

Our mission

is to provide modern consumers with natural milk-based products that create inspiration, confidence and well-being. In that way, we can pay our owners the highest possible price for their milk.

annual report 2008





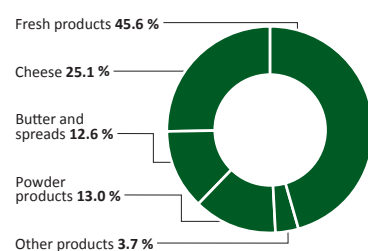
Financial highlights

Group	01.01.2008 31.12.2008	01.01.2007 31.12.2007	01.01.2006 31.12.2006	01.10.2005 ¹⁾ 31.12.2005	01.10.2004 30.09.2005
Profit					
Revenue	49,469	47,742	45,491	11,487	46,351
Outside DK/SE	29,766	29,339	27,393	6,955	27,784
% outside DK/SE	60%	61%	60%	61%	60%
Operating profit	1,149	1,520	1,161	113	1 459
Net financial items	-862	-562	-409	-124	-573
Profit for the year	556	938	933	30	755
Supplementary payments	137	503	336	75	369
Consolidation:					
Reconsolidation according to the articles of association	121	121	122	0	247
Change in policy	0	0	91	-45	-46
Delivery-based owner certificates	176	174	184	0	185
Strategy fund	122	140	200	-	-
Financing					
Total assets	29,280	30,725	26,611	27,057	26,336
Fixed assets	15,205	17,473	15,762	15,682	15,593
Investments in property, plant and equipment	1,539	1,895	1,792	599	2,499
Equity	7,797	8,145	7,971	7,411	7,435
Equity ratios (%)					
Equity	27%	27%	30%	27%	28%
Equity + subordinate bond loan	30%	30%	34%	31%	32%
Inflow of raw milk					
Total million kg. weighed in by the group	8,243	8,360	8,592	2,063	8 415
Members in DK	3,911	3,976	4,047	970	4,058
Members in SE	1,943	1,957	2,067	499	2,114
Others	2,389	2,427	2,478	594	2,243
Number of members					
In DK	3,906	4,170	4,591	4,987	5,197
In SE	4,090	4,352	4,817	5,288	5,360
Total	7,996	8,522	9,408	10,275	10,557
Milk performance price					
DKK/kg. member milk	2.82	2.47	2.27	2.17	2.27
Employees					
Average number of full-time employees	15,927	16,559	17,933	19,356	20,076

1) As from 2006, the financial year was changed to follow the calendar year, the period 1 October – 31 December 2005 being the transitional period. The financial highlights for this financial year therefore only comprise three months.

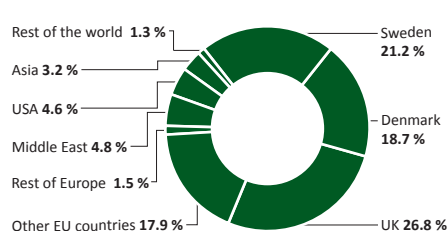
REVENUE

In per cent by product category



REVENUE

In per cent by market



The following is a translation of a Danish original document. The original Danish text shall be the governing text for all purposes and in case of any discrepancy the Danish wording shall be applicable.

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THE COOPERATIVE COMPANY ARLA

Ownership

Arla is one of the key players in the international dairy industry, largely due to visionary and committed milk producers. The company can trace its beginnings back more than 100 years and in 2000 Swedish Arla and Danish MD Foods merged. At the start of 2009, 7,996 Danish and Swedish cooperative members owned the cooperative.

Democracy

Each day the owners deliver our most important raw material: milk. They also participate in a democratic system and elect members to serve on both the Board of Directors and Arla's top decision making board, the Board of Representatives.

Natural products

Arla's mission is to provide modern consumers with natural milk-based products that create inspiration, confidence and well-being. By doing so, we create the greatest possible value in the market, and we can pay our owners the highest possible price for their milk.

Global company

We have production facilities in 12 countries and sales offices in another 20 countries. The company's dairy products are exported around the globe, and many of our products are sold under well known brands. Our core markets now include Denmark, Sweden, the UK, Finland, Germany and Poland.

Environment and climate

Food production and transport inevitably have an impact on the environment. Our ambition is to minimise emissions and continually improve our environmental performance throughout the supply chain. For example, we will reduce greenhouse gas emissions as a result of transport, production and packaging by 25 per cent between 2005 and 2020.



THE CHAIRMAN'S REPORT

A good year, but with very big fluctuations

Yet another year, with substantial fluctuations in the global market, has come to an end. This time it started on a high but ended on a low note. We have laid the foundations for a more agile company with more frequent dialogue with owners and the right focus on the future, guided by clear and crucial priorities.

CHANGING TIMES

2008 was yet another challenging year for dairy farmers. Milk prices were strong during the first half of the year, due to the historic increase in prices in 2007. However, as the economic situation deteriorated towards the end of the year, particularly affecting sales of commodities, we were forced to drop the price of milk to cooperative members on two occasions. Despite this downturn, overall milk prices were high in 2008. However, considering how well the year began, we had higher expectations for our financial performance.

We have reached the end of yet another turbulent year and the future is hard to predict. I hope we will soon reach a balance in which the record-breaking upturn in dairy product prices in 2007 and the general economic nosedive in the second half of 2008, can stabilise at a more sustainable level for the long term. Our goal is to create stability, but how much we are able to influence this situation remains a challenge, considering the instability and sharp price fluctuations around us.



SPEED AND CLARITY

In order to create the best possible prospects for cooperative members, Arla must continue to provide greater clarity and openness about the market conditions that currently control our business. The market in which we operate is completely different to that just a few years ago. Work on the New Arla began in late 2007 and continued into 2008. The result is a modern model with greater openness within the company, as well as in relation to our stakeholders in the community. We gather business intelligence at a faster pace and we have streamlined operations. Together with cooperative members, we have created greater strength and flexibility in the company.

Today everyone can also get a clearer picture of current milk prices than in the past, and our Arla price has created better insight among members as to how they can work towards an improved price for their milk. Our organisation is more agile and efficient, to the benefit of both members and employees in the company. We have come a long way in a short time. Today our dairy company is well equipped to deal with the market in extremely uncertain times, where global market fluctuations have a direct impact.

RIGHT FOCUS FOR A NEW ERA

Our new strategy for the next five years has been well received by members. Strategy 2013 provides us with more focus, clear priorities within the company, improved efficiency in product development and production, as well as stronger brands. Arla must also be known as the company with the most natural products with the help of our value chain from cow to consumer and our highly-respected quality assurance programmes. During the year we initiated the exciting work of finding a capital structure that will enable us to fully finance our growth plan that is part of our strategy for the future. We may create a holding company in which members and external investors can invest in the company. This work will continue in 2009.

Development doubled. Arla intends to double its product development by 2013. The main areas are health, taste and organic products.





FOCUS ON THE CONSUMER

We will navigate in a brand new world with free market forces. The global increase in production and higher consumer prices resulted in decreased consumption. In the current situation we have an imbalance between supply of milk and demand for dairy products. Our new strategy is the right path moving forward. However, nothing has changed in the longer term,

it is still right to focus on adding value to members' milk and developing products, which provide inspiration for consumers.

This approach creates strong brands that can best defend the earnings of the company and the members. In the long term, demand for milk will rise, and the future will be exciting for all milk producers who are members of strong companies that can serve as a safe haven in turbulent times.

At the same time we are still working based on proven guiding principles for the business. Listening to what consumers want with respect to user-friendliness,

inspiration, taste, health and the environment is as important as ever. Our strength, and therefore our payment to members, relies on our ability to respond to consumer demand. And it is as important as ever to pursue a fair pricing policy so that the company's freedom of action remains uncompromised. We have to be able to handle fluctuations and grab the opportunities that arise in the market. Our ability to act is determined, in part, by how well we can finance various decisions, which in turn



Processing and inspiration. Processing members' milk to add value and developing products that generate inspiration are still the right path for the company.

requires that we have the trust of the financial market. Everything is inter-related.

PREPARED FOR THE FUTURE

The past year was important not only for our operations, but for the entire dairy industry. I cannot foresee the long-term effects of the financial crisis, which intensified during the year, on Arla, our customers, members and other milk suppliers, nor do I know how long it will take before member prices once again begin to rise. But, clearly, they will rise again, and we should not be frightened by the situation, but instead act with care and wisdom.

In conclusion, I would particularly like to express my appreciation for the outstanding collaboration we have had during the first year together with our new partner in the UK and milk producers in the now wholly owned Finnish Arla Ingman. This has been a positive experience, and with our new strategy and the new core markets that we have identified, it will be exciting to see how we can open up parts of Arla for other forms of co-ownership in the future. I would also like to welcome those milk producers who have joined Arla during the year. We will show all of you that Arla is the best company to which to deliver your milk.

For the Board of Directors, 2008 has been an unbelievably exciting year; 2009 will be a year with a tough economy and great uncertainty about the future. Both Arla and cooperative members have an enormous challenge ahead and we will face it together in 2009.

Ove Møberg
Ove Møberg, Chairman of the Board



From nature to the consumer. Our 'cow to consumer' value chain will enable us to achieve our ambition – to be known as the dairy company with the most natural products.



Record year with major changes

2008 was a record year in terms of member's earnings, which were DKK 2.82 per kilo for member's milk compared to DKK 2.47 in 2007. The key figures in Arla Foods' annual accounts show falls in several areas. Owing to Arla's cooperative status, however, we have decided to maintain a consistently high payment to our owners. However, towards the end of the year we faced increased price pressure. The global market for milk reversed from a shortage to a surplus, competition intensified and the deepening financial crisis resulted in a reduction of record-high milk prices to our members.

We have taken clear steps towards creating a stable future. Our new strategy sharpens the company's focus and our new brand highlights Arla's natural products while clarifying Arla's company positioning for consumers. With our committed employees, we will become even stronger both in our core markets and in selected locations around the world.

