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Annual Report 2000



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Europe's largest dairy *is a reality*

For the first time in history, a merger between two farmer-owned co-operatives has taken place across national borders. What was only a vision just a few years ago has now become reality. Following briefings on the proposed merger at membership meetings, MD Foods' and Arla's co-operative owners approved the merger in December 1999. From the outset, the Board's intention has been to create one common culture across the Group. This endeavour will continue.



*Chairman
Lars Lamberg*

The new venture

The official name change took effect on June 6, 2000 after which Arla Foods soon became recognised as a new name and concept. On June 25, the Board of Representatives met for the first time in Århus for members to get acquainted. The importance of developing a strong and committed membership organisation was, of course, on the agenda. By July the Group's overall structure was in place and the eight divisions are now working towards realising the synergy effects as rapidly as possible.

Milk price

The objective of achieving a higher milk price is reflected in the first joint budget. The milk price paid to co-operative owners is crucial – a fact which is emphasised in our common vision of establishing Arla Foods as one of Europe's leaders in this respect.

It is highly satisfactory to note that international prices for, primarily, milk powder rose substantially during the past year, although the effect on the milk price has been limited by declining export subsidies.

We should, however, be aware of the long-term impact of the EU's CAP reform which aims at reducing milk prices. In addition, future WTO negotiations and the EU's expansion towards the East will also have an effect on markets as well as on pricing.

According to current plans, the quota system will remain in force until 2008. Based on international forecasts for increases in demand for dairy products, indications are that, in the longer term, we will be able to do without the quota system.

Milk price levels will, to an even greater extent, depend on the advances made in national and international markets. Competition will intensify and consolidation

within the retail trade which we predicted before the merger has occurred more rapidly than we originally anticipated. Emphasis on added value products adapted to individual markets is, therefore, becoming ever more important. In this connection, investments in the new plants at Taulov, Götene and Linköping are vital, although the costs will impact significantly on our financial position for the next few years.

The transformation of milk production is also set to continue. The number of milk producers is set to decline and those who continue will focus on larger production. This development will also be reflected in the surrounding world and is likely to continue over the coming years. The quota systems and trade with quotas have not affected the structural change in Denmark or Sweden.

Harmonisation

Before the merger we recognised that despite the many similarities between our two countries, significant differences remain. The board, therefore, decided to initiate a process of harmonisation, first and foremost within the areas of production and ownership structure. This process focused on issues such as quality, advice, service, payment systems, trade organisations and last, but not least, membership democracy. Various groups, including representatives from the Supervisory Board, are currently addressing these issues. Differences arising from, for instance, legislation in the two countries, including some which relate to animal welfare, are likely to remain for some time to come. However, the intention is to apply the best regulations and systems from each country. With regard to setting milk prices in each country, this would clearly be facilitated by a common currency.

Favourable conditions

The merger of two large businesses in two countries with differing cultures imposes considerable demands on the organisation and the staff. As owners we depend on a competent and well-functioning staff and while the Board recognises that the merger has given rise to a certain amount of tension, we are confident that much is being done to meet the new objectives.

The merger has laid the groundwork for further progress. Now the challenge is to recognise the potential and exploit our strengths for the greatest possible benefit of the group's owners and staff.

Each silo tank at Brabrand Dairy contains 100 tons milk. The milk is used for fermented products.



The merger which no-one *had attempted before*

April 17, 2000 saw the birth of a new company, Arla Foods, through the merger of two of Northern Europe's largest dairy companies, the Swedish Arla and the Danish MD Foods. The new co-operative, Europe's largest in terms of milk volume, has co-operative owners in both countries and production in a number of countries. This is the first time this type of merger has been attempted.

This means that the accounts and report for the new company only cover the period April 17 to October 1. As no report for the two companies has been presented since the publication of the respective annual accounts, one year ago for MD Foods and 15 months ago for Arla ekonomisk förening, part of the report also covers these periods.



*Group Managing
Director
Jens Bigum*

The merger

The work to have the merger, proposed by the two boards, approved by the co-operative owners and the authorities dominated the period between October 4, 1999 and April 17, 2000, when final approval was given by the authorities.

The two companies' representative bodies approved the merger by an overwhelming majority in December 1999. However, an extensive and demanding public approval procedure continued until April 17. This caused considerable uncertainty within the companies.

Despite this unwelcome situation, preparations for the merger proceeded on target.

The rigorous requirements governing corporate action in relation to a merger's implementation during the approval procedure meant that the final approvals triggered hectic activity with regard to the set up of the new organisation, the introduction of joint management systems and the identification of synergies.

An amalgamation of two such large organisations requires considerable resources. The merger's cross-border nature involving two different cultures did not make the task any easier.

Consequently, it will take somewhat longer to achieve the expected synergy effects than had the merger taken place within one country.

This, however, does not alter the fact that the new company offers wide-ranging benefits. These will materialise in the not too distant future.

Capital structure

As mentioned in the Board's proposal for the merger, Arla Foods' capital amounted to DKK 5143 million as at 17 April, 2000. This is calculated in accordance with the companies' existing accounting policies.

A uniform accounting policy was adopted on 17 April, 2000. The financial consequences of this, together with other value adjustments relating to the merger, have been taken to capital and reserves in the opening balance as at 17 April, 2000.

Please refer to the itemization on page 48 where these value adjustments have been specified.

The equalisation amount of DKK 276 million paid to Kløver Mælk amba's former co-operative owners was originally intended to be depreciated over three years on a straight line basis, i.e. 1999/2000 – 2001/2002. However, the merger agreement between MD Foods and Arla defers the depreciation period by one year so the amount will now be depreciated over the three year period 2000/01-2002/03. Consequently, depreciation of DKK 92 million will affect the accounts over the coming years.

The result

On the backdrop of the merger and increasing competition, the result of DKK 399 million for the period April 17 – October 1 should be regarded as satisfactory.

The year as a whole developed in accordance with the budgets laid down at the start of the financial year. In general, sales developed positively with the greatest improvements taking place within the bulk segments.

Regardless of this general market trend, Arla Foods experienced intense competition, especially in markets where the group has strong positions. Owing to one case of BSE in Denmark, the company was hit by an import ban by Saudi Arabia, a key market. The ban necessitated the transfer of large quantities of dairy products to other and less profitable markets.

Furthermore, during the period under review produc-

tion was halted at a dairy in Zealand due to a fire. This also adversely affected the result.

In financial terms, the early stage of the merger benefited from more favourable international trends than experienced in recent years. These improvements have enhanced the potential for paying a slightly higher milk price.

Conversely, the EU continually strives to offset price rises in world markets through reduced export subsidies.

It should also be pointed out that although a favourable ratio between the demand and supply of dairy products has resulted in a more balanced international competitive situation, we operate in a highly competitive industry where price rises are hard to implement. The tough competitive situation has become an almost permanent feature in all export markets. Increasing competition is also felt in near markets where we enjoy a strong market position.

Arla Foods intends to meet such competition to the best of our ability. We must accept, however, that the multiples set the competitive parameters and that to a significant extent, we must adapt to their conditions.

Strongly rising energy costs are also having an adverse impact.

Although by and large there are grounds for optimism across the European dairy sector, Arla Foods' high level of added value production means that the positive trends which are clearly perceptible for more bulk-type dairy products, will impact more slowly on Arla Foods than on many of our competitors who focus more on bulk production.

Fortunately, this delayed reaction is also seen during economic downturns.

Markets

Overall, the Swedish market



Kilometres of steel pipes link production at Rødskær Dairy together. The dairy produces 28,000 tons mozzarella.

has been characterised by stability and good relations with the Swedish multiples. No significant adverse reactions to the merger were experienced.

Price rises have been implemented in the Danish and Swedish markets and these have largely compensated for increased costs. By and large, there is good reason to believe that the Danish and Swedish markets will continue to enjoy stability and continuity.

Arla Foods' position in the UK is also characterised by stability and positive earnings. This is expected to continue to improve over the coming years.

With regard to butter and milk, the company has a strong position with all leading multiples.

The company has focused strongly on the UK market for several years. The results provide a positive framework for the continuing strengthening of the company's position in the UK.

Dairy structure

A merger of such magnitude cannot, of course, avoid arousing considerable interest within the European dairy industry and its repercussions have been felt far beyond the two countries concerned. Thus Arla Foods has become a significantly more visible player on the European dairy stage than was the case with the two component companies prior to the merger. The new Arla Foods is now strongly poised to participate in the creation of Europe's future dairy structure.

The formation of the new company means that Arla Foods is seen as a natural partner for a number of other European dairy companies and retail chains. Arla Foods will remain open to such potential partnerships. At the same time, however, Arla Foods will carefully assess how each option fits the company's strategies.

Prior to the merger, the two companies had already embarked on some of the most extensive investments in new dairies in their respective histories.

Arla's investment in the construction of Götene and MD Foods' Taulov Dairy will impact on both the current and coming year due to substantial start-up costs, interest payments and depreciation.

Both projects are, however, crucial for achieving a satisfactory long-term cost structure for cheese production.

Such major investments impose considerable demands on the company. There are clear limitations as to the pace at which such extensive changes in Arla Foods' structure can be implemented. In the next few years, the number of production plants will continue to fall while more rational technology requiring further investment will be introduced.

At the beginning of 2000/01, it was, therefore, decided to cut the investment budget compared to previous years to ensure that long-term requirements can be met.

Marketing

Our strategy of producing more added value products and establishing stronger brands is putting increasing demands on research, product development and marketing.

Although it can be argued that the merger and the resulting larger volumes help to offset the costs of these activities, we believe that the way ahead lies in stronger focus on selected brands, products and markets in order to derive the benefits inherent in large-scale production.

Arla Foods views its organic business positively. In particular, we have been successful at developing the Danish market for this type of product. Considerable overproduction of organic milk has, however, necessitated

increased exports of organic products. While considerable efforts are being committed to this area, we see little indication that Denmark's neighbouring countries will experience equivalent rates of increase as seen in Denmark. Nevertheless we are optimistic with regard to growth and are fully prepared to exploit it when it comes.

Moreover, we endeavour to fulfil consumer requirements in all possible respects. It is crucial that Arla Foods meets consumers' changing preferences. Snacks and other types of convenience foods are examples of this.

Culture

A merger involving 19,000 employees in several countries requires a new company culture.

This year will see the maximum number of people involved in the process of developing one common culture across the organisation.

In order to rapidly establish a common perception of the company's strategic aims, a strategic review has been initiated. Supervised by the Group's senior management, the review is expected to result in a new forward-looking strategy for the group.

Future

The coming year will also be characterised by continuing endeavours to co-ordinate the two companies' activities. Working procedures will be adjusted and the two companies' corporate cultures integrated.

The year will also be dominated by the identification and implementation of projects designed to release the synergies gained from the merger. This process is in its early stages and will not significantly impact on next year's result which will be more affected by previous

years' initiatives and by the major costs relating to the merger.

The general outlook for the coming months for the European dairy industry is positive. Overall, a slightly improved operating result for the Group is envisaged for 2000/01 compared to last year.

A total of 16,100 Danish and Swedish co-operative owners supply milk to Arla Foods' dairies. One of them is Karin Broström who runs Norrsund farm in Norrtälje in Sweden.



The eight divisions *during the year*

Sweden Division: The former Arla Dairy now operates under the name of Arla Foods' Sweden Division. Following the merger, the Arla cow, Sweden's best known logo, has become the logo for the Sweden Division's basic range. The logo stands for Swedish quality and solidity.

Denmark Division: The Danish market is subject to intense competition from major foreign dairy groups. This coincides with the Denmark Division's efforts to establish the new name, Arla Foods, with both customers and consumers. The portfolio has been strengthened through the mergers with Kløver Mælk and Arla which provide the group with a stronger competitive edge in Denmark as well as elsewhere. Comprehensive restructuring of production, especially following the merger with Kløver Mælk, has characterised operations at the division's dairies, which now exclusively comprise liquid milk dairies and the terminals attached to them.

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Quality control begins when the tanker collects the milk.

Sweden Division

The merger between MD Foods and Arla has had a major impact on the restructuring of the company in Sweden. The former Arla Dairy, now known as the Sweden Division, has a number of new executives and the range has been extended by speciality cheeses from Denmark. MD Foods' former operation in Malmö has been closed. This business has partly been incorporated into the Sweden Division under the name Arla Foods Specialostar AB and has its own staff.

Following the merger, the Arla cow is now a dedicated brand logo and no longer a company logo. The Arla cow, one of Sweden's best known logos, symbolises Swedish quality and solidity and will, in a slightly modernised version, remain in use for the so-called basic range. Besides milk, the range includes a series of fermented products such as double cream and cheese, e.g. Grevé, Präst, Herrgård and Svecia. The Arla Cow will also feature on butter.

Sales of fresh products rose by 1.9 per cent, i.e. SEK 135 million, due in part to the continuing number of new launches and added value additions. The result has been achieved despite a continuing negative trend in milk consumption. Bad summer weather in Sweden also affected sales of fermented products. With its Yoggi brand, the Sweden Division has retained its position as the undisputed market leader within fruit yoghurt despite increased competition.

The fresh cheese range, which includes Keso and Kesella, saw continuing growth. This was also the case with cream and cooking products. Fruit drinks continue to be popular and sales are increasing.

However, cheese sales failed to live up to anticipated volumes. Yet the share of added value cheese products increased as a result of new

products and packaging. The fats market is particularly competitive and market shares for the Bregott, Lätt & Lagom and Svenskt Smör brands have fallen.

The organic range continues to grow and sales of organic milk increased last year by more than 20 per cent. During the spring, the organic range was expanded to include creme fraiche.

