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Annual Report 2001/02



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Contents

Key figures	2	Managing financial risk at Arla Foods	38
The Chairman's report	5	Accounts	40
Report	6	Accounting policies	41
Changes in the production structure	10	Profit & loss account	45
Market reports		Balance sheet	46
Home markets	13	Equity movements	48
European markets	17	Cash flow statement	49
Overseas markets	20	Notes	50
Ingredients for the food industry	24	Group companies	56
Relations with co-operative owners	25	Arla Foods' Supervisory Board	58
Innovation	27		
Environmental considerations	28		
Subsidiaries	30		

Front cover: Jessica Russo, 22, a machine operator at Gothenburg Dairy for the past year, works with production of drinking milk and yoghurt.

The people behind Arla Foods' products. Lars Wamberg met some of them in Sweden, the UK and Denmark and photographed them in typical working situations. The photos were all shot under available light.

The product photos show some of the year's new products. The numbers refer to the back flap of the report where there is a short description of the products.



The Chairman's Report

As a milk producer myself, I can confirm that earnings from primary production remain under pressure. Nevertheless, at the same time, as Arla Foods' owners we should be pleased that our company has achieved a result which few international dairy groups can match this year.

As the international market for dairy products continues to be characterised by tough competition, we're compelled to follow the course outlined in our strategy plan. We have, however, proved our ability to operate a profitable business – both under last year's favourable market conditions and under this year's more difficult circumstances.

Arla Foods is now firmly placed on the map of the global dairy industry. The decision to embark on a cross-border merger has, therefore, proved to be correct.

In March 2002 we decided to introduce a new, common milk pricing system with effect from, and including, October 2003. Made as part of the ongoing harmonisation of the payment system, the decision reflects the market's requirements with regard to the fat and protein content of milk. Consequently, the year saw the implementation of extensive preparations needed for creating common terms and conditions for all our co-operative owners.

As we have now concluded the second year after the merger, much focus will be on October 1, 2003 when Arla Foods, in keeping with

the merger agreement, will adopt a common milk price for co-operative owners in both countries.

The work regarding the company's capital structure is proceeding within the Board as well as in the Consolidation Committee. The answers to questions as to whether part of the equity capital should be individual and, therefore, transferred to co-operative owners' accounts is greatly dependent on the fiscal consequences and we're currently awaiting the Danish and Swedish tax authorities' proposals on this issue.

One pre-requisite is that, after October 1, the joint company will receive the milk and pay the common milk price instead of the current situation whereby the process is conducted by the two original companies. Clarification of the tax consequences is crucial to the further work on the cross-border merger and for the dismantling of the two national companies, Arla ek.för. and MD Foods amba.

During the year many co-operative shareholders engaged in the debate concerning the quality programme for the entire value chain from farm to table. This has provided us with a better understanding of the market's demands on milk producers. The discussions will continue right up until June 2003, when the Board of Representatives is expected to make its decision on the quality programme.

The months ahead will also give a better insight into the shape of the

agricultural policies of the future, including the EU's expansion towards the East and the mid-term evaluation of the reform of the Common Agricultural Policy.

For Arla Foods, the EU Commission's proposals for an environment and agriculture-related redirection of farm subsidies to more direct subsidies to farmers will be of crucial importance.

Yet another important issue stems from the phasing out of the milk quota system. If this were to take place without compensation, it could lead to dramatic falls in milk prices. We are committed to working towards a solution in which Denmark and Sweden obtain similar terms as those of our colleagues in other countries.

During the year Arla Foods took leave of a number of co-operative owners who ceased producing milk. New co-operative owners have, however, joined us and we wish to welcome them to the company.

This welcome, of course, also extends to the 106 milk producers from Helleved Omegns Co-operative Dairy who joined Arla Foods' on October 1, 2002.

The budget for 2002/03 is an ambitious one, which, despite the uncertainties in the markets, will allow us to pay a competitive milk price. Consequently we are well prepared for the challenges facing us in the coming year.

Lars Lamberg

← At the Samden milk powder factory, trainee Palle Hvid Rasmussen is inspecting spray tower 1 to ensure that there are no lumps in the powder and that the powder layer is correct. Palle Hvid Rasmussen, 30, used to work at Fredericia and Taulov Dairies, but in December 2001, he began to train as a dairy expert.

Report

Despite the international economic slowdown, Arla Foods succeeded in maintaining last year's milk price paid to its co-operative owners. In view of the downturn, the result for the year should be regarded as highly satisfactory.

While other dairy companies in Europe as well as countries outside Europe have cut milk prices by up to 25%, Arla Foods proved more resistant to falling world prices for dairy products thanks to a good balance between bulk products and brands. The rate for two of Arla Foods' main currencies, USD dollar and GBP, however, fell during the second half of the year.

Developments in Arla Foods' two large domestic markets were characterised by considerable pressure and increased competition, not least in Denmark where the retail trade continues to focus on own label products. In addition, there is growing concern about stagnating sales of organic milk. In 2001/02, Arla Foods utilized only around 30% of organic milk as "organic" with the remainder sold as conventional milk products.

In general, the market position in Sweden was maintained and good earnings were achieved.

A satisfactory result was achieved in the UK both in terms of the local milk business and imports from Denmark.

European export markets experienced more pressure on prices,

partly as a result of increased supplies of bulk cheese and partly because the launch of the euro generated some caution among, in particular, German consumers. Sales in the US and the Middle East were satisfactory and sales in South East Asia, with the exception of Japan, give grounds for believing that satisfactory earnings are achievable in the region and that prospects are good.

2001/2002 was a particularly difficult year in respect of market conditions in Brazil and Argentina where the sales office in Buenos Aires was closed down. A major reorganisation of the Brazilian sales company is being implemented.

The strategy plan

In consequence of the 2001 strategy plan, Arla Foods implemented a number of activities during the financial year.

The construction of a whey protein factory in Argentina in a joint venture with Argentina's largest dairy company, SanCor, is completed and the factory was commissioned in September 2002. This investment will contribute to strengthening Arla Foods' position as a leading global supplier of whey proteins to the food industry. The raw material base has already been fully utilized in Sweden and Denmark and, in order to develop this area further, it is necessary to expand production elsewhere.

Argentina was selected because of its extensive cheese production and large underexploited raw material base.

In the field of ingredients, a 50/50 joint venture with Germany's Nordzucker, Europe's fifth largest sugar producer, was formed for production of the sweetener Gaio tagatose. Production is expected to start in the summer of 2003 at Nordzucker's plant in Hannover.

If successful, the next step will be to establish a tagatose plant at Arla Foods' dairy in Taulov in Eastern Jutland

Some key decisions were made with regard to Arla Foods' third domestic market, the UK, during the year under review. In October 2002, it was decided to build a new liquid milk dairy in Leeds as Arla Foods' existing dairy in the centre of the city did not allow for further expansion. The new dairy, which will be sited adjacent to the recently built warehouse at Stourton, is expected to be commissioned in October 2004. Having scope for further expansion, the dairy will be able to play a role in any future rationalisation of dairy production in the UK.

The packing and production of approx. 35,000 tons butter and spreads from the New Zealand dairy company, Fonterra, was transferred from the company's UK plant to Arla Foods' production facilities in Varde in Denmark and

Götene in Sweden. This is part of the joint venture with Fonterra that came into force last year. To ensure a smooth running-in phase considerable resources were required.

After the close of the financial year Arla Foods acquired the UK cheese importer, H.T. Webb, whose range of speciality cheese will broaden Arla Foods' product portfolio and strengthen its position in a rapidly growing market segment.

In Denmark, Arla Foods acquired 50% of the share capital of Cocio Chokolademælk A/S with effect from March 1, 2002. Before the deal, Arla Foods supplied milk to Cocio which recently commissioned a new production facility.

On October 1, 2002 the dairy Hellevad Omegns Andelsmejeri merged with Arla Foods. The two companies have enjoyed a close relationship for some considerable time.

With regard to marketing Arla Foods launched the Arla master brand which is designed to meet the need for a common product brand in a number of markets. The Arla master brand is red with the name "Arla" in white on the red background – in contrast to the green company logo. The objective of the Arla master brand is to increase awareness of the group's products and its values. An extensive reorganization of the existing brands has been carried out and these will be gathered under the Arla master brand.

Product categories

Within the field of liquid milk, the Danish and Swedish launches of bottled milk were important events. The launch was successful and has, so far, resulted in increased

sales of milk from newsagents and service stations. Arla Mini is now a realistic and healthy soft drink alternative.

In general, Swedish milk consumption has stabilised following several years of decline. The increased consumption has, in part, been driven by popular coffee bars' sales of coffee drinks with milk. Although the trend has not had a similar impact in Denmark, the launch of minimilk (with 0,5% fat) in 2000 has led to a reorientation of the Danes' milk-drinking habits towards reduced fat.

Cheese sales were characterised by greater supplies to the European market following falls in skimmed milk powder prices. Sales of sliced cheese and cream cheese, particularly to the German market, have, however, increased.

As for butter/spreads, Lurpak once again demonstrated its superior strengths in the UK market. At the beginning of the financial year, a spread with a 60% fat content was launched under the Lurpak brand achieving better-than-expected sales. Lurpak sales also continued their upward curve in the Greek market where the partnership with the local company, Delta Foods, has led to improvements to the distribution system. Lurpak butter also increased sales in South East Asia although on a lower volume level.

Finally, Arla Foods initiated a programme for expanding the group's competencies within the food service segment. The programme includes development and supply of products for consumers on the move. In view of predictions that increasing numbers of consumers will eat outside the home,

this poses new demands on the traditional types of home-orientated dairy products.

The structural plan

During the year, substantial progress was made with the very comprehensive plan for the group's post-merger operational structure aimed at maximising the synergies arising from the merger. To date, the Board has approved 12 of the plan's 18 projects and the entire process is expected to be concluded during 2005. Financing costs for the plan are expected to be slightly below the DKK 2.3 billion envisaged in 2001. The investments under the plan are, however, additional to the ordinary investment programme of DKK 1.6 billion.

The decision to construct a milk powder factory in Vimmerby means that Arla Foods is now gathering a large part of its powder production in Sweden at the new plant, which is scheduled for completion in 2004.

In Sweden the special product dairy in Linköping was commissioned in June.

Financing

Arla Foods' rapid development has generated an ongoing need for financing. The support by cooperative owners agreeing a consolidation of 5 øre per kg milk per year ensures a reasonable solidity. In future, consideration will also be given to the disposal of activities that are not essential to core dairy activities. In September 2002, for instance, Arla Foods sold the former headquarters of Arla in Sweden, Torsgatan in Stockholm, under a lease-back scheme.

Arla Foods is also considering a range of borrowing models for its financing requirements, including subordinated loan capital.

Pension commitments

Developments in international finance markets, including the dramatic falls in share prices over the past 12-18 months, have meant that the pension commitments of numerous US or UK based companies are not fully covered.

This trend has also impacted on Arla Foods in the UK which, as at September 29, 2002 had uncovered pension commitments of GBP 38 million. As was the case in previous years, the amount is not entered in the accounts. At other times the company has experienced considerable fluctuations in its pension commitments, including movements in the share and bond portfolios which, through independent pension funds cover the company's liabilities vis-à-vis its workforce, although not to the same extent as since September 11, 2001.

Up to and including 2000/01 Arla Foods plc included these differences over a future number of years based on actuarial calculations every three years. For 2001/02 this practice has been adjusted in accordance with international accounting practice albeit still calculating any differences in the result over a future number of years.

Besides the UK, the group also has pension commitments in the Swedish companies. The Swedish arrangement, however, differs from the UK system in that amounts are not paid into pension funds but entered in the profit and loss accounts. Since the Swedish arrangement does not include securities, the Swedish companies are not directly affected by price movements in the annual actuarial calculated commitment.

Ett Arla

Following the decisions concerning Arla Foods' organisation, strategy and structural plans as well as its consolidation plan, the company initiated a comprehensive project aimed at integrating the working processes and management systems of the two original companies into one common system named Ett Arla. When the work is completed in 2004, Arla Foods will have achieved simpler and more efficient working processes through the creation of greater cohesion across divisions and national borders.

During the project phase the group will draw on substantial resources made available by employees over and above their daily duties.

Personnel

Inspired by the Swedish part of the group, Arla Foods has carried out

a job satisfaction survey among all staff in Denmark and Sweden. The survey showed a fair degree of job satisfaction among staff comparable to the average for this type of survey. The poll is a tool for measuring whether the group is achieving its targets in terms of its employees. It also provides a sound basis for further work.

Working procedures and management principles were set out in the publication *Our Day* issued to all employees in the spring. The publication aims at creating a broad understanding of the company's principles and values.

The future

No significant cyclical improvements are expected for the current financial year. The consolidation of the retail sector and in the European dairy industry continues. Consequently, Arla Foods faces considerable challenges in respect of efficiency improvements.

The prospects for the EU's enlargement towards the East and the impending evaluation of the Community's agricultural reforms will help to clarify the dairy industry's future trends and make it easier for Arla Foods to adjust its operations accordingly.

Credit Control Manager Nicola Purcell discusses →
an outstanding payment with her boss at the creditor
department. Nicola Purcell, 34, has been employed at
Arla Foods' UK headquarters in Leeds since 1989.



Changes in the production structure

The map opposite lists the plants that were subject to closures, expansion or new constructions in 2001/02.

The back flap of the cover of this report provides an overview of Arla Foods' plants as at October 1, 2002.

During the year under review, the Danish and Swedish plants produced the following volumes within the four main categories:

1,617,000 tons fresh products

330,00 tons cheese

145,000 tons butter and spreads

290,000 tons ingredients and powder products

● Butter and spreads

In Denmark, production of Lurpak butter at Varde Butter Dairy was transferred to Holstebro Dairy in June 2002. Holstebro now produces all Arla Foods' Danish butter and spreads. From October 1, 2002, Varde Butter Dairy took over the packing of the New Zealand dairy group, Fonterra's butter products.

Butter production at Hellevad Omegns Co-operative Dairy was transferred to Holstebro Dairy on November 1, 2002.

In Sweden, Götene Dairy took over production and packing of Fonterra's spreadable products with effect from October 1, 2002. Götene Dairy plans further expansion in preparation for the transfer of butter production from Göteneburg Dairy by the end of 2003.

An agreement with Skånemejerierne was signed during the year for the transfer of their butter and spreadable products production to Götene.

● Ingredients

A new milk powder plant with an annual capacity of 380 million kg milk (i.e. 20% of Arla Foods' milk volume in Sweden) is planned for Vimmerby. The plant is expected to be commissioned by the end of 2004. The milk powder factories at Mjölby and Kimstad will be closed and powder production at a number of cheese dairies will be discontinued.

