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

The Chairman's Report
A better than expected result

Management of Arla Foods' financial risks

The divisions
Round the world, round the clock: Sweden Division, Denmark Division, UK Division, European Division, with a market review; Overseas Division with a market review, Arla Foods Ingredients with a market review, Production Division, Members Division.

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

Environment report
Arla Foods' Environment, Health and Safety Policy
It gives me great pleasure to state that the result for the year is not only satisfactory, but also better than expected.

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

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

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

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

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

Owners have shown great understanding of the importance of this.

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

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

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

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

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

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

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

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

The coming year will be dominated by endeavours to enhance the value chain. The same will, of course, apply to the further harmonisation of the milk price systems etc. We will also examine whether new and more beneficial systems can be introduced which, for shorter or longer periods, can tie co-operative owner capital to the company. This could, for instance, apply to the unexploited potential for co-operative capital in personal accounts. Moreover, the issue of how the company’s milk suppliers in the UK can, in one way or another, be linked to the company as co-owners will be considered.
In the first half of the financial year, Arla Foods worked out a strategy based on selected international markets and sectors. Arla Foods is also committed to an ambitious growth strategy aimed at organic growth as well as mergers and acquisitions of profitable dairy activities in carefully defined markets. The objective is to achieve an average growth in turnover of 10% per annum over a five-year period. This will allow Arla Foods to develop in line with the growth of its large, international retail customers. The intention is for Arla Foods to pay its owners, the Danish and Swedish milk producers, a milk price at the high end of the norm for the European dairy industry.

The strategy plan also lays the foundation for restructuring production in Denmark and Sweden. Major rationalisation measures include the closure of 17 dairies and extraordinary investments in new or improved production facilities of DKK 2.3 billion over the lifetime of the plan. Approximately 1,000 employees will be affected and approximately 400 jobs are expected to be lost. Due to the added value to the company’s product ranges combined with organic growth, overall job levels are, however, likely to remain stable over the period.

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

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

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

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

Strategy
In the first half of the financial year, Arla Foods’ Executive Management Group presented an in-depth strategy plan focusing on selected markets and segments. Besides organic growth, this ambitious plan targets growth through mergers and acquisitions of profitable dairy activities in carefully selected markets. The objective is to achieve an average growth in turnover of 10% per year over a five-year period. This will allow Arla Foods to develop in line with its large, international retail customers. The intention is for Arla Foods to pay its owners, the Danish and Swedish milk producers, a milk price at the high end of the norm for the European dairy industry.

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Europe

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

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

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

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

Markets further afield

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

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

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

On the basis of the positive experiences in Saudi Arabia, the intention is to expand Arla Foods’ activities in the region. Initially, this will take the form of a joint venture with the dairy company, National Food Product Company in the United Arab Emirates. Expectations are that a strong market position similar to that in Saudi Arabia can be achieved here. Other options for strengthening Arla Foods’ position in the Middle East will be examined during the current year.

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

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

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

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

Ingredients

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

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

Accordingly, this business area in which Arla Foods intends to establish itself as a global market leader has been given a substantial role in the new strategy plan.

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

The entire upgrading programme for Arla Foods’ production apparatus should be seen within this context. This is particularly the case regarding the construction of a new whey protein factory in Argentina in partnership with Argentina’s largest cheese maker, SanCroc, and the extensive upgrading of the Swedish and Danish powder factories.

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

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

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

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

The rate of the dollar will significantly affect developments within both retail-oriented and ingredients-oriented powder production over the next few years. A considerable share of this business area also depends on world market prices which now appear to be declining. If this proves to be the case, it could lead to a marked decline in earnings within this segment from as early as the current financial year.

Personnel

The need for combining craftsmanship and advanced technology poses particular demands on the professional skills of today’s dairy personnel.
personnel. The substantial requirements on personnel in respect of, e.g. hygiene in modern food production mean that staff must continually upgrade their skills.

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

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

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

Innovation

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

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

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

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

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

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

Investments

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

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

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

Financing

Arla Foods places considerable importance on allocating appropriate funds as a buffer against future fluctuations in the operating result and thus providing the Group with the means to undertake major investments or acquisitions. These financial contingency plans are substantial and sufficient to meet expected requirements.

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

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

The future

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

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

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

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

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

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

Jens Bigum
Management of Arla Foods’ financial risks

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

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

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

Financial instruments are used to hedge commercial risks.

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

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

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

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

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

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

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

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

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

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

It was a good year for fruit drinks, where the strongest increase in chilled, ready-to-drink products. Sales of long-life products, i.e. products which do not require chilling, and concentrates are showing somewhat weaker growth. Sales of cheese went well during the year under review, with Arla Foods’ market share in Sweden now at 51%. The Swedish classics, Grevé, Herrgård, Präst and Sköta, which are sold under the Arla cow trademark, experienced something of a renaissance. Sales of specialty cheese were also good.