OPTIMISM CAME TO A HALT

The beginning of 2008 was a time of newly acquired optimism. Milk and dairy products were in great demand all over the world and Arla's budget for the year was ambitious but realistic, based on the new stability within the global market. In early autumn we thought we would remain on budget by reducing milk payments, despite early signs of a slowdown in a few export markets. However, international dairy prices plummeted during the last months of the year at a rate that

no one could possibly have anticipated. Suddenly there was a global surplus of milk. We saw skimmed milk powder sold at record low prices. Price fluctuations over the past 18 months have been extreme, with the largest variations in high and low prices that we have seen in a long time.

The financial crisis has had a more negative impact than could have been expected on consumers and also on Arla's performance for the full year. At the same time, the new higher price levels for dairy products caused many consumers in our export markets to choose less expensive alternatives and, in certain export markets, they stopped buying dairy products altogether. Sales of commodities, in particular, resulted in lower prices.

We are constantly working on efficiency measures and cost reductions and we have made great progress in recent years. Production costs in Sweden, Denmark and the UK are lower today than they were in 2004, which is particularly remarkable considering that expenses such as packaging, diesel and electricity have all risen. We greatly benefited from this work during the year and will continue to do so in the future.

NEW STRATEGY SHOWS THE WAY FORWARD

Despite the decline during the second half of the year, Arla still paid cooperative members record-high prices for the milk they delivered. Despite strong earnings in 2008, we must assume that as we proceed in 2009 we will face a difficult situation in many of our markets. Going forward, we must focus on our strengths to achieve the best possible profitability. This is the purpose of our Strategy 2013, which charts the company's direction for the next five years. The challenges are many. With the right risk and market analysis, ongoing efficiency measures and investments where profitability is most secure, Arla can continue to be the best company for owners and employees, as well as for customers and consumers.



Lurpak® the leader. Lurpak®, one of our prioritised brands, is the brand leader in the UK and our advertising campaign was selected as the best in the world in the dairy products category, at the 2008 dairy innovation awards.

Peder Tuborgh, CEO.



FOCUS

Arla's core markets are Sweden, Denmark, Finland and the UK. In the future Germany and Poland will also be considered core markets. Arla must therefore upgrade its activities in these two countries. We already have a presence in these markets, plus the advantage of geographic proximity. Our presence in more than 80 markets worldwide will be concentrated. We will focus on the up and coming markets in the United States, China and Russia, where we see good growth opportunities if we make the right investments. Several other markets will be defined as tactical markets. In these markets, current operations will continue where we see good potential for profitability through marketing activity, while other markets will be given lower priority.

PRODUCT DEVELOPMENT

By doubling our investment in product development over the next five years, we will ensure that consumers enjoy more new products that promote health, naturalness and are organic.

Such efforts will provide opportunities for growth by improving the quality of, while adding value to, our products. These principles have guided us in 2008 and will continue to do so in the future. To date Arla's growth has largely been driven by acquisitions of other dairy companies, now we must focus on organic growth.

Our strategy will also make our marketing campaigns more effective, as we build and invest in three strong global brands: Castello® for cheese, Lurpak® for butter, and the new Arla brand, which launched in November, both for the company and for all products except Castello® and Lurpak®. Most of our current brands will remain, but by using a distinct structure with overarching brands we will achieve a greater return on our marketing investment.



Growth in whey protein. By 2013 we intend to double our whey protein operations, a field in which we are already a leading player. Whey protein is used in baked goods and high protein bars.



New trend for bulk products. In 2008 revenues for commodities fell when the global market reversed from shortage to surplus. Our new strategy provides focus within the company and supports our presence in more than 80 markets.

PROFITABLE WHEY PROTEIN

Whey protein sales were profitable during the year and we are a leading global player in this field. Our goal for the next five years is to double global whey protein operations, which will become a key strategic element for achieving the best milk price for our owners. We took the first steps in 2008 by initiating collaboration with Norwegian Tine and French Euroserum. We also decided to increase the capacity at our Argentinian facility and reviewed opportunities for production in the United States. Our knowledge about increasing the value of whey and milk powder through technology, as well as about nutrition and customer service, will become an increasingly important driving force for Arla's profitability in the future.

IMPORTANT INVESTMENTS

Along with all these initiatives and investments, we must be sensitive to market trends and continue the important work we began in 2008 to optimise our organisation in all areas. Key decisions for the year, in the UK, included moving production from Manchester dairy, investing to increase capacity at Stourton dairy and the successful launch of crème fraîche. We have also restructured our international consumer markets to provide greater local presence and we have moved parts of the group's financial services to Gdansk in Poland, where there is good access to skilled employees. All these decisions are the natural continuation of previous efforts to streamline operations in Denmark and Sweden. We are constantly taking steps to improve our organisation and our offering to consumers.

We also took several important steps in our strategy to become a stronger player in our existing core markets. We strengthened our ties with UK milk producers, Arla Foods Milk Partnership, by creating a jointly owned company that owns a share of the UK business. We acquired the remaining 70 per cent of shares in Arla Ingman in Finland late in the summer



and the operation became a wholly owned subsidiary with continued focus on marketing. Also here, the aim is to strengthen ties with local milk producers. In Sweden we took a major step towards a better total solution for customers and consumers by opening the entire market for distribution directly from Arla, to provide everyone with access to our complete range of products, our high service levels and our competitive prices. This step is important for capturing market share in Sweden.



Flavoured classic. Flavoured milk is gaining in popularity and during the year Arla purchased the remaining shares in Cocio Chokolademælk A/S, with products including the popular Swedish classic, Pucko®.

more clearly defined owner and better prospects for continued growth and development for some of the biggest juice brands on the Swedish market.

In Denmark, Arla welcomed members from two others dairy cooperatives. Borup Andelsmejeri announced in June and Hirthals Andelsmejeri announced in late December that they wanted to join Arla. Both dairy cooperatives lacked the necessary resources to continue profitable operations, and the new products they bring provide an exciting and fitting addition to Arla's broad portfolio of products.

We also carried out several strategically important acquisitions that strengthen our ability to offer exciting products to consumers, which is very important for ensuring the best payment, over the long term to members for the milk they deliver to the company. Cocio Chokolademælk A/S, which makes chocolate milk, became wholly owned by Arla. The business is a good platform for future initiatives in various categories for flavoured

milk drinks. In Sweden, the ownership of juice brands was split. From February 2009 Arla gained 100 per cent control over JO Bolaget. This provides Arla's juice operations with a

CRISIS IN CHINA

In September we had planned for our new expanded facility in China to become operational. However, a major crisis arose in the country when regulatory authorities found traces of the chemical melamine in products from several Chinese dairies. Arla's Chinese partner Mengniu Dairy was also involved in the scandal that resulted in a large number of children taking ill. In addition to immediate steps taken to ensure consumer health and milk quality, such as temporarily halting production in our joint venture Mengniu Arla, Arla and Mengniu Dairy worked together to re-establish trust in the company's products. Procedures for multiple testing of the milk used in production have been created and implemented.

Consumer trust in dairy products quite naturally suffered in the region, and the dramatic drop in sales resulted in a significant loss of revenue. However, the important point is that the entire dairy industry is now taking the necessary long term steps to show consumers and customers that our products are good. Arla is working through the local operation and international dairy organisations to pursue this. Towards the end of the year it was clear that our operations in China needed a capital contribution to cope with the situation until dairy production once again achieves the growth of recent years.

CLIMATE, NATURE AND RESPONSIBILITY

During the year several long-term projects were initiated to further strengthen the Arla brand and its environmental agenda. At the beginning of the year we presented our climate strategy, which states that we intend to reduce greenhouse gases produced throughout our supply chain. Our goal is to achieve at least a 25 per cent reduction in emissions from transport, production and packaging by 2020, compared with the level for 2005. The initiative, which is off to a good start in all areas of the business, presents a



Cows' environmental impact. The number of cows at our farms is increasing, in turn the farms becomes more efficient. But the cattle are accountable for a large proportion of the climate impact of dairy products. Our investment in the environment and climate has almost doubled during the year and there are many initiatives underway, both on farm and within Arla.



Closer to Nature™. In 2008 Arla introduced a new logo and the company positioning, Closer to Nature™. The company also intends to strengthen its organic growth.

true challenge for us, and the results are already apparent this first year. For example, Arla UK was the first dairy company in the United Kingdom to be awarded Carbon Trust accreditation for the work it did for the environment. We nearly doubled our investments in climate and the environment during the year, so we expect further good results in the future.

In November, we presented our ambition to get Closer to Nature™. This principle will guide us in everything we do, especially in new product development. It will help us set our priorities, representing a promise that we will do everything in our power to provide our consumers, approximately 250 million of them, in current and future core markets with good inspiring products that will take them closer to nature. We have already made excellent progress in certain markets and we have more still to accomplish and demonstrate in other markets. We have every prospect of being the dairy company that consumers feel is the best in terms of acting in harmony with nature and retaining naturalness throughout production, all the way from cow to consumer. This work will be exciting and important for all of us.

We updated our Code of Conduct, and for the first time, we also reported on compliance. The report shows many accomplishments, but of course there is always room for improvement. Our aspiration is to communicate openly and sincerely how we take care of our business. The next report will be published in spring 2009. We will ensure that we can continue to call ourselves the most consumer-aware and transparent dairy company in the world and the best farmer-owned company. Arla has signed up to Global Compact, the United Nations (UN) initiative for ethical business conduct, and our Code of Conduct is well in line with the UN's ten principles.

ENGAGED EMPLOYEES

The fact that we can achieve such positive results and so many strategically important decisions and initiatives during a year largely characterised by changes and challenges says a lot to me about our many engaged and talented employees.

A record number of employees – 91 per cent – participated in Arla's employee survey, and the results are extremely positive, which shows that engagement is strong and powerful throughout the organisation.

In order to further strengthen this internal work, we provided training for the company's leaders to further strengthen the focus required for a dynamic global company. Several projects were also carried out to improve occupational health and safety at various locations in the group. Many of these were initiated as a result of feedback from previous employee surveys. At Arla we are constantly working to improve quality. We hope that our new strategy and Closer to Nature™ campaign will make us even more attractive to both current and future employees.