The expansion of the plant at Visby began in August 2002. The project will more than double capacity to 16 million kg powder annually.

In Denmark, the Akafa and Arinco milk powder factories will be upgraded and expanded. When the expansion programmes are completed at the end of 2003, the milk powder factory in Kjersing will close and its production transferred to Akafa and Arinco.

● Fresh products

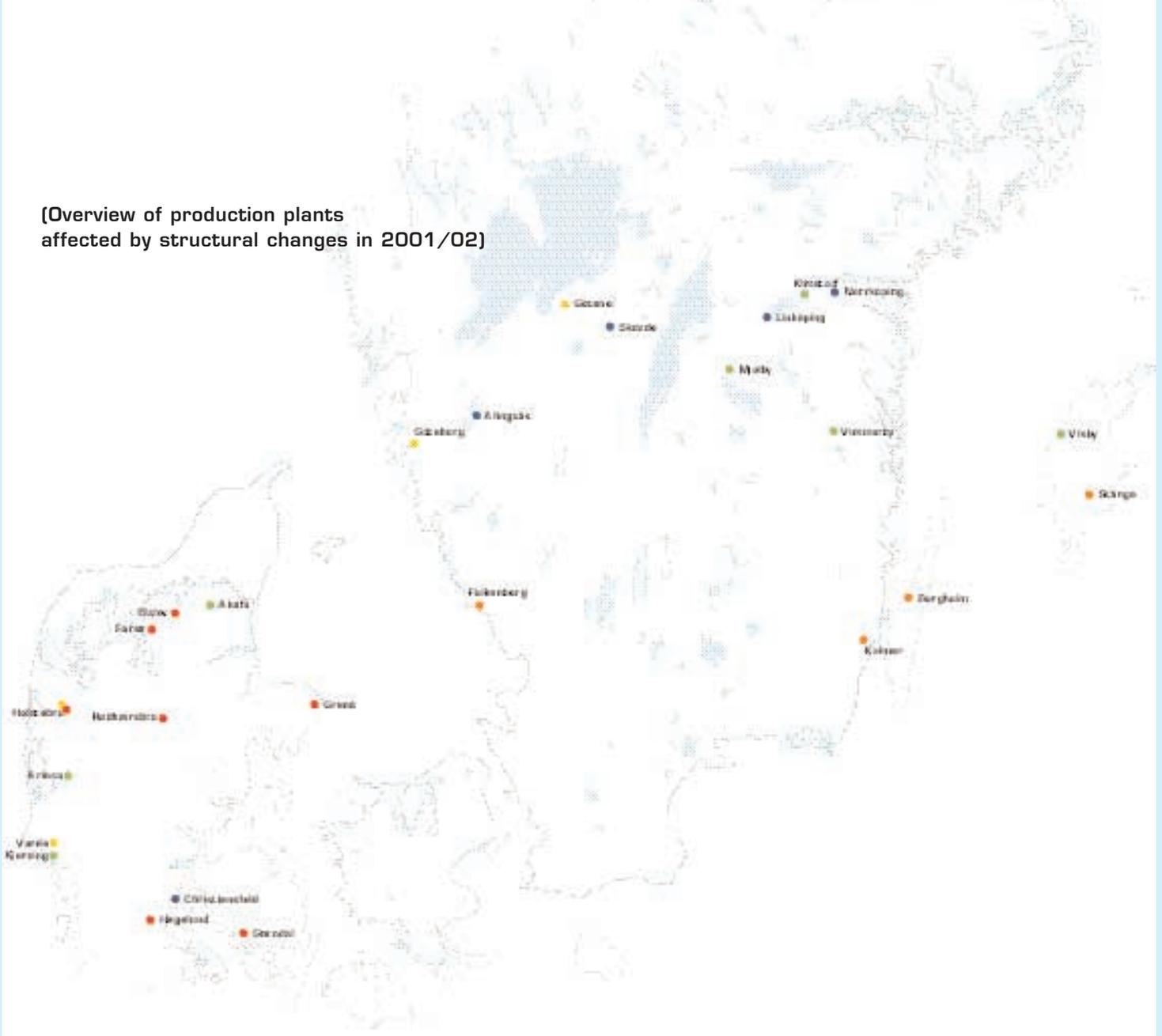
In Sweden, the dairy at Skövde was expanded to produce cottage cheese for both the Swedish and Danish market.

The Östgöta project involved the expansion of the dairy at Linköping for the production of yoghurt and cooking products. Norrköping dairy was closed during the summer of 2002 and its yoghurt production transferred to Linköping dairy.

Fruit juice production is now centred on the expanded Alingsås Dairy. Halmstad Dairy will close in 2003.

In Denmark, the only change involved the transfer of cottage cheese production from Christiansfeld Dairy to Skövde.

(Overview of production plants affected by structural changes in 2001/02)



● **Speciality cheese**

In Denmark, Farsø Dairy closed in August 2002 when the dairy's mozzarella production was transferred to Rødkærsbro Dairy. Here, capacity was increased by 4,000 tons. Arla Foods' mozzarella is now produced at Rødkærsbro.

The expansion of Høgelund Dairy, which produces Danish Blue, is expected to be completed in the summer of 2004. In October 2004, Grenå Dairy will close

and its production of Danish Blue transferred to Høgelund which will then be responsible for Arla Foods' entire production of Danish Blue.

As part of an agreement with the Danish competition authorities, Grøndal Dairy was sold off and its production of feta transferred to Bislev Dairy.

A substantial expansion programme to increase capacity at Holstebro Cream Cheese dairy began.

● **Firm cheese**

Expansion of Kalmar Dairy in Sweden is under way with expected completion in 2004 after which Borgholm Dairy will be closed.

It has been decided to upgrade Falkenberg Dairy from the end of 2003, after which Stånga Dairy will be closed.



Home markets

The size of Arla Foods' market shares in the Danish and Swedish home markets restricts further growth within the field of traditional dairy products. The strategy for these markets, therefore, aims at developing new products designed to be consumed at different times of the day and, perhaps, by different consumer segments. Within this context, one important market is the food service sector which accounts for a rapidly growing share of food consumed outside the home, i.e. in canteens, restaurants, pizza bars, petrol stations, etc.

The UK is another crucially important market for Arla Foods. The strong position held in the UK for butter and fresh milk provides the foundation for further expansion.

Denmark

Overall sales in the Danish market were stable and in line with last year, although noticeable shifts occurred between individual categories.

The successful launch of mini-milk (with 0,5% fat) and Arla Mini portion bottles helped to strengthen sales of liquid milk. This was particularly due to Danish consumers' demand for products with reduced fat and a high level of convenience and accessibility. In line with the falling demand for high-fat products, sales of butter

and blends have declined while cheese sales were maintained.

During 2001/02 Arla Foods launched more new products than ever before. On average four new products were launched each month. Due to a strong campaign, the launch of Arla Mini raised particular interest from the media and among consumers in general. The products have proved very popular and have helped to achieve Arla Foods' ambition of increasing milk consumption, especially among young consumers.

Marketing activities were comprehensive and the number of visitors to the arla.dk website increased markedly following the inclusion of consumer-related information on food.

Competition in the Danish market hardened, particularly with regard to butter and spreads and the share of own-label products increased within the fresh products area. Arla Foods intends to continue the development and production of its customers' own-label products – the challenge will be to maintain a reasonable balance between production of own-label and Arla-branded products.

Cross border consolidation of the retail industry continues with the formation of the retailers Coop Norden and Dansk Supermarked's entry into the Swedish market as prominent examples from the past year.

As for product ranges, the trend towards a single Northern European marketplace continues. Consequently, the challenge is to create a Nordic marketing plan which, based on the Denmark and Sweden Divisions, will drive the development of Arla Foods' Nordic brands and ranges over the coming years. The launch of the new Arla brand offers particularly exciting challenges.

Competitive pressures are expected to continue. Despite efficiency enhancements in both production and distribution during the year, focus will be on further resources and efficiency measures.

Food and beverage consumption can be expected to see further changes with clear trends towards convenience food and food services. Arla Foods intends to participate in this development through new service concepts and products.

Moreover, it will be natural to consider the dairy range's competitive situation in relation to non-dairy based beverages, cold cuts and breakfast and cooking products. The task, therefore, remains to continue the development of an attractive milk-based product range that is easily accessible to consumers in a wide variety of situations.

Sweden

Sales in the Swedish market during the year under review ex-

← Tanker driver Carsten Nielsen, 42, has been collecting milk on Zealand since 1978 working out of Slagelse Dairy. This particular afternoon and evening he is working the 240 km route 15, which will take him to Stevns. Along the route he will collect 44 tons milk. After his return, he will start out on a shorter, 60 km trip to the north of Slagelse.

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ceeded the budget and the total volume of fresh products sold also exceeded the previous year's sales.

A brand analysis in October 2002 showed Arla to be Sweden's most popular brand.

The biggest product in terms of volume, liquid milk, where per capita consumption has been in decline for several years, is now showing a stable trend. Milk used in coffee and the growing popularity of milk as a good source of nutrition at a reasonable price is contributing to this development. Sales of junket and yoghurt also increased in volume, partly owing to the hot summer. Sales of cream increased for the eighteenth year in succession.

Keso and Kesella (cottage cheese and fromage frais), also performed well, with the flavoured varieties achieving the highest volumes.

Firm cheese also had a good year. A weak Swedish krona meant that competition from imported products was not as tough as in previous years.

The fruit juice market is characterised by intense competition with volumes somewhat lower than last year owing to competition from discount products.

In keeping with the trend towards eating outside the home and the consequent greater individual demand for a broader range, increased focus is on product and packaging development.

Arla Foods, therefore, has begun to develop a product range that matches consumer demand for healthy, quick meals for eating at home or on the road. Recent launches include Yoggi Yalla (bottled yoghurt drinks), milk in portion bottles, junket in portion bottles, Mini Meal (vanilla rice with jam) and fruit juice in bottles. Several new products of this type will be added in the coming financial year. Sales and distribution in this intensely competitive market will, however, continue to have very high priority.

The transfer of a number of products from one production site to another during the year imposed substantial demands on the organisation at a time when considerable effort was devoted to maintaining quality standards.

The new production lines at Linköping, Alingsås, and Skövde were launched successfully, although operating below the expected production levels. Some work also remains in order to ensure stable supply reliability and this has led to a shortfall in supplies to the market. Furthermore, a range expansion in conjunction with unstable manning levels in the chilled stores meant that, on some occasions, lead times could not be maintained. Supply reliability is now a top priority and measures designed to achieve the previous 99% supply reliability levels have been

implemented to ensure that Arla Foods' reputation as the premier distributor is preserved.

Owing to the continued expansion of the range, a lack of space in the chilled stores is causing continuing concern. Consequently, over the next four years, investments in expansion at Jönköping, Stockholm and Gothenburg will have high priority. The expansion programmes include increased automation designed to contribute to an improved working environment.

A continuingly high level of product development gives ground for believing that Arla Foods will remain at the forefront of consumer trends and continue to be competitive. It is expected that the result for the coming year will increase and thus contribute to a stable milk price paid to farmers in Sweden.

United Kingdom

The UK market performed particularly well during the year with the volume of imported products continuing to increase. The launch of Lurpak Lighter Spreadable and the joint venture with Fonterra for butter and spreads in the UK market contributed to imports from Scandinavia reaching the expected level of 84,000 tons.

Lurpak and Anchor are now the second and third largest brands in the entire butter, spreads and margarine category and their



market shares continue to increase. Expectations for both brands are, therefore, substantial. During the year, production and packing of Anchor was transferred from the UK to two of Arla Foods' Scandinavian operations and the brand was relaunched.

On the backdrop of the reorganisation of the business coupled with over capacity in the UK milk market, Arla Foods plc anticipated a small loss for the financial year. However, due to the considerable efforts of all involved, the company achieved a modest profit.

Arla Foods remains committed to a long-term role in the UK market and is ready to play its part in the restructuring of the industry.

Product development remains a cornerstone in the company's strategy. Alongside the Lurpak products, Cravendale PurFiltre is an example of adding value for the consumer, for the retail customers and for the category. Following its phased roll-out and test marketing across the country, the brand was launched nationally during the year. The brand is now beginning to deliver to its full potential and has achieved high levels of consumer loyalty. It is expected that Cravendale PurFiltre will be a UK top 50 brand within the next two years.

The restructuring of doorstep sales was completed during the year with the whole operation now converted to independent dairymen.

The year also saw the creation of a new Foodservice Business Unit, which will focus on the enormous potential of Arla Foods' products and brands in this rapidly growing "out of home" sector.

The UK factories continue to perform well in terms of quality and service which is of major importance in the development of business relationships with customers.

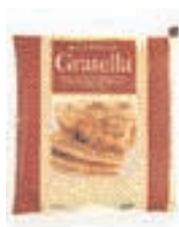
Investments in the Oakthorpe dairy in London continue and the construction of the new Stourton dairy in Leeds has begun. The new Stourton warehouse, operated in partnership with the distribution company, Wincanton, was commissioned in September and after some initial difficulties, the warehouse is now operating to the required standard. The opening of the warehouse means that the company now has full control over the distribution of all the company's added value products in the UK.

Arla Foods in the UK received several awards during the year for both product quality and marketing. In addition, the company won recognition from the UK retailers regarding its vision of how to add value to the butter, spreads and margarine category.

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European markets

Operations in European markets were characterised by tough market conditions and sharp price falls, especially for firm cheese in bulk. The increased price competition is owing to a combination of rising production of cheese accompanied by a decline in demand.

Cheese production increased as a result of very low prices for milk powder and butter. The causes of the fall in demand are, however, more complex. Cooked meat has re-established itself among consumers bringing demand for cheese in line with pre-BSE and Foot & Mouth disease levels. The launch of the euro also resulted in European consumers adopting a cautious attitude as they faced new price levels. Finally, the economic recession and general uncertainties meant that German consumers in particular have become more hesitant. Since the beginning of the autumn 2002, however, prices have stabilised at a low level and the first tentative signs of modest price increases are noticeable.

Despite the tough market conditions, Arla Foods had a good year with a strong sales performance and, not least, earnings in European markets. The focus on added value products and brands proved its worth during periods of falling prices for bulk products. Consequently, investment in product development and marketing in

Europe will remain relatively high on the agenda in the coming year.

The consolidation and internationalisation of the European retail sector continues with the largest retail chains becoming increasingly dominant. There is, therefore, no doubt that Arla Foods' long-term earnings potential in Europe is dependent on the company's ability to create strong market positions through marketing and product development in combination with ensuring a professional service to multiples.

Resources will also be allocated to the development of sales to the food service sector which is experiencing strong growth throughout Europe.

During the first months of the coming financial year, the new Arla Foods' brand will appear on the packaging of a wide range of products of strategic importance to the European business. The aim is to create a leading brand for dairy products in order to achieve maximum penetration in European markets. The packaging changes are scheduled for early in the new year.