**Distribution**

The majority of the division’s products are distributed directly to stores and to customers in the restaurant, catering and food service sector with only a small proportion distributed via wholesalers. The launch of the drinking yoghurt, Yogi Yalla, in individual bottles was particularly well received. As more Danes are eating out, the food service sector is experiencing significant growth. More than 30 new products were launched during the year. Some aim at extending the use of dairy products to other times of the day and to other occasions than traditional ones. Others target the development of existing categories. The greatest change is the marketing of the liquid milk product mini-milk containing 0.5% fat, which was first launched in an organic version and subsequently in a conventional version.

### Production

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

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

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

### Sweden Division

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

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

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

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

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

Increased operational rationalisation
The Denmark Division is responsible for the production of liquid milk and other fresh dairy products. The division operates sites at Hobro, Århus/Enigheden, Brambrand, Tumstrup, Esbjerg, Slagelse and Ishøj and a logistics unit in Vejle. The production structure has been further consolidated through the implementation of the UHT structural plan in which Fabjerg dairy has acquired UHT production from Kimstad Dairy in Sweden. Distribution was subject to a series of changes resulting in both gain and loss of customers.

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

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

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

In the butter/margarine category, Lurpak maintained its position as the UK’s second largest brand. The blended product, Lurpak Spreadable, was a major factor in the rising sales as was the decision to strengthen marketing activities in the southern part of the UK where the north is Lurpak’s traditional key market. With the most...
Europe Division: The Financial year saw satisfactory advances in tonnage and turnover and, in particular, earnings. One reason is that the BSE and Foot & Mouth crises caused consumers in Germany, the division’s largest market, to opt for cheese instead of chilled meats. The increased focus on higher margin products and stronger market positions contributed to the result. The work will continue in the coming years.

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

The Overseas Division achieved good sales and an excellent result.

Foot & Mouth crises have caused many consumers in Germany, the division’s largest market, to eat more cheese rather than chilled meats. All producers – not least the more bulk-oriented producers of firm cheese – have benefited from this.

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

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

In Europe, the European Food Treaty, which was ratified by the European Union in Brussels in July 1999, is expected to lead to a new framework for the European dairy sector. The aim is to build up strong market positions in selected geographical markets with corresponding increased investments in marketing and product development. Overall, the goal is to maintain long-term, stable and profitable growth in Europe. Europe Division

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Germany

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

Overall, Arla Foods enjoyed an excellent year with satisfactory advances in both volumes and earnings. The year was characterised by increased focus on concept products with satisfactory margins. Despite the positive trends, price levels and earnings in the German retail sector continued to be among the lowest in Europe. This means that the multinationals’ demands on suppliers are continuously rising, with wholesalers and importers being hit particularly hard. Arla Foods services all major multinationals directly.

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

Holland

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

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

The Faeroe Islands

Greenland and Iceland

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

Poland

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

Other Eastern European markets

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

Spain

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

France

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

Greece

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

Overseas Division

The Overseas Division achieved good sales and an excellent result.
Favourable, stable foreign exchange markets contributed to a particularly good result which compensated for declining EU export subsidies during the year.

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

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

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

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

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

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

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

The Middle East

Saudi Arabia
Sales to Saudi Arabia were affected by the outbreak of Foot & Mouth in Europe. The BSE and Foot & Mouth crises both affected the Saudi consumers’ perception of, and attitude to, food safety in Europe and in Denmark.

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

Major investments in production in Saudi Arabia continued. Bottling capacity, especially for cheese in glass containers, has, for instance, been significantly expanded. Coupled with the population growth, stable oil prices are creating positive expectations for the country’s economic development.

The Gulf States and Lebanon

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

The Caspian area

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

North Africa and Egypt

Sales of Lurpak to Egypt saw a sharp increase. The other North African countries also showed
significant activity. Expectations for the future are positive.

AMERICA

US

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

Despite fluctuations in the US milk price, local production of feta and havarti in partnership with White Clover Dairy also developed positively. In spite of the downturn in the US, an excellent result is expected for the coming year with regard to both imported and locally produced products.

Canada

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

EUROPE

Russia

The stabilised Russian economy contributed to a highly satisfactory development in exports to Russia. Close collaboration with selected partners and importers enhanced distribution and provided a continuity which has strengthened Arla Foods’ reputation as a supplier of quality cheese and butter.

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

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

ASIA

Japan

Japan continues to be in recession and domestic demand and retail turnover are declining as deflation has set in. This is impacting on the retail sector’s demand for cheese.

Part of the slowdown can be ascribed to the prolonged effect of last year’s food scandal which hit Japan’s largest dairy company.

The recession appears to have had less impact on the major part of cheese consumption, i.e. cheese as an ingredient in cooking, for pizzas, burgers, snacks, etc. Total cheese imports, however, showed a declining trend for the first time in a decade.

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

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

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

South East Asia

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

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

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

Unless the region’s economy deteriorates and world market prices for dairy products come under significant pressure or export subsidies fall, sales are expected to be maintained in the coming year, possibly even rising slightly.
Pakistan
The division had a good year, with advances exceeding 30% for both cheese and Lurpak butter.