A company with responsibilities. In January 2008 we signed up to Global Compact, the UN initiative to promote ethical business practices. During spring 2008 we published the first edition of our group report, 'Our responsibility – Arla Foods Corporate Social Responsibility'. In spring 2009 an updated version will be published. (Pictured above).

READY FOR MORE CHALLENGES

With 2008 now behind us, I can once again report about an exciting year. Even in my wildest dreams, I could not have imagined what would happen in our markets around the world. I see Arla as a dairy company with the right strategy, the right aspirations, the right skills and the right attitude to rise to all the challenges that the year presented. I am convinced that we will continue to embrace future challenges just as well. The short-term outlook for the whole of the dairy industry, however, remains difficult, also in respect of the milk price paid to our cooperative members, which includes the supplementary payment and consolidation to member's capital account.

Peder Tuborgh, CEO





The Farm

- **FEWER FARMS PRODUCE MORE MILK.** The number of Arla members continues to decline, but those who remain are expanding and producing more milk. The trend is the same for all agricultural sectors.
- **NEW STRATEGY PAVES THE WAY FOR NEW OWNERS.** The Board of Directors adopted a new strategy in the autumn and additional capital is necessary to implement it. Consequently, Arla may offer members and external investors the opportunity to become part owners of Arla-owned companies outside Denmark and Sweden.
- **EXTENSIVE QUALITY ASSURANCE PROGRAMMES.** An analysis of the quality assurance programmes used on farms in Denmark, Sweden, the UK and Finland shows that the programmes are similar to one another, and have high standards, although the details may differ.

FARMERS OWN DAIRY GROUP

Arla is a cooperative owned by 7,996 Danish and Swedish milk producers. During the year the number of members fell by six per cent and the quantity of raw milk fell by over one per cent. Many farms are expanding herds and modernising operations in response to structural changes in agriculture.

In light of declining numbers of milk producers and milk volumes in the UK, Arla and the members of Arla Foods Milk Partnership (AFMP), through their investment arm, Milk Partnership Limited, created a joint venture in May 2008. Its purpose is to give members of AFMP, which delivers about 80 per cent of the milk to Arla in the UK, greater insight into the company, provide greater transparency and ensure a reliable supply of raw milk in the UK.

Following the purchase of the remaining shares in Finnish Arla Ingman Oy Ab, Arla is now planning how to expand its collaboration with Finnish milk producers.

NEW STRATEGY MAY INFLUENCE OWNERSHIP STRUCTURE

During the autumn the Board of Directors announced the launch of a new five-year strategy. The next step is to solve the challenge of how to finance the strategy.

Arla's Board is discussing various options, such as establishing a limited liability company for its international operations. Whatever is decided, the new corporate structure will be implemented with respect for the cooperative.



A well-known red Arla cow. Arla Ko® was launched as a brand in 1975, but dates back to 1887. Arla Ko® products are made from Swedish milk and today there is a broad selection of milk, yogurt and cheese products, as well as many organic ones. The most recent additions to the Arla Ko® brand include several lactose-free milk and yogurt products that successfully launched in autumn 2008.

LARS PEDERSEN, milk producer from Klovborg, Jutland, Denmark. Lars has 500 Jersey cows in a loose housing barn with milking robots. The cows produce three million kilos of milk a year. He has been with Arla for 19 years.

What is it like being a farmer at Arla?

It's good, in my opinion. Arla is a company with principles and values, and I like that. I also feel like I have a voice at Arla and that I have a chance to put in my two cents. For me, the sense of security that Arla gives me that my milk will be collected is also important. Whether the price Arla farmers get is high enough is always up for discussion.

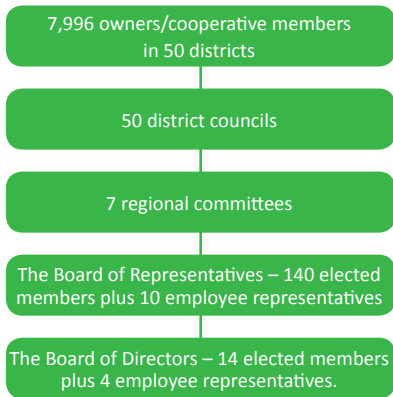
How do you run your farm?

I am part of a company together with two young farmers, and we have 1,000 cows in all. I think that is the future of farming. The biggest challenge lies in learning to be part of a company and not just a farmer.

Has supplying to Arla changed since the UK and Finland came along and with the company becoming more global?

No, not really. The new countries are exciting. We should always have our eyes on the horizon to see where new opportunities will arise.

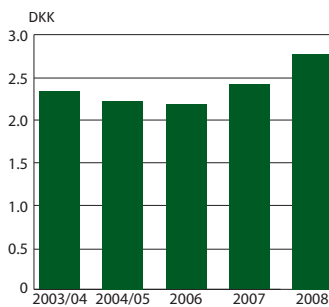




Ownership structure/organisation. The cooperative is controlled by elected Danish and Swedish milk producers and elected employee representatives on the Board of Representatives, the top decision-making body, and by the company's Board of Directors.

MILK PRICE

The price for milk paid to members in Denmark and Sweden decreased twice during 2008, by approximately 15 per cent. This was due to supply on the global market shifting from a shortage to a surplus.



LARGE FLUCTUATIONS IN MILK PRICES

In 2008 the supply of milk on the global market increased at the same time that demand weakened following rising prices for dairy products and the recession. The price of milk to members fell by approximately 15 per cent in 2008, although payments for the twelve-month period were still significantly higher than the previous year. The supplement for organic milk was also increased. It is difficult to anticipate development in the rapidly changing global market, but Arla always endeavours to pay its members the highest possible price for their milk.

THE WORLD'S BIGGEST SUPPLIER OF ORGANIC DAIRY PRODUCTS

Arla is the biggest supplier of organic products in Denmark and Sweden and the biggest supplier of organic dairy products in the world. Demand for organic products is on the rise both in Europe and throughout the rest of the world.

In Sweden we experienced a shortage of organic milk several times during the year. Our goal for 2011 is that organic milk will account for 11 per cent of production in Denmark and Sweden, which in Sweden means an increase twice that of the current level. To achieve this goal, we offer various incentives to encourage our milk producers to convert to organic production, including a higher milk price during part of the conversion period. Organic production of milk requires more land, which may prevent some farms converting to organic milk production.

QUALITY ASSURANCE PROGRAMMES ON FARM

Dairy farmers in Denmark and Sweden comply with the 'Arlagården' quality programme, which sets out guidelines for standards on farm. In the UK, all milk producers comply with Assured Farm Standards. Some farms in the UK also meet special requirements from our retail customers, for which they are paid a supplement. Farmers in Finland comply with the national quality control working model of the dairy industry. These quality assurance programmes have very high standards and are very similar to one another but vary according to the legislation and conditions of each specific country.

THE FARM'S ENVIRONMENTAL IMPACT

Farm operations, when considered in relation to our entire supply chain, account for approximately 80 per cent of our total greenhouse gas emissions. We are



Milk is popular on both sides. Demand is growing for the new Danish milk Lærkevang® and in 2009 more variants will be launched. The milk comes from grass-fed cows and farms meet special pasture requirements. Many farmers want to supply milk for Lærkevang®, because, among other reasons, they will receive a higher price for their milk because of the additional requirements they adhere to.



Biggest farms in Denmark. A Danish farm has on average 132 cows per farm, while a British farm has 100, a Swedish farm 51 and a Finnish farm 24.



Cows to pasture attract many visitors. During the year we broke previous visitor records with a total of 71,000 people in Denmark and Sweden visiting farms when the cows were turned out to pasture in the spring.

therefore working with our members and other milk suppliers, as well as industry organisations and universities, to learn more about how to reduce the emissions produced on farm, from production and from diesel consumption.

In the UK, an environment manager has been appointed specifically to work closely with members of AFMP to promote environmental best practice.

We have begun research projects applicable in Denmark, Sweden and the UK, in which we use life-cycle analysis to calculate the environmental impact of dairy products, from cow to consumer.

Dairy farms also have many positive effects on the environment. For instance, the potential for recovering energy from the ecocycle on the farm is enormous. Heat can be recovered from milk coolers and biogas can be extracted from manure. Many farms are investing to conserve energy and reduce their environmental impact. In addition, grazing animals promote biological diversity and encourage insects and plants.



Finland's number two for milk. Arla Ingman, Finland's second largest dairy company, offers a broad line of dairy products. The Finnish line of products is supplemented by Arla's larger brands, of which Kelda® and its soups, in particular, have become popular.



Milk quality awards. Each year a prize is awarded to the milk supplier who deliver milk of the highest quality in Denmark, Sweden and the UK. The daughter of a happy AFMP member raises a toast – of milk, of course.

BERNT ANDERSSON, Member Services quality coordinator, administrates the quality assurance programme Arlagården in Sweden. Bernt has worked at Arla for 22 years.

What do the farmers think about Arlagården?

Generally speaking, I think they're in favour. They understand why quality on farm is important, but of course it's only human to feel a little uncomfortable when you're audited. On the other hand, everyone gets a chance to correct any non-conformances.

How do you know that the inspectors who visit the Swedish farms do a good job?

We rely on an independent organisation that reviews all farm inspectors. That way the farmers can be sure they'll be treated fairly, and we know that our inspectors use the same basis for each evaluation.

How does Arlagården differ from other quality assurance programmes used at Arla?

We've compared Arla's programmes in Finland and the UK with Arlagården, and they're all based on similar areas and common legislation, so the difference is mainly in the detail.







The Milk

- **MORE MILK IN THE WORLD.** Global raw milk supplies increased during the year when the United States and New Zealand, in particular, increased production. In contrast, during 2007, demand was greater than supply.
- **LESS DEMAND FOR DAIRY PRODUCTS.** The economic downturn in late 2008 resulted in less demand for dairy products, which had a downward effect on raw milk prices.
- **MORE MILK FOR ARLA.** Access to milk is essential to our growth strategy. We continue the evolution of the cooperative to ensure the future supply of our most important raw material.