The relaunch of the Kelda range proved successful – the first brand and the first product group launched to use Arla Foods' logo. A new flavour in the fermented range, blueberry/raspberry, was well received and the fruit yoghurts range was extended by Yoggi mild, a yoghurt with a milder flavour.

The service sector's demand for more drink-friendly packaging was met by the launch of Bravo and Tropicana in bottles.

The year saw the launch of MixMaxx, a vanilla yoghurt containing musli, fruit and chocolate chips. The product is made at the production plant in Grädö, which is jointly owned with the Swedish dairy company Milko.

Test sales of 2 litre milk with screw tops and 1.5 litre packaging were undertaken in the Western region. Following evaluation, the Sweden Division decided to discontinue the project as surveys showed the majority to prefer traditional 2 litre packaging.

The Östgöta project proceeded according to plan and the major part is now completed. By the end of the financial year, the principal construction was in place and the roof erected. The decisions relating to the disposal of the dairy in Norrköping were taken, including moving part of the UHT production in Allingsås to Esbjerg in the spring of 2001. The current fruit juice production at Norrköping will be relocated to Allingsås, which will then exclusively produce fruit juice.

The division's production

management system was integrated with the financial control system and the division was certified in accordance with ISO 9001 and 14001.

As regards the labour market, there is increasing demand for manpower, mainly in the cities. Some problems have been experienced with regard to staff recruitment for chilling and distribution functions.

Denmark Division

1999/2000 was a turbulent year for the division. The first half year was characterised by the integration of the former Kløver Mælk business when plants, product ranges and computer systems were converted in order to strengthen the division's competitiveness and product offerings.

Following the merger with Arla, the Denmark Division was formed in the second half year. The division's market responsibilities remain unchanged, but cheese production has been transferred to the new Production Division.

The launch of the Arla Foods' name in Denmark, among customers and consumers, has occupied much of the division's time.

Alongside the structural changes, the division experienced intensive competition from the German Nordmilch and the Dutch Campina Melkunie, two active players in the Danish market.

Products and sales

Through the merger with Kløver Mælk, the Denmark Division strengthened its product range and brands. It also gained access to the Swedish portfolio thus increasing its competitive edge. The launch of Yoggi yoghurt is one such example.

The division places great emphasis on influencing consumer patterns, partly by maintaining a stable consumption of basic dairy products



1. Yoggi is Sweden's biggest fruit yoghurt brand. Yoggi Mild contains less fruit than traditional yoghurt.	2. Sliced cheese is a relatively new product in Sweden. In view of growing interest in easy-to-prepare products, the popular Wästgöta Kloster and Billinge are now also available in slices.
3. In Sweden, Kelda is the name for products with a long shelf-life, e.g. three types of cream with a low fat content.	4. Keso (cottage cheese) is marketed in many varieties to a growing number of Swedish consumers looking for easy meal solutions.

and party by developing new products and concepts which will generate growth in selected categories. One such example is the snack concept, MiniMeal, which was launched towards the end of the financial year.

The year saw the largest campaign for organic dairy products ever. Campaigns were run both by the Danish Dairy Board and Arla Foods with emphasis on the Harmonie brand. Sales growth of 1-2 per cent for the year reflects stagnating organic trends.

The imbalance between demand and raw material supply is expected to intensify the competition for organic products.

Competition within the firm cheese area continues undiminished. At the same time, competition from foreign dairy companies is expected to harden as the supermarkets' wish for competition impacts on the Danish market.

Structural development within the retail sector proceeded with the creation of three large purchasing associations accounting for 80 per cent of purchasing in the Danish market. It is expected that structural development will further intensify through expanding co-operation within the Nordic countries. The first steps in this direction have already been taken by ICA/ISO and FDB/COOP.

In August Arla Foods ceased selling the products of the French company, Danone. Danone is now expected to consolidate its Nordic platform through further co-operation with the Swedish Skåne-mejerier.

Production and distribution

The division's production and distribution were dominated by integration with the former Kløver plants. Production at Fredericia and the terminal at Glostrup was discontinued during the spring 2000.

Thus the Denmark

Division's production and distribution structure now encompasses the liquid milk dairies (with related terminals) Hobro, Enighedden A/S, Tyrstrup and Slagelse. The Ishøj terminal is linked to the Slagelse Dairy centre. The division's special products dairies are Brabrand and Esbjerg.

Major investment projects were carried out at Esbjerg Dairy during 1999/2000, strengthening Arla Foods' UHT production platform. During the coming year further investments will be channelled into Esbjerg Dairy which will take over production of the Swedish UHT range. Further synergies between Brabrand Dairy and Swedish production will be assessed.

UK Division

Arla Foods continued its progress in the UK on several fronts.

While sales growth continued as expected, intense competition and higher oil prices mean that the year should be regarded as a "year of consolidation".

Earnings during the second half year, however, showed a clear improvement. This is reflected in the expectations for the coming financial year.

Retailers continued to rationalise their fresh milk supply bases and Arla Foods both lost and gained volume during the first six months of the year. In total, some 930 million litres of milk was processed during the year, the biggest ever volume for the UK Division.

Lurpak continued to go from strength to strength, reaching the No. 1 spot in the butter category with 35 per cent of the market. Lurpak is now No. 2 in the overall category for yellow fats.

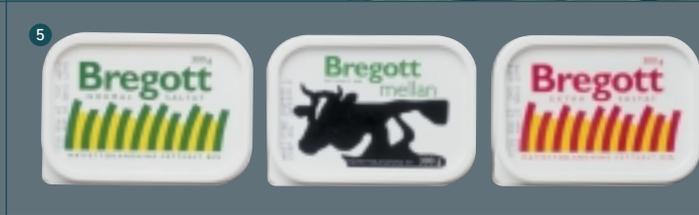
Growth in the Lurpak brand is expected to continue, with further new product developments and promotional activity.

Lurpak Spreadable won the

UK Division: Clear improvement in earnings in the second half year and a positive outlook for the coming year have characterised the UK Division during a year which should otherwise be regarded as a year of consolidation. Retailers continued to rationalise their fresh milk supply bases and Arla Foods both lost and gained volumes during the first six months of the year. In total, 930 million litres milk were processed during the year, the biggest ever volume for the UK Division. With a market share of 35 per cent, Lurpak is now the market leader for butter and No. 2 in the overall category for yellow fats.

On route to the dairy. Svend Lykke is one of the tanker drivers who transports milk from Arla Foods' co-operative owners to the dairies – in this case from Arla Foods' member Erik Johnsen in Jutland.





Europe Division: Despite increasing competition especially in the German market, and a reduced marketing effort due to the merger and name change, the division benefited from an increase in volume sales during the year. Following the changes in the division's organisation and fields of activity, marketing efforts will resume with renewed strength. In the coming year, focus will be on establishing strong market positions and on strengthening professional sales and logistics in order to be among the best in Europe.

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The new large dairy in Denmark, Taulov, was inaugurated in September 2000.



1. The number of cows producing organic milk is increasing. In Denmark, organic production increased by 34 per cent and in Sweden by 23 per cent during the year.	2. In Sweden, during the spring of 2000, Arla Foods' organic range was extended to include creme fraiche.	3. In Sweden, Bravo is sold as juice, fruit drinks and still-drinks – a new product available in 4 varieties.	6. Supervising bottling	7. The number of Arla Foods' co-operative owners declined by 8 per cent during the financial year to 8,640 in Denmark and 7,480 in Sweden.
4. Kvibille is Sweden's oldest and only blue mould and cheddar dairy.	5. Bregott is a well-known brand in Sweden. Bregott 80% is produced from cream and rape seed oil. In the 60% version cream is substituted with buttermilk.			

Marketing Society Award 2000 for "Brand Development of the Year".

Although the year proved successful for yellow fats and cheese, particularly soft cheese where additional volume sales were achieved, the yoghurt and dessert category proved a tough category in which to break through. At year end, however, two new products were launched for children – Bob the Builder, a range of fresh dairy products, and Looney Tunes, a range dedicated to one of Arla Foods' major customers.

Cravendale PurFiltre, the first ever branded fresh milk in the UK, continues to grow in volume and profitability, with now nearly 60 per cent UK distribution. Cravendale PurFiltre won the "Best New Product of the Year", awarded by Food Processing Magazine.

The retail business continued to grow while doorstep sales declined further.

As retailers are split between Every Day Low Pricing (EDLP) customers and those still wishing to use the promotional tool to develop sales, Arla Foods has had to tailor its offering to suit different styles of trading, a further complexity of trading in the UK market.

The doorstep market declined by 8.1 per cent. However, this was partly mitigated by infill acquisitions, growing the middleground market share and cost control.

Raw milk prices in the UK fell to an all-time low during the year, a situation which led to pickets and blockades by farmers. Such activity did not affect Arla Foods' sites, but the company does recognise the current difficulties experienced by UK dairy farmers and is working on ways in which the company and its direct farm suppliers can work closer together in the long-term interest of both.

The UK Division's plants made the expected contribution to the performance of the Division.

Organic products continued

to make progress, only hampered by the lack of availability of UK-sourced raw organic milk. The Harmonie brand is a major opportunity to create volume for the organic category and a full support programme for the brand is in place.

The UK Division has now begun the process of a Strategic Review aimed at creating a new platform for Danish and Swedish products, such that volume and market share aspirations can be met.

Europe Division

The Europe Division had a particularly turbulent year characterised by the co-ordination and restructuring of the merged companies' export activities. The coming year will focus on change and integration in order to ensure growth in sales and, especially, earnings.

Despite fierce competition, particularly in the division's main market Germany, volumes increased on last year.

The merger and name change from MD Foods to Arla Foods resulted in a slow down in marketing activities which, however, will be resumed with renewed strength in the new financial year. The intention is to build up several strong brand positions in Europe with the main emphasis on the Arla brand.

Increased competition and concentration within the European retail sector will continue to exact demands on all suppliers. This requires that Arla Foods remains prepared to meet changing requirements from consumers as well as the retail sector.

The coming year will see a concerted effort towards achieving strong market positions and the further development of a professional sales and logistics system as well as making production costs competitive.

Logistics

Within the logistics area, too,

much of the year was devoted to the merger of the two companies – a task which was accomplished without inconveniencing European customers.

At the close of the financial year, Arla Foods received recognition for its logistics systems in the form of "The Danish Logistics Prize" awarded for a significant effort in improving the entire supply chain, thus contributing to competitiveness and earnings.

Germany

During the year under review, the German market was characterised by tough competition. The year began uneventfully, while retailers and suppliers took stock of the consequences of the economic collapse in Russia in 1998/99. During the spring, however, the price war in the German retail sector broke out again. Consequently, the German competition authorities intervened as some retail products had permanently been set below retailers' cost price.

This led to weak retail margins which, in conjunction with the continued consolidation within the retail sector, meant that suppliers came under pressure to improve terms. At the same time, the battle for market shares intensified further; cheese suppliers' investments in TV commercials, for instance, increased by approx. 20 per cent during the first half of 2000.

Arla Foods also met intensified competition, resulting in slightly falling sales. Towards the end of the financial year, however, the situation recovered and Arla Foods continues to be the third largest cheese supplier to German consumers.

This positive development coincides with the implementation of a new strategy for the German market, involving the entire German organisation during the spring/summer. Through increased focus on concepts and profile prod-

ucts, the new strategy will ensure a sharper profile and a stronger position in the market. The objective is for Arla Foods to eventually become the leading supplier in Germany.

Holland/Belgium

Sales are primarily to retailers and wholesalers serving the retail trade. During the year, priority was given to a range of speciality cheeses, including feta and cream cheese, for which sales developed satisfactorily. Arla Foods is currently the largest foreign supplier of speciality cheese to these markets.

The Atlantic

(The Faroe Islands, Greenland, Iceland)

Arla Foods has significant exports of UHT products, yoghurt and fats as well as a broad range of cheese products to the North Atlantic markets. Sales developed positively during the year under review.

Poland

Although Lindals Dairy in Poland remains jointly owned by MD Foods and Skånemejerier with a 50% stake each, the aim is for the dairy to become fully owned by Arla Foods. Lindals Dairy makes a range of firm cheese for the local market. During the year, exports from Denmark recovered somewhat following last year's problems relating to import licences and the dioxin scandal in Belgium. During the year a new sales organisation was set up to enhance sales of both local production and imported, Danish products.

Eastern Europe (except Poland)

In recent years, Eastern Europe has enjoyed a more stable economic climate, but purchasing power continues to be limited. During the year under review, Arla Foods saw a positive development in sales of speciality cheese and fats.



Products are sold primarily through several West European retail chains, which are currently being set up in Eastern Europe.

Finland

Prior to the merger, Arla and MD Foods operated an extensive sales partnership in the Finnish market via Arla's local subsidiary. During the year, the two companies' activities were fully integrated into Arla Foods.

With cheese sales developing highly satisfactorily, Arla Foods is now the biggest exporter to the Finnish market. Sales of low-fat firm cheese and a range of speciality cheese have shown particularly strong growth in recent years.

Sales of fruit yoghurt from Sweden were discontinued due to an unsatisfactory result.

Norway

The two former Norwegian subsidiaries have now become one unit and the sales partnership with Synnøve Finden continues under the new organisation. The overall product range from the two previous companies has been adjusted. Fruit yoghurt from Sweden was withdrawn as the products had become unprofitable due to changes in export subsidies.

Once again, Arla Foods recorded advances in sales of speciality cheeses. Norway's cheese quota has come under increasing pressure and more cheese is now imported outside the quota. This is regarded as proof that Norwegian consumers want broader and more varied offerings in the market.