Germany

Last year's price increases and rising demand were followed by declining demand and strongly falling prices, particularly for bulk cheese and fresh products. In addition, a significant majority of consumers have turned to the

discount sector which experienced a marked increase in sales, while the traditional retail sector saw a corresponding fall with, for example, sales of cheese from delicatessen counters in large supermarkets declining by more than 20%. This meant that Arla Foods suffered a small volume decline in the large German market. There was also strong pressure on prices.

Spain

Previous years' growth in cheese sales continued in the year under review albeit at a more modest level. In particular, mozzarella for the food industry was subject to tough competition where it was difficult to maintain price levels. As in previous years, direct sales to the retail sector developed positively as the sector continues its spectacular development. Over the coming years, Arla Foods will, therefore, strengthen its efforts to share in the growth of the Spanish market.

Greece

The result for 2001/02 did not meet expectations. Considerable resources have been committed to implementing the new company structure in the form of a joint venture with Delta. The launch and marketing of local and imported products was slightly delayed, which had an adverse impact on the result. At the same time, price

← Christina Jensen, 23, adjusts a labelling machine at Vejle Cheese Store and Packing Unit (VOP) where she has been employed as a packing operator since 2002. Most of Arla Foods' firm cheese is transported to VOP for slicing and packing before being despatched to customers.

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competition for firm cheese was stronger than expected. Sales of Lurpak butter are, however, developing positively and Lurpak is now Greece's leading butter brand. The distribution of Lurpak via Delta's system has provided a significantly broader and more detailed distribution which has positively contributed to the result. As the objective remains to establish Arla Foods as the leading supplier of cheese and butter, the coming year will see a continuing high level of activity. The financial result is expected to improve significantly.

Finland

The Finnish subsidiary performed well in respect of both sales and earnings. This is expected to con-

tinue in the coming years. The Finnish retail sector, which was previously characterised by a certain stability, can expect increasing competition after the arrival of some discount chains during the year.

Italy

The Italian subsidiary achieved a highly satisfactory result although sales fell slightly because Arla Foods, unlike others, did not lower its prices for bulk cheese. Instead, these product types were profiled on their higher and consistent quality and thus achieved a premium in the market. Sales of speciality cheese advanced during the year while butter sales were stable.

Norway

Sales continue to advance, resulting in an excellent performance for the year. The volume of cheese imported over and above the quota continues to increase. The Norwegian market offers a range of interesting growth opportunities which will be pursued in the coming years.

France

The French subsidiary performed satisfactorily with regard to both sales and earnings. The strategy continues to focus on the large French retail chains that dominate most of the Southern European markets.





← Depot foreman Keith Schofield, 37, has been working at Arla Foods' warehouse in Leeds for 20 years. Besides Arla Foods' products, a wide range of other goods are packed here for transportation to local stores. Milkmen are also supplied with milk from here.

Holland

Over the past few years, Arla Foods has achieved a strong position as a foreign supplier of added value speciality cheese. In order to further enhance growth as well as deliver a professional service to the retail sector, it is necessary to strengthen our presence in the market. Increased resources will, therefore, be committed to establishing a local organisation to service customers and to build up awareness of Arla Foods and its products among Dutch consumers.

Belgium

During the year under review, sales of speciality cheese to the retail sector were satisfactory. Arla Foods' products in Belgium

are sold by Vache Bleu, which is owned by the Finnish dairy company, Valio.

Poland

The past year was characterised by a difficult economic climate and falling purchasing power which meant that the overall result was unsatisfactory. However, there is no doubt that the Polish market offers great long-term potential.

Other Eastern Europe markets

Arla Foods has only minor market positions in the majority of these markets. However, over the next few years there will be stronger focus on selected markets and product categories. Although a

number of Eastern European countries are expected to join the EU, significant differences in the potential for growth and sales are likely to remain. Nevertheless, some of these markets already have well-developed retail and dairy sectors in place.

The Faroe Islands and Greenland

Arla Foods' sales of fresh products, fats and a broad range of cheese products developed positively during the past year.



Overseas markets

Outside Europe, North America, the Middle East and Japan continue to occupy a key role in Arla Foods' strategies.

Despite the global economic slowdown and the uncertainties following the events of September 11, 2001, Arla Foods achieved a particularly good result in these markets. Total volume sales were satisfactory and profitable positions were maintained and developed in most focus markets.

Although in the second half of the year, the US dollar was somewhat weaker than expected, satisfactory earnings were maintained, e.g. through price increases. At the same time, there was strong pressure on prices for dairy products in general. However, the impact on Arla Foods was limited due to the high proportion of added value products marketed under strong brands such as Lurpak, Puck, Three Cows, Power Cow, DANO and Milex.

Saudi Arabia

Despite persistent concerns over food safety, especially regarding European products, Arla Foods maintained its strategy for growth with most focus products achieving an acceptable rise in tonnage and earnings. Considerable resources were committed to maintaining and developing the substantial market shares that Arla Foods' brands enjoy throughout the region.

In addition, substantial sums were invested in production in order to expand both processing and packaging capacity. Some production was transferred from Denmark to Saudi Arabia in order to provide consumers with fresher products. With a growing population and stable oil prices coupled with Arla Foods' strong brands, the company is poised to strengthen its market positions over the coming years.

UAE and Oman

During the year under review, Arla Foods experienced a tremendous growth in sales of focus products to this market. This is expected to continue.

Bahrain, Kuwait and Qatar

Through close contacts with selected key customers, the company achieved satisfactory growth in tonnage and earnings.

Lebanon

The market saw growth in cheese sales, with the Puck brand enjoying a substantial market share.

Sales of Lurpak butter were affected by price pressure from another supplier.

Yemen

Sales of Arla Foods Ingredients' retail packed milk powder products are growing and both distribution

and marketing are being further developed.

North Africa

Sales to Egypt were adversely affected by the events of September 11, 2001. Sales to Libya, however, developed very positively.

USA

Despite a considerable decline in market conditions and a weakening of the US dollar, the financial year saw highly satisfactory growth. Both the export business and local licensed production developed favourably. By continuing to focus on added value products such as the Rosenborg, Dofino and Denmark's Finest brands, these brands were significantly strengthened leading to a particularly attractive financial result. The coming year is expected to see further growth within blue mould cheese and havarti.

Canada

The Canadian market experienced considerable growth in 2001/2002. The purchase of a major import quota in 2001 opened the way for increased exports. At the same time, market shares for feta and havarti, produced locally under a licence agreement, rose. Arla Foods' Canadian licence partner, Amalgamated Dairies Ltd. has provided extra capacity which will allow for future growth in this busi-



ness area. Despite the weakening of the Canadian dollar, a highly satisfactory result was achieved. A good result for the next financial year is expected.

Argentina

As a consequence of the catastrophic economic situation, it was decided to close Arla Foods' Argentinian subsidiary. A distributor has been appointed to handle future exports to Argentina.

Brazil

At the beginning of the accounting year, Arla Foods entered into an agreement with its partner, Dan Vigor, for a 100% independent business unit for managing both local production and sales of imported Arla Foods' products. The implementation of the new business plan caused certain problems which required corrective action. The situation has now stabilised although market conditions remain weak.

The result for the financial year is unsatisfactory and a substantial effort is needed to achieve a satisfactory result.

The Dominican Republic

Results in the Dominican Republic, which is one of Arla Foods Ingredients' largest markets for retail packed milk powder products, have exceeded expectations. This has

been achieved despite some difficulties securing free access to the market under the current quota system. Without the quotas, larger volumes could be sold.

Japan

The Japanese economy continues to suffer from a lack of growth and this is impacting on overall cheese consumption. For the first time in a decade, a fall in volume of around 1% is expected. However, Arla Foods' sales of cream cheese to industry and cheese to the retail sector remain largely unchanged from last year. The economic slowdown does not seem to have affected consumption of cheese within the fast food sector where the major part of Arla Foods' exports of rindless cheese is sold. However, the most recent decline in world prices for cheese has led to a weakening of Arla Foods' share of total imports. Hopes are that improvements to world market prices and unchanged export subsidies will contribute to increased sales of, in particular, rindless cheese.

Korea

The Korean economy continues to be tight and Arla Foods' exports, which largely comprise mozzarella to industry, are under pressure from suppliers from Oceania. This has resulted in a relatively signifi-

cant decline in exports. It is hoped, however, that current levels can be maintained.

Bangladesh

Sales of Arla Foods Ingredients' retail packed milk powder products are rising and efforts are being made to expand distribution and marketing.

Australia

Significant efforts were devoted to supporting and developing the distribution of speciality cheese, particularly under the Rosenberg brand. This was achieved despite local producers' increasing presence, especially within the field of blue-mould cheese. In addition, the first initiatives were implemented in preparation for next year's launch of Lurpak butter to the retail sector.

Russia

Under the impact of the weakening dollar, the year did not fully meet expectations. In addition, local companies produced substantial quantities of cheese at very low prices sustained by high customs duties on foreign cheese. The ensuing price competition caused many consumers to opt for cheap products.

Arla Foods' position as an attractive supplier of a large range of speciality cheese continues to

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be developed. Its products are available in all retail chains in Moscow and St. Petersburg and these positions will be further enhanced in the coming year.

South East Asia

Sales continued to rise and with earnings up 20% on the year, the result exceeds last year's in terms of both volume and earnings. This should be seen within the context of general economic uncertainties in world markets. Hong Kong and Singapore remain the largest markets followed by the Philippines. Sales to China remain slightly below expected levels. This can be largely ascribed to run-in costs.

Further advancement is expected in the coming year, but the strong competition from bulk products from Oceania means that further retail products under the main Lurpak and Arla brands must be developed and marketed. As awareness of health and diet issues are growing in Asia, some organic products from Arla Foods have been launched in several countries. Fat-reduced versions

of well-known products will be introduced in the coming year.

Pakistan

Despite the impact from the situation in neighbouring Afghanistan, Arla Foods met its budget. After the war, Arla Foods' customer has been able to sell Arla Foods' products in Afghanistan.

India

India proved to be a major challenge with sales for the year well below expectations. Although India, as a member of the WTO, has lowered import levies, obstacles to imports remain.

A high, but realistic, budget has been set for India for the coming year. This is due not least to the fact that Arla Foods, in conjunction with the Danish Embassy in New Delhi, has instigated an analysis of the potential for becoming a supplier to India's largest multiples.

← Farmer Jens Åge Skipper, 37, drives his heifers back to Højvang farm, south of Randers, where he keeps a herd of 80 dairy cows. He took over the farm from his father.

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Ingredients for the food industry

During the year, Arla Foods strengthened its position as the leading and preferred supplier of added value dairy-based ingredients products for selected global customers. Despite a highly competitive environment, especially for standard products, the result met expectations.

Turnover for the year was DKK 5,391 million which is on a par with last year. 1.7 billion kg milk was received as well as all whey from the Group's cheese dairies in Denmark, a large part of the whey from Sweden and whey from Germany. The raw materials were processed into 290,000 tons ingredients and powder products.

Industry

This business area comprises the production and sale of added value ingredients for global industrial customers. So far, raw material shortage and lack of production capacity have restricted the growing sales of functional milk proteins. However, with the opening of a milk protein factory in Argentina and the supply of concentrated Swedish whey for processing in Denmark, the foundation has been laid for further growth within the milk protein segment. Sales efforts will be further intensified by the establishment of an application centre in Buenos Aires, Argentina.

Sales of special proteins for clinical nutrition, drinks, infant milk formula, etc. are another key area.

Research continues into new products and new applications for existing special proteins.

Cheese powder sales are also developing positively.

The company has a significant market position within several areas of application, which will be further strengthened in the coming year.

The milk-based, low-calorie sweetener, Gaio tagatose, is expected to be launched commercially in 2003 following the formation of a joint venture with one of Europe's leading sugar producers, the German Nordzucker. Several international customers have, for some time, been showing an interest in the product which has similar sweetness properties to sugar, but with only one third of the calories. Diabetics will also be able to benefit from the sweetener's ability to maintain a stable blood sugar level. Gaio tagatose is not harmful to teeth and has been approved for use in selected food products in the US where it achieved GRAS approval in 2001. Approval is also being sought in Japan and Australia and later in Europe.

Retail

The products in this business area are milk powder products in consumer packs under the DANO and Milex brands. The products are used primarily as basic nutrition for children and are sold in selected markets in Latin America, the Middle East, Asia and Africa.

In the main markets – the Dominican Republic, Yemen and Bangladesh (see under Overseas Markets), Arla Foods Ingredients is either the market leader or the market's number two.

The business is developing well and the positive trend is expected to be maintained in the coming year.

Licensed production

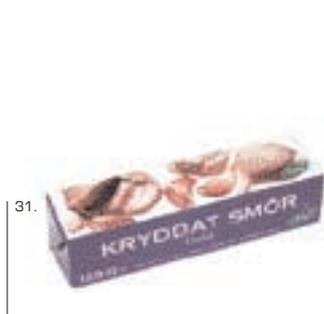
Arla Foods is a global market leader within licensed production of milk-based nutritional products.

Major plant investments designed to increase capacity and quality assurance will be implemented to strengthen this business area further.

The significant growth in tonnage and earnings is expected to be maintained and developed in the coming year.

Sales of ingredients

Sales of standard products were characterised by high prices at the beginning of the financial year, but a significant increase in supplies, particularly from Oceania, caused prices to plummet in the spring/summer of 2002. The falling prices, however, were partly offset by repeated increases in export subsidies from the EU. Prices for both milk powder and milk proteins stabilised in the latter part of the year at the lower level and the trend is now towards slowly rising prices.



Relations with co-operative owners

The Arla Farm's considerable importance as the first link in the company's value chain is a key component of Arla Foods' strategy. Rooted in the increasing demands on food producers by customers and consumers on issues such as food safety, a new joint quality programme for the Arla Farm was initiated during the year. The programme, which must be ready by October 1, 2003, is based on the cornerstones of Arla Foods' quality policies: the quality of the milk, food safety, animal welfare and the environment and aims at profiling the Arla Farm and, therefore, contributing to enhancing the competitiveness of Arla products.

At the same time, Arla Foods is committed to bringing milk producers and consumers closer together through a range of initiatives such as school visits to farms and consumer events.

New payment model

October 1, 2003 will also see the launch of the new milk pricing system approved by the Board of Representatives in the spring of 2002. Although the joint payment model is part of the harmonisation process, it also represents an adjustment to the markets' requirements in that a shift in the fat/protein ratio towards protein is strongly favoured by consumers.