Nutritious powdered milk. Millex® is our global brand for powdered milk for retail sales and one of the first milk powder products to contain probiotic cultures. In 2008, we launched Kinder Gold, a 'premium child nutrition product' in the Dominican Republic.

STABILISED GLOBAL MILK MARKET

During the year, the overall volume of milk supplied to Arla was 8,243 million kg, a decrease of one per cent on last year. The raw milk shortage in the global market in 2007 was transformed into a surplus. At the beginning of 2009 the EU reintroduced export subsidies due to, among other reasons, declining raw milk prices.

We must give priority to securing milk supplies in order to implement the growth strategy announced by the Board of Directors in the autumn. To secure future milk supplies, Arla modernised the cooperative during the year, an initiative called the New Arla. Several changes focus on securing milk supplies and encouraging increased production.

In addition, communication about the exact payment for milk has been improved externally, and the 'Arla price' was adopted. Since the global market is changing at a fast pace, Arla will adjust the price it pays for milk faster than in the past.



LARS THOMASSEN drives a milk tanker from his base in Rødskær, Denmark, and has worked for Arla for 12 years.

What is it like driving with milk compared to other goods?

It's different. I used to drive mixed cargo to Sweden, but things are more organised here at Arla, so I would rather transport milk. The best thing about it is that I have more days off and the fleet of lorries is always in excellent condition. Especially, over the past five years, we've benefitted from lots of great new tools and resources. And if we have a problem, it's always resolved in a positive way.

Do you have time to chat with the farmers?

No, not any more. We have got to move faster and more effectively, so I don't often have time for small talk.

What do you think about ecodriving?

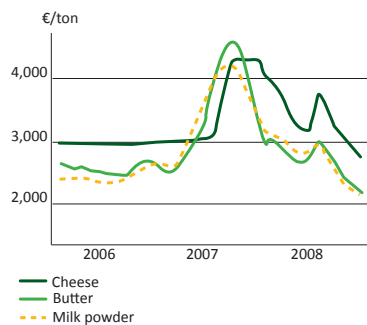
I think it is okay; it has given us a different driving pattern. If the management wants us to use it, then of course we'll do so. And that's fine by me if it saves money. It took me a few months to get used to it, but I think it reduces stress, because I take it easier in traffic and I save fuel.



Wholly owned in Finland. During the year Arla bought the remaining shares in Finnish Arla Ingman. Approximately 1,100 farms deliver milk to Arla in Finland, several through small dairy cooperatives. For competition reasons Finland's largest dairy company, Valio, is obliged to sell milk to Arla Ingman, which accounts for approximately 30 per cent of our Finnish milk.

COMMODITIES PRICE

The price of commodities such as powdered milk, cheese and butter has fluctuated sharply in the global market in recent years. In 2008 the price plunged almost 50 per cent from the 2007 peak. The figures on the left in the table show EUR per ton.



MORE SUPPLIERS TO ARLA

In our core markets we occasionally buy milk from suppliers who are not Arla-members, provided they meet our quality standards. A joint venture has brought UK farmers closer to Arla and discussions are being held to develop the cooperation with our Finnish milk suppliers and collaborators.

In 2007, when demand for milk outstripped supply, several members chose to leave the cooperative to sell their milk on the 'spot market', a trend which developed rapidly. Of the 187 members who withdrew in 2007, the majority returned to the cooperative in 2008, in part due to Arla's more stable milk price, which is higher in the long term, in addition to its modernisation initiative, the New Arla. Two Danish dairy cooperatives joined Arla during the year, Borup in July and Hirtshals, which joined in January 2009, with a total of 74 new members, including six organic producers. These moves were in response to the economic problems experienced by both dairy companies due to the financial crisis.

HIGHEST MILK PRICE FOR FARMERS

Arla's vision is to be the leading dairy company in Europe and, through active market leadership, obtain the highest possible milk price for our members. We amended our mission during the year to express our commitment to greater naturalness, which includes a focus on natural raw milk. Arla is now the eighth largest dairy company in the world.

Export subsidies have been reintroduced by the EU in 2009, but dairy production is generally heading towards greater deregulation. The EU is planning to raise the dairy quotas assigned to each country until 2015, when they are set to expire. In the long term this development will benefit us with an unlimited supply of raw milk and we are preparing to be at the forefront when production becomes unrestricted. Milk



Age increases strength. Kvibille®, one of Arla's oldest brands, launched back in 1928, today offers a broad selection of both hard and mould cheeses. Products include cheddar and Kvibille® Ädel, as well as the more classic cheeses, Präst®, Svecia and Greve®. In the autumn of 2008 Kvibille launched its 24-month aged Herrgård and Svecia cheeses. On a twelve point scale for strength of taste they scored ten and eleven points respectively.

KENT DAHLQVIST, route planner at the Member Service Centre in Sweden, makes sure that the tankers drive the shortest distances possible. He has worked at Arla for 37 years.

What is the challenge in your job?

"I believe you can always find new and smarter solutions to problems and that attitude has helped me in my work. The number of farms is decreasing and the need for milk in the dairies varies, so we constantly have to optimise the distances the tankers drive. I have to be innovative and dare to break the mould.

Do you think about logistics even when you're off work?

Of course. When you have four children and you live in the country, logistics is essential to make life work.

Why is route planning so important?

In Sweden we have 68 vehicles that carries milk, whey and cream almost around the clock. Each vehicle drives 750 km per day so, of course, there's much to be gained from deploying them as efficiently as possible.



producers in Denmark have been restricted by quota for a long time, but Sweden, the UK and Finland are under quota. The EU Commission expects dairy production in the world to increase by 20 per cent within 10 years.

GLOBAL MARKET AFFECTS PRODUCTION

According to Arla’s strategy, added value products in all product categories, from powdered milk to dessert cheese, will secure the group’s long-term profitability. At the same time we have the flexibility to adapt production to whatever product is most profitable at any given time. During 2008 the price relationship between added value products and commodities was re-established, and interest in organic products is growing.

During the first half of the year Arla successfully adapted production and profitability also increased due to the customer price increases that were implemented in late 2007. We also began to see the effects of our internal efficiency programme. However, during the second half of 2008 the price of dairy products rose again, accelerated by the global economic decline, where customer purchasing power decreased and consumer demand for low-price products increased.



NEW CLIMATE TARGET REDUCES EMISSIONS

Arla is a major transporter of both raw milk to the dairies and finished products to customers. According to the climate targets announced at the beginning of the year, we will achieve a 25 per cent reduction in our carbon dioxide emissions from transport by 2020, compared with the level in 2005.

We have taken several measures to achieve this goal and more will be introduced. In particular we are reducing our diesel consumption and aim to drive the shortest distances possible. Other examples of our efforts to reduce emissions from transport include:

- Investing in new, modern vehicles.
- Running fully loaded vehicles on carefully planned routes.
- Educating drivers about fuel-efficient driving and equipping vehicles with GPS.
- Lowering the speed our vehicles travel.
- Using renewable fuel.



Lower diesel consumption. In Denmark a monitoring system in tankers has enabled the introduction of a more fuel-efficient driving technique, which has reduced fuel consumption by approximately six per cent.



The Arla price – a new milk price model. The purpose of our new price model is to clearly show the highest price that a member can achieve by supplying milk to Arla in Denmark and Sweden. The Arla price, for example, includes additional payments based on quality, organic production and consolidation in Arla.





Processing

- **NEW STRATEGY.** To deal with the continued intense competition among dairy companies, Arla adopted a new strategy for the company's brands, product development, high-priority markets and growth.
- **CLOSER TO NATURE™.** Arla's new focus, Closer to Nature™, affects the entire company and all its products. The product development department is working on how to use and develop the most natural products.
- **SUBSTANTIAL COMMITMENT.** Arla's employees help to make the company an even better place to work. An impressive 91 per cent took part in this year's employee survey. General satisfaction is at 82 per cent, an improvement of six points on last year.

ARLA DEDICATES RESOURCES

Arla is one of the world's leading dairy companies, with production in twelve countries. Competition within the dairy industry for raw milk, customers and consumers is intense. In addition, the industry is shifting towards a less regulated market, as witnessed by the export subsidies being set to zero during 2008 within the EU. This is one of the reasons that, in the autumn of 2008, Arla adopted a new five-year strategy.

According to the new strategy, we will reduce the number of brands, prioritise markets where we are already strong and sharply increase our growth rate. The goal is to achieve DKK 75 billion in turnover in five years, which corresponds to a 50 per cent increase. We will also expand production of added-value whey protein. We are also making these major changes to achieve our goal of paying the highest possible milk price to our members.

CONTINUED EXPANSION ON CORE MARKETS

During the year we continued working on the expansion of our core markets, while acquiring ownership in a number of companies.

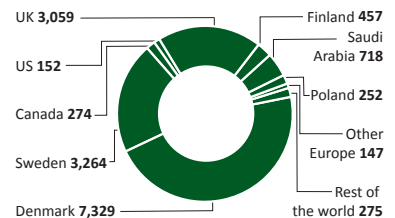
In August we purchased the remaining 70 per cent of Finnish Arla Ingman.

The acquisition is in line with our strategy to become one of the market leaders in **Finland**, where we will continue to develop local operations combined with the import of certain value added products.



Global handcrafted cheese. Arla sells hard cheese all over the world. Over a decade ago we started to produce Danish Havarti in North America to Arla's recipe. Today the cheese is one of the biggest speciality cheeses in the United States, both imported and locally produced. In 2008 we experienced the strongest growth in the locally produced Havarti under the brand Arla Dofino®.

EMPLOYEES PER COUNTRY



Arla Foods employs 15,927 people.