The Baltic States

The Estonian subsidiary is now fully integrated into Arla Foods. Sales of fruit yoghurt from Sweden have ceased due to unsatisfactory earnings.

Italy

Strong advances occurred in the Italian market, especially cream cheese to the retail sector and sales to industrial customers.

French retail chains have gradually gained a dominant position in the Italian market, a trend which is reflected in the tougher conditions imposed on suppliers. The impact of this is expected to increase in the coming years.

Spain

Showing a continued growth curve, sales of cheese, especially mozzarella, developed positively during the year. Sales to industrial customers advanced, as did sales to the retail sector. The economic upturn in Spain is one of the strongest in Europe and the perspectives for the coming year are highly encouraging.

France

During 1999/2000, the three-year-old subsidiary experienced another increase in sales. The strategy continues to focus on the large French multiples which dominate much of Southern Europe. It is highly positive, therefore, that sales to these multiples showed a double digit percentage increase during the year.

Greece

The result for the Greek market was satisfactory in terms of volume and above expectations in respect of earnings. This is particularly satisfactory in that during the same period, considerable resources were devoted to a new joint venture between Arla Foods and Greece's leading dairy company Delta.

Expectations for the new company, Arla Foods Hellas, are high. It is expected that the company will become market leader for sales of cheese and butter in Greece.

During the year Lurpak continued its advances and now accounts for approx. 25 per cent of the total butter market in Greece.

Overseas Division

The consequences of the economic crises affecting the

markets in South East Asia, Russia and Brazil have subsided and these markets now seem to be on the road to recovery.

At the same time, the relatively stable exchange rate coupled with the falling euro meant increased earnings and competitiveness. The fall in EU export subsidies was not as strong as had been feared.

The BSE crisis in Denmark led to import bans in Saudi Arabia and Argentina with sales to Saudi Arabia suffering particularly during the three-month long ban. Since the lifting of the ban in early June, considerable effort has been devoted to regaining the company's market position.

In consequence of the above factors, the result in volume terms was slightly below budget. Earnings, however, were satisfactory.

This trend is expected to continue in the coming year.

As export subsidies are expected to decline further, efforts to minimise the dependence of the important brand positions on EU subsidies continue.

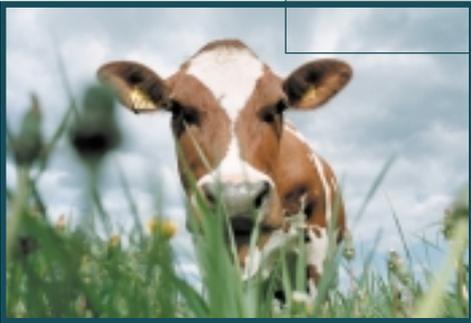
THE MIDDLE EAST

Saudi Arabia

Sales to Saudi Arabia were adversely affected by an outbreak of BSE in Denmark. The incident met with a very strong reaction in Saudi Arabia, where the government imposed a three-month import ban. The ban not only meant that Arla Foods' brands disappeared from stores, but also caused severe logistics problems in Denmark and Saudi Arabia. The ban thus had serious economic repercussions.

Following the lifting of the import ban, substantial resources were committed to re-establishing Arla Foods' brand position in the market. The company's very strong brands give good grounds for believing that this will succeed. Moreover, the chosen strategy which focuses on a few selected product areas will

Approx. 900,000 cows supply milk to Arla Foods in Denmark and Sweden.



also assist the company's comeback in the market.

The year saw substantial investments in production in Saudi Arabia. Production capacity for cheese in glass containers was expanded and machinery for shredding mozzarella was introduced. Thus all shredded mozzarella sold by Arla Foods in the Middle East is currently supplied from Arla Foods' Saudi subsidiary, Danya Foods, based on raw materials from Denmark.

The substantial population growth, which will double the Saudi population over twenty years, will be a strong factor in Saudi consumption. The currently high oil prices are also contributing to the area's future stable economic development.

Despite the import ban, the year's earnings were satisfactory and point towards continuing high growth rates. However, the final judgement from consumers following the BSE ban will only be known during the first quarter of the new financial year.

The Gulf States and Lebanon
Consolidation and focus were the key to the company's activities during the year and through close co-operation with major customers sound growth was achieved. The Puck, Lurpak, Three Cows and Power Cow brands all increased their market share. The trend is expected to continue in the coming year.

The Caspian Countries
The year saw a promising start for sales of cheese in glass containers to Kazakhstan. The sale of brick feta to Azerbaijan continues largely satisfactorily, but the market is affected by an unstable economic situation. Expectations for the Caspian area are closely linked to the exploitation of the large oil and gas deposits in the Caspian Sea as well as by the general situation in Russia.

North Africa and Egypt
Sales of Lurpak butter to



► **Overseas Division:** Lower sales but improved earnings characterised the Overseas Division during the year under review. On the positive side, the falls in the value of the euro and the dollar had a positive impact. In addition, the economic crises in a number of markets are lessening. Furthermore, although the EU's export subsidies are declining, the decline has been less than expected. The single case of BSE in Denmark, however, had a strongly negative impact on sales.

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1. The organic Harmonie branded milk accounts for 24 per cent of total liquid milk sales in Denmark.	2. Blue mould cheese matures at Kvibille's stores for 5-6 weeks.	3. One cow supplies approx. 20 litres milk per day.	4. Cheasy is a range of approx. 30 Danish dairy products with a lower fat content than traditional dairy products.
5. Buko fresh cheese is a new product in the Buko range in which the fat content has been reduced by 50 per cent.			6. Malthe is a Danish range of firm cheese, which makes life easy for consumers - the rind has already been removed.

*Filling at the dairy.
Stockholm Dairy is one of
Arla Foods' largest liquid
milk dairies. Selina Hazra
makes a random check of a
carton from one of the
dairy's many packing lines.*



Egypt have stabilised while sales of feta have resumed. Significant activity is taking place in Libya which bodes well for the future.

AMERICA

USA

The strong American economy and, in particular, the high dollar rate contributed to a highly satisfactory result in financial as well as tonnage terms. Distribution of added value products continues to expand. This has meant that brand positions in the retail sector have been strengthened.

Arla Foods' local licence production also advanced and current progress within this business segment will be stimulated by new initiatives during the coming year.

New business opportunities are being pursued with Arla Foods' production partner in Wisconsin, White Clover Dairy Inc.

Canada

Arla Foods Canada achieved an excellent result. Co-operation with Arla Foods' production and import partners developed particularly satisfactorily. Considerable focus was put on expanding distribution.

The continued consolidation within the Canadian dairy industry provides an opportunity to assess Arla Foods' future position. An analysis of the company's potential will be carried out in the coming year.

Brazil

This was another difficult year for the Brazilian operation where economic recovery is slow. Considerable interest in the Brazilian market gave rise to intense competition from many of the large international dairy companies. There is no doubt that Brazil will remain an interesting market in the long-term. A recently completed strategy plan will open up new perspectives for Arla Foods.

Argentina

Arla Foods' activities were severely hampered both by the BSE incident, which temporarily halted imports to Argentina, and by the country's weak economy. Nevertheless, most objectives were achieved. New, modest initiatives which are currently in the planning stage, provide grounds for optimism with regard to the company's future in Argentina.

ASIA

South East Asia

The crisis in South East Asia is now largely in the past and consumption is, once again, increasing – a position which Arla Foods has been able to exploit.

A weak euro positively contributed to earnings, although intense competition from Oceania put pressure on prices.

Arla Foods' brand positions were maintained and the long-standing commitment to the Lurpak brand paid dividends.

There is reason to believe that the progress of recent years will continue.

Japan

The Japanese economy continues to be sluggish with rising unemployment, reduced job security, growing savings and declining consumption.

With regard to dairy products, especially cheese, this has not affected volumes as consumption continued to rise. A corresponding value increase on turnover, however, did not occur.

The 1999/2000 financial year was a busy one in which the fire at Høng Dairy disrupted supplies of long-life camembert.

The reorganisation of rindless cheese production (samsø, maribo and nippon) from Nordenskov Dairy to the new Taulov Dairy also presented a considerable challenge. A huge effort ensured that this was accomplished quickly and according to plan.

Finally, price pressure resulting from increased com-

petition from Oceania did not alleviate sales conditions with major users of Danish cheese forced to seek cheaper alternatives to the more expensive Danish cheese.

All in all, the outlook for exports to Japan is positive.

EUROPE

Russia

The previous year's upward trends in the Russian economy impacted positively on consumption and thus on the import of dairy products which have recovered following the crisis in 1998/99. Growth was achieved within the relatively inexpensive processed cheese and firm cheese business.

Financing and importers' cash flow continue to be limiting factors.

If the recovery in the domestic economy continues, and no further constraints on imports occur, prospects for Arla Foods' exports to Russia are encouraging.

Arla Foods Ingredients

Following the merger, MD Foods Ingredients was amalgamated with the ingredients division of Semper Foods to form Arla Foods Ingredients. The result of the merger is an even stronger full-range supplier of milk-based ingredients backed by solid resources for the future development of the ingredients business.

The year produced a satisfactory result with sales reaching 238,000 tons. Several factors such as rising prices and strong customer demand have positively influenced the result. However, this was mitigated by substantial cuts in EU export refunds during the year.

Product development

Considerable effort has gone into the development of special milk protein and the detailed research studies that investigate their precise func-



Arla Foods Ingredients: Rising prices and strong demand characterised Arla Foods Ingredients' sales. These positive trends, however, were balanced by EU export refunds being drastically reduced throughout the year. Recent years' strong focus on the development and sales of specific milk protein products to the international food industry has borne fruit. These factors are now significantly contributing to Arla Foods' Ingredients' good results.

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Arla Foods' cows supply 7 billion kg milk per year.

<p>1. Sales and technical support for functional milk proteins are important to Arla Foods Ingredients.</p>	<p>2. Dano Hi&Low is a special low-fat milk powder rich in calcium. The product has been successfully launched in e.g. Lebanon.</p>	<p>3. With a market share of over 50 per cent Milex has a dominating position in the Dominican Republic.</p>	<p>4. Milk proteins' nutritional properties are crucial to producers of infant formula, liquid hospital nutrition, etc.</p>	<p>5. Samples from individual co-operative owners' milk tanks are sent for laboratory testing.</p>
<p>6. Contract manufacturing covers a wide range of products from ordinary milk powder to various types of special nutrition.</p>				

tional characteristics and effects. Particularly good results have been obtained with Lacprodan Alpha-10, a whey protein specially developed for use in infant formula.

Another milk protein with considerable future potential is Lacprodan CGMP-10. Long recognised for its ability to encourage a well-balanced digestive system and stimulate the immune system, this milk protein can now be produced on a commercial scale using Arla Foods Ingredients' patented technology. The product has considerable application potential in infant formula, hospital nutrition and other functional foods.

The project regarding the low-calorie bulk sweetener tagatose also progressed. US confirmation of the caloric value of 1.5 calories per gram gives manufacturers the opportunity to include "light" or "reduced calorie" claims on future products containing tagatose. Due to further researches, the US approval for use in food products has been delayed and is expected in 2001. Next step in the project will be decided when this approval is obtained.

Market development

The establishment of South America's first largescale whey processing plant proceeds according to plan in Argentina. As a result of a joint venture between Arla Foods Ingredients and the Argentinian dairy company Sancor, the plant is scheduled for completion in 2001. The plant will be supplied with whey from Sancor's 14 cheese dairies.

Sales remain satisfactory in the major markets for retail milk powder products:

A new distribution set-up has been established in Yemen, which is expected to boost sales.

In the Dominican Republic, however, the introduction of an import quota system has limited Arla Foods Ingredients' opportunities for further sales expansion, with present sales

now at the maximum permitted level.

The high calcium milk powder DANO - Hi&Low was successfully launched in Lebanon.

Sales in Bangladesh developed satisfactorily under difficult trading conditions.

The business of contract manufacturing retail packed formulations of milk powder for international brand owners has proved a worthy area of focus for Arla Foods Ingredients during the year. The marked growth of this business sector is expected to continue in the coming years.

North America

Sales to North America are complying with the strategy for increased sales and focus on value added products. The result for this year has been satisfactory. This trend is expected to continue.

Asia

Strategic focus remained on sales of functional milk proteins and cheese powders to Japan and Korea. The result has been an increase in sales in these areas. The milk powder business continued to perform according to expectations.

Central and South America

The increased focus on sales and application support for functional milk proteins to the dairy industry has resulted in sales almost doubling over the past year. This development is expected to gain further pace following the opening of manufacturing facilities in Argentina.

Middle East

The BSE incident in Denmark halted the export business to parts of the Middle East in the first part of the year, but a strong recovery has taken place.

Europe

The European market was characterised by strong demand driven by the deple-

tion of the SMP intervention stocks. As a result of the merger the sales network in Scandinavia has been strengthened considerably. Continued strong relationships with leading food producers have solidified the position as supplier of value added ingredients.

Production Division

The formation of a production division was one of the innovations resulting from the merger. With its 42 dairies and plants, the division is responsible for all production of cheese, butter and spreads in Sweden and Denmark.

The new division comprises 18 dairies from MD Foods' former Europe Division, 8 dairies/plants from MD Foods' Home Market Division and 16 dairies/plants from the former Arla Cheese and Butter.

The new division is divided into three production groups:

- firm cheese/hard cheese/ mozzarella/packing
- butter and spreads
- speciality cheese

The division also incorporates planning/logistics, range and packaging control, finance/IT, purchasing, quality and technology. Sales to exporters and Trading Sweden are also part of the division.

The organisational structure was put in place during the summer and was completed by October 1, 2000. The division has a workforce of around 4,600.

