downs for the year	–4	0	–97	–147	–23	0
Depreciation/write-downs/discont. plants	0	0	0	8	1	0
Total deprec./write-downs 03.10.1999	**–28**	**0**	**–313**	**–484**	**–85**	**0**
BOOK VALUE 03.10.1999	**3**	**276**	**1,036**	**419**	**60**	**49**

New acquisitions for the year have been reduced by EU and public subsidies of DKK 19 million.
The cash value of properties at 01.01.1999 is assessed at DKK 1,093 million, to which should be added investments after 01.01.1999.

Notes

Note (DKK million)

11 FINANCIAL FIXED ASSETS

GROUP	Capital shares of affiliated companies	Other securities and capital shares	Other receiv-ables
Acquisition price 28.09.1998	35	1,420	75
Additions through mergers	13	93	16
Additions for the year	28	337	48
Disposals for the year	–3	–395	–41
Total acquisition price 03.10.1999	**73**	**1,455**	**98**
Value adjustment 28.09.1998	41	–27	0
Additions through mergers	7	0	0
Share of the result for the year	–11	0	0
Other adjustments	–31	51	0
Total value adjustment 03.10.1999	**6**	**24**	**0**
BOOK VALUE 03.10.1999	**79**	**1,479**	**98**

PARENT COMPANY	SUBSIDIARIES Capital shares	SUBSIDIARIES Receiv-ables	Capital shares of affiliated companies	Other securities and capital shares	Other receiv-ables
Acquisition price 28.09.1998	806	50	1	84	73
Additions through mergers	23	0	13	93	16
Additions for the year	70	0	0	0	40
Disposals for the year	–5	–50	0	–83	–40
Total acquisition price 03.10.1999	**894**	**0**	**14**	**94**	**89**
Revaluations and other value adjustments 28.09.1998	758	0	28	0	0
Additions through mergers	122	0	7	0	0
Share of the result for the year	174	0	–26	0	0
Change, in-group stock profit	–10	0	0	0	0
Other adjustments	2	0	–22	0	0
Total value adjustment 03.10.1999	**1,046**	**0**	**–13**	**0**	**0**
BOOK VALUE 03.10.1999	**1,940**	**0**	**1**	**94**	**89**

PARENT COMPANY 1997/98	PARENT COMPANY 1998/99	Note	Notes (DKK million)	GROUP 1998/99	GROUP 1997/98
		12	***Stocks***		
176	196		Raw materials and consumables	652	662
380	347		Goods in progress	600	622
100	103		Finished goods and trade goods	918	903
0	0		Contract work in progress	0	17
656	**646**		***Total***	**2,170**	**2,204**
		13	***Securities***		
1	0		Listed bonds	621	339
0	0		Other securities	9	6
1	**0**		***Total***	**630**	**345**
		14	***Equity***		
			Capital account		
1,929	2,019		Balance beginning of the year	2,019	1,929
–	–700		Transferred to personal accounts	–700	–
6	342		Additions through mergers	342	6
84	90		Retained profit	90	84
2,019	**1,751**		***Total***	**1,751**	**2,019**
			Personal accounts *(See under Accounting Policies p.38)*		
–	700		Transferred from capital account	700	–
–	19		Set aside from the result for the year (interest)	19	–
–	**719**		***Total***	**719**	**–**
			Revaluation reserves		
597	466		Balance beginning of the year	–	–
–	112		Additions through mergers	–	–
–88	0		Write-down concerning MDI	–	–
–66	173		Result of non-dairy subsidiaries and affiliated companies, net	–	–
23	3		Other adjustments	–	–
466	**754**		***Total***	**–**	**–**
			Reserves in subsidiaries		
143	160		Balance beginning of the year	–	–
–	21		Additions through mergers	–	–
–20	–25		Retained profit	–	–
37	0		Other adjustments	–	–
160	**156**		***Total***	**–**	**–**
			Other reserves		
–	–		Balance beginning of the year	626	740
–	–		Additions through mergers	133	–
–	–		Adjustment concerning MDI	0	–88
–	–		Retained profit	148	–86
–	–		Other capital adjustments	3	60
–	**–**		***Total***	**910**	**626**
2,645	**3,380**		**TOTAL**	**3,380**	**2,645**