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

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

Arla Foods Ingredients

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

A total of 1.7 billion kg milk as raw material was delivered by Arla’s dairy and Arla Foods Ingredients have chosen to outsource their production to Arla Foods Ingredients. These include some of the world’s largest suppliers of baby food. The financial year saw significant advances in the number of products as well as in tonnage.

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

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

Industry
Expectations remain positive for the development of the industry business area which comprises production and sales of added value ingredients for global industrial customers. In particular, there is significant potential within added value whey proteins, an area in which Arla Foods enjoys a major position among the global market leaders. Scarcity of raw materials and insufficient production capacity currently represent the biggest barrier to increased turnover. Consequently, whey from the Swedish cheese factories will be sent to Denmark in concentrated form for further processing. This whey was previously used for animal fodder.

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

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

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

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

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

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

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

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

Production Division

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

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

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

The division produces approx. 475,000 tons of which 330,000 is cheese and approx. 145,000 tons is butter and blended products. Of the total 475,000 tons, approx. 127,000 tons is produced at the Swedish dairies with 348,000 tons in Denmark. The production is primarily sold through Arla Foods’ other divisions. The division employs 4,400 people.

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

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

With approx. 27,500 tons per year, Holstebro Cream Cheese will be significantly expanded in the near future.

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

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

A decision to close Borgholm Dairy on Öland was also taken. Consequently, production of large, round cheeses will be centred on Voije cheese packaging plant and Taulov. At Taulov, a new large warehouse for the storage of firm cheese has been commissioned, allowing several small warehouses in Denmark to be closed.

In the specialty cheese area, Trolldhede Dairy has been expanded, allowing the transfer of production from Herning. Hong Dairy suffered considerable fire damage in December 1999 and is now closed.

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

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

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

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

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

Members’ Division

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

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

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

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

Another challenge for the division is to enhance the value chain “from soil to table”, which is one of the resources of an agricultural cooperative. Further steps towards increased harmonisation will be yet another important part of the division’s work.

At Restaurant Villa Källhagen, 10 minutes from Stockholm’s city centre, Chef Frederik Eriksson works wonders with cheese. Here he’s creating a minor masterpiece for the cheese board: an open sandwich of Kvibille Ädel cheese and homemade malt crispbread, a small glass of shredded Präst cheese and cumin, a centrepiece containing Kvibille Cheddar and a “bread basket” of Grevé and celery. Frederik Eriksson was voted “Chef of the Year” in Sweden in 1987.
Danapak: Allowing for the sell-off of Danapak Plast, turnover rose by 6% and the company achieved a positive result. In the cartons area, Danapak has entered into a strategic alliance with Westergaard & Philipson to offer a full range for the majority of the cartons market. Within flexible packaging, Danapak has focused on a number of selected niche areas.

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

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

De danske Mejeriers Fællesindkøb

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

Member turnover accounted for 71% of the turnover in 2000/01 against 62% in 1999/00. The result before tax and extraordinary items was DKK 24.7 million against DKK 4.8 million the year before. The result for the year was DKK 29 million against DKK 34.4 million in 1999/00.

With a rise in turnover of 38%, Crispy Food in Gellerup, Denmark, had a satisfactory result. In the Danish market, sales of top for Miniwoke were stable. In conjunction with Arla Foods’ Development Department, a range of new tops for the UK was developed and sales are promising. Late in the year, the company began to export...
Rynkeby Foods A/S: Sales to the Danish retail and catering sectors rose by 4% while exports and sales to industrial customers fell by 12%, primarily as a consequence of the termination of a number of contracts. Overall, however, turnover and earnings rose.

During the year, a series of new, modern packaging and new flavours were launched. A new logo and relatively strong marketing effort contributed to the company's increased profile in the market.

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

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

A second positive element was the targeted effort to improve profitability. This has resulted in a satisfactory rise in productivity compared to the previous year.

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

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

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

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

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

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

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

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

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

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

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Semper Nutrition

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

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

Food service

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

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

The future

Despite weaker trends and a continuing low Swedish birth rate, the outlook is for continued growth within all product areas. New products are in the pipeline and the company’s marketing will be strengthened.

JO Bolaget

JO Bolaget, which is 50:50 owned by Arla Foods and Mälarömejerier, operates within the field of fruit juice, fruit drinks, fruit soup and stressed fruit.

In 2000/01, total sales increased to 123.6 million litres, a rise of 4.3 million litres while turnover rose by 7% to SEK 670 million. The hot summer of 2001 contributed significantly to this. A series of product launches and campaigns also contributed positively.

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

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

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

Andelsmæsser A.m.b.a.

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

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

The company has now entered a period of consolidation and is showing remarkably positive results. The 2000/01 financial year is satisfactory.
Arla Foods’ policy is to produce and supply products in a healthy and safe working environment while striving to minimise the impact of our activities on the surrounding environment. The Group’s overall environment, health and safety policy is reflected in a series of specific objectives.