The division's production totals approx. 460,000 tons, i.e. approx. 310,000 tons cheese and approx. 150,000 tons butter and spreads. Of the 460,000 tons, approx. 120,000 tons is produced at Swedish dairies and the remainder in Denmark.

All products are sold through Arla Foods' five sales divisions.

During the year 1999/2000, the Production Division was characterised by very signifi-

cant structural initiatives which will also impact on the financial year 2000/01.

In Denmark, the main event was the opening of Taulov Dairy, which produces firm cheese. By the close of the financial year, the dairy was operating at full capacity. The opening of Taulov resulted in the closure of the firm cheese production at Bov and Nordenskov dairies. However, Bov Dairy has taken over the production of all Arla Foods' traditional feta. Production here commenced in the spring of 2000. The production of traditional feta from the former Kirkeby Dairy and from Grøndal and Rødkærstro Dairies has been transferred to Bov Dairy. The restructuring will be in place by the end of 2000.

Rødkærstro Butter Dairy closed on May 1 and its production was transferred to Holstebro Butter Dairy. This means that all Kærgården and Lurpak Spreadable will now be produced at Holstebro.

Two dairies on Zealand were affected:

Vordingborg Cream Cheese closed down on April 1 and the dairy's production was transferred to Holstebro Cream Cheese, Vrinners Dairy and Birkum Cheese. A decision was also made to close Høng Dairy which suffered a serious fire on December 31, 1999, destroying the stores and packing departments. As a temporary measure, these two functions were re-established at Englevaard Dairy so that production could resume in February/March. However, later in the year, the decision was taken to discontinue production at Høng on May 1, 2001. Production will be moved to Troldhede Dairy in West Jutland.

In Sweden, much work was devoted to an extensive structural project named "Alexander". The project, a major undertaking affecting approx. 350 staff, will gather together all cheese packing plants and stores in Sweden in

one place, adjacent to Götene Dairy. By the end of the financial year, the project was proceeding well. Transfers will begin in the spring of 2001. By July 1, 2001, the project should be completed. In consequence of the Alexander Project, the cheese packing plants in Kalmar and Stenstorp and the stores in Nyköping, Sävsjö, Lidköping, and Jönköping will be shut down.

With the aim of producing the world's most sought-after ranges of cheese and butter, the Production Division's work will primarily focus on the following:

- the creation of a coherent production division across Sweden and Denmark
- structural development
- efficiency measures
- product and technology competences
- quality
- service for the sales divisions
- organisational and staff development

Members Division

Arla Foods is a co-operative owned by 16,700 milk-producing co-operative owners in Denmark and Sweden. The Members Division is responsible for liaising with members in their capacity as owners and milk suppliers.

The division is responsible for ensuring that members receive information and service relating to the development of individual members' milk production. Moreover, the division handles milk supplies to Arla Foods' dairies. The milk, of course, must live up to consumer requirements as regards content and production methods. The division's duties also include enhancing the role of the dairy farm within Arla Foods' value chain, i.e. by encouraging the exploitation of the additional value inherent in the farms. This, for instance, applies to Arla Foods' visitor programme for schools which is rated

highly by both schools and pupils.

During the year, Arla Foods' membership fell by 8 per cent. As at 30 September 2000, Arla Foods had 8,639 members in Denmark and 7,482 in Sweden.

In Denmark, there was a reduction of 784 members and in Sweden a reduction of 638 members. The milk volume received for both countries was largely on the same level as last year.

Organic production in Denmark increased by 34 per cent to 307 million kg organic milk and in Sweden by 23 per cent to 71 million kg. In Denmark, the premium to suppliers is 20 per cent of the basic price, averaging 42.9 Danish øre per kg. In Sweden, the premium is 50 Swedish øre per kg.

In Denmark Arla Foods sells "24 hour milk". This means that milk collected from the farm at night is available in the shops the following morning. The milk comes from approx. 1,200 Arla Foods' suppliers.

Fuel prices led to an increase in costs per kilometre for the year as a whole. Nevertheless, costs per litre of milk collected in Denmark remained at almost 8 Danish øre, which is 0.16 Danish øre less than last year.

This is first and foremost because there are fewer milk producing farms and the size of the herds has increased. The tankers, therefore, collect more milk per farm.

The installation of greater pumping capacity in a third of the tankers and the fact that a large number of members improved facilities for emptying farm tanks are the two most important reasons for the reduction in collection costs.

The aim is to increase pumping capacity further.

14 tankers were replaced during the year. One of the new trucks is two-axled, while the trailer is three-axled. The load is 28 tons or approx. 10 tons more than in the four-

Division UK processed 930 million litres milk, an all-time record.





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► **Production Division:** A new division, which comprises all production of Arla Foods' cheese and butter, was one of the results of the merger. With 4,600 employees and a total production of 460,000 tons, the division – the Group's largest with 42 dairies - was formed over the summer. All products are sold to Arla Foods' five sales divisions. The most important event in the new division was the opening of the new large dairy in Taulov, Denmark. In Sweden, the building of the new cheese and butter store, Götene, will be completed during the spring of 2001.

Members' Division: Although energy costs rose significantly, Sweden and Denmark succeeded in keeping costs relating to milk collection down. This is primarily due to the fact that fewer, but bigger, milk producers meant fewer collection stops. New pumping machinery and new vehicles also had a positive impact.

1. Cravendale Purifiltre won the title "Best New Product of the Year" in the UK.	2. Customers outside Sweden had to familiarise themselves with the name Arla Foods. In return, the new company offers a wider choice.	3. In the UK, Gulp has achieved great success in the rapidly growing "convenience" sector. 6. Lurpak Spreadable won the Marketing Society Award 2000 for Brand Development of the Year.	4. In the UK, doorstep sales have fallen: 1999/2000 saw an eight per cent fall.	5. Speciality cheese/dessert cheese is marketed under the new "Discover" brand in the UK. 7. Rosenborg achieved huge success as the UK Division's mould cheese brand, largely because of new innovative products such as sliced blue.
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axled tankers. As the new vehicle functions well, the entire vehicle fleet is likely to be replaced in the longer-term with fewer vehicles covering fewer kilometres. Overall, the tanker fleet was reduced by 26 vehicles.

In Sweden, collection costs – including those for organic milk – rose to 12.1 Swedish øre per kg milk, an increase of 0.4 Swedish øre. The increases are largely due to higher diesel prices, higher driver wages and to the fact that the number of suppliers of organic milk has increased. Costs, however, have been held in check through changes to the collection routes.

In order to reduce environmental impact, Sweden has carried out an experiment in which 2 per cent rapeseed oil is mixed with diesel oil. All tanker drivers attended an environmental course during the year.

One of the Members Division's key roles is to support the democratic process through information, training and meetings in the 79 districts. In connection with the merger, it was decided to combine Region Fyn and Region Øerne. For Denmark as a whole, the number of districts within the regions was reduced from 74 to 40.

The autumn of 1999 saw a substantial increase in membership meetings in Sweden, due to the impending merger. A large number of member representatives participated in courses on global milk issues and discussions on the background to the merger in order to brief the membership.

During the year, a website for Swedish co-operative owners was established where all members can access information with specific relevance to them. Danish co-operative owners can access information about their own milk production via the Farmers' Portal.

A key challenge for the Members Division will be to develop the co-operative members' varying roles within

the Group and to specify the farms' importance to Arla Foods' value chain, so that the value created at the farm can be optimised in the marketplace.

All co-operative owners will continue to receive information about global developments and on how the requirements of the market impact on milk production. It is also the division's intention to harmonise co-operative owner issues so that these are dealt with uniformly throughout Arla Foods. Finally, the Division will strive to ensure that it provides Arla Foods' co-operative owners with access to qualified advice.

Delivering milk to the consumer. In the UK, milk is, in many cases, still delivered by milkmen as an alternative to retail outlets. Phil Evans starts his milk round at 1 am to ensure fresh milk is available for the breakfast table. Phil Evans has been delivering milk for 37 years.



Subsidiaries

in both
countries

Danapak: A continuing unsatisfactory result for Danapak was affected by strongly rising prices for all essential raw materials, combined with the loss-making production of the environment-friendly plastic tubs at the Finnish factory in Nummela. It was decided to dispose of this production. Substantially improved results were achieved within the cartons and flexible packaging business.

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De danske Mejeriers Fællesindkøb: The result for the year of DKK 35.9 million was strongly affected by the proceeds from the sale of Novadan A/S, which previously accounted for approx. one third of the company's turnover. A range of new tasks for Arla Foods has meant that Fællesindkøbet's Trade Department increased its turnover by 15 per cent.



UK consumers can still have their milk delivered to their door.

Danapak

During 1999/2000, the Danapak group achieved an ordinary result of –DKK 99 million on a net turnover of DKK 1,011 million. The result remains unsatisfactory.

The result for the year is characterised by continuing turnaround and structural rationalisation.

In particular, the result was adversely affected by strongly rising prices for all important raw materials as well as the high loss-making tub production in the environment-friendly plastic material FPO at the Finnish factory in Nummela. It was decided to dispose of this production as from the end of 2000.

Despite fierce price competition in all markets and rapidly rising raw material prices, a marked improvement was achieved in the result for cartons and flexible packaging. This had been anticipated.

New strategy

From the beginning of the financial year, Danapak has been working in accordance with a new 3-5 year strategy which, with a three year investment programme of almost DKK 340 million, will generate a profitable growth of DKK 300 million within the existing plants. The increased focus on the large brand producers as well as on the food industry is, therefore, paying dividends. Approximately half the predicted growth during the period 1999-2003 will derive from new orders for cartons and flexible packaging. The market for plastic packaging has not developed as expected. A shortfall in sales in Finland and Eastern Europe, including Russia, affected sales.

Structural rationalisation

During the financial year, the ongoing structural rationalisations continued with the objective of effectivising and optimising production. The

flexibles factory in Odense was sold off and production transferred to the factories in Slagelse and Horsens. The production buildings were leased out. The Swedish plastic tub factory in Svedala was closed at the start of 1999 and production transferred to the factories in Nummela, Finland, and Stilling, Denmark. As the transfer to Finland failed to produce the expected improvements, it was decided to close the loss-making FPO production from the end of 2000. The injection moulding department at the Nummela factory was sold.

Innovation

As the development time for new, strategic products has been brought down, several new products were launched, particularly within the area of flexible packaging. Increased effort was also devoted to patenting Danapak's know-how and new agreements were made which have strengthened Danapak's packing machinery programme.

In the field of cartons, a development company, Dana-Green 2000 A/S, based on new patented packing technology, was set up in conjunction with GreenPack Denmark A/S. Initial customer reactions to the new packaging are particularly promising.

In September, Danapak was awarded the prestigious international "Pro Carton/ECMA Carton Award" for new multi-pack packaging for Carlsberg. In the latter part of the year, the company was awarded the Scandinavian packaging award, "Scanstar", for the design of packaging for an exclusive gift series.

Investments

As part of the three-year programme, Danapak invested approx. DKK 110 million during the financial year 1999/2000, primarily in new and more efficient technology focusing on quality improvements and profitability.

Moreover, major, essential investments were made in environmental protection measures. Of these the biggest were undertaken in the cartons factory in Bremen and the flexibles factory in Slagelse.

Quality and training

The increased focus on quality through enhanced control procedures, a systematic, management-based follow-up on key figures and targetted investments have meant a marked fall in quality costs and complaints.

The increased focus on quality and hygiene will be maintained and developed.

The establishment of a proper staff development function and the formation of a "Danapak University", both aimed at creating a professional and structural training programme, have led to a comprehensive rise in the competence levels of both salaried staff and weekly paid employees. Funds from Danapak's Training Fund have primarily been used to train non-managerial staff members.

The future

The turnaround continues with special focus on tight cost control as well as on efficiency and quality through the Fitness 2000 improvement programme.

As a consequence of the merger between MD Foods and Arla, it was decided to sell off the plastic tub and lids business. The merger has meant that Arla Foods' tub consumption now accounts for a substantial part of the plastic tub market in the Nordic countries. As this is Danapak's smallest business area, it was decided to look for a large international packaging partner with the necessary strength to ensure further development. The decision means that Danapak will be able to concentrate on its core businesses, cartons and flexible packaging. In these

two areas, Danapak is among the largest Nordic producers with a sound and broad customer base.

De danske Mejeriers Fællesindkøb

The year 1999/2000 was characterised by considerable activity in all areas. Turnover and profits were, however, affected by the disposal of Novadan whose turnover for 1998/99 accounted for approx. one third of the company's total turnover and a significant proportion of its earnings.

Excluding Novadan, turnover for 1999/2000 was DKK 553 million, i.e. an increase of 11 per cent.

Member turnover rose from 58 per cent to 62 per cent. The rise was due to the increasingly close purchasing partnership with Arla Foods. Fællesindkøbet is now part of Arla Foods' global purchasing operations for ingredients and certain non-food products. It is expected that this partnership will continue to develop.

The result before tax and extraordinary costs was DKK 6.8 million. The year's result of DKK 35.9 million was strongly affected by the yield from the sale of Novadan A/S.

Turnover for Fællesindkøbet's Trade Department rose by 15 per cent. This was not least due to the fact that the Trade Department was given several new purchasing assignments from Arla Foods. Good progress was also made in sales to other players in the food processing industry. The bakery, brewing, soft drinks and confectionary industries are particularly important customer groups.