ARLA'S NEW STRATEGY

The strategy for 2013 involves the following five initiatives:

- **Expanded core markets.** We aim to be the market leader in Denmark, Sweden and the UK, and number two in Finland. In our new core markets, Germany and Poland, we intend to be among the top three dairy companies. We are also dedicating resources to the growth markets of Russia, China and the US.
- **Three global brands.** We will focus on the Arla®, Lurpak® and Castello® brands. Arla® is both the corporate brand and the brand for the majority of Arla® products except Lurpak®, which is the leading brand for butter, and Castello®, which is a first-class cheese brand.
- **Doubled budget for product development.** Product development will focus on natural ingredients, health, taste and organic.
- **Whey proteins.** We aim to double sales of powdered whey proteins and become the global leader. We buy whey from other major cheese producers and have processing facilities in several locations around the world.
- **Reduced CO₂ emissions.** Arla intends to achieve a 25 per cent reduction in the group's greenhouse gas emissions from transport, production and packaging by 2020. We will work with our cooperative members, research institutions and industry associations to reduce carbon dioxide emissions at farm level.



Engaged employees. Denmark's largest cheese dairy, Nr. Vium, had a 100 per cent response rate to the employee survey. At the end of January 2009 results were announced for each department, which will be used to address any issues.

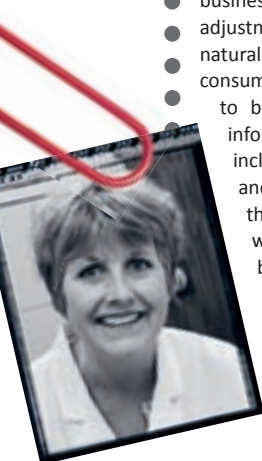
DIANE C. GADOW, *Certified Laboratory Technician, Arla Foods, Hollandtown, Wisconsin, US.* Diane has been with the company for 30 years.

What are your main responsibilities at Arla?

My duties include quality testing milk and cheese and testing waste water discharge. I also manage the inventory of our shelf life samples. At the end of each product's shelf life I evaluate the sample for texture and spoilage. All lab technicians are cross trained so we are able to perform the necessary tasks, allowing for time off and vacations.

What do you think about Arla as a global company?

I began my employment in the dairy industry many years ago, and since the company I work for merged with Arla, I have the pleasure of being part of a new and exciting experience in the dairy industry. I truly believe that the success of this company today, depends on the global ambition of Arla. The business practices, the brand name adjustments, and the goal towards natural cheese products for the consumer, is something wonderful to be a part of. We are kept informed by a variety of means, including meetings, newsletters, and honest conversations with the management. I am thrilled with all of the improvements being implemented and I am looking forward to working with them.



In **Denmark** we acquired the remaining 50 per cent of Cocio Chokolademælk A/S. Demand for chocolate milk is rising, and we will continue to invest in the subsidiary to supply to the Nordic countries, as well as countries such as Germany and the US. In Denmark we also acquired the two dairies Hirtshals and Borup. Borup dairy will be open to visitors and serve as a meeting place for chefs and the dairy industry.

In **Sweden** ownership of certain juice brands was split. The parties involved came to an agreement in 2008 and the joint ownership with Skånemejerier came to an end in February 2009. Arla is now the sole owner of the brands God Morgon®, JO® and Sagolika®, and we will retain Tropicana® sales. This will allow us to maintain our position as the market leader for juice products in the Swedish market.

Arla has also invested in a number of existing businesses. For instance, we installed the world's largest weigh filler for milk at Stourton dairy in **the UK**.

In **Germany**, with the brand Buko® in fresh cheese, spreadable Kærgården® and milk under retailers' own labels, we continue to grow from an already strong position, both organically and through acquisitions and collaborations.

Poland has a strong dairy tradition and we see major opportunities to offer a broad range of products. Arla is already producing mozzarella in the country and, as the industry is consolidating at a fast pace, this could lead to further opportunities.

CONTINUED STREAMLINING

We achieved good capacity utilisation during the year, but we continue to work on efficiency and energy-saving measures. By comparing our facilities with each other, we can improve procedures and quality.

Our efficiency programmes and cost reduction initiatives have led to several changes in various locations around the world, which in turn has affected a large number of employees. In some places we are expanding operations, while in others they are being reduced. Read more about the changes in the margin to the right.

Fresh cheese with nature's own herbs. In 1932, Arla Buko was made in a small facility in Copenhagen. Today the fresh cheese is one of Arla's most popular products, flavoured only with nature's own ingredients and herbs. Germany is currently the biggest market, with rising sales due, in part, to new flavours and low fat choices.



GROWTH MARKETS

Arla sees major growth opportunities in the US, Russia and China, which we call 'seed' markets in our new strategy. In the **US** we have long-term plans to double production of hard cheese and to begin production of whey proteins. We are also making major investments in **Argentina** to increase production of whey protein.

Sales in **Russia** have been hard hit by the economic downturn during the autumn of 2008, but over the long term we consider the country to have much potential.

China is the world's fastest growing market and during the year we opened a new milk powder factory that we own jointly with Chinese Mengniu Dairy. Production was suspended for three weeks during the autumn due to a scandal involving melamine which, in certain places in the country, was mixed with milk. The scandal affected all dairy companies in China, including Mengniu Arla. Our powdered milk sales dropped by 30 per cent during the autumn. Production is expected to return to planned levels by the second half of 2009.

The entire dairy industry, including Arla and international dairy organisations, is now taking long-term steps to ensure that the incident is never repeated and to demonstrate to consumers and customers that our products are safe and healthy.



Friendly bacteria. During the autumn of 2008, Arla launched one of the biggest new products for the Nordic market – it is known as a shot and marketed under the brand Cultura®. It has a high concentration of three probiotic bacteria, one called Lactobacillus casei F19®, which we patented, as well as extra fibre. The product helps to regulate the stomach and can therefore strengthen the body's wellbeing.

PRODUCT DEVELOPMENT DOUBLED

Innovation is crucial for our continued growth and Arla must be the leader for dairy products. The new strategy and the focus on Closer to Nature™ demonstrate our commitment to new product development. This area needs to be strengthened, and we will double the budget for innovation going forward to 2013. In order to live up to our 'closer to nature' message, we have reviewed our entire line of products and are analysing all the ingredients and additives we use to ensure Arla consumers have the most natural choice.

We will continue to develop products that will provide the consumer added health benefits, such as Cultura®, with beneficial bacterial cultures, and lactose-free milk, for people who are sensitive to lactose. We are also working to develop organic products and, in 2009, will launch 30 new ones.

Arla's research and development activities take place at three large innovation centres in Denmark and Sweden as well as in the UK and Finland. In order to further strengthen our research expertise, we have established three Centres of Excellence, with specialists in several fields. Arla also supports research projects, either directly or through industry organisations, which are associated with our core business. This work generates knowledge that could benefit the entire dairy industry.

FOCUS ON LEADERS

Our focus on job satisfaction, personal development and ensuring that Arla is an attractive workplace is stronger than ever. During the year we launched a training programme for our top 300 leaders as part of a major leadership initiative. The aim is to foster leadership and, in turn, improve the workplace. Everyone in the company who has employee responsibility will ultimately participate in the training programme.

In 2008, Arla introduced Future 15, a two-year trainee programme. Its purpose is to secure a future supply of employees for key positions.

A growing global company requires a common philosophy in which everyone is treated fairly, irrespective of culture, history or tradition. We try to achieve this objective through Our Character and its key traits Lead, Sense and Create. In the UK, we have combined Our Character with the business unit's vision and strategy. This initiative, called ONE, was driven with substantial commitment during the year.

CLOSER TO NATURE™ IN BRIEF

- We base all of our dairy products on our natural ingredient from the cow – milk.
- We strive to use as natural ingredients as possible, without artificial colouring or flavouring.
- We respect nature and the environment on the farm, at the dairy and when transporting products to customers.
- We use packaging that is both ecofriendly and functional.

CONTINUED STREAMLINING

Examples of changes to improve efficiency carried out during the year:

- Moving juice production from Alingsås to the subsidiary Rynkeby Foods in Denmark affected 126 employees. Rynkeby is now the group's only juice producer in Europe.
- In June, the distribution centre in Sheffield Park, UK, closed resulting in the loss of 90 jobs. The decision was also taken to close the dairy in Manchester, in January 2009 and move production to Stourton, Ashby and Hatfield Peverel, which affected 300 employees.
- The majority of the company's financial service centre moved to Gdansk, Poland, affecting 140 people in Denmark, Sweden and the UK. The global service centre is expected to be more efficient, flexible and future-oriented.
- As a result of our new strategy in the Middle East, which focuses on developing core categories and relationships with leading customers within the retail business, the number of employees in the region has reduced by approximately 270 people. Reduced demand in the region has also resulted in a reduction of approximately 10 jobs at Akafa, Denmark. As a part of the new strategy the management team responsible for the Middle East has transferred its base from Copenhagen to Dubai and the reorganisation within Consumer International has resulted in 25-30 jobs losses in Copenhagen.

REETTA HEIMO, Dairy Technician in the processing department at the dairy in Sibbo, Finland. Reetta has worked at the dairy for 17 years.

Why did you choose to work at the dairy in Sibbo?

I've worked here since 1991, straight from finishing school. It was actually pure chance that I entered the dairy industry, because I don't have a farming background.

Have you noticed any difference since Ingman became Arla Ingman?

Yes, there's a big difference. Ingman Foods was an old family business, while Arla is large and modern, and I think that's good.

What are some of the reasons that you and your colleagues enjoy working here?

We've worked here together for a long time and we know each other well. And there's security in working for a company that produces products that everyone needs. People will never stop buying milk.



LISA BREMER, Product Developer in milk and milk beverages within the Milk Group, Nordic Innovation, Stockholm, Sweden.
Lisa has been with Arla for two years.

What do you do?

I work to ensure our product quality and the development of new products. Among other things, I have participated in the development of lactose free milk variants.

More money is being put aside for product development, will your department benefit from that?

I hope and believe so. When the company commits to getting new products out to the market, that is where we step in. I am really thrilled that this is our company's direction.

What area was in focus in 2008 and what trends are on the way?

Natural, both in 2008 and ahead. Locally produced and organic products will also continue to grow stronger. The health trend will turn towards also enjoying food with exciting taste combinations and strong colours.

Describe your vision of the ultimate product?

A product that combines something very healthy, delicious and nutritious with being natural. A product that is easy to grab on your way out the door or to bring with you when you travel.