Fewer co-operative owners

The structural development among

Arla Foods' co-operative owners continued in 2001/02 so that by the end of the year, the group had a total of 13,642 co-operative owners. In Sweden, the number fell by 6.4%, to 6,539 while in Denmark the fall was 10.3%, i.e. to 7,103. Overall milk supplies remain largely unchanged which means that the average annual supply per farm is now 546 tons in Denmark and 321 tons in Sweden.

The merger between Arla Foods and Denmark's second largest co-operative dairy, Hellevad Omegns Andelsmejeri, became effective in October 2002 adding around 100 new co-operative owners with a total production of approx. 70 million kg to Arla Foods' membership.

Inter-dairy transport streamlined

The continued streamlining of inter-dairy milk transport allowed total logistics' costs to be kept down despite increased wage costs. Round-the-clock milk collection will soon be introduced in Denmark which, combined with the switch to large tankers, has enabled the number of tankers to be cut from 190 in the last financial year to 170 in 2001/02. This was implemented several years ago in Sweden where 75 tankers operate 24 hours per day. In addition, pump capacity was increased in both countries. The large tankers in conjunction with fewer suppliers has meant a reduction in the

number of kilometres covered, i.e. from 39.5 million km in 2000/01 to 38.6 million km this year.

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Innovation

Few consumers are more demanding with regard to food safety and nutrition than astronauts and cosmonauts. Arla Foods Innovation, therefore, faced a huge challenge when, towards the end of 2001, it entered into partnership with the American space agency NASA to develop milk-based products for space journeys – for crews on the space shuttle and, further down the line, for future missions to Mars. The aim is to create value for both organisations and the knowledge created during this project, especially with regard to nutrition and shelf-life, will be of great importance to Arla Foods' future product development.

This highly specialised task is, however, only a small aspect of Arla Foods' innovation activities. In fact, Arla Foods develops some 200 new products annually and approx. 200 employees have "innovation" as their primary responsibility. About 0.6% of Arla Foods' turnover (more than DKK 200 million per year) is invested in innovation, which is governed by consumers' demands and requirements, expressed or tacit. This is true of both long-term research and fast product adjustments. The rationale behind this approach is set out in Arla Foods' mission statement: To provide modern consumers with milk-based food products, which create security, inspiration, and well-being.

At any given time, Arla Foods works with 400 innovative prod-

ucts which are implemented through the application of a common project method within cross-disciplinary teams involving representatives from production, marketing and innovation.

Research

Arla Foods defines research as activities aimed at creating knowledge, competencies or methods that will lay the foundation for further development of technology and products. It is of paramount importance that the research is targeted towards tomorrow's consumers. Arla Foods' research strategy comprises eight research areas which cover the entire value chain, ranging from quality control of raw materials, ingredients and process technologies to quality experience and food safety.

In practice, research activities are largely carried out by external partners such as universities and other institutes of higher learning in Denmark, Sweden and other European countries. Some research projects are undertaken inhouse.

Technology development

Another innovation-focused area is the continuing development of technology for improving production calculations and creating the foundations for entirely new products. Production techniques and processes are also developed, improved or tested. As is the case with research projects, it is crucial

that wide-ranging co-operation is maintained between selected suppliers and other partners and Arla Foods.

Product development

All product areas must be continually maintained and developed. Basic products must be improved and upgraded and new consumer options and new consumer groups must be considered. Changing consumption patterns with varying eating times, demand for low-calorie products and new flavours as well as greater convenience are constantly calling for the updating of product ranges. Arla Foods has a special commitment to frequent product launches particularly in the Danish and Swedish markets.

In Arla Foods' strategic planning, food service plays a prominent role. All indications are for strong growth in this segment where a regular flow of new products is required. Arla Foods is already active in the market with a range of new products such as the MiniMeal series, Arla Mini (milk in plastic bottles) and, indirectly, through the sale of ingredients (e.g. cheese and milkshakes) to leading fast food chains.

Expectations are that, in future, fewer consumers will cater for themselves, partly due to a shortage of time and partly because of a lack of cooking skills. Meeting their requirements with new, innovative products will provide interesting opportunities.

← At ½ hourly intervals, laboratory assistant Åse Lindblom, 36, collects milk samples at the packing unit at Stockholm Dairy. She records the samples at the laboratory and then carries out bacteriological tests and measures the fat content in the milk. Åsa Lindblom has been employed at the dairy for 10 years

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Environmental considerations

The production of milk and dairy products affects the environment all the way from farm to consumer. Arla Foods continually strives to reduce negative environmental impact and resource consumption. The Group's environmental policy covers a series of goals and target areas which are prioritised by means of Life Cycle Analysis (LCA) and other methods that allow action to be taken against the most important environmental consequences.

The Arla Farm

The Arla Farm is the first link in the chain where efforts to reduce environmental impact can be achieved as the basic tenet is that Arla Foods' milk producers manage an important part of Danish and Swedish nature. Recommendations are being drawn up for areas such as groundwater protection and reducing the effects of climate change and the emission of greenhouse gases.

Water and Energy

To ensure optimum hygiene standards, the dairies use substantial amounts of water for cleaning. Over the years, a variety of measures have been introduced to reduce water consumption at production plants. (See fig. 1).

The goal is to reduce water consumption by a further 7.5% by 2005/06.

The most energy-intensive processes are the evaporation and drying of milk. However, cooling and cleaning also account for considerable energy consumption. Over an extended period there has been considerable focus on energy consumption and new energy management systems and new energy conscious planning have led to considerable savings. (See fig. 2).

It is possible, however, to reduce environmental impact further by optimising control of energy consumption at the individual plants. Work is currently being carried out at Esbjerg Dairy to create tools for managing energy consumption and thus ensure more efficient use of energy. The experience gained from this can be applied in similar endeavours at other plants.

The target is to reduce total energy consumption by a further 5% before 2005/06.

Chemicals

The use of chemicals on farms, during production and in connection with cleaning cannot be avoided. To ensure the best possible working environment and reduce environmental impact, it is important to limit the quantities of chemicals used and to choose the most environmental-friendly and safe products for each task.

The objective is that all chemicals used at the group's plants

should be evaluated in relation to health safety and environmental impact before the end of 2005/06.

Emissions

Arla Foods aims at reducing CO₂ emissions by 5% and NO_x emissions by 10% by 2005/06. To achieve these goals, a number of initiatives have been taken. Thus Götene Dairy has introduced the first wood pellet bio-combustion plant to replace three old oil generators which used approx. 10,000 cubic metres of oil per year. (See Fig. 3).

The transport of milk in trucks affects the environment in the form of emissions of CO₂, NO_x and particles. To minimise these emissions, joint environmental targets for transport at group level are being prepared. At Hobro Garage a two-year project aims at reducing diesel consumption by training drivers. As the project has progressed, the drivers have been able to monitor the considerable fall in diesel consumption online. Experience from similar projects has shown a potential saving of 5-10%, with equivalent reductions in emissions.

Working environment

Alongside the work to reduce the impact on the environment, efforts to enhance working conditions are also continuing. For several years now, Arla Foods has focused on

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reducing work-related accidents by e.g. recording and analysing the cause of such accidents. Recently, a comprehensive "safety culture analysis" was carried out in co-operation with the Mejeriindustriens Bedriftssundhedstjeneste (The Dairy Industry's Industrial Health Service). Nine Danish Arla Foods plants took part in the survey, which comprised interviews with employees, managers and representatives from the safety organisation.

The safety culture is defined as those values, habits and perceptions which express the attitudes of management and employees to preventive measures, risks and accidents. Experience shows that focus on a company's safety culture positively contributes to improving safety during the daily work.

In the past year, the Denmark Division has been part of the project "Down with work-related accidents" during which a safety culture analysis was carried out. This led to a reduction in the average accident frequency from 34.8 in 2000/01 to 31.4 in 2001/02.

Managing the environment and working environment

Arla Foods' environment and working environment management system helps to ensure that all members of the organisation are

actively involved in environmental work and that the goals are met. The system is based on ISO 14001 and the working environment standard OHSAS 18001 and is implemented on an ongoing basis.

The aim is that all production units in Denmark and Sweden are ISO 14001 accredited by the end of 2005/06. In 2000/01, 31% of the plants had been accredited, with 40% in 2001/02. During the year, Holstebro Dairy became the first Arla Foods plant to achieve OHSAS 18001 accreditation.

Environmental training

Environmental training is an important tool for increasing awareness about environmental impact and about the opportunities for employees to reduce such effects. In the Sweden Division, production workers and drivers have been receiving such training for many years and the focus is now shifting towards training sales people and marketing staff. Since environmental impact etc. depends on products and packaging, it is important that sales staff are able to explain Arla Foods' efforts within these areas. Moreover, marketing staff, who are involved in product development, can affect the entire value chain from farm to consumer.

Fig. 1 Water consumption at Danish production plants

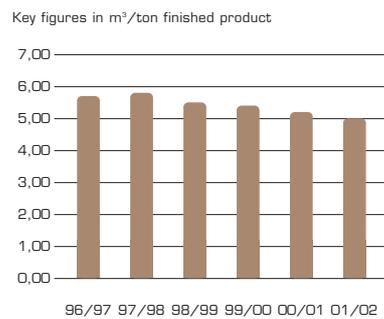


Fig. 2 Energy consumption at Danish production plants

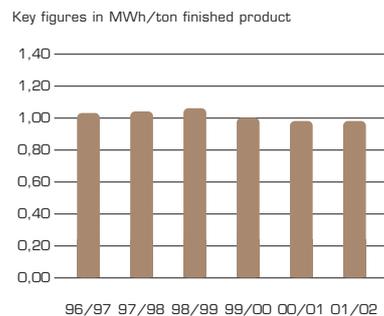
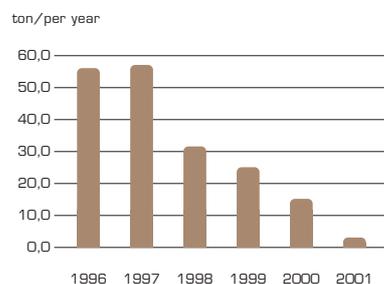


Fig. 3 Emission of NO_x from Götene



By changing from oil to bio-fuel NO_x emission have been significantly reduced.



Subsidiaries

Semper AB

Semper continued last year's positive development with sales rising by 7% and turnover of SEK 1,055 million. Exports, which rose by 15%, totalled SEK 245 million and now account for more than 20% of the total turnover. Profit on ordinary operations increased by SEK 21 million to SEK 66 million, i.e. a rise of 40%.

Turnover for baby food in the Swedish market rose by 9% to SEK 436 million, strengthening Semper's dominant position in the Swedish market. The most important export markets are Finland where Semper is the second-largest supplier, and Russia which saw growth of more than 50%. This positive trend is expected to continue.

Friggs' health products saw a 4% increase in turnover to SEK 227 million although the market for this product type contracted for the first time in many years. Semper AB has, therefore, maintained its position as Swedish market leader in consumer goods. The Friggs range, which was successfully launched in Norway, also performed well in Finland.

During the year, the health food company in Anjo in Sweden was sold in order to focus on the consumer goods business.

In the nutrition sector, Semper is developing and selling products for clinical nutrition, primarily aimed at the Nordic markets, and gluten-free products. Semper Nutrition's positive development continued during the year, with 8% sales growth to SEK 186 million. Earnings also improved significantly.

The food service sector posted an increase in total turnover of 7%, to SEK 275 million. In the Swedish market, turnover rose by 3%, while export turnover rose 26% to SEK 56 million. Beverage sales rose considerably, as did exports of frozen pancakes which were the subject of a considerable investment programme during the year.

Semper's positive growth is expected to continue in the coming year.

Rynkeby Foods

The market for Rynkeby Foods' core products, fruit juice and drinks, developed positively in 2001/02 with turnover rising from DKK 806 million in 2000/01 to DKK 823 million in 2001/02. Profit on ordinary operations rose to DKK 32 million compared to DKK 28 million in 2000/01. However, a one-off cost of DKK 22 million under special items impacted on the accounts.

A 5-6% rise in demand for fruit juice and drinks resulted in increased sales to the Danish retail and catering sectors of 5%, while turnover from exports and industrial customers declined.

The 14% rise in profit on ordinary operations, which was achieved despite increasing raw material prices especially for orange concentrate, derives from rising gross margins following ongoing endeavours to improve profitability.

The significant fall in profits after tax is solely due to a one-off cost arising from the closure of the factory in Rynkeby. Production at the plant, which accounts for approximately 12% of Rynkeby Foods' volume, will cease no later than June 1, 2003. Rynkeby's production will either be transferred to the factory in Ringe, acquired by associated companies or outsourced.

At year end, the construction of a fully automated tower store at the factory in Ringe had commenced. It is expected to become operational in the spring of 2004. By releasing the existing warehouse, extra space will be made available for production expansion.

Rynkeby Foods continues to expect continued satisfactory growth in its core product areas. Turnover for 2002/03 is, however, expected to be in line with 2001/02 levels. This is partly due

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The telephone is an indispensable tool for Business Manager Matthew Lee, 26, who is responsible for liaising with the UK multiple, Tesco. Tesco operates 720 stores in the UK with another 1,000 in the pipeline. Matthew Lee has worked at Arla Foods UK headquarters in Leeds for three years. →





to increased focus and enhanced competitiveness and partly to the closure of the factory in Rynkeby, which will result in the cessation of certain products outside the core ranges.

The cost of raw materials can be expected to continue upwards in 2002/03. This will be compensated for by higher sales prices and efficiency measures.

On February 1, 2002, Rynkeby Foods A/S and JO Bolaget entered a partnership within the fields of purchasing, development and marketing as well as shared brands and production under joint management. Together, the two companies form Scandinavia's largest juice producer with a market share exceeding 60% in Sweden and Denmark. The vision is one of continuous growth as market leaders in the two domestic markets, and in the longer-term, to expand into the rest of Scandinavia.

JO Bolaget

Jointly owned by Arla Foods and Skånemejerier with a 50% shareholding, JO Bolaget produces fruit juice, fruit drinks and fruit soup. Sales for 2001/02 totalled 121 million litres and turnover rose by SEK 6 million to SEK 885 million with fruit juice accounting for 92% of the turnover.

Expectations for the coming year are positive. The price for the most important raw material, orange juice, is expected to increase further.

Danapak

The Danapak Group posted a loss on ordinary operations of DKK 22 million for 2001/02 against a loss of DKK 33 million in 2000/01. The turnover, DKK 771 million, was affected by the many changes in the group and is therefore not comparable with last year's result. Turnover for the cartons/packaging business was DKK 434 million.

During the year, Danapak continued to adjust the organisation to the increasing competition in the marketplace.

In May 2002, Danapak acquired a majority share in the cartons company Westergaard & Philipson A/S (now Danapak WP) which is now the leading cartons company in the Danish market.

Sales in the UK were unsatisfactory and Danapak has discontinued its operations in Northampton.