At the end of 1999, the Trade Department was split into a Trade Division, tasked with servicing dairy and industrial customers, and a Production Division which produces cheese wax and milk fillers. The Production Division

Rynkeby Foods: Rynkeby Foods' acquisition of Kløver Mælk's juice and mineral water factory in Esbjerg, together with market expansion, have resulted in a 10.6 per cent increase in turnover to DKK 798 million. The disappointing result of DKK -21 million is primarily owing to high raw material prices and a high dollar exchange rate. These costs could not be covered in a highly competitive market.

also operates a mixing plant for both dry and wet mixing. The year saw increasing interest in the mixing plant as more and more customers outsource their mixing activities.

Dairy Fruit in Odense saw a modest rise in sales to the Danish market. Exports are increasing, particularly to the Swedish market and Germany. However, the advance in Germany failed to fulfil expectations for this market. Due to the relatively mild winter, the fruit harvest was large and of a good quality, resulting in lower prices for fruit. The price of strawberries, Dairy Fruits most important raw material, fell by 25 per cent compared to last year. As the market for fermented and dessert products continued to develop positively the development department was expanded.

A/S Crispy Food International saw sales growth in the Danish market where sales of tops for the "MiniMeal" range are rising rapidly. Exports developed positively, especially to Scandinavia, while sales to the UK and Germany were disappointing. Sales of own label muesli are expected to rise in Scandinavia and Germany over the coming year.

Kongstad A/S experienced a 20 per cent rise in turnover. Sales to the food processing industry (both dairies and slaughterhouses) expanded and a significant sales effort in respect of the company's own brands within footwear, clothing and gloves strengthened Kongstad's position in domestic and export markets. The increased activity, which also includes customer days and exhibitions, led to strong growth.

Rynkeby Foods A/S

The sound growth in Danish consumption of fruit juice, iced tea and mineral water continued in 1999/2000. Demand for fruit syrup was on a par with last year. In gener-

al, the market saw strong competition, but Rynkeby Foods managed to maintain its market share and position as market leader.

Rynkeby Foods' acquisition of Kløver Mælk's juice and mineral water factory in Esbjerg on May 10, 1999 and general market trends meant that turnover increased by 10.6 per cent to DKK 797 million. The ordinary result before tax and extraordinary items was DKK -21 million against DKK 29.5 million last year. This result is regarded as unsatisfactory.

The significant decline in gross profit had a particularly adverse impact on the result. This was primarily caused by an unexpected, high consumption of goods and the strongly competitive market which prevented price hikes. The reason for the increased goods consumption was high world market prices for orange and apple concentrates coupled with the effect of the rise in the rate of the dollar. Furthermore, the result was heavily affected by increased depreciation of fixed assets compared to the previous year. Certain non-recurring costs were also defrayed over ordinary operations.

In October 1999, Kildevandskompagniet's shares were sold at a profit which has been booked under extraordinary items. In March 2000, the factory in Esbjerg was closed and production transferred to the Ringe and Rynkeby factories.

At the end of the financial year, a number of changes took place within Rynkeby Foods A/S' top management.

Continued growth in turnover and positive development with regard to earnings are expected for the 2000/01 financial year. This will be achieved through product launches, stronger marketing and a targetted improvement in profitability throughout the company.

Arla Foods' sales representative Frank Glöckner is responsible for 250 stores in North Germany. He organised an eye-catching product presentation as part of a campaign for Buko.





Medipharm: On a background of a renewed interest in microbiology, Medipharm experienced a strong growth in the area of microbiological ensiling agents. There was also substantial interest in probiotic/functional bacteria.

Semper: Semper targets the Nordic market. The company's products are marketed under two brands, Semper and Friggs. Semper is Sweden's leading baby food brand and the brand is now becoming known in other markets. Friggs health food saw positive development during the year.

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1. Despite tough competition, Arla Foods continues to be Germany's third largest cheese supplier.	2. In Saudi Arabia, production capacity for Puck processed cheese in glass containers was expanded	3. In Germany Arla Foods sells butter under the name Arla Markenbutter.	4. Arla Foods has approx. 50 per cent of the Saudi brick pack feta market.	5. The Three Cows, an umbrella brand comprising feta and mozzarella, is sold throughout the Middle East.
6. Shredded cheese for cooking has become a key European export product		7. Buko cream cheese is Arla Foods' largest brand in Germany.		

Medipharm

Medipharm's microbiological ensiling agents are now available in 16 countries. Backed by product development and in-depth market surveys, the company experienced strong growth. From and including this year, some sales in the UK and Northern Ireland are channelled through the company's own sales and marketing organisation, Nutrimix.

As regards food products, there was strong interest in probiotic/functional bacteria. Besides the cultivation of own bacteria, Medipharm also cultivates customer specific strains on a contract basis. The expansion of the Kågeröd plant's quality system and the Health Executive's approval of the plant for production of natural medicine has meant that many of the key players in the market are now showing clear signs of interest.

Enzobact, which is used in the production of low-fat cheese, suffered slower sales last year. The trend, however, reversed during 1999/2000 and the use of Enzobact in the production of low-fat cheese is once again increasing.

During the year, the fermenting line installed at Medipharm USA in 1984 was replaced by a modern line with superior capacity. Consequently, Medipharm USA has become self-sufficient in respect of bacteria concentrate. Spare capacity will be used for some of the production currently taking place at Kågeröd. In connection with investments in production flow, the Kågeröd plant has been adapted for increased production of functional bacteria for food production.

As the next step, production at the Czech subsidiary, Medipharm CZ, will be modernised with a view to ensuring the supply of functional bacteria for use in the European agricultural sector.

Imuguard, developed by Medipharm CZ, won the award

for the most innovative product of 2000 from the Czech Republic's largest fair for veterinary products and feed additives. Besides probiotic bacteria, the product contains active proteins which are effective against certain pathogenic bacteria. Preparations for launching the product in Western Europe and USA are proceeding.

Semper AB

As a result of structural changes resulting from the merger, Semper was converted into a subsidiary which targets food products for infants, health food, dietary products and Food Service.

Most of Semper's production remains centred on Arla Foods' Swedish plants at Götene and Kimstad. However, the plant at Laholm continues to operate under Semper.

Semper's two main brands are Semper and Friggs. The company primarily targets the Nordic market.

Semper baby food

Semper is Sweden's leading baby food brand. The company has maintained its market position thanks to strong sales campaigns and the launch of new products. Despite the fact that the birth rate in Sweden remains low, consumption of baby food in the preceding year showed a positive trend.

Over the past few years, Semper has worked persistently to enhance brand recognition in new markets, including Finland and Russia. Developments in these markets have shown a positive trend over the past year and the Semper trademark is now established in several markets.

Friggs health food

Sales of health food show a positive trend with increasing sales through supermarkets. This has benefited Friggs and developments over the preceding year have been positive,

despite stronger competition. Dietary supplements, natural medicines and vitamin products, e.g. C brus, have proved highly successful product groups. Friggs rice cakes are market leaders. Developments are positive in Sweden, Finland and Norway.

Within specialist stores, the Anjo brand was particularly successful with Omega 3 fish oil.

Semper Nutrition

In the Nordic markets, Semper markets a range for consumers with special dietary and nutritional requirements. Sales of products which consist of liquid dietary supplements have increased markedly in recent years.

Products for individuals who are allergic to gluten continue to be given special attention. Sales of such products have seen particular growth in the UK where Semper, through its Juvela brand, is a market leader.

Food Service

Pancake production at the plant in Laholm was made more efficient during the past year and the market developed positively in Sweden and the rest of the Nordic countries.

The chocolate product, Pucko, further consolidated its market position. During the year, a new coffee flavoured version was launched with considerable success.

Co-operation with Cerealia within the sales company Matpartner AB developed positively. Matpartner is currently one of the leading sales organisations within Sweden's restaurant and catering business.

JO Bolaget

JO Bolaget is 50/50 owned by Arla Foods and Skånemejerier. The company produces fruit juice, fruit drinks, fruit soup and stewed fruit.

Although Brazil's economy is recovering, there is tough competition from large international dairy companies.



During the financial year, production totalled 117.7 million litres, an increase of 9.7 million litres. Turnover increased by 13 per cent to SEK 832 million with the hot summer of 1999 a strongly contributing factor. Sales continued to rise during the autumn. Several product launches and campaigns were positive factors.

For most of the year, the price of orange concentrate remained relatively high. The price of apple concentrate, the second largest raw material after oranges, doubled at the turn of the year. The rising US dollar also played a part. All in all, this has meant a strong rise in raw material prices. To compensate for increased costs, some prices were increased during the spring.

Fruit juice is the range's dominant product, accounting for 90 per cent of sales. JO Bolaget is the market leader in Sweden and the range comprises concentrated juice, ready-to-drink unchilled juice and ready-to-drink chilled juice. The increase is attributable to the ready-to-drink chilled juice range largely because consumers prefer the larger packs.

The partnership agreement with Del Monte and Tropicana was extended during the year.

Expectations for the 2000/01 financial year are positive, partly because sales, despite the wet summer, remained stable, and partly because a large number of exciting launches are planned within the range of chilled ready-to-drink juice, a promising growth area.

Frödinge

Sales of the company's products rose strongly in all markets and exports now account for over 35 per cent of the turnover.

Sales of deep-frozen products in the Swedish domestic market saw a 9 per cent

increase. Deep-frozen products now account for 70 per cent of total turnover. Frödinge's cheesecake continues to be the market leader in Sweden.

Structural changes in the Swedish retail sector continued at an ever increasing pace and, to a certain extent, this impacted on Frödinge's business. The sales staff's working procedures will be changed accordingly. Thus a development programme has been set up to help the sales staff adapt to the new requirements.

In the UK, Frödinge is the main supplier to one of the large multiples thanks to advanced product quality systems and intensive product development for a market in which no single product has been available for longer than two years. The rate of sterling has been favourable as Frödinge invoices in GBP.

However, competition and focus on price have increased after recent consolidation in the international retail sector.

The German cake market is somewhat more conservative. In addition, the growing internationalisation of the retail sector is having an impact – to a certain extent on price trends, too. For most of the financial year, the DM exchange rate was weak compared to the Swedish Krone. The company's products are sold to most of the major players in the market, although not to discount outlets.

A partnership with Chips AB was established in the Finnish market where Chips AB is selling fruit tarts and cakes on behalf of Frödinge. The products are proving popular and initial sales are promising.

During the year under review, Frödinge received the highly regarded Export Prize 2000 from Food From Sweden, an event which attracted considerable publicity.

The increased sales enabled Frödinge to optimise production capacity and the company is currently working flat out to meet demand. During the

year, the plant was expanded and the purchase of machinery, equipment and assembly has largely been completed. The expansion is expected to be finalised by April 2001.

Moreover, an older, fast freezer was replaced by a new freezer with significantly higher capacity. During the spring, the new processing equipment and cake line will be harmonised. This will allow Frödinge to offer the range to new customers.

During the current year, environmental approval for higher production capacity was obtained. Chilling agents in the chilling and freezing plant were replaced by more environment-friendly alternatives.

Arla Foods Holding A/S

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

Overall, Arla Foods Holding's result, DKK 4 million against DKK 35 million in 1998/99, is less satisfactory than last year. The main factor is the reduced result for Rynkeby Foods A/S.

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 Arla Foods' headquarters, Ravnsbjerg Erhvervscenter. The result for the year is satisfactory, although not on a par with 1998/99.

Arla Insurance Company Ltd.

Arla Insurance Company Ltd acts as a reinsurance company for Arla Foods. The company, which is registered in the

Arla Foods' drivers in Saudi Arabia did not have too much to do during the spring. Owing to a BSE incident in Denmark, Saudi Arabia imposed a three-month long import ban.



Cayman Islands, is wholly-owned by Arla Foods.

The 1999/2000 accounts were affected by several fires and a storm in December 1999. The result for the year is positive, although slightly below budget. Under the circumstances, the result is satisfactory.

Andelssmør
A . m . b . a .

Arla Foods holds a stake of approximately 93 per cent in the company which handles the majority of Denmark's butter exports. The company operates as an integral part of Arla Foods. The result for the year is satisfactory.

AM Foods

On October 28, 1996 MD Foods (67%) and Arla (33%) set up a joint company for the production and sale of cappuccino and chocolate instant products for the food service sector and retail segments. The company has now entered a period of consolidation and is showing markedly positive results. The result for the financial year 1999/2000 is satisfactory.



► **JO Bolaget:** Reinforced by a high dollar, the price of orange concentrate was high during the year. At the turn of the year, apple concentrate experienced a twofold price increase. This was partly offset by price increases for part of the range during the spring. Overall, turnover increased by 13 per cent, due to a good summer in 1999 and a number of launches and campaigns.

► **Frödinge:** The Export Prize 2000 from Food From Sweden provided clear proof that Frödinge's products are popular beyond Sweden's borders. Across the board export growth means that exports now account for more than 35 per cent of the company's production. Frozen products account for 70 per cent of the company's turnover.

1. Karoline's Fromage Blanc meets consumer demand for low-fat products.	2. The well-known Swedish yoghurt brand, Yoggi, now comes in practical packaging in the Danish market.	3. 16,100 co-operative owners in Denmark and Sweden supply milk every or every other day.	4. MiniMeal is a new Danish range of snack products.
5. A high standard of welfare for dairy cows guarantees milk of the highest quality.		6. Kærgården – the biggest brand in Denmark – is available in the varieties: Normal, reduced fat and organic.	

Development in Arla Foods *Innovation & Environment*

Around 250 new products or product types per year. Such is the pace of Arla Foods' product development. In addition are the research programmes in collaboration with a large international network of research institutions. Following the merger, all this is taking place within a new joint Danish/Swedish group function, Arla Foods Innovation & Environment. As the name suggests, Arla Foods Innovation & Environment has a key role in the substantial environmental work which is carried out throughout the organisation.



Development and innovation have always played a central role in Arla Foods.