Cycling and fresh-pressed juice. Last autumn Arla's subsidiary, Rynkeby Foods, in Ringe, Denmark, installed a new fruit press for fresh-pressed juice. This premium product is sold under the God Morgon brand in Sweden and Rynkeby in Denmark.

Rynkeby Foods raised DKK 1.5 million for the Danish Children's Cancer Foundation during a cycling event that attracts both employees and national celebrities.

BAROMETER TAKES THE TEMPERATURE

The Barometer employee survey was carried out during 2008 in 26 countries, with more employees participating and in more languages than ever before. Almost 15,000 people responded to the survey and the highest response rate ever, 91 per cent, was achieved.

The successful results showed a seven point improvement over last year's index which is up from 64 to 71. Employee job satisfaction in general scored 82 per cent, a six per cent improvement. Increases can be seen in all areas and employees said the work with Lead, Sense and Create played a major role in this improvement. The focus for 2009 is to continue to work on leadership development and to improve the work with, and the implementation of, employee development plans.



Environment prize for energy conservation. Arla in the UK is the first dairy company to receive an environment award from the Carbon Trust for its energy-saving measures.

Certified dairies. Of our 64 dairies, 39 are currently certified in accordance with the ISO 14001 environmental management system.

CONSTANTLY IMPROVED WORKPLACE ENVIRONMENT

We constantly endeavour to prevent and reduce the number of accidents at work. In recent years we have conducted several projects aimed at changing the culture and behaviour relating to safety at work by encouraging employees to take greater responsibility for their own safety and that of their colleagues. Arla's transport





centre in West Jutland, Denmark, received an occupational environment prize from the Danish Working Environment Council for the changes implemented to improve workplace health and safety for drivers and to give them greater influence in this area.

OUR RESPONSIBILITY – ARLA’S SUSTAINABILITY INITIATIVE

In 2008 we presented a revised version of Our responsibility – Arla Foods’ Code of Conduct, which contains the company’s guidelines for how we work with ethical, social and environmental accountability. For the first time, we published a report demonstrating the progress we have made in living up to these guidelines. This report will be published annually and can be found on our website.

A little over a year ago we joined the United Nation’s Global Compact – an initiative for ethical businesses. We are in constant contact with other companies through the Amnesty International Business Forum about human rights issues. We receive support and assistance in handling the dilemmas that can arise in connection with our global operations.

THE ENVIRONMENT AT THE DAIRY

In the spring we presented our new climate goal, which is to achieve a 25 per cent reduction in the group’s greenhouse gas emissions in transport, production and packaging by 2020. We have now started working towards this goal and have created a model for calculating and addressing our carbon dioxide emissions in the different areas. The model will make it possible to identify which parts of our supply chain contribute most to the greenhouse effect, and which processes or materials are most environmentally friendly.

The most important issue at our dairies is the reduction of waste raw milk because the milk has already had an impact on the environment at the farm and during transport to the dairy. Another example of reducing waste is to convert by-products from production to electricity, heat or biofuel. Ordinary dairy products, that for some reason cannot be distributed, are sometimes sold to neighbouring pig farms to be used as feed.

One question, which in the long term will be of greater significance, is how we handle water usage at our dairies, where it is used for purposes such as washing and cleaning. We are trying to reduce our water consumption in various ways and recycle the water we use for other purposes, such as heating.



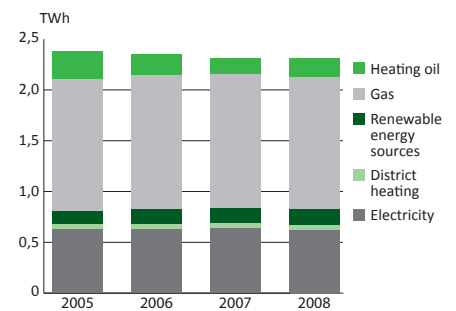
Yoggi® to be further developed. In 2008, a new yogurt product called Yoggi® 3-korn (three grain) was launched in Sweden and Denmark. The unique combination of extra milk protein and three different whole grains makes it both delicious and satisfying.

The line of products for children, Yoggi® Yangster (see picture), moved to organic during the year, and the feedback from 12,000 consumers at nationwide events helped us develop new seasonal flavours.

The Yoggi® brand was launched in 1971 in Sweden and is currently available in a number of varieties in Denmark, Sweden and Finland.

ENERGY CONSUMPTION

Despite increased/unchanged production, energy consumption in our facilities decreased during the year.



SUE STEVENSON, 31, Human Resources Manager based at Lockerbie Dairy, UK, provides HR support for operations and logistics in Supply Chain. Sue has been with Arla for two years.

What have been the HR priorities for Supply Chain?

We must always question what we do to ensure that it adds value to our site and contributes towards the overall corporate strategy. Here at Lockerbie we are proud to have produced the first combined set of objectives for both the dairy and distribution, reflecting our corporate values of ONE and Lead, Sense, Create.

Has the fact that the employee survey 'Barometer' come to the UK changed anything?

Absolutely! It's great to work for a company that is so committed to such a process. By identifying important local issues and translating the results into action plans we can focus on areas that will hopefully make a real difference to colleagues at all levels.

What projects are you currently involved in?

There are many challenges ahead for the HR team. We are currently learning about Lean, which is part of our global strategy to improve internal efficiencies, to ensure that we have a good understanding of how we can contribute to this.







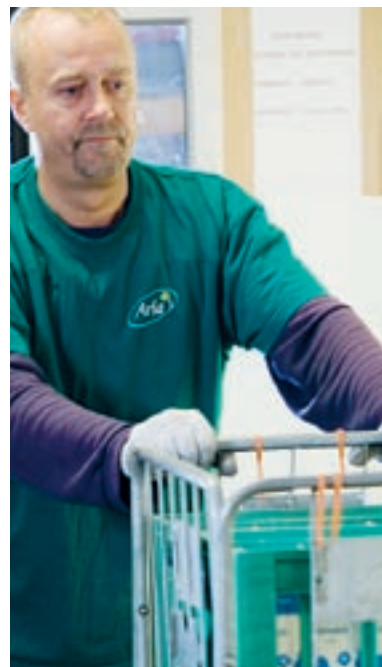
The Customer

- **ARLA – A GLOBAL BRAND.** Our new strategy will enable us to create a strong, global brand that covers all categories and markets.
- **INCREASED COMPETITION AND PRICE PRESSURES.** Competition in our core markets is intensifying, and we are experiencing growing pressure from customers on the prices of our products.
- **WHEY PROTEIN.** Our new strategy includes increasing whey protein sales to the food industry worldwide.

MAJOR PLAYER ON THE GLOBAL MARKET

Arla has sales offices in more than 30 countries, and our products are sold in over 100. Our customers include major retailers, independent stores, restaurants and commercial kitchens, as well as the food industry. Good customer relationships are essential if we are to be able to sell our products on the highly competitive dairy market. Like Arla, our customers are becoming increasingly global and we cooperate with many across national boundaries. Through good cooperation, we can work with our customers to offer healthy and inspiring products that have been sustainably produced.

Our customers demand extremely high standards of quality, product development and logistics, for example. Another example is their interest in our extensive quality assurance programmes, such as Arlagården. A further trend is the growing demand for low-price products, as is the desire of major retailers to sell our products under their own label. In the UK, of the milk sold to the top seven retailers, Arla supplies 44 per cent, all of which is sold under their own labels. Consumer demand is also growing for natural products without unnecessary additives, which is completely in line with our Closer to Nature™ concept.



Milk is traceable. The computer system in our tankers, which also measures quality, allows milk to be traced back to each individual farm, which in many markets give us a competitive advantage.



Castello, an umbrella brand for cheese. Castello® will be Arla's brand for first-class cheese worldwide. Several of Arla's speciality cheeses sit under the brand, which is currently best known for its blue cheese.

FOCUS ON NATURE

In connection with our strategy change, Arla also presented its new brand and company positioning, including a new logo. With the launch of Closer to Nature™, we want to position ourselves as the company that offers the most natural products. Using the same logo for the company and our products defines our profile more distinctly while reducing longterm costs. The logo change began in the autumn of 2008 and its roll out will continue gradually for corporate materials and products during 2009.

The new focus will make it easier to set priorities and to communicate Arla's values. Customers and consumers will know that when they buy a product



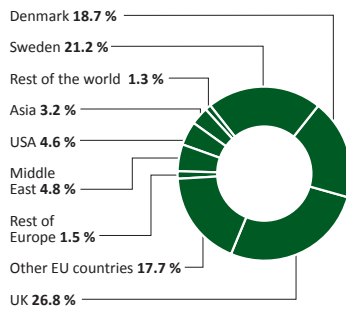
Professional culinary competitions. Arla is the sponsor of Bocuse d'Or, the world's most prestigious culinary competition. We are also the main host of the Swedish championship competitions, Cook of the Year and Pastry Chef of the Year. In Sweden we reward retailers, restaurants and commercial kitchens, for example, schools and hospitals with a Golden Cow prize to inspire and drive development in areas such as food and the environment.



New Arla logo. The switch to the new logo is gradually taking place during 2009, with respect for the environment, economy and adaptation of products.

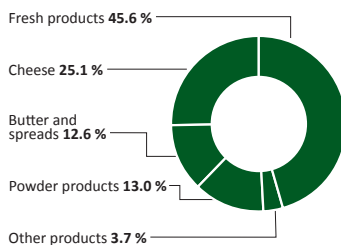
NET TURN OVER, MARKETS

The UK is our biggest market. We are a significant player in milk and butter, but relatively small within cheese and yogurt.



NET TURN OVER, CATEGORIES

Our biggest category is fresh products which includes milk, yogurt, cream and cooking products.



with the green Arla logo, they are buying goods that are as natural as possible, in packaging that respects nature and the environment, and they are buying from a company that has a climate strategy for production and transport. This approach will create added value for both customers and consumers over time.

SATISFYING DEMANDING CUSTOMERS

Arla interacts with consumers in close collaboration with its customers, and makes sure that everything is in order, from fresh products on the shelves to the communication in store. In addition to the daily interaction between Arla and store employees, we also conduct regular surveys in our largest markets to learn how retailers rate us as a supplier of dairy products.