PARENT COMPANY 1997/98	PARENT COMPANY 1998/99	Note	Notes (DKK million)	GROUP 1998/99	GROUP 1997/98
		15	***Provision for deferred tax***		
0	0		Provision as at 28.09.1998	46	33
0	0		Changes for the year	–2	13
0	**0**		***Provision as at 03.10.1999***	**44**	**46**
		16	***Other provisions***		
0	60		Provisions for structural rationalisations, incl. discon. of plants	161	63
30	32		Other provisions	53	61
30	**92**		***Total***	**214**	**124**
		17	***Debt (due date)***		
5,281	5,739		Total debt	10,578	9,885
–3,695	–3,096		Of which short-term	–5,992	–6,153
1,586	**2,643**		**LONG-TERM DEBT**	**4,586**	**3,732**
997	**1,327**		**LONG-TERM DEBT FALLING DUE AFTER 5 YEARS**	**1,590**	**2,386**
			Short-term debt includes overdraft facilities:		
1,545	710		Outstanding end of financial year	1,012	1,819
2,025	1,975		Maximum facility end of financial year	2,562	2,786
		18	***Contingencies, guarantees, etc.***		
2,742	3,210		Surety and guarantee obligations	895	648
48	42		Leasing obligations	121	136
65	111		Obligations relating to agreements concerning the supply of fixed assets	405	693
			To cover exchange risks, the following foreign exchange forward contracts have been entered into:		
0	0		Forward exchange (buying)	87	565
4,124	3,761		Forward exchange (selling)	4,158	4,395
			As security for debt, the following assets have been deposited:		
128	183		Owner's mortgages in property	267	188
1	0		Securities, book value	214	1
314	384		MD Foods amba has received guarantee certificates from members of the co-operative. The basis for these guarantees of which DKK 0 has been placed as security for debt is the individual member's deliveries over the past 5 financial years, calculated as DKK 20 per 1,000 kg milk delivered.	384	314