In July 2002, Danapak formed a Northern European joint venture with the Austrian company Teich AG within the field of flexible packaging. Danapak has 40% of the new company and Teich AG 60%.

With a turnover of over DKK 800 million, the company is one of the largest producers of flexible packaging in Northern Europe. It is expected that further synergies will be realised through rationalisation of production, optimum use of capacity, purchasing and customer support as well as product and range development. Through Teich AG, the new company is part of the Constantia group which is Europe's third largest producer of flexible packaging. The new company, Danapak Flexibles A/S, is headquartered in Odense and as a result Danapak has moved its headquarters to its cartons factory in Korsør.

From February 2002, Danapak was affected by considerable rises in the cost of raw materials for both plastic and cartons. However, owing to a targetted effort it has largely been possible to compensate for the increased costs through higher sales prices. By the autumn, the prices of raw materials were expected to have stabilised.

During the year, investments in fixed assets totalling DKK 27 million were made and a number of efficiency projects were initiated.

During 2002/03 Danapak will continue its efforts to increase profitability.

In the cartons business, Danapak will defend and expand its position as market leader in Denmark. Following the purchase

← At Vellev Dairy, which produces 11,500 kg Cave Cheese per day, Anders Kristensen, 33, passes a cheese to a colleague who will wrap it in a cheese cloth and place it in a cheese mould for pressing. Anders Kristensen, a third year trainee, has been working at Vellev Dairy since April 1, 2002.

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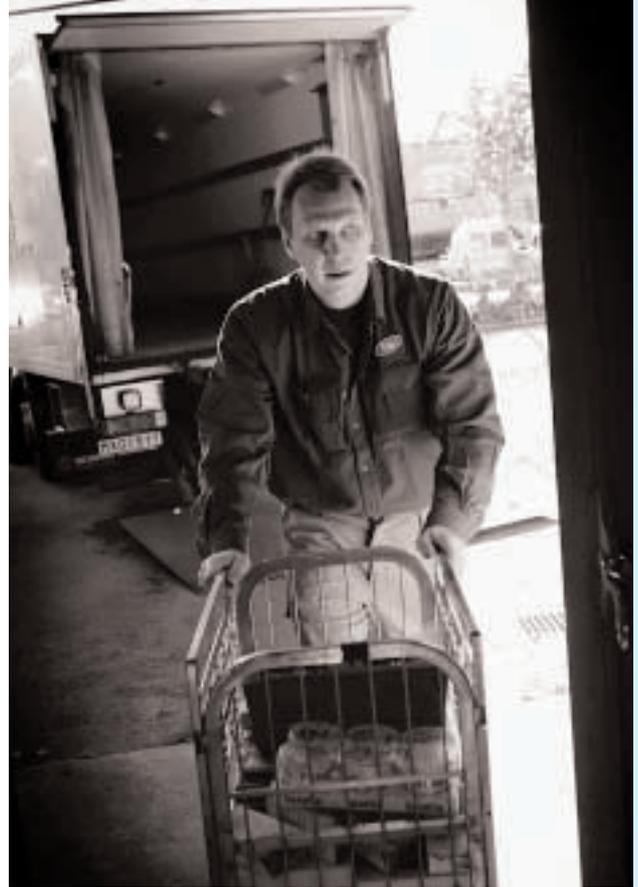
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of Danapak WP, the company intends to continue to participate in the further consolidation of the Danish cartons industry.

With the formation of the Northern European joint venture, Danapak is poised to improve its competitiveness.

Danapak expects an improvement in its operating profits in the coming year.



De danske Mejeriers Fællesindkøb

De danske Mejeriers Fællesindkøb achieved a turnover of DKK 656 million for 2001/02 compared to DKK 588 million in 2000/01. The 12% increase exceeded expectations. In general, all companies have shown satisfactory growth.

Profit on ordinary operations was DKK 15 million against DKK 11 million last year.

Member turnover accounted for 73% of group turnover against 71% in 2000/01.

The Trade Department's global purchasing partnership with Arla Foods with regard to "ingredients" continued to develop in 2001/02. This strengthened the department's sales to other food industries due to the synergy effects from, inter alia, the alignment of purchasing prices.

As at 1 October 2002, the Trade Department changed its name to Procudan.

The Industry Department expanded its position within its core customer areas (i.e. the bakery and cake sectors, the confectionary industry and the brewery industry).

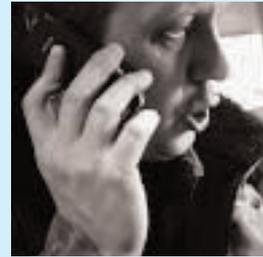
Dairy Fruit A/S increased turnover by 60% largely due to increased co-operation with Arla Foods in Denmark and Sweden. The current expansion of Dairy Fruits' Development Department will help strengthen the company's innovation activities. Exports to new markets such as Germany are expected to increase in 2002/03.

With a rise in turnover of 34%,

Crispy Food contributed positively to the 2001/02 result. The improvement was largely due to increased exports to European markets, where the Top Cup concept continues to generate considerable interest. Exports to Japan have also been substantial.

Fællesindkøbet's expectations for the period up to and including 2004/05 are set out in a new long-term plan. Despite anticipated, stronger competition with regard to pricing, quality and service, prospects are promising. For the 2002/03 financial year, a satisfactory export-led development in turnover is expected. The overall result is also expected to be satisfactory.





← Distribution driver Bo Thomsen, 44, has worked as a relief driver at Stockholm Dairy for the past five years. During the day, he and his colleagues deliver Arla Foods' products to approx. 5,500 customers including supermarkets, schools, hospitals, and restaurants in the Stockholm area.

Frödinge Mejeri AB

Frödinge Mejeri AB produces and sells frozen layer cakes and a variety of savoury and fruit pies as well as the Swedish speciality, cheesecake. In 2001/02 the company achieved a turnover of SEK 309 million which represents a 2% advance on the previous year. Profit on ordinary operations rose to SEK 26 million against SEK 22 million in the previous year.

In the home market where the company is a market leader, sales of cheesecake rose slightly. Sales of pies, especially savoury pies, increased considerably although Frödinge lost market shares in the layer cake segment. Frödinge &

Hatting AB, which handles sales to Swedish stores, entered a partnership with Topp (which is part of Finland's frozen vegetables and ready-made meals' Chips Group). This has increased the frozen foods range.

Sales to the UK, where Frödinge has a market share of around 11%, rose satisfactorily, despite a general slowdown in sales of this type of product. The strength of GBP against the Swedish krona contributed positively to the result. The German market contracted after the loss of a major customer. In Finland sales continue to improve and volume doubled.

Investments totalling SEK 14 million included a high-speed free-

zer and packaging machinery for the new pie range.

Production is expected to increase in the coming year, especially with regard to exports to existing markets as a result of new customers.

Medipharm AB

Medipharm AB produces bacteria culture for the agricultural sector and the food industry and its products are marketed both inside and outside Sweden.

Profit on ordinary operations was SEK 18 million against SEK 17 million last year.

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Within the field of special cultures and cheese ripening cultures, Enzobact achieved strong growth during the year. Renewed marketing of starter cultures for salami and kefir is now resulting in new leads and customers. Supplies of the kefir cultures to the home of kefir, Russia, have begun.

In the ensiling area, the trend is towards more microbiological agents as a substitute for chemicals. Statements by experts in favour of microbiological agents are expected to increase sales of Medipharm's ensiling products further.

During the year, Medipharm acquired 100% of its US subsidiary. The move was based on the potential which Medipharm has identified for all product areas in the US. To meet increased demand for the company's products, a SEK 15 million investment programme has been launched. The programme includes a 100% increase in freeze drying capacity, increased fermenting capacity and the deployment of new technology to produce "drip-frozen" products.

As Medipharm operates within previously unexploited product areas where the proportion of new users or so-called "non-users" is substantial, the potential for further growth is regarded as particularly good. The aim is to achieve a 25% increase in turnover year on year.

Arla Foods Holding A/S

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

The company operates as an integral part of Arla Foods. The result for the year is satisfactory.

Medani A/S

The company owns Arla Foods' head office, Ravnsbjerg Erhvervscenter. The company is also responsible for a number of financing and investment activities. Despite the turbulence in the financial markets in 2001/02, Medani achieved a satisfactory result.

Arla Insurance Company (Guernsey) Ltd.

The company acts as a reinsurance company for the Arla Foods group. The year's result is satisfactory.

Andelssmør A.m.b.a

Arla Foods owns approx. 92% of the shares of Andelssmør A.m.b.a. which handles the vast majority of Danish butter exports. The company operates as an integral part of Arla Foods. The result for the year is satisfactory.

AM Foods

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

Following a period of consolidation, the company is undergoing strong expansion and has posted an approx. 40% improvement on last year's result. The 2001/02 financial year was satisfactory.

← Operator Jessica Russo keeps the fourth bottling line running during her 5 am to 1 pm shift at Gothenburg Dairy. She also cleans the machinery and weigh the briquettes which must weigh between 1,054 and 1,057 grams in random tests.

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Managing financial risk at Arla Foods

During the financial year, the Board approved a new financial policy for the Group.

The main objective of the policy is to ensure a stable cash flow and financial flexibility in a volatile market.

The new policy is designed to ensure a forward-looking approach to financial management as well as compliance with best practice for corporate governance and international accounting standards.

The new policy introduces new quantitative measurement methods for financial management.

Arla Foods' financial policy is divided into four main areas:

A general finance policy that determines the allocation of responsibility between the Supervisory Board, the Management Board and the Finance Department. It also specifies which financial products and counterparts can be used. The requirements for such products are the existence of a well-functioning market and that such products can be accurately valued. The choice of counterparts is determined on the basis of long-standing mutual association of benefit to both parties. Risks are minimized by selecting partners with a high rating only.

In addition, the financial policy sets out the Group's general credit policy as well as the systems for operational management.

A foreign currency policy that sets out the framework for maximising long-term earnings based on market conditions. According to the policy, individual business units are responsible for foreign exchange hedging while all external hedging is effectuated by the Finance Department.

The aim of hedging by way of financial instruments is to generate a stable cash flow and thus minimise fluctuations in the milk price.

The Group's total exports stand at approx. DKK 10 billion of which approximately 40% is in Euro, 30% in USD and 18% in GBP.

Foreign exchange hedging is based on commercial considerations. To measure the effectiveness of the hedging, an exchange rate index has been set up which measures the result of hedging in relation to market developments.

Value-at-Risk (VaR), the international standard for measuring financial risk, has been introduced to calculate the total monthly exchange rate risk to which Arla Foods is exposed. This tool has a 95% probability.

A policy for financing and borrowing that underpins the Group's strategic planning.

The overall objective of the financing policy is to minimise long-term borrowing costs while ensuring a loan composition that reduces the risk

of refinancing. Diversification of both lenders and loan repayment periods are utilized to achieve this.

The financing policy lays down broad targets for the Group's overall capital structure as well as internal rules for the financing requirements of the Group's units.

The term target continues to be applied in connection with the management of the Group's financial assets and liabilities. The term for the long-term portion of the debt should be in the interval of 0-7 years.

The average repayment time for the long-term portion of the debt must be at least 2 years.

The considerable fall in international interest rates has led the Group to increase the period of the overall debt and more long-term fixed interest loans have been taken out.

The terms for the long term debt have been increased to approximately 3.2 years, compared to 2.6 years last year.

A specific framework for the amortization of the Group's debt is in place.

The total interest bearing debt stood at approx. DKK 8,019 million as at September 29, 2002, compared to approx. DKK 7,876 million the previous year. The average repayment time on the long term debt as at 29 September, 2002 stood at approx. 5.2 years.

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At the end of the financial year, the distribution of interest bearing debt was 68% in DKK, 23% in SEK and 6% in GBP and 3% in other currencies.

Leasing is only utilized when deemed to be attractive for the Group.

An interest rate and liquidity policy that is linked to the financing policy and ensures the Group's financial preparedness so that liquidity risk is minimised. This is achieved through maintaining sufficient operating liquidity and liquidity for acquisitions.

Liquidity stand-by consists of funds held in bank accounts, short-term bonds and unexploited drawing rights in banks and financial institutions.

The total liquidity reserve was approximately DKK 4.3 billion as at 29/09/2002.

A framework for evaluating the interest risk relating to the Group's asset portfolio of fixed interest claims has been determined.

The risk relating to receivables from debtors is not regarded as being unusual.

Other

During the financial year work continued on adapting the Group's balance sheet for the purpose of strengthening solidity. This work will continue in the coming financial year.

Figure 1: Position in percentage of annual budget

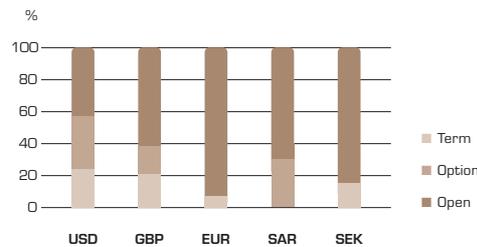
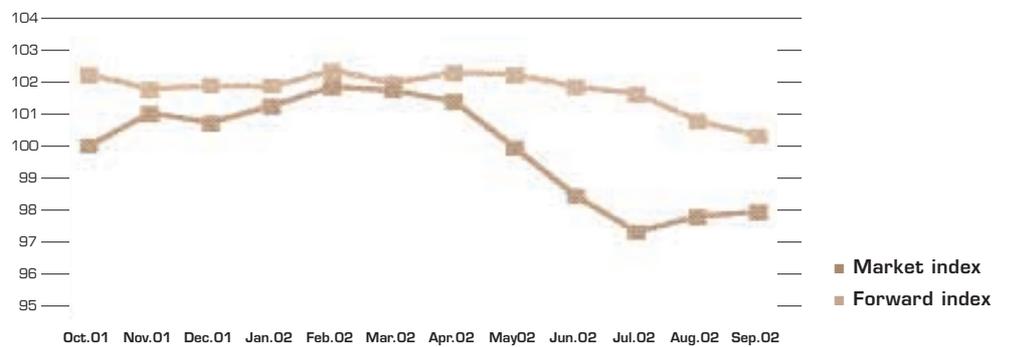


Figure 2: Arla Foods foreign exchange index



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Annual Report 2001/02

Management's statement

Aarhus, 27 November 2002

Management Board of Arla Foods amba

Jens Bigum
Man. Director

Åke Modig
Dep. Man. Director

Jørn Wendel Andersen
Finance Director

Supervisory Board of Arla Foods amba

Lars Lamberg
Chairman

Bertil Andersson

Kaj W. Christensen

Anders Ericsson

Elisabeth Gauffin

Tommy Jacobsson

Sören Kihlberg

Ove Møberg

Per Norstedt

Kaj Ole Pedersen

Pejter Andersen Søndergaard

Knud Erik Jensen
Deputy Chairman

Leif Backstad

Christer Eliasson

Leif Eriksson

Åke Hantoft

Thomas Erling Johansen

Kr. Ole Kristensen

Hans Peter Nielsen

Jan Nørgaard

Søren Rasmussen

Bent Juul Sørensen

Auditors' report

We have audited the group accounts and annual accounts of Arla Foods amba for 2001/2002 presented by the Management Board and the Supervisory Board.