Arla Foods’ Environment, Health and Safety Policy

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

Arla Foods’ policy is to produce and supply products in a healthy and safe working environment while striving to minimise the impact of our activities on the surrounding environment.

In concrete terms, this means Arla Foods will:

- continually improve the Environment, Health and Safety (EH&S) performance of products and activities
- conserve energy and raw material, reduce waste, and explore opportunities for reuse and recycling
- minimise potential EH&S impact when developing new products and business and when planning capital projects
- actively co-operate with authorities and other relevant stakeholders
- encourage our suppliers to develop and supply EH&S superior products and services through cooperation and in line with our requirements
- ensure that our employees are aware of Arla Foods’ EH&S policy and motivated to apply it, are aware of their own responsibilities and are given the support and training necessary to fulfil them
- plan, prepare and regularly review company objectives, targets and action plans for EH&S issues
- monitor and communicate our EH&S activities and performance against our plans both internally and externally.
Corporate objectives

Environment, Health and Safety Management

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

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

Water and energy

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

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

Health and Safety at Work

Arla Foods wishes to work actively to ensure a good working environment and to avoid the occurrence of accidents. The aims are:
- to gather data as a basis for setting out concrete targets no later than the end of the budget year 2001/2002.

Where such data already exists (DK), the aims are:
- to reduce the work-related accident frequency by 25% over a five year period from the end of the budget year 2000/01 to the end of 2005/06.
- to reduce the number of work-related injuries by 25% over a five year period from the end of the budget year 2000/01 to the end of 2005/06.

Analyses result in fewer work-related accidents

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

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

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

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

Reduction in use of chemicals

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

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

New driving techniques reduce fuel consumption

To reduce energy consumption in connection with milk transport,
Auditors’ Report

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

Basis of opinion

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

Opinion

In our opinion, the consolidated accounts and the annual accounts have been prepared in accordance with the stipulations for the consolidation of the assets and liabilities, financial position and results for the financial year of the group and the parent company.

Århus, 28 November 2001

KPMG C. J. Jespersen

E. Black Pedersen
STATE AUTHORIZED PUBLIC ACCOUNTANT

J. Brauner Knudsen
STATE AUTHORIZED PUBLIC ACCOUNTANT

PricewaterhouseCoopers

Colin Tidström
AUTHORISED ACCOUNTANT

Jesper Lund
STATE AUTHORIZED PUBLIC ACCOUNTANT
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 Danish Company Accounts Act (Selskabsregnskabsloven) with such deviations as follow from the special circumstances of the parent company and the Group. These deviations relate, in particular, to the presentation of the results of the non-dairy subsidiaries and associated companies in the Profit and Loss Account for the parent company, cf. below.

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

The comparative figures have consequently been revised.

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

The accounting policies remain unchanged in comparison with last year.

Consolidation

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

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

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

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

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

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

Foreign currency and financial instruments

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

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

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

Subsidies

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

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

Profit and Loss Account

Net turnover

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

The net turnover for Arla Foods 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’ co-operative owners as well as costs, including depreciation, wages and salaries, incurred to realise the turnover for the year.

Development costs

The costs of developing new products are entered as expenses as they are incurred.
The Profit and Loss Account of the parent company includes the pro-
portional 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 pro-
cessing/selling of the milk weighed
in from Arla Foods’ co-operative owners. These companies are listed separately in the chart on pages
56-57.

The share of results after tax of non-dairy subsidiaries have not
been included in the parent com-
pany’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 inter-
est are regarded as associated. These undertakings are included
under one item in the Profit and
Loss Account and the Balance
Sheet, and their turnover has thus
not been included in the consoli-
dated turnover.

The difference between the way
in which shares of profits in dairy-
related and non-dairy undertakings
are presented in the Profit and
Loss Account and the Balance
Sheet, and their turnover has thus
not been included in the consoli-
dated turnover.

The share of results after tax of
the individual companies.

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

Balance Sheet

Fixed assets in general

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

Intangible fixed assets

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

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

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

Tangible fixed assets

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

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

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

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

Plants under construction are
depreciated.

Assets with a short useful life,
minor assets and minor improve-
ment expenses and computer soft-
ware are expensed in the year of
acquisition.

Investments

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

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

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

Stocks

Raw materials, consumables and
goods for resale are entered at the
acquisition price. The cost price of the milk which forms part of stock has been entered at the price paid, including supplementary payments, to Arla Foods amba’s co-operative owners.

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

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

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

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

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

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

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

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

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

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

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

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

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

Revaluation reserve:
The account includes net revaluations of dairy subsidiaries in accordance with the equity method.