GROUP

GROUP COMPANIES

	MD Foods amba's direct share	Ownership via subsidiaries	Total capital share
SUBSIDIARIES, included in the consolidated accounts			
Hjemmemarkedsselskabet Danmark A.m.b.a., Denmark	*100.0%*		*100.0%*
MD Foods Kjersing A/S, Denmark (100.0%)			
Gredstedbro Ost A/S, Denmark (100.0%)			
Kirkeby Mejeri A/S, Denmark	*100.0%*		*100.0%*
MD Foods International Group A/S, Denmark	*100.0%*		*100.0%*
Danya Foods Ltd., Saudi Arabia			
MD Foods Plc., United Kingdom			
MD Foods Argentina S.A., Argentina			
MD Foods Korea Ltd., South Korea			
MD Foods Canada Inc., Canada	*100.0%*		*100.0%*
MD Foods Deutschland GmbH, Germany	*100.0%*		*100.0%*
MD Foods Italia S.r.l., Italy	*100.0%*		*100.0%*
MD Foods Sverige AB, Sweden	*100.0%*		*100.0%*
MD Foods Norge A/S, Norway	*100.0%*		*100.0%*
MD Foods USA Inc., USA	*100.0%*		*100.0%*
MD Foods Hellas S.A., Greece	*100.0%*		*100.0%*
MD Foods France S.A.R.L., France	*100.0%*		*100.0%*
MD Foods Sp. z o.o., Poland	*100.0%*		*100.0%*
MD-Holding A/S, Denmark	*100.0%*		*100.0%*
Medani A/S, Denmark (100.0%)			
Kingdom Food Products ApS, Denmark (100.0%)			
MD Leasing A/S, Denmark (100.0%)			
Rynkeby Foods A/S, Denmark (50.0%. The other 50.0% is owned by Kinmaco ApS)			
Kildevandskompagniet A/S, Denmark (100.0%)			
Kinmaco ApS, Denmark (100.0%)			
GB Finans A/S, Denmark (100.0%)			
MD Insurance Co. Ltd., Cayman Islands	*100.0%*		*100.0%*
Mejeriernes Mælkedisponeringsselskab A.m.b.a., Denmark	*100.0%*		*100.0%*
Mejeriernes Kondensselskab amba, Denmark (100.0%)			
MD Foods Ingredients amba, Denmark (75.0%). MD Foods amba owns 25.0% directly.			
MD Foods Ingredients GmbH, Germany (100,0%)			
MD Foods Ingredients Inc., USA (100.0%)			
MD Foods Ingredients KK, Japan (100.0%)			
MD Foods Ingredients (UK) Ltd., United Kingdom (100.0%)			
AM Produktion K/B, Sweden (66.7%)			
AM Foods K/S, Denmark (66.7%)			
Mejeriernes Produktionsselskab A.m.b.a., Denmark	*100.0%*		*100.0%*
De danske Mejeriers Fællesindkøb amba, Denmark	*47.0%*	*48.1%*	*95.1%*
A/S Crispy Food International, Denmark (100.0%)			
Novadan A/S, Denmark (100.0%)			
Perniel Konsum ApS, Denmark (100.0%)			
Kongstad A/S, Denmark (100.0%)			
Andelssmør A.m.b.a., Denmark	*93.2%*		*93.2%*
Danapak A.m.b.a., Denmark	*73.8%*	*17.6%*	*91.4%*
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%)			
Danabox (DP Emballage AB), Sweden (100.0%)			
Norsk Danapak A/S, Norway (100.0%)			
Danapak Faltschachtelsysteme GmbH, Germany (100.0%)			
Danapak Cartons Ltd., United Kingdom (100.0%)			
Mejeriselskabet Danske Landmænd K/S, Denmark	*66.7%*		*66.7%*
Enigheden A/S, Denmark	*51.0%*		*51.0%*
HKI Catering ApS, Denmark	*51.0%*		*51.0%*
AFFILIATED COMPANIES			
Biolac GmbH, Germany		*50.0%*	*50.0%*
Scandairy K/S, Denmark	*50.0%*		*50.0%*
White Dairies of Scandinavia AB, Sweden	*50.0%*		*50.0%*
Lindals Sp. z o.o., Poland (100.0%)			
Dan Vigor Ltd., Brazil		*50.0%*	*50.0%*
Delimo A/S, Denmark		*48.0%*	*48.0%*

Pursuant to Section 43, Subsection 2 of the Danish Presentation of Accounts Act and Section 22, Subsection 5 of the Presentation of 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.

MD FOODS GROUP *(at 03.10.1999)*

MD Foods amba
(parent company)

Europe Division | **UK Division** | **Overseas Division** | **Home Market Division** | **MD Foods Ingredients** | **Transport Division**

Hjemmemarkedsselskabet Danmark A.m.b.a.

Andelssmør A.m.b.a.

Foreign sales companies in:
Canada
Germany
Italy
Sweden
Norway
USA
France
Poland
Greece

1) Mejeriernes Mælkedisponeringsselskab A.m.b.a.

1) Mejeriernes Produktionsselskab A.m.b.a.

2) Danske Landmænd K/S

1) Mejeriernes Kondensselskab amba

MD Foods Ingredients amba

AM Produktion K/B

AM Foods K/S

MD Foods Ingredients' foreign sales companies in:
Japan
United Kingdom
USA
Germany

Biolac GmbH

De danske Mejeriers Fællesindkøb (Group)

Danapak (Group)

MD Insurance Co. Ltd.

MD Foods International Group (Group)

MD-Holding (Group)
↓
Rynkeby Foods A/S

Lindals Sp. z o.o. Poland

Dairy group.
Results included in Profit and Loss Account of parent company.