Basis of opinion

We planned and conducted our audit in accordance with generally accepted international auditing standards and Danish auditing principles to obtain reasonable assurance that the accounts are free from material misstatement. Based on an evaluation of materiality and risk, we have during the audit tested the basis and documentation for the amounts and disclosures in the accounts. An

audit includes an assessment of the accounting policies applied and the accounting estimates made. In addition, we evaluated the overall adequacy of the presentation in the accounts.

Our audit did not result in any qualifications.

Opinion

In our opinion, the group accounts and annual accounts have been presented in accordance with the accounting provisions of Danish legislation and give a true and fair view of the Group's and the company's assets and liabilities, financial position and profit for the year.

Aarhus, 27 November 2002

KPMG C. Jespersen

E. Black Pedersen
State Authorised
Public Accountant

J. Bräuner Knudsen
State Authorised
Public Accountant

PricewaterhouseCoopers

Göran Tidström
Authorised Accountant

Jesper Lund
State Authorised
Public Accountant

Accounting policies

General information

The accounts of the parent company, Arla Foods amla, and the consolidated accounts of the Arla Foods Group have been presented in accordance with the Danish Annual Accounts Act with such deviations as follow from the special circumstances of the parent company and the Group. These deviations relate, in particular, to the presentation of the results of the non-dairy subsidiaries and associated companies in the profit and loss account for the parent company, cf. below.

The accounting policies are unchanged compared to last year with the exception of the accounting treatment of pension commitments which has been changed to comply with international accounting policies, cf. page 8 of the report.

The changed accounting policies regarding pension commitments do not have any effect on the comparative figures for 2000/01 and only a minor effect on this year's results.

Consolidation

The consolidated accounts comprise Arla Foods amla (the parent company) and those subsidiaries, cf. the list of group companies on pages 61-62, in which the parent company directly or indirectly holds more than 50% 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 material respects, been prepared in accordance with the accounting policies of the parent company.

The consolidated accounts have been prepared by a consolidation of similar items from the parent company and the individual subsidiaries' annual accounts. Intra-group income and expenses, shares, outstanding accounts, dividends and unrealised gains and losses have been eliminated.

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 additional value on the individual assets and liabilities and any additional group goodwill has been capitalised and amortised.

Foreign currency and financial instruments

For foreign subsidiaries, the profit and loss accounts are translated using the average exchange rates, whereas the balance sheet items are translated using the rates ruling at the balance sheet date. The translation differences that may arise on translation of the foreign companies' opening equity using the rates ruling at the balance sheet date and the translation differences resulting from translation of the foreign companies' profit and loss accounts using the average rates are adjusted over the equity.

For foreign associated undertakings, the reported shares of profits and shares of net book value are recognised at the rate ruling at the balance sheet date.

In Arla Foods Ingredients S.A., Argentina, the company's investments are made in USD. USD is also the reporting currency.

Financial instruments especially comprise forward exchange contracts and options.

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

Financial instruments not used to hedge income and expenditure are valued at their market values at the balance sheet date. Both realised and unrealised gains and losses on these are included in the profit and loss account.

Receivables and payables denominated in foreign currencies which have not been hedged are stated at the exchange rate ruling at the balance sheet date.

Subsidies

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

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

Profit and loss account

Turnover

The 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 turnover.

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

Production costs

Production costs include cost of sales, including purchases from Arla Foods' members as well as costs, including depreciation, wages and salaries incurred to realise the turnover for the year.

Development costs

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

Share of results in subsidiaries and associated undertakings

The profit and loss account of the parent company includes the proportionate share of the profits or losses of the individual dairy-related subsidiaries after tax and after the deduction of declared supplementary payments and unrealised intra-group profits.

Dairy-related subsidiaries are defined as subsidiaries which are primarily involved in the processing/selling of the milk weighed in from Arla Foods' members. The subsidiaries are listed separately on pages 56-57.

The share of results after tax of non-dairy subsidiaries has not been included in the parent company's profit and loss account, but has been taken directly to equity under revaluation reserves.

The different treatment of shares of profits in dairy-related and non-dairy undertakings in the profit and loss account of the parent company serves to show the direct income from the milk supplied by the members of Arla Foods amba.

Undertakings in which the Group holds between 20% and 50% of the voting rights without having a controlling interest are regarded as associated. These undertakings are included under one item in the profit and loss account and the balance sheet, and their turnover has therefore not been included in the consolidated turnover.

Financial items

Interest income and interest expenditure are recognised in the profit and loss account at amounts relating to the financial year.

Furthermore, financial items comprise both realised and unrealised value adjustments of securities and exchange rate adjustments.

Corporation tax

The taxable income of the companies 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 tax rate, calculated on the basis of the pre-tax results for the year, adjusted for non-taxable income and expenses. Deferred tax is stated as one figure for jointly taxed companies. The deferred tax is entered at the current tax rate of all timing differences between the results for accounting and tax purposes.

Balance sheet

Fixed assets in general

The acquisition costs of fixed assets at the establishment of the Arla Foods Group at 17 April 2000 equal the book values in the founding companies and their subsidiaries at 16 April 2000 subject to the value adjustments made in the opening balance sheet at 17 April 2000.

Intangible fixed assets

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

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

The assets are amortised on a straight-line basis over 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 cost less accumulated depreciation and write-downs.

The assets are depreciated on a straight-line basis as from the time of acquisition or commissioning based on the expected useful lives of the assets as follows:

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

The book value of plant and machineries, fixtures and fittings, etc. at 17 April 2000 is, however, depreciated on a straight-line basis over five years from this date.

Assets in course of construction are not depreciated.

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

Investments

Participating interests in subsidiaries and associated undertakings are entered at the ownership share of the companies' equity value at the end of the financial year, calculated in accordance with the Group's accounting policies. Furthermore, unrealised 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 investments (shares, mortgage deeds, bond holdings, etc.) are entered at acquisition value, although written down to market values, if such values are consistently lower.

Stocks

Raw materials, consumables and goods for resale are valued at cost. The cost of the milk that forms part of stock has been entered at the on-account price, including supplementary payments to Arla Foods amba members.

Work in progress and finished goods are valued at cost consisting of the cost of raw materials and consumables with the addition of processing costs and other costs directly or indirectly related to the individual goods.

Stocks are valued according to the FIFO method. If the cost exceeds the net realisable value, write-down is made to the net realisable value. The net realisable value is determined based on the turnover rate, marketability and development in the expected sales price of the goods.

Receivables

Receivables are recorded at nominal value less write-down for anticipated bad debts based on an individual assessment of the debtors.

Other current assets

Securities are valued at market value at the end of the financial year.

Equity

According to Article 15 of the Articles of Association, the company's equity consists of:

Capital account:

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

Reserve A:

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

1. The Board of Representatives may decide to service deposits in the personal accounts at a rate of interest not exceeding the official Danish discount rate.
2. Any decisions concerning payments from the personal accounts shall be made by the Board of Representatives.
3. The plan is for the reserve to be paid out in the course of the 2000/2001 - 2007/2008 financial years.

No payments shall be made to the members of Arla Foods amba which reduce the total of the company's capital account and Reserve A. Upon the effecting of such payments from Reserve A, a corresponding amount shall be paid into the capital account. In addition, DKK 280 million shall be added to the capital account through consolidation and concurrently with payments from Reserve A. DKK 70 million of this amount has been transferred to the capital

account up to and including the financial year 2001/2002.

Reserve B:

Reserve B comprises the reserves set aside on the incorporation of the company.

Revaluation reserves:

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

Subsidiary reserves:

The account includes net revaluation of dairy-related companies according to the equity method.

Subordinate loan capital

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

Provisions

Pensions:

The Group has entered into pension agreements with many of the Group's employees.

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

As regards the defined contribution schemes used in the Danish companies, the Group currently pays fixed contributions to independent pension funds. The Group has not commitments of additional payments.

Defined benefit schemes, which are primarily used by the Group's undertakings in Sweden and England, are those for which the company is committed to pay a certain amount in connection with retirement, depending on e.g. the seniority of the employees.

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

The actuarially calculated current value less the market value of any assets related to the scheme are provided in the balance sheet under pension commitments.

Actuarial gains and losses arising as a consequence of the changed assumptions in the calculation of the pension commitment or in the computation of the assets related to the pension scheme are recognised in the profit and loss account over the anticipated average number of years remaining for each employee.

If the total actuarial gains and losses do not exceed 10% of the current value of the pension commitment, they will not be incorporated in the accounts.

Other provisions :

Other provisions comprise, in particular, the remaining part of the provisions for structural rationalisations made in the opening balance sheet at 17 April 2000.

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, investing and financing activities and how these cash flows have affected the Group's cash funds.

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

The cash flow for investing activities comprises cash flows in connection with the purchase and sale of intangible and tangible fixed assets as well as investments.

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

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

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

Profit and loss account

PARENT COMPANY				GROUP	
02.10.00	01.10.01			01.10.01	02.10.00
- 30.09.01	- 29.09.02	DKK million	Note	- 29.09.02	- 30.09.01
24,526	25,751	Turnover	1	39,441	38,133
-21,772	-22,863	Production costs	2	-31,909	-30,919
2,754	2,888	Gross profit		7,532	7,214
-1,311	-1,365	Sales and distribution costs	2	-4,794	-4,548
-320	-404	Administration and joint costs	2/3	-1,304	-1,128
31	50	Other operating income		187	156
-41	-97	Other operating charges		-213	-98
1,113	1,072	Operating profit		1,408	1,596
76	31	Results in subsidiaries	4	-	-
-10	-16	Results in associated undertakings		-6	0
-	-	Divestment of subsidiary	5	111	-
-165	-82	Net financial items	6	-307	-381
1,014	1,005	Profit before tax		1,206	1,215
-26	-16	Corporation tax	7	-47	-57
988	989	Profit for the year		1,159	1,157
-	-	Minority interest share of results in subsidiaries		2	-1
988	989	Arla Foods amba's share of results for the year		1,161	1,157
Proposed allocation:					
690	575	Supplementary payments to Arla Foods' members		575	690
222	383	Transferred to capital account		383	222
76	31	Transferred to subsidiary reserves		-	-
-	-	Transferred to other reserves		203	245
988	989	Total		1,161	1,157

Balance sheet

PARENT COMPANY				GROUP	
Balance sheet				Balance sheet	
at 30.09.01	at 29.09.02	DKK million	Note	at 29.09.02	at 30.09.01
EQUITY, MINORITY INTERESTS AND LIABILITIES					
Equity					
4,928	5,311	Capital account		5,111	4,928
649	555	Reserve A		555	649
500	500	Reserve B		500	500
77	284	Revaluation reserve		-	-
-43	-18	Subsidiary reserves		-	-
-	-	Other reserves		266	34
6,111	6,632	Total equity		6,632	6,111
-	-	Minority interests	10	87	85
252	236	Subordinate loan capital	11	236	252
6,363	6,868	Total capital base		6,955	6,448
Provisions					
33	24	Deferred tax	12	240	370
0	0	Pensions	13	699	609
193	149	Other provisions	14	694	735
226	173	Total provisions		1,633	1,114
Payables					
<i>Long-term payables</i>					
1,020	1,882	Mortgage lenders	15	2,461	1,574
1,652	1,376	Credit institutions, etc.		2,137	2,319
2,672	3,258	Total		4,598	3,893
<i>Short-term payables</i>					
112	383	Short-term part of long-term payables		451	171
1,254	373	Credit institutions		2,036	3,040
690	575	Supplementary payments		575	690
804	1,088	Trade payables		2,676	2,292
1,432	1,492	Amounts owed to affiliated undertak.		1,156	1,074
1	0	Amounts owed to associated undertak.		0	7
34	29	Corporation tax		44	60
593	524	Other payables		1,579	1,432
37	33	Accruals and deferred income		33	37
4,957	4,497	Total		8,550	8,803
7,629	7,755	Total payables		13,148	12,696
14,218	14,796	TOTAL EQUITY, MINORITY INTERESTS AND LIABILITIES		21,736	20,858
Contingent liabilities and guarantees, etc. 16					

Equity movements

PARENT COMPANY 2001/02	DKK million	GROUP 2001/02
	Capital account:	
4,928	Balance at 1 October 2001	4,928
383	Transferred from profit for the year	383
5,311	Total	5,311
	Reserve A:	
649	Balance at 1 October 2001	649
-94	Paid to MD Foods amba	-94
555	Total	555
	Reserve B:	
500	Balance at 1 October 2001	500
500	Total	500
	Revaluation reserves:	
77	Balance at 1 October 2001	-
172	Profit in non-dairy subsidiaries and associated undertakings, net	-
35	Exchange rate adjustments, etc.	-
284	Total	-
	Subsidiary reserves:	
-43	Balance at 1 October 2001	-
31	Transferred from profit for the year	-
-6	Exchange rate adjustments, etc.	-
-18	Total	-
	Other reserves:	
-	Balance at 1 October 2001	34
-	Transferred from profit for the year	203
-	Exchange rate adjustments, etc.	29
-	Total	266
6,632	TOTAL EQUITY	6,632

Cash flow statement

DKK million	GROUP	
	2001/02	2000/01
Cash flow from operating activities:		
Profit for the year	1,161	1,157
Depreciation and other operating items without cash impact	1,356	1,336
Share of results in investments	6	0
Changes in pensions and other provisions	49	-40
Changes in stocks	-277	100
Changes in receivables	-896	-170
Changes in trade payables and other payables, etc.	-336	-1,118
Corporation tax paid	-71	-21
Cash flow from operating activities	992	1,244
Cash flow for investments:		
Investments in intangible fixed assets, net	-119	-70
Investments in tangible fixed assets, net	-1,110	-1,476
Investments in participating interests, net	231	390
Cash flow for investments	-998	-1,156
Cash flow from financing activities:		
Changes in debt to credit institutions and mortgage lenders	-19	-43
Cash flow from financing activities	-19	-43
Changes in cash funds and securities	-25	45
Cash funds and securities at 30 September 2001	1,865	1,820
Cash funds and securities at 29 September 2002	1,840	1,865

Notes

PARENT COMPANY		Note	GROUP	
2000/01	2001/02		2001/02	2000/01
		DKK million		
		1 Turnover		
		<i>Analysed by market</i>		
		Sweden	10,281	10,062
		Denmark	9,353	9,248
		Other EU countries	12,960	12,396
		Rest of Europe	770	782
		Middle East	2,445	2,103
		North America	1,018	928
		Central and South America	871	932
		Asia	1,264	1,225
		Africa	457	430
		Other countries	22	27
		Total	39,441	38,133
		Turnover in markets outside Sweden and Denmark	19,807	18,823
		Corresponding to	50%	49%
		<i>Analysed by product group:</i>		
		Fresh products	15,893	15,430
		Cheese	10,606	10,640
		Butter and spreads	5,120	4,289
		Condensed milk products	5,410	5,573
		Packaging and additives	974	1,065
		Other turnover	1,438	1,136
		Total	39,441	38,133
		2 Costs		
		Staff costs:		
		By function		
-1,840	-1,901	Production	-3,672	-3,663
-176	-176	Sale and distribution	-1,582	-1,565
-191	-223	Administration and joint costs	-622	-534
-2,207	-2,300	Total	-5,876	-5,762
		By type		
-2,083	-2,156	Wages and salaries	-4,976	-4,926
-110	-130	Pensions	-374	-314
-14	-14	Other social security costs	-526	-522
-2,207	-2,300	Total	-5,876	-5,762
6,775	6,770	Average number of employees (man years)	17,866	18,200

Salaries and remuneration incl. pensions for the Group include the parent company's Management Board by DKK 7 million (2000/2001: DKK 6 million) and fees to the parent company's Supervisory Board and Board of Representatives of DKK 10 million (2000/2001: DKK 10 million).