Minority interest share of results in subsidiaries:

1. Results for the year
2. Results for the year before tax
3. Other operating income
4. Other operating expenditure
5. Other income
6. Other expenditure
7. Other provisions
8. Other provisions on account of income tax
9. Other provisions on account of supplementary payments to Arla Foods’ co-operative owners
10. Other provisions on account of provisions for pensions in subsidiaries

11. Results of primary operations
12. Results in associated companies
13. Net financial items
14. Results for the year before tax
15. Results for the year
16. Other provisions on account of provisions for pensions in subsidiaries
17. Total

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

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

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

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

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

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

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

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

Terms of reference:

1. The Board of Representatives 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.

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

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

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

Revaluation reserve:
The account includes net revaluations of dairy subsidiaries in accordance with the equity method.

Minority interest share of results in subsidiaries:

1. Results for the year
2. Results for the year before tax
3. Other operating income
4. Other operating expenditure
5. Other income
6. Other expenditure
7. Other provisions
8. Other provisions on account of income tax
9. Other provisions on account of supplementary payments to Arla Foods’ co-operative owners
10. Other provisions on account of provisions for pensions in subsidiaries

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12. Results in associated companies
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14. Results for the year before tax
15. Results for the year
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In addition, DKK 280 million shall be added to the capital account through consolidation and concurrently with payments from Reserve A.

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

Revaluation reserve:
The account includes net revaluations of dairy subsidiaries in accordance with the equity method.

Minority interest share of results in subsidiaries:
### BALANCE SHEET: DKKm

#### ASSETS

| Fixed assets |  | Total |
|--------------|----------------|
| 7 Intangible fixed assets | 7 |
| Licences, trademarks, etc. | 53 |
| Goodwill, incl. consolidated goodwill | 656 |
| Total | 987 |

| 7 Tangible fixed assets | 1 |
| Land and buildings | 3,571 |
| Plant and machinery | 2,278 |
| Other plant, operating equipment, fixtures and fittings | 1,504 |
| Tangible fixed assets under construction | 599 |
| Total | 8,032 |

#### 8 Investments

| Participating interests in subsidiaries | 122 |
| Participating interests associated companies | 273 |
| Other securities and participating interests | 1,004 |
| Other receivables | 10 |
| Total | 2,006 |

#### Current assets

| Stocks | 777 |
| Raw materials and consumables | 745 |
| Goods in progress | 1,178 |
| Finished products and goods for sales | 1,628 |
| Total | 3,583 |

#### Debtors

| Trade debtors | 4,213 |
| Amounts owed by affiliated companies | 0 |
| Amounts owed by associated companies | 210 |
| Other debtors | 48 |
| Prepayments and accrued income | 55 |
| Total | 4,817 |

| Securities | 472 |
| Total current assets | 10,220 |
| Total assets | 21,275 |

#### EQUITY AND LIABILITIES

| Equity | 4,706 |
| Capital account | 4,706 |
| Reserve A | 649 |
| Reserve B | 500 |
| Revaluation reserve | - |
| Subsidiary reserves | - |
| Other reserves | 34 |
| Total equity | 5,111 |

| Minorities | 89 |
| Minority interests | 89 |
| Total minority interests | 89 |

| Subordinated loan capital | 288 |
| Total subordinated loan capital | 288 |

#### CREDITS

| Long-term creditors | 1,757 |
| Mortgage lenders | 1,757 |
| Financial institutions, etc. | 2,289 |
| Total | 4,046 |

| Short-term creditors | 777 |
| Short-term portion of long-term creditors | 171 |
| Financial institutions | 2,672 |
| Total | 3,643 |

| Contingencies, guarantees, etc. | 21 |
| Subsidiary reserves | 19 |
| Total | 40 |

| All credits | 12,696 |
| Total credits | 12,696 |
| Total | 12,696 |
### EQUITY: movements

**DKKm**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Participating interests</td>
<td>300</td>
<td>-300</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Corrected balance at 2 October 2000</th>
<th>4,706</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferred from result for the year</td>
<td>222</td>
</tr>
</tbody>
</table>

**Total** 4,928

- **Reserve A**
  - Balance at 2 October 2000 | 743 |
  - Paid to MD Foods amba | -94 |
  **Total** 649

- **Reserve B**
  - Balance at 2 October 2000 | 500 |
  **Total** 500

**Revaluation reserve**

<table>
<thead>
<tr>
<th>Adjustments</th>
<th>Balance at 2 October 2000</th>
<th>-</th>
</tr>
</thead>
</table>

| Profit in non-dairy subsidiaries and associated companies, net | 169 |
| Other adjustments, etc. | -315 |
| **Total** | | 77 |

**Subsidiary reserves**

<table>
<thead>
<tr>
<th>Adjustments</th>
<th>Balance at 2 October 2000</th>
<th>-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferred from result for the year</td>
<td>-6</td>
<td></td>
</tr>
<tr>
<td>Other adjustments, etc.</td>
<td>-113</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>-18</td>
</tr>
</tbody>
</table>

**Other reserves**

<table>
<thead>
<tr>
<th>Adjustments</th>
<th>Balance at 2 October 2000</th>
<th>-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferred from result for the year</td>
<td>-7</td>
<td></td>
</tr>
<tr>
<td>Other adjustments, etc.</td>
<td>-228</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>-34</td>
</tr>
</tbody>
</table>