Arla has once again taken the lead as best supplier in **Denmark**. Among other criteria, we received the highest ranking for our role as strategic partner and for our logistics operations. In **Sweden** Arla ranks third in the industry, and our marketing and development of product categories helps us to achieve high customer loyalty. Arla received the best overall rating in the **UK**, where we are ranked number one for the second year. Our strengths include category development, business relationships and customer support. In **Germany** our ranking dropped from first place in 2006 to fifth in 2008, and in **Finland** we remain unchanged in twelfth place. We are particularly focused on finding ways to improve customers' opinions of Arla in these markets.

INTENSE COMPETITION IN CORE MARKETS

In response to the global milk shortage in 2007, prices to customers rose at the latter end of 2007 and in early 2008. The result was a temporary weak decline in sales volume, though midway through the year sales rose and were in line with budget. During the summer, product prices slipped due to the substantial increase in global milk supply. During the latter part of the year all of our markets experienced increased price pressures.

In **Sweden** Arla no longer collaborates with other dairy companies on distribution. Arla products are now sold nationwide, and competition has intensified in this geographically long and narrow country. Arla volumes are growing, and market share has increased in several categories, at the same time that growing price pressures were experienced towards the end of 2008.

During the second half of the year consumption of dairy products in **Denmark** was lower than for many years. Consumers have chosen low-price products to a greater degree than before, which has affected Arla branded products in all categories.

TRAN DUY TRI, Sales Manager in Vietnam, works at the office in Ho Chi Minh City, but travels extensively and is in charge of customer contact and sales campaigns throughout the country. He has worked for Arla for 19 months.

What is most important to customers?

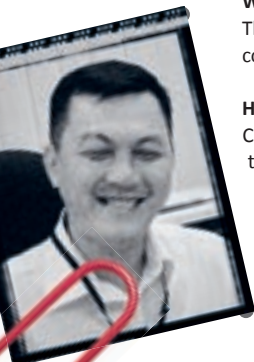
That we understand and respect them and provide a service that benefits their business. They want to sense that we are really committed to them.

How have sales in Vietnam been affected by the melamine incident in China?

Customers grew sceptical about our Millex brand and stopped putting in new orders until we proved and issued a statement that there was no melamine in our products. After that we made a strong comeback, and increased our sales.

What do customers like about Arla?

Northern European companies are known for having high standards and the best quality and service. Even though many of our customers don't know very much about that part of the world, Denmark and Europe stand for something good.





Filtered milk. Cravendale® is the UK's best selling milk brand. It is filtered before pasteurisation, so it lasts longer while retaining its fresh, pure taste. Cravendale® is the second fastest growing grocery brand in the UK.

After the summer Arla experienced growing competition from German milk. In general, organic dairy products have been less affected than conventional products.

Our purchase of Arla Ingman in **Finland** has been successful.

The company has a strong position as number two on the Finnish dairy market, and we can offer a solid alternative for Finnish customers and consumers. Despite rising prices and the recession, we have been able to retain our sales volume in 2008.

In the **UK** we retained our strong position in milk under retail own brand and Cravendale®, as well as in the butter category with Lurpak® and Anchor®. We have succeeded in maintaining our position in **Germany** and captured market share with Kærgården® spreadable. In **Poland** we have focused on growing in spreads and carried out the important launch of Kærgården®.



Registered brands. The ® symbol means registered trademark. In order to prevent Arla's brands from being used as general descriptions for product types, and to ensure that our trademark rights are taken care of, we will put more focus on the labelling of our brands. The symbol ™ means we consider the brand or the word as ours, without them necessarily being registered.

STEADY GROWTH ON TACTICAL MARKETS

In certain markets we have decided to continue to improve sales within the existing framework and grow organically. Such markets include **Algeria** and **Vietnam**, which are major consumers of powdered milk, where we launched several nutritionally enriched versions of powdered milk during the year under the brands Dano® and Milex®. Other examples are **Bulgaria** and **Romania**, where our cheese sales have been rising over a number of years. Another interesting market is **Japan**, where our fresh cheese brand Buko® is extremely popular.

MAJOR WHEY PROTEIN INITIATIVE

We sell whey protein to the food industry, which uses it in products such as dairy ice cream, yogurt, baked goods, infant formula and food supplements for athletes. Demand for this added value product continues to increase worldwide. In response we have strengthened our sales organisation and improved control of production, which takes place in several countries. We also initiated additional partnerships for production and sales in 2008 with French Euroserum and Norwegian Tine.

ENVIRONMENTAL DEMANDS FROM CUSTOMERS

In recent years customers in our core markets have increased their demands for us to reduce our impact on the environment and report on our environmental objectives and what we do to achieve them. These customer demands are completely in line with our own intentions. Communication on the subject has been facilitated during the year, following Arla presenting its climate targets and the new focus on Closer to Nature™, both of which are aimed at reducing the company's impact on the environment.

Lurpak® in the lead. Lurpak® is our leading brand for butter. The brand is already available in a number of countries and will be launched in even more. Lurpak® is number one in Denmark, the UK and Greece.



Whey proteins in muffins. In addition to being cost-effective and practical, whey protein can be a good substitute product for people who are allergic to eggs.

ASH AMIRAHMADI, *Trading Director for the Milk and Cream marketing team in Leeds, UK. He is also the business unit director for Asda, one of the UK's largest retailers. Ash joined Arla in January 2004.*

What are your key priorities?

Our vision in the UK is to be the number one dairy supplier and to be loved by our consumers and valued by our customers. We aim to create strategic positions with the top five retailers in the UK, which together make up 80 per cent of the UK grocery market.

What do customers expect from Arla?

The UK retail market is one of the most competitive and challenging in which to operate. Our customers are very demanding and we have to work very hard to make sure we deliver their needs. In 2008 our customers voted us the number one dairy supplier in an independent survey. Arla is respected for offering world class account management, category management expertise, the highest standards throughout its supply chain and growing our customers business ahead of the total growth.

What are our best selling products?

The UK has a very well balanced product portfolio. As well as strong positions with strategic customers in terms of own label products, we have an excellent branded business. Lurpak®, for example, is the number one dairy brand in the UK.

What is your favourite product?

Cravendale® milk. It has added value to an otherwise commodity category, tastes great and offers consumers a real point of difference.







The Consumer

- **TODAY'S CONSUMERS.** Consumers change lifestyles and eating habits rapidly, and we want to offer them attractive products. Current popular products include natural products and ones designed for convenience in the kitchen.
- **EXTENSIVE CONSUMER DIALOGUE.** We maintain an ongoing and important dialogue with consumers through a variety of channels, which are most advanced in Denmark, Sweden and the UK.
- **KNOWLEDGE OF HEALTH AND NATURE.** As Arla's products come from nature, it is in our interest to educate consumers about the relationship between health and nature.



SECURITY, INSPIRATION AND WELL-BEING

Consumers are our most important critics, and we depend on their trust in us and our products. Surveys in our core markets show that consumers increasingly demand products that are as natural as possible, without unnecessary additives. With our new focus on Closer to Nature™, we have clarified our promise to consumers that we intend to be the dairy company that offers the most natural dairy products. We have therefore also changed our mission: We must provide modern consumers with natural milk-based products that create inspiration, confidence and well-being.

Arla Karolines Køkken® is known for recipes.

In 2008 Arla Karolines Køkken celebrated 50 years in Denmark with the publication of a new cookbook. The book was sold both online at www.arla.dk and in bookstores and, late last summer, it became Denmark's best non-fiction seller. In Sweden, where the brand is called Arla Köket®, it is strongly linked with both the recipe service at www.arla.se and the recipe booklet distributed by retailers. Products available in both Denmark and Sweden include those for everyday and special occasions, with ingredients such as cream and crème fraîche.

GROWING SELECTION OF DAIRY PRODUCTS

In our core markets, consumers are becoming more interested in organic products. Organic alternatives are already available for many products and we continue to expand our range. Products that offer health benefits are another growing category, including Lactofree® lactose-free milk, yogurt and cheese and the Cultura® line of products, which contain beneficial bacterial cultures.

Milk consumption in Danish schools has dropped slightly in line with the decline in the number of students. However, unlike previous years, home consumption has risen slightly. In Sweden the trend is the opposite, still high in schools but declining in homes. The reasons for declining milk consumption are more people dining at restaurants more frequently and today's consumers choosing from a large selection of products and, instead of drinking milk on its own, they are drinking a latte, yogurt drink or smoothie. Food authorities in Denmark and Sweden still recommend that people consume half a litre of low fat dairy products daily.



A taste of the Mediterranean. Arla Apetina®

is a mild, salty Mediterranean-inspired cheese made from fresh milk. It is known in both Eastern and Western Europe and consumption is on the rise. Recent launches include Apetina® Snack, with cranberries and truffles.

CONSUMERS LIKE ARLA

Surveys show that consumers generally have a positive attitude towards Arla. We rank particularly high in Sweden, where Arla is the most popular food company and the company with the best reputation in the consumer non-durables sector. In



Dairy tours in Denmark. Brabrand Dairy, outside of Aarhus, is one of the three Danish dairies where Arla offers tours. It has a total of about 20,000 visitors annually, including school children, companies and private groups. The dairy produces niche products such as yogurt and crème fraîche.



CHRISTINA BRÖTHLIN, works for Arla's consumer contact division, Arla Forum, in Sweden and has been with Arla for 25 years.

How many questions do you receive in a day?

I get about 40 questions a day, and they are pretty equally divided between emails and people who phone in. They can be about anything, but often the questions are about shelf life, whether you can freeze a product, or how to use it in cooking. I find it is easier when people phone in, because then I can have a dialogue with the consumer about their question.

Do you get many negative calls?

No, most people who call are very friendly and pleasant. Very few people are negative, and we have had classes in how to speak to such people when it does happen, so they feel it has been a good experience.

How can you know everything?

We don't know everything, but we have good basic knowledge about Arla, and we have a good network of contacts in the company, so we know who to call if there is a question we can't answer ourselves. We try whenever possible to answer the same day, but, otherwise, the rule is that the consumer must have an answer within three days.