Notes

PARENT COMPANY		Note	DKK million	GROUP	
2000/01	2001/02			2001/02	2000/01
		2	Costs (continued)		
			Depreciation:		
			By function		
-92	-92		Equalisation sum (production)	-92	-92
-433	-518		Production	-992	-903
-3	-2		Sales and distribution	-136	-128
0	0		Administration	-140	-156
4	6		Profit/loss on sale of intangible and tangible fixed assets	-11	-12
-524	-606		Total	-1,371	-1,291
		3	Fees for the auditors appointed by the Board of Representatives		
			<i>Audit fee:</i>		
-4	-4		KPMG C. Jespersen		
-2	-2		PricewaterhouseCoopers		
			<i>Other services:</i>		
-2	-3		KPMG C. Jespersen		
0	-1		PricewaterhouseCoopers		
-8	-10		Total		
			Results in subsidiaries		
102	42	4	Profit in subsidiaries before tax		
-26	-11		Loss in subsidiaries after tax		
76	31		Total		
169	172		The figures include only the results of dairy-related subsidiaries. The non-dairy subsidiaries and associated undertakings have achieved the following net profit, which has been taken directly to equity:		
			Divestment of subsidiary		
		5	The item only comprises the net profit from the sale of Arla Foods Fastighetsförvaltning AB, who owns the domicile property in Stockholm.		
			Financial items, net		
		6	<i>Expenses:</i>		
-30	-24		Interest payable to affiliated undertakings	-17	-20
-331	-201		Other financing charges	-426	-601
-361	-225		Total	-443	-621
			<i>Income:</i>		
111	121		Interest receivable from affiliated undertakings	9	8
85	22		Other financing income	127	232
196	143		Total	136	240
-165	-82		Financial items, net	-307	-381
			Corporation tax		
-25	-33	7	Tax on taxable income for the year	-74	-54
-1	10		Adjustment of deferred tax	11	1
0	7		Correction of tax for previous years	16	-4
-26	-16		Total	-47	-57
0	24		Corporation tax paid in (including on-account tax) in the course of the year	71	21

Notes

Note

GROUP

8 Intangible and tangible fixed assets

DKK million	Intangible fixed assets			Tangible fixed assets			
	Licences and trade-marks, etc.	Goodwill incl. group-goodwill	Equalisation sum	Land and buildings	Plant and machinery	Other assets fixtures and fittings etc.	Assets in course of construction
Cost at 1 October 2001	106	699	276	3,986	4,358	782	472
Exchange rate adjustm.	-1	-1	0	82	61	2	17
Additions during the year	0	127	0	306	1,136	240	237
Transferred during the year	0	0	0	84	161	0	-245
Disposals during the year	-2	-13	0	-756	-248	-81	0
Cost at 29 September 2002	103	812	276	3,702	5,468	943	481
Depreciation and write-downs at 1 October 2001	-12	-105	-92	-327	-965	-261	0
Exchange rate adjustm.	-1	1	0	-5	-1	-5	0
Depreciation and write-downs for the year	-16	-72	-92	-214	-787	-179	0
Depreciation and write-downs on discontinued assets	1	6	0	43	172	49	0
Depr. and write-downs at 29 September 2002	-28	-170	-184	-503	-1,581	-396	0
Net book value at 29 September 2002	75	642	92	3,199	3,887	547	481

New acquisitions for the year have been reduced by EU subsidies and subsidies from other public authorities of DKK 27 million. At the annual adjustment at 1 January 2002, the total property valuation of Danish properties with a book value of DKK 1,814 million amounted to DKK 1,906 million, to which should be added investments subsequent to this date.

PARENT COMPANY

Intangible and tangible fixed assets (continued)

DKK million	Intangible fixed assets		Tangible fixed assets				
	Goodwill incl. group-goodwill	Equalisation sum	Land and buildings	Plant and machinery	Other assets fixtures and fittings etc.	Assets in course of construction	
Cost at 1 October 2001	323	276	1,520	2,104	78	151	
Additions during the year	0	0	88	486	22	142	
Transferred during the year	0	0	37	114	0	-151	
Disposals during the year	0	0	-11	-4	-10	0	
Cost at 29 September 2002	323	276	1,634	2,700	90	142	
Depreciation and write-downs at 1 October 2001	-27	-92	-140	-422	-18	0	
Depreciation and write-downs	-19	-92	-106	-380	-15	0	
Depreciation and write-downs on discontinued assets	0	0	1	0	2	0	
Depreciation and write-downs at 02.09.29		-46	-184	-245	-802	-31	0
Net book value at 29 September 2002	277	92	1,389	1,898	59	142	

New acquisitions for the year have been reduced by EU subsidies and subsidies from other public authorities of DKK 26 million. At the annual adjustment at 1 January 2002, the total property valuation of Danish properties amounted to DKK 1,435 million, to which should be added investments subsequent to this date.

Notes

Note GROUP

9 Investments

DKK million	Part. interests in associated undertakings	Other securities and participating interests	Other receivables
Cost at 1 October 2001	275	1,313	9
Exchange rate adjustments	-49	10	0
Additions during the year	64	0	0
Disposals during the year	-3	-276	-6
Cost at 29 September 2002	287	1,047	3
Adjustments at 1 October 2001	-2	11	0
Profit/loss for the year	-6	0	0
Other adjustments	-5	-5	0
Adjustments at 29 September 2002	-13	6	0
Net book value at 29 September 2002	274	1,053	3

PARENT COMPANY

Investments

DKK million	Participating interests in subsidiaries	Part. interests in associated undertakings	Other securities and parti- cipating interests
Cost at 1 October 2001	2,478	99	803
Exchange rate adjustments	22	0	9
Additions during the year	34	5	0
Disposals during the year	-722	0	0
Cost at 29 September 2002	1,812	104	812
Adjustments at 1 October 2001	256	-5	11
Exchange rate adjustments	6	0	0
Profit for the year	186	3	0
Changes in intra-group profit, stocks	-28	0	0
Other adjustments	-70	-3	0
Adjustments at 29 September 2002	350	-5	11
Net book value at 29 September 2002	2,162	99	823

Notes

PARENT COMPANY		Note	GROUP	
02.10.00 – 30.09.01	01.10.01 – 29.09.02		01.10.01 – 29.09.02	02.10.00 – 30.09.01
		DKK million		
		10 Minority interests		
		Minority interests beginning of year	85	89
		Share of results for the year	–2	1
		Changes in ownership share	4	–5
		Minority interests, year-end	87	85
		11 Subordinate loan capital		
288	252	Subordinate loan capital, beginning	252	288
–36	18	Exchange rate adjustments	18	–36
0	–34	Repayments during the year	–34	0
252	236	Subordinate loan capital, year-end	236	252
		12 Deferred tax		
36	33	Deferred tax beginning of year	370	421
–4	1	Exchange rate adjustments	15	–50
–	–	Disposal on sale of subsidiary	–134	–
1	–10	Other changes in deferred tax during the year	–11	–1
33	24	Deferred tax, year-end	240	370
		13 Pensions		
		The provision comprises defined benefit schemes in Sweden and UK and is computed as follows:		
		Current value of the pension commitments	1,885	1,654
		Not included actuarial losses	–441	–219
		Market value of the assets of the pension schemes	–745	–826
		Total	699	609
		The defined benefit schemes in UK are administered by independent pension funds who invest the amounts paid in to cover the commitments. The actuarial current value of the commitments (DKK 1,191 million at 29 September 2002 against DKK 1,022 million at 30 September 2001) less the market value of the assets (DKK 745 million at 29 September 2002 against DKK 826 million at 30 September 2001) amounts to DKK 446 million. This actuarial loss is included in the profit and loss account over the anticipated average number of working years remaining for the employees.		
		The defined benefit schemes in Sweden are not covered by payments to pension funds. The actuarial current value of the commitments is in all material respects recorded in the balance sheet.		
		14 Other provisions		
259	193	Other provisions beginning of the year	735	500
0	–	Reassessment of the opening balance sheet	–	300
259	193	Adjusted other provisions, beginning	735	800
5	0	Provided during the year	9	8
–71	–44	Applied during the year	–50	–73
193	149	Other provisions, year-end	694	735

Notes

PARENT COMPANY		Note	GROUP	
30.09.01	29.09.02		29.09.02	30.09.01
		DKK million		
		15 Long-term payables		
		Long-term payables falling due after five years after the balance sheet date		
1,312	2,112		2,722	1,876
		16 Contingent liabilities, guarantees, etc.		
		<i>Contingent liabilities</i>		
3,100	2,444	Surety and guarantee obligations	1,121	1,167
142	144	Leasing obligation (total)	299	310
		Obligations relating to agreement on the supply of fixed assets		
219	314		475	417
		To cover exchange risks, the following forward exchange contracts have been entered into:		
1,521	869	Forward contracts (buying)	1,262	1,777
4,665	4,856	Forward contracts (selling)	5,162	4,889
0	1,050	Interest swaps	1,213	0
		The following assets have been deposited as security for debt:		
170	170	Owner's mortgage in real property with a book value of	463	444
468	448	Securities, book value	1,221	1,421
0	0		587	0
		Arla Foods amba has received guarantee certificates from members of the cooperative. The basis for these guarantees is the individual member's deliveries over the past 5 financial years calculated as DKK 20 per 1,000 kg milk delivered. DKK 0 has been provided as security for debt.		
573	590		590	573
		The Group is a party to a number of 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.		

Group companies

Subsidiaries, associated undertakings and participating interests

The companies marked with x are defined as dairy-related and their results are included in the profit and loss account of the parent company. The other companies are defined as non-dairy, and their results are therefore taken directly to the equity of the parent company.

SUBSIDIARIES that are all included in the consolidated accounts	Ownership share
• Arla Foods AB, Sweden	100.0%
• ASM Mjölksocker AB, Sweden (100.0%)	
• Arla Ost och Smör Produktion AB, Sweden (100.0%)	
• Friggs AB, Sweden (100.0%)	
• Eterna Näringsprodukter AB, Sweden (100.0%)	
• Bregott AB, Sweden (62.4%)	
• Arla Foods Distribution amba, Denmark	100.0%
• Danos A/S, Denmark (100.0%)	
• Gredstedbro Ost A/S, Denmark (100.0%)	
• Danmark Protein A/S, Denmark (100.0%)	
• Mejerigrossisten Fyn ApS, Denmark	100.0%
• Arla Foods Holding AB, Sweden	100.0%
• Oy Arla Foods Ab, Finland (100.0%)	
• Arla Foods AS, Norway	100.0%
• Arla Foods Inc., Canada	100.0%
• Arla Foods GmbH, Germany	100.0%
• Arla Foods S.r.l., Italy	100.0%
• Arla Foods Specialost AB, Sweden	100.0%
• Arla Foods Inc., USA	100.0%
• Arla Foods S.A.R.L., France	100.0%
• Andelssmør A.m.b.a., Denmark	91.9%
• Arla Foods Fonterra P/S, Denmark	75.0%
• Enigheden A/S, Denmark	51.0%
• Arla Foods Ingredients amba, Denmark	100.0%
• Arla Foods Ingredients GmbH, Germany (100.0%)	
• Arla Foods Ingredients Inc., USA (100.0%)	
• Arla Foods Ingredients KK, Japan (100.0%)	
• Arla Foods Ingredients AB, Sweden (100.0%)	
• Arla Foods Ingredients Ltd., UK (100.0%)	
• Arla Foods Ingredients Korea Co. Ltd., South Korea (70.0%)	
• AM Produktion K/B, Sweden (66.7%. The remaining 33.3% is owned by Arla Foods AB)	
• AM Foods K/S, Denmark (66.7%. The remaining 33.3% is owned by Arla Foods amba)	
• Arla Foods Sp. Z o.o., Poland	100.0%
• Arla Foods International A/S, Denmark	100.0%
• Danya Foods Ltd., Saudi Arabia	
• Arla Foods Plc., UK	
• Arla Foods Argentina S.A., Argentina	
• Frödinge Holding AB, Sweden	100.0%
• Frödinge Mejeri AB, Sweden (100.0%)	
• Medipharm Holding AB, Sweden	100.0%
• Medipharm AB, Sweden (100.0%)	
• Munka Invest AB, Sweden (100.0%)	
• Medipharm Investments Ltd., USA (100.0%)	
• Medipharm CZ s.r.o., The Czech Republic (100.0%)	
• Medipharm Hungary Kft, Hungary (51.0%)	
• Semper Holding AB, Sweden	100.0%
• Semper AB, Sweden (100.0%)	
• Anjo Holding AB, Sweden	100.0%
• A/S Anjo, Denmark (100.0%)	