**Total** 6,111

---

### CASH-FLOW: statement

**DKKm**

- **Results for the year** 1,157
- **Depreciation and corporation tax** 1,336
- **Share of results in associated companies** -12
- **Change in provisions** -40
- **Change in stocks** 100
- **Change in debtors** 170
- **Change in trade creditors and other creditors, etc.** -1,138
- **Corporation tax paid** -21

**Cash-flow from operations** 1,244

- **Cash-flow for investments**
  - Investments in intangible fixed assets, net | -70 |
  - Investments in tangible fixed assets, net | -1,476 |

**Cash-flow for investments** -1,546

**Cash-flow from financing**

- **Cash-flow from financing**
  - Change in debt to financial institutions and mortgage lenders | -43 |

**Cash-flow from financing** -43

**Change in cash funds and securities**

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

---
### 1: Turnover

Divided into markets

- **Sweden**: 10,062 DKKm (5,000)
- **Denmark**: 9,248 DKKm (4,150)
- **Other EU countries**: 12,396 DKKm (5,305)
- **Rest of Europe**: 762 DKKm (330)
- **Middle East**: 2,105 DKKm (880)
- **North America**: 928 DKKm (412)
- **Central and South America**: 932 DKKm (602)
- **Asia**: 1,225 DKKm (477)
- **Africa**: 430 DKKm (175)
- **Other**: 27 DKKm (15)

**Total turnover in markets outside Sweden and Denmark**: 38,133 DKKm (17,453)

Corresponding to

- **Fresh products**: 15,430 DKKm (7,061)
- **Cheese**: 10,040 DKKm (4,652)
- **Butter and spreads**: 4,289 DKKm (2,032)
- **Condensed milk products**: 5,573 DKKm (2,574)
- **Packaging and additives**: 1,065 DKKm (502)
- **Other turnover**: 1,136 DKKm (631)

**Total turnover**: 38,133 DKKm (17,453)

### 2: Costs

#### 2.1: Employee Costs

<table>
<thead>
<tr>
<th>By Function</th>
<th>01.10.2000</th>
<th>30.09.2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>-3,663</td>
<td>-1,844</td>
</tr>
<tr>
<td>Sales and distribution</td>
<td>-1,505</td>
<td>-741</td>
</tr>
<tr>
<td>Administration</td>
<td>-534</td>
<td>-59</td>
</tr>
</tbody>
</table>

**Total**: -5,762 (2,045)

#### 2.2: Pay and Remuneration

<table>
<thead>
<tr>
<th>By Type</th>
<th>01.10.2000</th>
<th>30.09.2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay and remuneration</td>
<td>-4,926</td>
<td>-2,083</td>
</tr>
<tr>
<td>Pensions</td>
<td>-314</td>
<td>-47</td>
</tr>
<tr>
<td>Other social security costs</td>
<td>-477</td>
<td>-14</td>
</tr>
</tbody>
</table>

**Total**: -5,762 (2,045)

#### 2.3: Average Number of Employees (Man Years)

**18,200** (18,622)

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

### 3: Costs (continued)

#### 3.1: Depreciation

- ** Equalisation sum (production)**: -92 DKKm
- **Production**: -903 DKKm (-396)
- **Sales and distribution**: -128 DKKm (-71)
- **Administration**: -156 DKKm (-66)
- **Net profit/loss on sale of intangible and tangible fixed assets**: -12 DKKm (6)

**Total**: -1,291 DKKm (-527)

### 4: Remuneration for Auditors Elected by the Board of Representatives

<table>
<thead>
<tr>
<th>Firm</th>
<th>01.10.2000</th>
<th>30.09.2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPMG C. Jespersen</td>
<td>-3,663</td>
<td>-1,844</td>
</tr>
<tr>
<td>PricewaterhouseCoopers</td>
<td>-2,045</td>
<td>-903</td>
</tr>
</tbody>
</table>

**Total**: -5,708 DKKm (-2,747)

### 5: Results in Subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>01.10.2000</th>
<th>30.09.2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit in subsidiaries after tax</td>
<td>18,200</td>
<td>15,430</td>
</tr>
<tr>
<td>Loss in subsidiaries after tax</td>
<td>-2,045</td>
<td>-1,291</td>
</tr>
</tbody>
</table>

**Total**: 16,183 DKKm (14,139)

**Net financial items**

- **Expenditure**: -5,708 DKKm (-2,747)
- **Income**: -5,708 DKKm (-2,747)
- **Interest income from affiliated companies**: 67 DKKm (111)
- **Other financing income**: 67 DKKm (111)
- **Other financing expenditure**: -661 DKKm (-223)
- **Net financial items**: -240 DKKm (87)

### 6: Corporation Tax

- **Tax on taxable income for the year**: -21 DKKm (2)
- **Adjustment of deferred tax**: 1 DKKm (18)
- **Correction of tax for previous years**: -4 DKKm (6)