Other group companies.
Results included in equity of parent company.

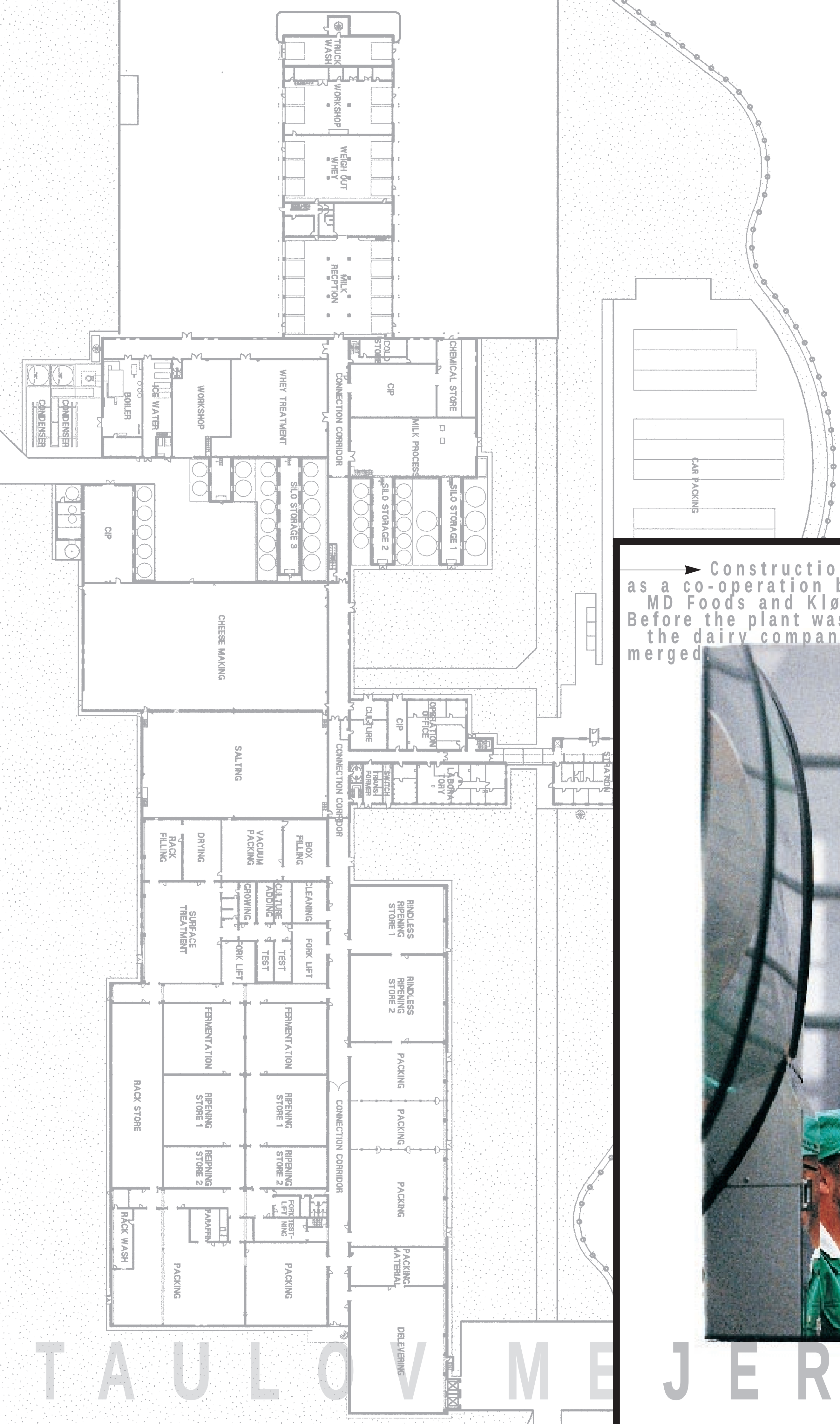
1) As at 04.10.1999 these companies merged with MD Foods amba.