Innovation and environment

The Western world's profusion of products has put increased focus on research and product development to ensure growth and results. The objective is to create products with a clear identity and competitive edge, seen from the perspective of both customers and consumers. Arla Foods has always been aware of the importance of developing and updating its range for individual markets. However, during the past year significant steps have been taken to enhance innovation processes. The merger between Arla and MD Foods provided the foundation for the successful amalgamation of the Danish and Swedish development functions. This has also increased the potential for achieving synergies.

As at July 1, 2000 MD Foods R&D, Arla FoU, Arla Matfett-development and Arla Environment combined into a new group function under the name, Arla Foods Innovation & Environment (I&M).

The unit employs approx. 200 technical and administrative staff in five main areas:

- Group environment
- Product support (co-ordination of own and external research activities, and the development and exploitation of selected technical competencies).
- Development – consumer products (e.g. cheese and fresh products)
- Development – industrial products (e.g. ingredients)
- Innovation support (administrative functions)

The staff are located at seven different bases in Denmark and Sweden, including innovation centres and a number of pilot plants located at relevant dairies.

From concept to new product

Arla Foods is part of a large international research network involving leading universities across the world. A significant part of the research takes place under the auspices of The Danish Dairy Industry's Research Foundation and the Swedish Milk FoU. The knowledge generated via public research activities makes a valuable contribution to the training of future staff and is also used for internal technology projects.

In view of the intense competitive situation within the food industry, development time from concept to launch has become an all important parameter. In order to remain competitive, it is important to develop a high degree of technological skills and to ensure that many different factors can work together during the development process. As Arla Foods puts great emphasis on this, all new products, to a greater or lesser extent, adhere to the prescribed processes.

New products and projects

Arla Foods' operational divisions annually launch some 250 products for a variety of markets. Some of these products are brand new and represent a greater or lesser element of innovation. Others are well known products which are launched in new markets following some adaptation.

A newly developed launch system will throw some interesting light on the state of the Group's innovative processes during the coming year.

One example of a basic development which was highly prioritised in the financial year 1999/2000 is the so-

called functional ingredient, Lactobacillus F19.

Arla Foods was one of the world's first dairies to launch products containing useful lactic acid bacteria as part of the functional food range.

Initially, these products comprised Acidophilus and Bifido cultures like, for example, Cultura. Subsequently, Gaio, with its cholesterol-reducing effect, arrived. Following ten years' research, Arla Foods has now developed a third generation of useful lactic acid bacteria, Lactobacillus F19, which improves the health of the intestine. Lactobacillus F19 survives inside the stomach and attaches itself to the intestine. This provides Arla Foods with the basis for developing new functional foods. The bacteria has been patented in the most important markets.

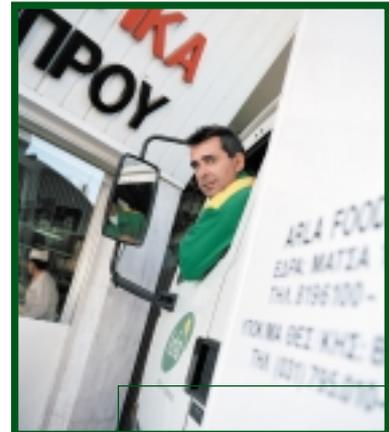
The Environment

at Arla Foods

internally and externally

Improving the internal and external environment has been a long-standing tradition in the daily life of Arla and MD Foods. This approach will continue in the new Arla Foods through a new organisation, Environment Affairs. Located in Viby, the department operates a number of satellite functions in Sweden and the UK.

The new department's objective is to co-ordinate and exploit the many environmental competences residing within the Group. Several ways of achieving synergies within the field of the environment have already been identified. Swedish experience concerning the introduction of the environmental management system ISO 14.001 can be used across the organisation. Similarly, the environmental data system, Envision, which is used to register and process environmental data in Denmark, can be advantageously used at the Swedish plants.



The new Greek company, Arla Foods Hellas, is expected to become a market leader for cheese and butter sales in Greece.

Denmark

All Danish plants adhere to the MD Foods' environmental management system, a system which closely resembles the ISO 14.001. The system supports the formulation of policies, environmental targets and action plans as well as providing six-monthly management evaluations and an annual environment audit at the individual plants.

Environmental targets

Based on data from the financial year 1996/97, Arla Foods' Danish plants are working towards a number of objectives within the working environment and the external environment. These targets must be achieved no later than during the financial year 2002/03.

The working environment

During the past year, considerable effort has been devoted to recording "incidents with a potential risk of personal injury" as a means of preventing work-related accidents. In co-operation with three dairies and the dairy industry's Industrial Health Service, various methods for recording, analysis and follow-up of "incidents with a potential risk of personal injury" have been tested. In general, this project has generated a strong commitment to addressing such issues. The experience drawn will be communicated across the organisation.

The number of work-related accidents is once again declining. After having been indexed at 117 and 115 the two previous years, 1999/2000 saw the number of such accidents fall to 108. There is still some considerable way to go before the objectives are achieved and the issue of work-related accidents will remain high on the agenda over the coming years.

Once again, there has been a substantial fall in the number of Repetitive Strain Injury and Heavy Lifting incidents.

At the same time, a significant reduction in internal noise levels has taken place. Noise levels are now at index 64, a fall of more than 25 per cent compared to last year.

To a significant degree, the positive development is due to substantial investments combined with a targetted effort. As there is still some work to be done before the objective has been achieved, it is important to maintain the necessary requirements in connection with the start-up of new production and installations of plant as well as in connection with modifications to existing plant. No new jobs subject to noise, RSI and heavy lifting should be set up.

External environment

Consumption of water and energy has risen by approximately 1 per cent at the Group's Danish plants, despite endeavours to reduce consumption. Several initiatives have been taken to optimise energy consumption and minimise water consumption. In most locations this has led to a decline in consumption although this has not been sufficient to offset the increase in water and energy consumption caused by structural reorganisation programmes in which new production plant has started up and some dairies closed down. Expectations are that following a running-in period, the consumption of water and energy will, once again, decline.

Sweden

The Swedish plants have worked committedly towards the adoption of ISO 14.001. The first dairy was certified in 1996 and currently more than half the plants have been certified according to ISO 14.001 with the remainder well on their way.

The environmental work has been integrated into the company system comprising ISO

Distribution – a key area. Arla Foods' products are distributed to a large number of small shops in cities and rural areas. Nikos Diamantopoulos, a driver for Arla Foods Hellas, makes sure that customers receive the right products at the right time.



9000 and ISO 14.001. This system sets out a series of environmental targets and action plans – “from soil to table”.

In Sweden, Arla has published an environment report for several years which sets out environmental work in great detail.

The Environment Report for 1999 and further environmental information are available from Arla Foods' Swedish website www.arla.se/miljo.

Co-operative owners

For several years, Arla has operated an environment protection scheme in conjunction with its co-operative owners. An important component of this is that all milk producers have been offered an environmental survey of their farm. In addition, a nutrient balance report is prepared for one in five farms as part of the endeavours to minimise environmental impact.

Packaging

Continuous efforts are directed towards the development of functional and attractive packaging with the least possible impact on the environment. Arla Foods applies life-cycle assessments in order to achieve packaging with minimum environmental impact.

Transport

Within transport the Group also strives to minimise environmental impact, e.g. by training drivers and improving route planning. In addition, alternative fuels such as biogas or a mixture of rape methylester and diesel are being tested.

Production

Several plants have introduced efficiency measures within the field of energy and consumption of energy per kg raw material has fallen in recent years. A range of activities also aim at minimising consumption and establishing alternative energy sources.

Arla Foods intends to reduce the amount of refuse

for dumping. At the same time, a committed effort has been devoted to increasing recycling and energy utilisation.

Chemicals

Arla Foods in Sweden has developed a system for the environmental assessment of chemicals called “Kemlistan”. Initially, criteria have been laid down for the appraisal of cleaning chemicals. By the end of the financial year, 99 per cent of all cleaning agents used had received environmental approval. Arla Foods continues to develop criteria for the assessment of chemicals for disinfection and water treatment.

Environment network

All plants are involved in environmental management. These endeavours include analyses of the plants' impact on the environment and the launch of activities which will reduce such impact. For this purpose, an environmental data system, Envision, and an environmental database have been developed. The data system is used for recording and processing environmental data while the database provides exchange of environmental information as well as experiences relevant to the environment. Both systems are fully implemented in Denmark and are frequently used by the plants as well as by the central department for environmental affairs. The next step will be to adapt the systems to Sweden and other plants outside Denmark. Initiatives such as environment groups, theme days and environment days also contribute to the enhancement of the environmental work and the exchange of knowledge between plants.

The future

On the basis of the two original companies' environmental

strategies, a new overall strategy with matching objectives and action plans is under preparation. The review of the environment strategy is expected to be completed in the spring of 2001.

Products every day. Martine Bulges and Ludovic Perrel work at Arla Foods' sales office in Lyon. They are responsible for ensuring that customers, mainly French multiples, receive the right products at the right time. Once a week, the warehouse in Lyon receives fresh products by lorry from Denmark.



Management

Group Managing Director, **J. Bigum**
 Deputy Group Managing Director, **Å. Modig**
 Supervisory Board
 Chairman, **Lars Lamberg**
 Deputy Chairman, **Knud Erik Jensen**



Bertil Andersson
Niels Bøgedal
Kaj W. Christensen
Christer Eliasson



Anders Ericsson
Leif Eriksson
Elisabeth Gauffin
Åke Hantoft



Tommy Jacobsson
Kr. Ole Kristensen
Sören Kihlberg
Hans Jensen Lund



Ove Møberg
Hans Peter Nielsen
Jan Nørgaard
Arne Olsson



Kaj Ole Pedersen
Peter Stoffersen
Gunilla Svensson
Bent Juul Sørensen



Accounts

Arla Foods

17 April - 1 October 2000

Management Report

Århus, 29 November 2000

Group Management Board of Arla Foods amba

J. Bigum
Group Managing Director

Å. Modig
Deputy Group Managing Director

Supervisory Board of Arla Foods amba

Lars Lamberg
Chairman

Knud Erik Jensen
Deputy Chairman

Bertil Andersson

Niels Bøgedal

Kaj W. Christensen

Christer Eliasson

Anders Ericsson

Leif Eriksson

Elisabeth Gauffin

Åke Hantoft

Tommy Jacobsson

Kr. Ole Kristensen

Sören Kihlberg

Hans Jensen Lund

Ove Møberg

Hans Peter Nielsen

Jan Nørgaard

Arne Olsson

Kaj Ole Pedersen

Peter Stoffersen

Gunilla Svensson

Bent Juul Sørensen

Auditor's Report

We have audited the consolidated financial statements and the financial statements of Arla Foods amba for the period 17 April - 1 October 2000 presented by the Supervisory Board and Management.

Basis of opinion

We planned and conducted our audit in accordance with generally accepted auditing principles to obtain reasonable assurance that the financial statements are free from material misstatement. Based on an evaluation of materiality and risk, during the audit, we tested the basis and documentation for the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting policies applied and the accounting estimates made. In addition, we evaluated the overall adequacy of the presentation in the financial statements. Our audit did not result in any qualifications.

Opinion

In our opinion, the consolidated financial statements and the financial statements of Arla Foods amba have been presented in accordance with the accounting provisions of Danish legislation and give a true and fair view of the Group's and the Parent Company's assets and liabilities, financial position and profit/loss.

Århus, 29 November 2000

KPMG C. Jespersen

E. Black Pedersen
State Authorized Public
accountant

J. Bräuner Knudsen
State Authorized Public
Accountant

**Pricewaterhouse -
Coopers**

Göran Tidström
Authorized Public Accountant

Jesper Lund
State Authorized Public
Accountant

Accounting Policies

General

The accounts of the parent company Arla Foods amba and the consolidated accounts of the Arla Foods Group as a whole have been presented in accordance with the accounting provisions of Danish legislation with such deviations as follow from the special circumstances of the parent company and the Group. These deviations relate, in particular, to the presentation of the results of the non-dairy subsidiaries and associated companies in the Profit and Loss Account for the parent company, cf. below.

The Profit and Loss Account does not include comparative figures as these are the first annual accounts of the company.

The comparative figures for the Balance Sheet are in accordance with the opening balance as on 17 April 2000.

The accounting policies remain unchanged in comparison with the opening balance.

Consolidation

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

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

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

The Profit and Loss Accounts of foreign subsidiaries were translated into Danish kroner using the average foreign

exchange rates, while their Balance Sheets have been translated using the foreign exchange rates prevailing 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 using the exchange rates applicable on the Balance Sheet date and the adjustments following from the translation of the Profit and Loss Accounts of foreign subsidiaries using average exchange rates have been carried out against equity.

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

Foreign currency and financial instruments

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

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

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

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

Subsidies

EU subsidies and subsidies from

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

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

Profit and Loss Account

Net turnover

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

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

Variable costs

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

Development costs

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

Result in subsidiaries and associated companies

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

Dairy-related subsidiaries are defined as subsidiaries which are *primarily* involved in the processing/selling of the milk weighed in by Arla Foods' members. Subsidiaries include the undertakings listed separately in the chart on pages 56-57.

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

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

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

Financial items

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

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

Corporation tax

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

Balance Sheet

Fixed assets in general

The acquisition costs of the fixed assets correspond to the book value of the companies founded and their subsidiaries as on 16 April 2000, adjusted for the value adjustments made in the opening balance, cf. the specification on page 48.

As a general rule, depreciation for the year on the fixed assets taken over has been calculated on the basis of the useful lives fixed by Arla Foods a.m.b.a.