**Total**: -27 DKKm (-13)

**Corporation tax paid in (including on-account tax) in the course of the year**: 21 DKKm (2)
### Fixed Assets

#### Intangible and Tangible

<table>
<thead>
<tr>
<th>Item</th>
<th>Group:</th>
<th>Parent Company:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost 02.10.2000</td>
<td>57</td>
<td>26</td>
</tr>
<tr>
<td>Revison of opening balance</td>
<td>300</td>
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</tr>
<tr>
<td>Corrected acquisition cost 02.10.2000</td>
<td>57</td>
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</tr>
<tr>
<td>Foreign exchange adjustments</td>
<td>-7</td>
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<tr>
<td>Additions for the year</td>
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<tr>
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<td>-73</td>
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<tr>
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<td>-103</td>
</tr>
<tr>
<td><strong>Book Value 30.09.2001</strong></td>
<td><strong>94</strong></td>
<td><strong>594</strong></td>
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</tbody>
</table>

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

#### Parent Company

<table>
<thead>
<tr>
<th>Item</th>
<th>Group:</th>
<th>Parent Company:</th>
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</thead>
<tbody>
<tr>
<td>Acquisition cost 02.10.2000</td>
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### Intangibles

#### Intangibles

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<th>Group:</th>
<th>Parent Company:</th>
</tr>
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<tbody>
<tr>
<td>Acquisition cost 02.10.2000</td>
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<tr>
<td>Transfers during the year</td>
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<tr>
<td>Disposals for the year</td>
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<tr>
<td>Acquisition sum 03.09.2001</td>
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<tr>
<td>Deprec. and write-downs 02.10.2000</td>
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<tr>
<td>Depreciation of revaluation</td>
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<td>0</td>
</tr>
<tr>
<td>Corrected depreciation and write-downs 02.10.2000</td>
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<td>0</td>
</tr>
<tr>
<td>Deprec. and write-downs for the year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation and write-downs of discontinued assets</td>
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</tr>
<tr>
<td>Depreciation and write-downs 30.09.2001</td>
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<tr>
<td><strong>Book Value 30.09.2001</strong></td>
<td><strong>83</strong></td>
<td><strong>0</strong></td>
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</table>

### Investments

#### Investments

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<th>Item</th>
<th>Group:</th>
<th>Parent Company:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost 02.10.2000</td>
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<td>31</td>
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<tr>
<td>Corrected acquisition cost 02.10.2000</td>
<td>2,869</td>
<td>31</td>
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<tr>
<td>Foreign exchange adjustments</td>
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<td>0</td>
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<tr>
<td>Additions for the year</td>
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<td>0</td>
</tr>
<tr>
<td>Disposals for the year</td>
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<td>0</td>
</tr>
<tr>
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<td>Additions for the year</td>
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<tr>
<td>Acquisition sum 03.09.2001</td>
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</tbody>
</table>

New acquisitions for the year have been reduced by EU subsidies and subsidies from other public authorities of DKK 6 million. The cash value of land and buildings in Denmark as at 1 January 2001 is valued at DKK 1,294 million, to which should be added investments subsequent to this date.
### 9 Minority interests
- Minority interests beginning of year: 89
- Share of results for the year: 1
- Change in ownership share: -2
- Minority interests end of year: 94

### 10 Subordinate loan capital
- Subordinate loan capital beginning of year: 288
- Foreign exchange adjustments: -36
- Subordinate loan capital end of year: 252

### 11 Deferred tax
- Deferred tax beginning of year: 423
- Foreign exchange adjustments: -50
- Change in deferred tax for the year: -1
- Deferred tax end of year: 415

### 12 Pensions, Sweden
- Pensions beginning of year: 671
- Foreign exchange adjustments: -87
- Provisions for the year: 25
- Pensions end of year: 696

### 13 Other provisions
- Other provisions beginning of year: 2
- Reversion of opening balance: 0
- Corrected other provisions beginning of year: 2
- Provisions for the year: 0
- Other provisions end of year: 0

### 14 Long-term debt
- Long-term debt falling due after 5 years: 1,076

### 25 Contingencies, guarantees, etc.
- Surety and guarantee obligations: 1,167
- Leasing obligation (total): 310
- Obligations relating to agreements concerning the supply of fixed assets: 417
- To cover exchange risks, the following foreign exchange forward contracts have been entered into:
  - Forward exchange (Buying): 1,777
  - Forward exchange (selling): 4,889
- As security for debt, the following assets have been deposited:
  - Mortgage deed registered to the owner of property with a book value of: 444
- Securities, book value: 0
- Arla Foods amba has received guarantee certificates co-operative members. The basis for these guarantees is the individual member's deliveries over the past 5 financial years, calculated as DKK 20 per 1,000 kg milk or part thereof.
- DKK 0 has been placed as security for debt.

The Group is party to a few lawsuits. The outcome of these cases is not expected to significantly affect the profit for the year or the assessment of the Group's financial position.
The companies marked with • are defined as dairy-related, and their results are included in the Profit and Loss Account of the parent company. The other companies are defined as non-dairy, and their results are therefore taken directly to the equity of the parent company.