Group companies

SUBSIDIARIES that are all included in the consolidated accounts (continued)	Ownership share
Arla Foods Holding A/S, Denmark	100.0%
Medani A/S, Denmark (100.0%)	
Kingdom Food Products ApS, Denmark (100.0%)	
Arla Foods Leasing A/S, Denmark (100.0%)	
Ejendomsanpartsselskabet St. Ravnsbjerg, Denmark (100.0%)	
Rynkeby Foods A/S, Denmark (50.0%. The remaining 50.0% is owned by Kinmaco ApS)	
Kinmaco ApS, Denmark (100.0%)	
GB Finans A/S, Denmark (100.0%)	
Arla Insurance Company (Guernsey) Limited, Guernsey (100.0%)	
Kirkeby Mejeri A/S, Denmark (100.0%)	
De Danske Mejeriers Fællesindkøb Amba, Denmark	96.0%
Dairy Fruit A/S, Denmark (100.0%)	
A/S Crispy Food International, Denmark (100.0%)	
IFEG International ApS, Denmark (100.0%)	
Ejendomsselskabet Østre Gjesingvej 19 A/S, Denmark (100.0%)	
Danapak A.m.b.a., Denmark	93.0%
Danapak A/S, Denmark (100.0%)	
Danapak Kartonnage A/S, Denmark (100.0%)	
Danapak Plast A/S, Denmark (100.0%)	
Tölkki OY, Finland (100.0%)	
Danapak Faltschachtelsysteme GmbH, Germany (100.0%)	
Danapak Cartons Ltd., UK (100.0%)	
Danapak Leasing ApS, Denmark (100.0%)	
Finn Westergaard Holding A/S, Denmark (60.0%)	
Danapak WP A/S, Denmark (100.0%)	
Dana-Green 2000 A/S, Denmark (51.0%)	
 ASSOCIATED UNDERTAKINGS	
• JO-Bolaget Fruktprodukter HB, Sweden (owned through Arla Foods AB)	50.0%
• HB Grådö Produktion, Sweden (owned through Arla Foods AB)	50.0%
• Synbiotics AB, Sweden (owned through Arla Foods AB)	50.0%
• Arla Foods Hellas S.A., Greece	60.0%
Biolac GmbH, Germany	50.0%
Arla Foods Ingredients S.A., Argentina (owned through Arla Foods Ingredients amba)	50.0%
Dan Vigor Ltd. Brazil (owned through Arla Foods International A/S)	50.0%
Matpartner R&S AB, Sweden (owned through Semper Holding AB)	50.0%
Cocio A/S, Denmark (owned through Danmark Protein A/S)	50.0%
Delimo A/S, Denmark (owned through Arla Foods Distribution amba)	48.0%
Danapak Flexibles Group, Denmark (owned through Danapak A/S)	40.0%
Kronost AB, Sweden (owned through Arla Foods AB)	25.0%
 PARTICIPATING INTERESTS	
Mejeriforeningen, Denmark	89.5%
Svensk Mjök Ekonomisk förening, Sweden	42.0%
Lantbrukarnas Riksförbund, förening upa, Sweden	19.0%

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

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

Management and Supervisory Board



Jens Bigum
Man. Director



Åke Modig
Dep.-Man. Director



Lars Lamberg
Chairman



Knud Erik Jensen
Deputy Chairman



Bertil Andersson



Leif Backstad



Kaj W. Christensen



Christer Eliasson



Anders Ericsson



Leif Eriksson



Elisabeth Gauffin



Åke Hantoft



Tommy Jacobsson



Thomas Johansen



Sören Kihlberg



Kr. Ole Kristensen



Ove Moberg



Hans Peter Nielsen



Per Norstedt



Jan Nørgaard



Kaj Ole Pedersen



Søren Rasmussen



Pejter Søndergaard



Bent Juul Sørensen

Key figures DKK million

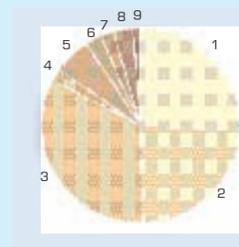
GROUP	01.10.01 02.09.29	00.10.02 01.09.30	00.04.17 00.10.01
Profit			
Net turnover	39,441	38,133	17,453
outside DK/SE	19,807	18,823	8,200
% outside DK/SE	50 %	49 %	47 %
Net profit	1,161	1,157	392
Supplementary payments	575	690	276
Consolidation	586	467	116
Financing			
Balance sheet total	21,736	20,858	21,275
Fixed assets	10,253	10,523	11,055
Gross investments	2,046	1,877	905
Capital base	6,955	6,448	6,343
Equity ratio			
In %	32 %	31 %	30 %
Raw materials			
Milk received (the Group) million kg	7,041	7,085	3,344
Denmark	3,964	3,967	1,914
Sweden	2,157	2,167	993
Other countries	920	951	437
No. of co-operative owners	13,642	14,909	16,121
Denmark	7,103	7,921	8,639
Sweden	6,539	6,988	7,482
Employees			
No. of employees (man years)	17,866	18,200	18,622

TURNOVER

01.10.01 – 02.09.29

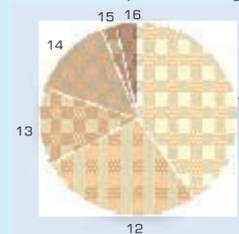
Divided into markets			
1. Sweden	10,281	10,062	5,060
2. Denmark	9,353	9,248	4,193
3. Other EU countries	12,960	12,396	5,305
4. Rest of Europe	770	782	330
5. Middle East	2,445	2,103	885
6. North America	1,018	928	412
7. Central and South America	871	932	601
8. Asia	1,264	1,225	477
9. Africa	457	430	175
10 Other	22	27	15
Total	39,441	38,133	17,453

Divided into markets



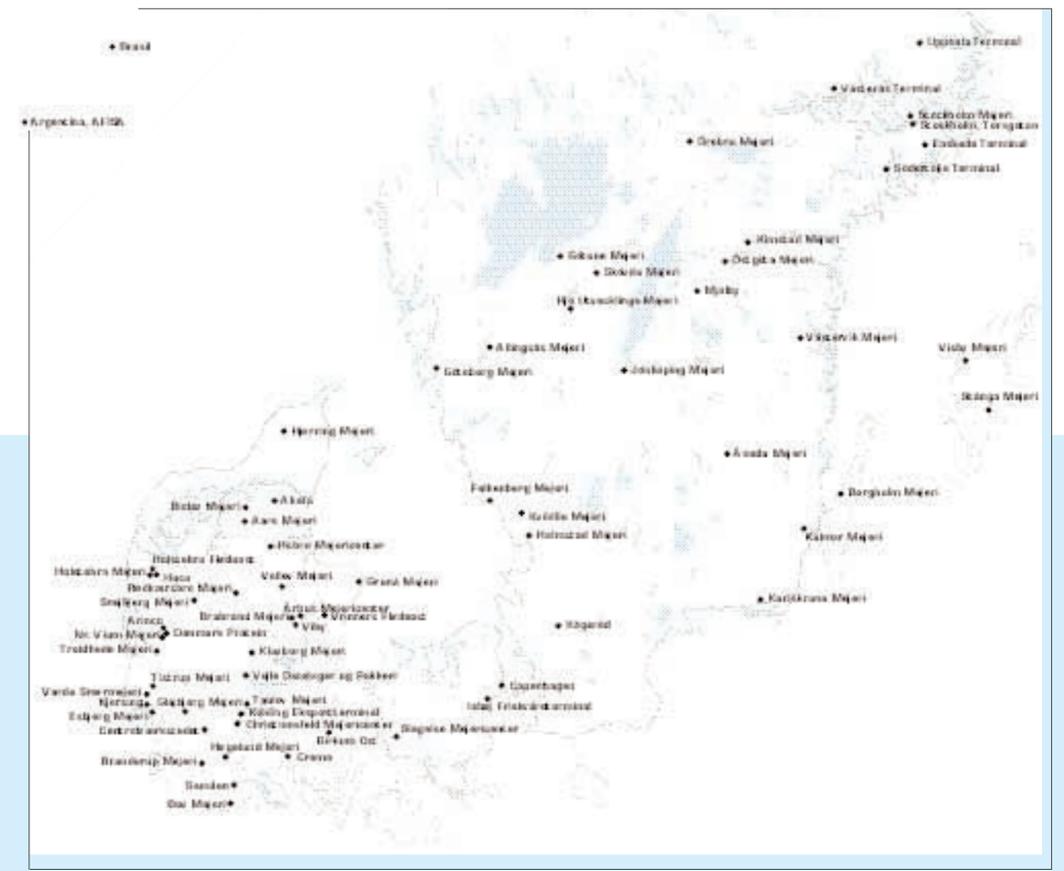
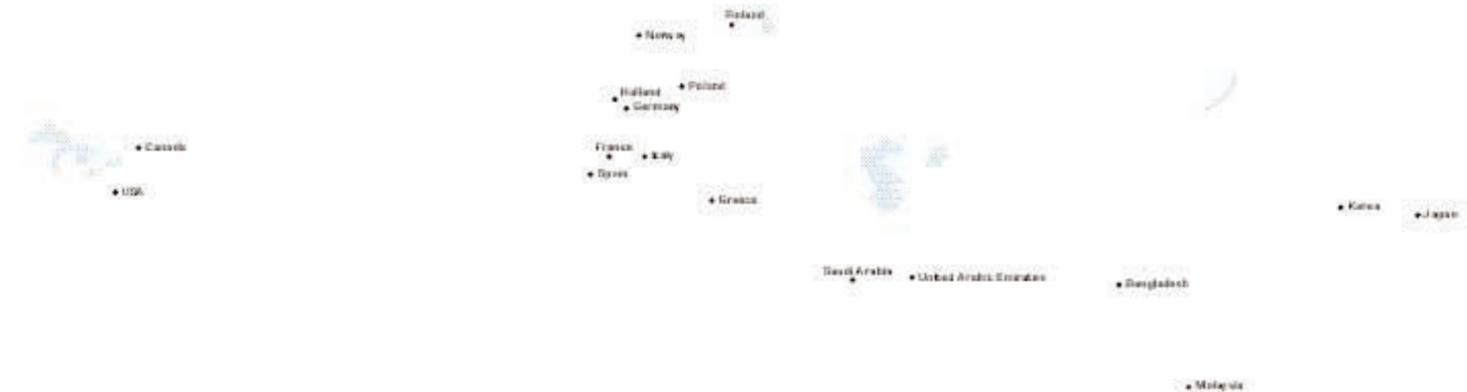
Divided into product categories			
11 Fresh products	15,893	15,430	7,061
12 Cheese	10,606	10,640	4,652
13 Butter and spreads	5,120	4,289	2,033
14 Condensed milk products	5,410	5,573	2,574
15 Packaging	974	1,065	502
16 Other turnover	1,438	1,136	631
Total	39,441	38,133	17,453

Divided into product categories



New products 2001/02

1. Kærgården 475 g, launched Denmark October 2001.
2. Hoops yoghurt, launched UK October 2001
3. Lurpak Lighter Spreadable, launched UK October 2001
4. A38 Natural Light, launched Denmark October 2001
5. Minimilk 1 litre, launched Denmark October 2001
6. Buko fresh cheese cucumber with garlic, launched Denmark October 2001
7. Herb butter with chilli and lime, launched Sweden October 2001
8. Grattella Mozzarella, launched Sweden January 2002
9. Kelda mild tomato soup, launched Sweden January 2002
10. Minifraiche 5%, launched Sweden January 2001
11. Dexter's Laboratory yoghurt, launched UK January 2002
12. Powerpuff Girls yoghurt, launched UK January 2002
13. Karoline's gratin cheese, launched Denmark January 2002
14. Rosenborg Danish Blue Cheese 25 oz., launched USA January 2002
15. Yoggi peach melba, launched Denmark February 2002
16. Dano full cream milk powder, launched Bangladesh February 2002
17. Cheasy 13% medium mature in slices, launched Denmark February 2002
18. Høng gold danablu, launched Denmark February 2002
19. Malthé 30+ medium mature in slices, launched in Denmark February 2002
20. Cheasy 5% mild in slices, launched Denmark February 2002
21. Magré in slices, launched Sweden March 2002
22. MiniMeal vanilla rice with blueberries, launched Denmark April 2002
23. Arla Mini Vanilla, launched Denmark April 2002
24. Arla Mini Cocoa, launched Denmark April 2002
25. Riberhus 30+ medium mature, launched Denmark April 2002
26. Yoggi Drom 4-pack, launched Denmark April 2002
27. Bregott organic, launched Sweden May 2002
28. Garlic & chive cold sauce, launched Sweden May 2002
29. Feta Snack, launched Sweden May 2002
30. Cheese and tomato cold sauce, launched Sweden May 2002
31. Herb butter with garlic, launched Sweden May 2002
32. Semi-skimmed milk 3dl, launched Sweden May 2002
33. Milk drink with chocolate flavour, launched Sweden May 2002
34. Milk drink with strawberry flavour, launched Sweden May 2002
35. Yoggi yalla! drinking yoghurt with new flavour, launched Sweden May 2002
36. Organic milk 2 pts. for multiple, launched UK May 2002
37. Cravendale, launched nationwide in UK May 2002
38. World Cup yoghurt, launched UK May 2002
39. Mini milk in cans, launched Denmark June 2002
40. Cheasy 6% fresh cheese chives and onion, launched Denmark June 2002
41. Milex Kinder 1-5, launched Panama June 2002
42. Cream cheese natural, launched Singapore June 2002
43. Cheasy curry sauce, launched Denmark August 2002
44. Lillebror cheese stickers, launched in new packaging Denmark August 2002
45. Winnie the Pooh milk powder, launched Panama August 2002
46. Dano full-cream milk powder, launched Yemen August 2002
47. Cottage cheese & raspberries/blueberries, launched Sweden September 2002
48. MiniMeal vanilla rice with strawberries, launched Sweden September 2002
49. Mild yoghurt with topping and honey, launched Sweden September 2002
50. Scooby-Doo yoghurt, launched UK September 2002
51. Cream cheese light, launched Canada September 2002
52. Cream cheese with pepper, launched Canada September 2002
53. Milex full-cream milk powder, launched Honduras September 2002
54. Rosenborg noble blue, launched USA September 2002
55. Apetina feta, launched Finland October 2002
56. Apetina feta with red pepper, launched Finland October 2002
57. M1 full-cream milk powder, launched Honduras October 2002
58. Low fat spreadable product, launched Kuwait October 2002
59. Apetina feta, relaunched Spain, Holland and Germany December 2002
60. Apetina feta in cubes, relaunched Holland, Belgium, France, Italy, Norway and Sweden December 2002
61. Buko Garli with herbs, launched Holland January 2003
62. Buko fresh cheese, relaunched Germany January 2003
63. Buko fresh cheese with herbs, relaunched Germany January 2003
64. Finello gratin cheese, relaunched Germany January 2003
65. Finello pasta cheese, relaunched Germany January 2003
66. Finello pizza cheese, relaunched Germany January 2003
67. Havarti in slices, relaunched Germany January 2003
68. Cave cheese in slices, relaunched Germany January 2003
69. Buko pineapple, launched Holland January 2003



After milking, farmer Jens Åge Skipper → feeds his herd of 80 dairy cows. Originally, Jens Åge Skipper was a member of the Randers & Viborg co-operative dairy which merged with the then MD Foods in 1996.