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

Intangible fixed assets

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

The 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.

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 1999/2000, but will be amortised according to the straight-line method over the next three financial years, cf. the mention in the Annual Report on page 7.

Tangible fixed assets

Tangible fixed assets are valued at acquisition cost less accumulated depreciation and write-downs.

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

Office buildings:

50 years

Production buildings:

20-30 years

Technical plant and machinery:

5-10 years

Operating equipment, fixtures and fittings:

3-7 years

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

Plants under construction are not depreciated.

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

Financial fixed assets

Capital shares in subsidiaries and associated companies are entered at the ownership share of the companies' intrinsic value at the end of the financial year after the deduction of anticipated 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.

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. The cost price of the milk which forms part of stock has been entered at the on account price paid to Arla Foods' cooperative members, including supplementary payments to Arla Foods a.m.b.a. members.

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

Stocks are entered at the acquisition price on the basis of the FIFO principle. In the event of the acquisition or cost price exceeding the net realisation value, write-down is made to the lower net realisation value. The net realisation value is determined with account being taken of the turnover rate, marketability and development in the expected sales price of the goods.

Trade debtors

Trade debtors are entered at nominal value less write-downs for bad debts carried out on the

basis of individual assessments of debtors.

Other current assets

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

Equity

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

Capital account:

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

Reserve A:

Reserve A consists of reserves in personal accounts for MD Foods a.m.b.a. The reserve is subject to the following terms and conditions:

1. The Board of Representatives may decide to service deposits in the personal accounts at a rate of interest not exceeding the official Danish discount rate.
2. Any decisions concerning payments from the personal accounts shall be made by the Board of Representatives.
3. No payments shall be effected in the financial period 17 April – 1 October 2000. After that period, the aim is subsequently to effect payments in the 2000/2001 – 2007/2008 financial years.

No payments shall be made to the members of the company which reduce the total of the company capital account and Reserve A. Upon the effecting of such payments from Reserve A, a corresponding amount shall be paid into the capital account, the reserve thereby being successively phased out. In addition, another DKK 280 million shall be added to the capital account through consolidation and in step with payments from Reserve A.

Reserve B:

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

Revaluation reserve:

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

thermore, anticipated 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.

Liable loan capital

According to the Memorandum of Association, Arla økonomisk forening contributed SEK 330 million in the form of subordinate loan capital which, in case of the winding-up of the company, shall be subordinated to other claims. The loan, on which interest accrues at the same rate as Reserve A, shall be repaid by one eighth annually, the first time in 2001.

Provisions

Other provisions comprise in particular the sums provided on the incorporation of the company for merger costs and structural rationalisations.

Cash-flow statement

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

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

The cash flow from investment activities comprises cash flows from the purchase and sale of intangible, tangible and financial fixed assets.

The cash flow from financing activities comprises the arrangement and repayment of long-term and short-term debt as well as payments in respect of shareholders.

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

The cash-flow analysis cannot be deducted solely from the Annual Accounts.

Profit and Loss Account

17 April - 1 October 2000

Note

1	Net turnover	17,453	11,020
2	Variable costs	<u>-14,371</u>	<u>-9,824</u>
	Gross income	3,082	1,196
2	Sales and distribution costs	-2,021	-608
2/3	Administration and joint costs	-480	-154
	Other operating income	41	17
	Other operating expenditure	<u>-68</u>	<u>-25</u>
	Result of primary operations	554	426
4	Result in subsidiaries	-	7
	Result in affiliated companies	12	0
5	Net financial items	<u>-159</u>	<u>-41</u>
	Result for the year before tax	407	392
6	Corporation tax	<u>-13</u>	<u>-13</u>
	Result for the year	394	379
	Minority interest share of result in subsidiaries	<u>5</u>	<u>-</u>
	ARLA FOODS AMBA'S SHARE OF RESULT FOR THE YEAR	399	379
	Proposed distribution:		
	Supplementary payments to Arla Foods' members	276	276
	Transferred to Capital account	72	72
	Transferred to Reserve A	24	24
	Transferred to subsidiary reserves	-	7
	Transferred to other reserves	<u>27</u>	<u>-</u>
	Total	399	379

Balance Sheet

1 October 2000

Note

ASSETS

Fixed assets7 *Intangible fixed assets*

Goodwill, etc.

Equalisation sum

Total

418

419

24

29

276276276276**694****695****300****305**7 *Tangible fixed assets*

Land and buildings

Plant and machinery

Other plant, operating equipment, fixtures and fittings

Tangible fixed assets under construction

Total

3,571

3,637

1,367

1,409

3,278

3,262

1,516

1,464

584

552

58

53

5993557410**8,032****7,806****3,015****2,936**8 *Financial fixed assets*

Capital shares in subsidiaries

Capital shares in affiliated companies

Other securities and capital shares

Other receivables

Total

-

-

2,896

2,849

122

110

33

31

1,904

2,039

843

835

101000**2,036****2,159****3,772****3,715**

TOTAL FIXED ASSETS

10,762

10,660

7,087

6,956

Current assets*Stocks*

Raw materials and consumables

Goods in progress

Finished products and trade goods

Total

777

799

389

394

1,178

1,138

724

715

1,6281,572172250**3,583****3,509****1,285****1,359***Receivables*

Receivables from sales

Receivables from affiliated companies

Receivables from associated companies

Land and buildings for disposal

Other receivables

Accrued income and deferred expenses

Total

4,213

4,041

1,087

1,188

0

0

4,346

3,483

11

6

0

0

48

31

17

1

490

777

102

200

5566163**4,817****4,921****5,568****4,875****Securities****472****566****0****0****Cash****1,348****1,792****317****195**

TOTAL CURRENT ASSETS

10,220

10,788

7,170

6,429

TOTAL ASSETS

20,982

21,448

14,257

13,385

Balance Sheet

1 October 2000

Note

	<i>Balance as at 1 October 2000</i>	<i>Opening balance as at 17 April 2000</i>	<i>Balance as at 1 October 2000</i>	<i>Opening balance as at 17 April 2000</i>
LIABILITIES				
Equity				
Capital account	4,706	4,654	4,706	4,654
Reserve A	743	719	743	719
Reserve B	500	500	500	500
Revaluation reserve	-	-	30	0
Subsidiary reserves	-	-	-6	0
Other reserves	24	0	-	-
Total equity	5,973	5,873	5,973	5,873
9 Minority interests	89	101	-	-
10 Liable loan capital	288	296	288	296
TOTAL LIABLE CAPITAL	6,350	6,270	6,261	6,169
Provisions				
11 Deferred tax	421	453	36	37
12 Pensions, Sweden	671	673	0	0
13 Other provisions	500	654	259	340
TOTAL PROVISIONS	1,592	1,780	295	377
Debt				
14 Long-term debt				
Mortgage lenders	1,175	1,218	1,035	1,071
Credit institutions, etc.	3,256	3,186	1,675	1,700
Total	4,431	4,404	2,710	2,771
<i>Short-term debt</i>				
Short-term part of long-term debt	144	150	119	122
Credit institutions	2,572	2,855	1,376	1,259
Supplementary payments	276	0	276	0
Trade creditors	2,409	2,956	759	771
Amounts owing to affiliated companies	1,808	1,360	1,965	1,264
Amounts owing to associated companies	4	17	3	7
Corporation tax	25	0	13	0
Other debt	1,352	1,646	480	645
Accrued income and deferred expenses	19	10	0	0
Total	8,609	8,994	4,991	4,068
TOTAL DEBT	13,040	13,398	7,701	6,839
TOTAL LIABILITIES	20,982	21,448	14,257	13,385
15 Contingencies and guarantees, etc.				

Non-cash contribution Equity

17 April 2000

The non-cash contribution as at 17 April 2000 from the two founding companies totalled DKK 5,873 million, which was calculated as follows:

Non-cash contribution at book value as per accounting policies so far:

MD Foods amba		3,509
Arla ekonomisk förening	2,366	
“Förlagsinsatser” and “inbetalda insatser”, not transferred	-354	
Subordinate loan capital (SEK 330 million), not transferred	<u>-296</u>	<u>1,716</u>
Total		5,225

Value adjustments on incorporation:

Changes in accounting policies:

Stocks, inclusion of indirect production costs, etc.	226	
Capital share in the Danish Dairy Board, adjusted to intrinsic value	<u>425</u>	
Total		651

Adjustment to market value:

Listed securities	197	
Domicile in Stockholm (following provision for deferred tax)	<u>350</u>	
Total		547

Provisions:

Provisions merger costs	-100	
Provisions structural rationalisations in dairy companies	-220	
Provisions restructuring, etc. in other companies	<u>-230</u>	
Total		-550

Total non-cash contribution

The non-cash contribution has been divided as follows:

Capital accounts (undistributed equity)		4,654
Reserve A		719
Reserve B		<u>500</u>

TOTAL NON-CASH CONTRIBUTION

5,873

Movements in *Equity*

17 April - 1 October 2000

Capital account

Additions through establishment
Provisions of result for the year
Other adjustments

4,654
72
-20

4,654
72
-20

Total**4,706****4,706****Reserve A**

Additions through establishment
Provisions of result for the year

719
24

719
24

Total**743****743****Reserve B**

Additions through establishment

500

500

Total**500****500****Revaluation reserve**

Profit in non-dairy subsidiaries
and affiliated companies, net
Other adjustments

-
-

20
10

Total**-****30****Subsidiary reserves**

Provisions of result for the year
Other adjustments

-
-

7
-13

Total**-****-6****Other reserves**

Provisions of result for the year
Other adjustments

27
-3

-
-

Total**24****-****TOTAL EQUITY****5,973****5,973**

Notes

17 April - 1 October 2000

Note

1 NET TURNOVER

Divided into markets

Sweden	5,060	
Denmark	4,193	
Other EU countries	5,305	
Rest of Europe	330	
Middle East	885	
North America	412	
Central and South America	601	
Asia	477	
Africa	175	
Other	15	
Total	17,453	

Turnover in markets outside Sweden and Denmark	8,200	
Corresponding to	47%	

Divided into product categories

Fresh products	7,061	
Cheese	4,652	
Butter and spreads	2,033	
Condensed milk products	2,574	
Packaging and additives	502	
Other	631	
Total	17,453	

2 Costs

Employee costs:

By function

Production	-1,844	-818
Distribution	-579	-74
Administration	-222	-59
Total	-2,645	-951

By type

Pay and remuneration	-2,232	-898
Pensions	-107	-47
Other social security costs	-306	-6
Total	-2,645	-951

AVERAGE NUMBER OF EMPLOYEES (MAN YEARS)

18,622 6,763

The item Pay and remuneration, including pensions for the Group, includes the parent company's Management Board with DKK 3 million and remuneration to the parent company's Supervisory Board and Board of Representatives being DKK 3 million.

Notes

17 April - 1 October 2000

Note

2 Costs (continued)

Depreciation:

By function

Production	-396	-170
Distribution	-64	0
Administration	-66	0
Total	-526	-170

Net profit on sale of tangible fixed assets amounts to DKK 2 million (group) and DKK 6 million (parent company).

3 Remuneration for auditors elected by the Board of Representatives

Auditors' remuneration:

KPMG C. Jespersen		-2
PricewaterhouseCoopers		-2
<i>Other services:</i>		
KPMG C. Jespersen		-2
PricewaterhouseCoopers		-2
Total		-8

4 Result in subsidiaries

Profit in subsidiaries after tax		21
Loss in subsidiaries after tax		-14
Total		7

The figures include only the results of dairy-related subsidiaries. The non-dairy subsidiaries and affiliated companies have achieved a net profit of DKK 20 million, which has been entered directly to equity.

5 Net financial items

Expenditure:

Interest expenditure to affiliated companies	-23	-9
Interest expenditure to associated companies	0	0
Other financing expenditure	-223	-114
Total	-246	-123

Income:

Interest income from affiliated companies	0	67
Interest income from associated companies	0	0
Other financing income	87	15
Total	87	82

NET FINANCIAL ITEMS

	-159	-41
--	------	-----

6 Corporation tax

Tax on taxable income for the year	-25	-13
Adjustment of deferred tax	18	0
Adjustment of tax for previous years	-6	0
Total	-13	-13

Corporation tax paid (including on-account tax) in the course of the year	2	0
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Notes

*Goodwill,
etc.,
including
con-
solidated
goodwill*

*Equal-
isation
sum*

*Land and
buildings*

*Plant and
machinery*

*Other
plant,
operating
equipment,
fixtures
and
fittings*

*Plant
under
construc-
tion*

Note

7 INTANGIBLE AND TANGIBLE FIXED ASSETS

GROUP

Additions upon establishment	419	276	3,637	3,262	552	355
Foreign exchange adjustments	3	0	-60	-17	-1	-6
Additions for the year	30	0	118	309	132	316
Transfers during the year	0	0	17	49	0	-66
Disposals for the year	-5	0	-23	-29	-16	0
Acquisition cost 1 October 2000	447	276	3,689	3,574	667	599
Depreciation/write-downs for the year	-29	0	-118	-296	-83	0
Depreciation/write-downs of discontinued assets	0	0	0	0	0	0
Depreciation/write-downs 1 October 2000	-29	0	-118	-296	-83	0
BOOK VALUE 1 OCTOBER 2000	418	276	3,571	3,278	584	599

New acquisitions for the year have been reduced by EU subsidies and subsidies from other public authorities of DKK 23 million. At the annual adjustment as per 1 January 2000, the total property valuation of Danish properties with a book value of DKK 1,919 amounted to DKK 2,035 million, to which should be added investments subsequent to this date.