**SUBSIDIARIES** that are all included in the consolidated accounts

- Arla Foods AB, Sweden
- A/S MjølkcooperAB, Sweden (100.0%)
- Arla Ost och Smör Produktion AB, Sweden (100.0%)
- Bregott AB, Sweden (62.4%)
- Arla Foods Distribution abMore, Denmark
- Dansar A/S, Denmark (100.0%)
- Gredstedbro Ost A/S, Denmark (100.0%)
- Møjetegnssilten Pyn ApS, Denmark
- Kirkeby Mejeri A/S, Denmark
- Arla Foods Holding AB, Sweden
- Oy Arla Foods Ab, Finland (100.0%)
- Arla Foods AB, Norway (100.0%)
- Arla Foods Inc., Canada
- Arla Foods GmbH, Germany
- Arla Foods K.S.L., Italy
- Arla Foods Specialist AB, Sweden
- Arla Foods Inc., USA
- Arla Foods S.A.R.L., France
- Andelssmør A.m.b.a., Denmark
- Eignheiten A/S, Denmark
- Arla Foods Ingredients amba, Denmark
- Arla Foods Ingredients GmbH, Germany (100.0%)
- Arla Foods Ingredients Inc., USA (100.0%)
- Arla Foods Ingredients KK, Japan (100.0%)
- Arla Foods Ingredients AB, Sweden (100.0%)
- Arla Foods Ingredients Ltd., England (100.0%)
- Arla Foods Ingredients AB, Sweden (100.0%)
- Arla Foods Ingredients KooporAB, Sweden (100.0%)
- Arla Foods Ingredients Korea Co. Ltd., South Korea (70.0%)
- AM Produktion K/B, Sweden (66.7%)
- Arla Foods Sp. Z o.o., Poland
- Arla Foods International A/S, Denmark
- Arla Foods Hellas S.A., Greece
- Synbiotics AB, Sweden (owned through Arla Foods AB)
- Arla Foods Leasing A/S, Denmark
- Medini A/S, Denmark
- Földinghe...
ARLA FOODS:
: Supervisory Board and
Management Board

JENS BIGUM
MANAGING DIRECTOR

ÅKE MODIG
DEP. MANAGING DIR.

LARS LAMBERG
CHAIRMAN

KNUD ERIK JENSEN
DEPUTY CHAIRMAN

BERTIL ANDERSSON

LEIF BØGEDAL

LARS LAMBERG

KNUD ERIK JENSEN

CHRISTER ELIJSSON

ANDERS ERICSSON

LEIF ERIKSSON

ELISABETH GAUFFIN

ÅKE HANTFOFT

SÖREN KIHLBERG

KR. OLE KRISTENSEN

OVE MØBERG

HANS PETER NIELSEN

JAN NØRGAARD

KAJ OLE PEDERSEN

SØREN RASMUSSEN

PETER STOFFERSEN

CHRISTER ELJSSON

TOMMY JACOBSSON

PER NORSTEDT

BENT JUUL SØRENSEN
### Key Figures: 02.10.2000 - 30.09.2001

**DKK million**

#### Profit
- Net turnover: 36,133
- Variable ESGE: 10,642
- Net profit: 1,197
- Supplementary payments: 60
- Employee benefit: 497

#### Financing
- Balance sheet total: 20,480
- Fixed assets: 10,523
- Gross investments: 3,677
- Capital base: 6,448

#### Equity ratio (%)
- No. of co-operative owners: 27%
- No. of employees (full years): 10,280

#### Gross Investments
- Inside DK/SE: 17,453
- Outside DK/SE: 6,988
- North America: 928
- Europe: 5,573

#### Divided into Product Categories

### Group Turnover

<table>
<thead>
<tr>
<th>Category</th>
<th>02.10.2000</th>
<th>30.09.2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter &amp; spreads</td>
<td>2,033</td>
<td>2,033</td>
</tr>
<tr>
<td>Condensed milk products</td>
<td>5,573</td>
<td>5,573</td>
</tr>
<tr>
<td>Cheese products</td>
<td>3,877</td>
<td>3,877</td>
</tr>
<tr>
<td>Dairy products</td>
<td>6,988</td>
<td>6,988</td>
</tr>
<tr>
<td>Ingredients</td>
<td>7,921</td>
<td>7,921</td>
</tr>
<tr>
<td>Packaging and additives</td>
<td>1,136</td>
<td>1,136</td>
</tr>
<tr>
<td>Other</td>
<td>4,652</td>
<td>4,652</td>
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<tr>
<td>Total</td>
<td>36,133</td>
<td>36,133</td>
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</table>

#### Divided into Markets

<table>
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<tr>
<th>Market</th>
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<th>30.09.2001</th>
</tr>
</thead>
<tbody>
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<tr>
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<tr>
<td>Other</td>
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#### Divided into Product Categories

<table>
<thead>
<tr>
<th>Category</th>
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