2) The operating activities of the company have been discontinued at the end of 1998/99.

C A S H F L O W

CASH FLOW STATEMENT FOR THE MD FOODS GROUP	GROUP	
(DKK million)	*1998/99*	*1997/98*
Operation		
Result for the year	762	490
Of which supplementary payments to MD Foods' members	–505	–492
Depreciation and write-downs	1,016	935
Change in current assets (excl. cash and securities)	–372	–469
Change in trade debt, other debt etc.	–105	169
Change in provisions	88	64
CASH FLOW FROM OPERATION	**884**	**697**
Investment		
Intangible fixed assets	–13	27
Land and buildings	–256	–188
Plants and machinery	–530	–428
Other plants, operating equipment, fixtures and fittings	–161	–155
Plants under construction	–396	–283
Financial fixed assets	–112	–177
CASH FLOW FOR INVESTMENT	**–1,468**	**–1,204**
Financing		
Change in equity (incl. minority interests):		
Additions through mergers	475	39
Adjustments concerning minority interests, etc.	–151	–9
Reconstruction MDI Group	0	–202
Total	**324**	**–172**
External financing:		
Increase of mortgage debt	257	321
Long-term debt, financial institutions	579	1,356
Other changes in relation to financial institutions, net	–388	–984
Total	**448**	**693**
CASH FLOW FROM FINANCING	**772**	**521**
Total cash funds for the year (incl. negotiable securities) changed by	**188**	**14**
Cash funds (incl. negotiable securities) beginning of the year	977	963
CASH FUNDS (incl. negotiable securities) end of year	**1,165**	**977**

Norway
Denmark
Sweden
Russia
United Kingdom
Poland
Holland
Germany
France
Italy
Spain
Greece
Canada
USA
South Korea
Japan
Saudi Arabia
Bangladesh
Malaysia
Brazil
Argentina
MD FOODS
Hjørring Mejeri
AKAFA
Bislev Mejeri
Aars Mejeri
Farsø Mejeri
Durup Mejeri
Hobro FVT
Hobro Mejeri
Vellev Mejeri
Grenå Mejeri
HOCO
Holstebro Flødeost
Holstebro Mejeri
Garage Vestjylland
Rødkærsbro Mejeri
Rødkærsbro Smørmejeri
Vrinners Flødeost
Enigheden, Århus
Snejbjerg Mejeri
Brabrand Mejeri
R&D Centre
MD Foods Head Office,Viby
MD Foods IT-Center, Viby
MD Foods R&D, Viby
Nr. Vium Mejeri
Danmark Protein
Arinco
Troldhede Mejeri
Klovborg Mejeri
Tørring Mejeri
Grindsted Ostelager
Tistrup Mejeri
Vejle Centrallager
Vejle Ostelager og Pakkeri
Hjemmemarkedssalg
HD Vejle, transport and garage
Nordenskov Mejeri
Varde Smørmejeri
Brørup Mejeri
Taulov Mejeri
Fredericia Mejeri og Terminal
Kjersing
Glejbjerg Mejeri
MD Foods Kolding
Eksportterminal
MD Foods,Esbjerg, terminal
Esbjerg Mejeri
Centralværkstedet
Brændstrup
Ribe Mejeri
Tyrstrup FVT
Tyrstrup Mejeri
Birkum Smelteost
Cremo Cheese
Vodder Ostelager
Høgelund Mejeri
Rynkeby Foods
Branderup Mejeri
Grøndal Mejeri
Kirkeby Mejeri
Samden
Bov Mejeri
Glostrup Terminal
Ishøj FVT
Overseas Division
Høng Mejeri
Slagelse FVT
Slagelse Mejeri
Vordingborg Ost
Newcastle
Settle
Bamber Bridge
Leeds
MD Foods Ingredients, Kettering
Hatfield Peverel
Oakthorpe



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Construction started as a co-operation between MD Foods and Kløver Mælk. Before the plant was finished, the dairy companies had merged.