PARENT COMPANY

INTANGIBLE AND TANGIBLE FIXED ASSETS

Additions upon establishment	29	276	1,409	1,464	53	10
Additions for the year	0	0	26	159	13	74
Transfers during the year	0	0	0	10	0	-10
Disposals for the year	-3	0	-22	0	-3	0
Acquisition cost 1 October 2000	26	276	1,413	1,633	63	74
Depreciation/write-downs for the year	-2	0	-46	-117	-5	0
Depreciation/write-downs of discontinued assets for the year	0	0	0	0	0	0
Depreciation/write-downs 1 October 2000	-2	0	-46	-117	-5	0
BOOK VALUE 1 OCTOBER 2000	24	276	1,367	1,516	58	74

New acquisitions for the year have been reduced by EU subsidies and subsidies from other public authorities of DKK 17 million. The cash value of land and buildings as per 1 January 2000 is valued at DKK 1,437 million, to which should be added investments subsequent to 1 January 2000.

Notes

<i>Capital shares in sub- sidiaries</i>	<i>Capital shares in affiliated companies</i>	<i>Other securities and cap- ital shares</i>	<i>Other receiv- ables</i>
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Note

GROUP

8 FINANCIAL FIXED ASSETS

Additions upon establishment	110	2,039	10
Foreign exchange adjustments	0	24	0
Additions for the year	0	59	0
Disposals for the year	<u>0</u>	<u>-229</u>	<u>0</u>
Acquisition cost 1 October 2000	110	1,893	10
Result for the year	12	11	0
Change, in-group stock profit	<u>0</u>	<u>0</u>	<u>0</u>
Adjustments 1 October 2000	12	11	0
BOOK VALUE 1 OCTOBER 2000	122	1,904	10

PARENT COMPANY

Additions upon establishment	2,849	31	835
Foreign exchange adjustments	0	0	-3
Additions for the year	20	0	0
Disposals for the year	<u>0</u>	<u>0</u>	<u>0</u>
Acquisition cost 1 October 2000	2,869	31	832
Foreign exchange adjustments	-13	0	0
Result for the year	19	-3	11
Change, in-group stock profit	1	0	0
Other adjustments	<u>20</u>	<u>5</u>	<u>0</u>
Adjustments 1 October 2000	27	2	11
BOOK VALUE 1 OCTOBER 2000	2,896	33	843

Notes

Note

9 Minority interests					
Minority interests upon establishment		101			
Share of result for the year		-5			
Change in ownership share		<u>-7</u>			
Minority interests end of year		89			
10 Liable loan capital					
Additions upon establishment		296		296	
Foreign exchange adjustment		<u>-8</u>		<u>-8</u>	
Liable loan capital end of year		288		288	
11 Deferred tax					
Deferred tax upon establishment		453		37	
Foreign exchange adjustment		-14		-1	
Change in deferred tax for the year		<u>-18</u>		<u>0</u>	
Deferred tax end of year		421		36	
12 Pensions, Sweden					
Pensions upon establishment		673			
Foreign exchange adjustment		-17			
Provisions for the year		<u>15</u>			
Pensions, Sweden end of year		671			
13 Other provisions					
Other provisions upon establishment		100	554	81	259
Applied during the year		<u>-98</u>	<u>-56</u>	<u>-79</u>	<u>-2</u>
Other provisions end of year		2	498	2	257
14 Long-term debt					
Long-term debt falling due after 5 years		1,622	1,702	1,481	1,496

Notes

Note

15 Contingencies, guarantees, etc.

Surety and guarantee obligations	1,058	2,786
Leasing obligations	134	94
Obligations relating to agreements concerning the supply of fixed assets	412	272
To cover exchange risks, the following foreign exchange forward contracts have been entered into:		
Forward exchange (buying)	136	0
Forward exchange (selling)	3,787	3,531
As security for debt, the following assets have been deposited:		
Owner's mortgage in property	602	170
Securities, book value	208	0
Arla Foods amba has received guarantee certificates from members of the cooperative. The basis for these guarantees is the individual member's deliveries over the past 5 financial years, calculated as DKK 20 per 1,000 kg milk delivered or part thereof.		
DKK 0 has been placed as security for debt.	580	580

The Group is party to a number of individual court cases. The outcome of these cases is not expected to significantly affect the profit for the year or the assessment of the Group's financial standing.

Group

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

SUBSIDIARIES that are all included in the consolidated accounts

Arla Foods AB, Sweden	100.0%
ASM Mjölksocker AB, Sweden (100.0%)	
Arla Ost och Smör Produktion AB, Sweden (100.0%)	
Bregott AB, Sweden (62.4%)	
Scandairy K/S, Denmark	100.0%
Arla Foods Distribution amba, Denmark	100.0%
Danos A/S, Denmark (100.0%)	
Gredstedbro Ost A/S, Denmark (100.0%)	
Kirkeby Mejeri A/S, Denmark	100.0%
Arla Foods Holding AB, Sweden	100.0%
Oy Arla Foods Ab, Finland (100.0%)	
Arla Foods AB, Norway (100.0%)	
Arla Foods AB, Estonia (100.0%)	
Arla Foods Inc., Canada	100.0%
Arla Foods GmbH, Germany	100.0%
Arla Foods S.r.l., Italy	100.0%
Arla Foods Specialost AB, Sweden	100.0%
Arla Foods Inc., USA	100.0%
Arla Foods Hellas S.A., Greece	100.0%
Arla Foods S.A.R.L., France	100.0%
Arla Foods Sp. Z o.o., Poland	100.0%
Andelssmør A.m.b.a., Denmark	93.1%
Enigheden A/S, Denmark	51.0%
Arla Foods Ingredients amba, Denmark	100.0%
Arla Foods Ingredients GmbH, Germany (100.0%)	
Arla Foods Ingredients Inc., USA (100.0%)	
Arla Foods Ingredients KK, Japan (100.0%)	
Arla Foods Ingredients Ltd., England (100.0%)	
AM Produktion K/B, Sweden (66.7%. The remaining 33.1% is owned by Arla Foods AB)	
AM Foods K/S, Denmark (66.7%. The remaining 33.3% is owned by Arla Foods amba)	
Arla Foods International A/S, Denmark	100.0%
Danya Foods Ltd., Saudi Arabia	
Arla Foods Plc., England	
Arla Foods Argentina S.A., Argentina	
Frödinge Holding AB, Sweden	100.0%
Frödinge Mejeri AB, Sweden (100.0%)	
Medipharm Holding AB, Sweden	100.0%
Medipharm AB, Sweden (100.0%)	
Munka Invest AB, Sweden (100.0%)	
Medipharm Investments Ltd., USA (100.0%)	
Medipharm CZ s.r.o., the Czech Republic (100.0%)	
Medipharm Hungary Kft, Hungary (51.0%)	
Semper Foods Holding AB, Sweden	100.0%
Semper Foods AB, Sweden (100.0%)	
Friggs AB, Sweden (100.0%)	
Eterna Näringsprodukter AB, Sweden (100.0%)	
A/S Anjo, Denmark (100.0%)	

Group

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

Arla Foods Holding A/S, Denmark	100.0%
Medani A/S, Denmark (100.0%)	
Kingdom Food Products ApS, Denmark (100.0%)	
Arla Foods Leasing A/S, Denmark (100.0%)	
Ejendomsanpartsselskabet St. Ravnsbjerg, Denmark (100.0%)	
Rynkeby Foods A/S Denmark (50.0%. The remaining 50.0% is owned by Kinmaco ApS)	
Kinmaco ApS, Denmark (100.0%)	
GB Finans A/S, Denmark (100.0%)	
Arla Insurance Co. Ltd., Cayman Islands	100.0%
Arla Foods Fastighetsförvaltning AB, Sweden	100.0%
De Danske Mejeriers Fællesindkøb Amba, Denmark	95.6%
A/S Crispy Food International, Denmark (100.0%)	
Perniel Konsum ApS, Denmark (100.0%)	
Kongstad A/S, Denmark (100.0%)	
Danapak A.m.b.a., Denmark	92.6%
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., England (100.0%)	
Danapak R&D Center A/S, Denmark (100.0%)	

Associated companies

JO-Bolaget Fruktprodukter HB, Sweden (owned through Arla Foods AB)	50.0%
HB Grådö Produktion, Sweden (owned through Arla Foods AB)	50.0%
Synbiotics AB, Sweden (owned through Arla Foods AB)	49.0%
Biolac GmbH, Germany	50.0%
Arla Foods Ingredients S.A., Argentina (owned through Arla Foods Ingredients amba)	50.0%
White Dairies of Scandinavia AB, Sweden	50.0%
Lindals Sp. Z o.o., Poland (100.0%)	
Dan Vigor Ltd., Brazil (owned through Arla Foods International A/S)	50.0%
Matpartner R&S AB, Sweden (owned through Semper Holding AB)	50.0%
Medipharm USA, USA (owned through Medipharm Holding AB)	50.0%
Delimo A/S, Denmark (owned through Arla Foods Holding A/S)	48.0%
Graintec AB, Sweden (owned through Semper Holding AB)	33.3%

Capital shares

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

Pursuant to Section 43, Subsection 2 of the Danish Presentation of Accounts Act (Årsregnskab-sloven) and Section 22, Subsection 5 of the Danish 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.

Cash-flow statement

17 April - 1 October 2000

Cash flow from operations

Result for the year	399
Depreciation and corporation tax	539
Share of result in financial fixed assets	-12
Change in provisions	-188
Change in stocks	-74
Change in receivables	104
Change in trade creditors and other creditors, etc.	-296
Corporation tax paid	-2
Cash flow from operations	470

Cash flow from investments

Investments in intangible fixed assets, net	-28
Investments in tangible fixed assets, net	-807
Investments in financial fixed assets, net	112
Cash flow from investments	-723

Cash flow from financing

Change in debt to financial institutions and mortgage lenders	-285
Cash flow from financing	-285

CHANGE IN CASH (FUNDS) AND SECURITIES**-538**

Cash (funds) and securities as on 17 April 2000	2,358
Cash (funds) and securities as on 1 October 2000	1,820

Key Figures 2000

KEY FIGURES (mio. DKK)

GROUP

ARLA FOODS WORLDWIDE

NET TURNOVER 17 APRIL - 1 OCTOBER 2000

Breakdown of product categories

Other	1,133
Ingredients	2,574
Butter and spreads	2,033
Cheese	4,652
Fresh products	7,061
Total	17,453

Market breakdown

Rest of the world	1,680
North America	412
Central/South America	601
Asia	477
Africa	175
Other	15
Middle East	885
Saudi Arabia	461
Rest of Europe	1,759
Germany	1,064
UK	2,812
Denmark	4,193
Sweden	5,060
Total	17,453

Result

Net turnover	17,453
outside DK, Sweden	8,200
% outside DK, Sweden	47%
Net result	399
Supplementary payments	276
Consolidation	123

Financing

Balance	20,982
Fixed assets	10,762
Gross investments	905
Capital base	6,350

Equity ratio

In %	30%
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Raw materials purchased

Total received (the Group) mio kg	3,344
Denmark	1,914
Sweden	993
Other	437

No. of co-operative owners

	16,121
Denmark	8,639
Sweden	7,482

Employees

No. of employees (man years)	18,622
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Arla Foods in Denmark

- Hjørring Mejeri
- Åkafa
- Bislev Mejeri
- Aars Mejeri
- Farsø Mejeri
- Hobro Mejeri and FVT
- Grena Mejeri
- Vellev Mejeri
- HOCO
- Holstebro Flødest
- Holstebro Mejericenter
- Garage Vestjylland
- Rodkærbrø Mejeri
- Vrinner Flødest
- Enigheden, Århus and FVT.
- Bråbrand Mejeri
- Arla Foods Innovation & Environment
- Arla Foods head office
- IT-centre
- Snejbjerg Mejeri
- Danmark Protein
- Nr. Virum Mejeri
- Arinco
- Troldhede Mejeri
- Klovborg Mejeri
- Tistrup Mejeri
- Varde Smørmejeri
- Vejle Ostelager og Pakkeri.
- Arla Distribution
- Taulov Mejeri
- Kjersing
- Esbjerg Mejeri, Terminal
- Glejbjerg Mejeri
- Kolding Eksportterminal
- Centralværkstedet Brændstrup
- Ribe Mejeri
- Tyrstrup Mejeri and FVT
- Høgelund Mejeri
- Branderup Mejeri
- Samden
- Bov Mejeri
- Grøndal Mejeri
- Cremo
- Birkum Ost
- Slagelse Mejericenter and FVT
- Høj Mejeri
- Ishøj Friskvareterminal
- Overseas Division

Arla Foods in Sweden

- Kågeröd
- Medipharm
- AM Foods
- Laholm
- Halmstad
- Kvibille
- Falkenberg
- Åseda
- Karlskrona
- Kalmar
- Borgholm
- Stånga
- Visby
- Västervik
- Frödinge
- Sävsjö
- Jönköping
- Göteborg
- Hjo
- Alingsås
- Stenstorp
- Mjölby
- Linköping
- Kimstad
- Norrköping
- Skövde
- Lidköping
- Götene
- Nyköping
- Södertälje
- Enskede
- Division Sverige
- Källhäll
- Örebro
- Västerås
- Uppsala

Arla Foods UK

- Newcastle
- Settle
- Leeds
- Bamber Bridge
- Arla Foods Ingredients, Kettering
- Hatfield Peverel
- Oakthorpe

Arla Foods globally

- Norway
- Finland
- Estonia
- Poland
- Germany
- Holland
- France
- Spain
- Italy
- Greece
- Russia
- Canada
- USA
- Brazil
- Argentina
- Saudi Arabia
- Bangladesh
- Malaysia
- Japan