Sweden Arla also comes out on top when consumers rank the country's 'greenest' brands. Arla is also popular in the UK where we won the award for Dairy Product of the Year for our improved milk packaging. In the Danish market our previously low score for image has improved significantly in recent years, and we are working to become more appreciated as a company by Danish consumers.

DIALOGUE CREATES CREDIBILITY

We are pleased about our extensive dialogue with our consumers, especially in Denmark, Sweden, Finland and the UK. Our extremely well-functioning consumer enquiry service handled more than 83,000 cases in 2008. Arla responds within 24 hours to consumers' questions, opinions or complaints by phone, email or letter.

Arla's websites in Denmark and Sweden have long been among the most frequently visited online recipe resources in the Nordic countries, with a total of 16 million visits during the year. Inspiration is one of the main purposes of the website and a digital cheese expert is now available at www.arla.se/ost. Consumers also show great interest in our blogs and online seminars in Denmark.

We constantly develop new services using modern technology in our effort to reach new and younger target groups. For instance, in Denmark and Sweden we offer cookbooks for the mobile phone and downloadable MP3 files. In 2008 we launched an iPhone cookbook that became the most popular download.

CLOSER TO NATURE INFORMATION

We offer a variety of activities in Denmark and Sweden to increase public knowledge about natural ingredients and the connection between humans and nature. For instance, we hold farm open days and organic theme days. We invite the public to join us when the cows are turned out to pasture in the spring. In Denmark we also offer dairy tours. This year we began to offer special theme tours with a focus on health and nutrition. In Sweden and Denmark we invite the public to visit our farms. In 2008 about 55,000 children visited farms.



We use the back of milk cartons as another channel to communicate information about nature and the environment. In Sweden we also address subjects that engage and teach fun facts to children and young people aged nine to 16. Surveys show that the information displayed on cartons is well read.

CHILDREN FOR LIFE AID PROJECT

As a large global company, we prefer to work with a long-term structured approach on a few selected aid projects. In 2008 Arla launched the Children for Life aid project, which will begin in 2009 and continue for three years. We will work in five selected areas together with local partners and charities to provide support for children aged one to seven years. The primary purpose is to help the children to achieve a better future by providing food and education.

On several occasions during 2008 we contributed powdered milk when charities specifically requested help from Arla. For instance, we helped undernourished children through a health clinic in Gaza, and we distributed powdered milk to flood survivors in Yemen and earthquake survivors in China.

THE ENVIRONMENT FROM AN OVERALL PERSPECTIVE

Arla is working on reducing the amount of material in packaging and increasing the amount of recoverable material with the purpose of helping the environment. For instance, in Denmark crème fraîche now comes in a new package, where we replaced the aluminium lid with one made of plastic. In the UK, where plastic milk containers have handles, we have trialled handleless bottles.

Most important for the environmental, however, is for consumers to use all the dairy products they buy. To avoid the risk of products being thrown away, our products offer a long shelf-life and are available in small packages. We also urge consumers to recycle packaging in the markets that have systems for this purpose.



New shop at Denmark's oldest dairy. The assistants who work in the newly opened store in the 125-year-old dairy in Tistrup must have 25 years of experience at a dairy in order to provide the best possible information to customers.



Middle Eastern speciality. Puck® cream cheese spread was launched in several locations in the Middle East in 1983. Today Puck® is available in more than 30 countries and is one of the region's most well known brands, spanning everything from cream to mozzarella and Labneh. In early 2008 Puck® lost market share, but regained this in the middle of the year to secure a stable share. In 2008 Puck® Thick Cream was a success and is an attractive and more modern alternative to the sterilised cream available in this region.



Spreadable on bread. Kærgården® is spreadable straight from the fridge which is appreciated by consumers both in Denmark and Germany. The humorous television advertisements for the Danish product, which is one of Arla's most loved, is the brand that all bread yearns for. In Denmark Kærgården® is one of the most popular brands.

KARIN SOMMER, works with Arla's new green brand and the concept Closer to Nature™ in the Corporate Marketing and Sales division in Århus, Denmark. Karin has worked at Arla for 12 years.

Why is Closer to Nature™ important?

It is important that we gather all the strengths in the Arla brand under one common focus, and that is what Closer to Nature™ does. With the help of studies and focus groups, we have identified the current trends, and they all point to the same thing: Consumers want the products they buy to be close to nature. At the same time, the company's actions are also on consumers' minds when they choose a product. Closer to Nature™ fits the bill perfectly.

What is going to happen with Closer to Nature™ in the future?

Our packaging will get a new look, so the products under the new Arla brand will have a new green logo, and we have begun changing the content of some of our products. We are also going to work more on implementing internet activities, and we have plans to play a part when Denmark hosts the international climate conference in 2009.

What do you personally prefer to do outdoors?

I love to run, and I try to get in 10 kilometres a couple of times a week.





SALES OFFICES

- 1 Canada, Burnaby, British Columbia
- 2 Canada, La Salle, Quebec
- 3 US, New Jersey
- 4 Mexico, Leon
- 5 Dominican Rep, Santo Domingo
- 6 Brazil, São Paulo
- 7 Argentina, Buenos Aires
- 8 Spain, Madrid
- 9 France, Lyon
- 10 France, Paris
- 11 The Netherlands, Lelystad
- 12 The Netherlands, Wageningen
- 13 Norway, Oslo
- 14 Italy, Cirimido
- 15 Greece, Athens
- 16 Russia, St Petersburg
- 17 Russia, Moscow
- 18 Algeria, Alger
- 19 Nigeria, Lagos
- 20 Lebanon, Beirut
- 21 Kuwait, Safat
- 22 Qatar, Doha
- 23 United Arab Emirates, Sharjah
- 24 Bangladesh, Dhaka
- 25 Malaysia, Kuala Lumpur
- 26 Vietnam, Ho Chi Minh City
- 27 China, Beijing
- 28 Korea, Seoul
- 29 Japan, Tokyo



PRODUCTION

- 1 US, Hollandtown, Wisconsin
- 2 US, Muskegon, Michigan
- 3 Canada, Atwood, Ontario
- 4 Canada, Prince Edward Island
- 5 Canada, Concord, Ontario
- 6 Argentina, Portena
- 7 Brazil, Cruzeiro
- 8 United Kingdom (see map on page 34)
- 9 Denmark (see map on page 34)
- 10 Germany (see map on page 34)
- 11 Poland (see map on page 34)
- 12 Sweden (see map on page 34)
- 13 Finland (see map on page 34)
- 14 Saudi Arabia, Riyadh
- 15 China, Hohhot



Arla around the world

ARLA FOODS IS A GLOBAL DAIRY BUSINESS. Our products are sold worldwide in more than 100 countries. We have production in 12 countries and sales offices in another 20 countries. Our owners live in Denmark and Sweden which, along with the UK, Finland, Germany and Poland, are our core markets.

Arlas' Core markets



- Fresh products
- Cheese
- Butter and spreads
- Powder products/Ingredients
- Distribution depots
- Offices
- Other

DENMARK

- 1 Akafa, powder factory
- 2 Arinco, powder factory
- 3 Birkum Cheese
- 4 Bislev dairy
- 5 Borup dairy
- 6 Brabrand dairy
- 7 Branderup dairy
- 8 Christiansfeld dairy center¹⁾
- 9 Danmark Protein, powder factory
- 10 Esbjerg dairy
- 11 Gjesing dairy
- 12 Hirtshals dairy
- 13 Hjørring dairy
- 14 Hobro dairy centre¹⁾
- 15 Hoco, powder factory
- 16 Holstebro Cream Cheese
- 17 Holstebro dairy
- 18 Høgelund dairy
- 19 Innovation Rørdumsvej
- 20 Ishøj fresh products distribution depot
- 21 Klovborg dairy
- 22 Korsvej dairy
- 23 Kruså dairy
- 24 Köpenhamn, office
- 25 Lillebælt dairy
- 26 Nr. Vium dairy
- 27 Rødkærsbro dairy
- 28 Slagelse Dairy Centre¹⁾
- 29 Taulov dairy
- 30 Tistrup dairy
- 31 Troldhede dairy
- 32 Varde butter dairy
- 33 Vejle Export distribution centre
- 34 Viby, head office

Subsidiaries:

- 35 Cocio Chokolademælk
- 36 Dairy Fruits
- 37 Procudan
- 38 Rynkeby Foods

¹⁾ incl. depots

UNITED KINGDOM

- 1 Ashby dairy
- 2 Claymore dairies
- 3 Frome distribution depot
- 4 Hatfield Peverel dairy
- 5 Lockerbie dairy
- 6 Northallerton creamery
- 7 Oakthorpe dairy
- 8 Redhill, office
- 9 Settle creamery
- 10 Stourton dairy
- 11 Stourton national distribution centre
- 12 Arla Foods UK head office, Stourton



SWEDEN

- 1 Eskilstuna distribution depot
- 2 Falkenberg dairy
- 3 Göteborg dairy¹⁾ and Member Service
- 4 Götene, butter and spreads, cheese
- 5 JO Bolaget, office
- 6 Jönköping dairy¹⁾
- 7 Kalmar dairy
- 8 Kville dairy
- 9 Linköping dairy¹⁾
- 10 Ronneby distribution depot
- 11 Skövde dairy
- 12 Stockholm dairy¹⁾
- 13 Stockholm, Sweden office
- 14 Södertälje distribution depot
- 15 Uppsala distribution depot
- 16 Vimmerby, milk powder factory
- 17 Visby dairy¹⁾ and milk powder factory
- 18 Västerås distribution depot
- 19 Växjö, office
- 20 Årsta distribution depot
- 21 Örebro distribution depot

¹⁾ incl. depots

FINLAND

- 1 Kitee, milk powder factory
 - 2 Kuusamo dairy
 - 3 Lapinjärvi dairy
 - 4 Ranuan dairy
 - 5 Sibbo dairy
 - 6 Sibbo, Arla Ingman head office
 - 7 Urjala, dairy
- Cooperation dairies:**
- 8 Hämeenlinnan dairy
 - 9 Maitomaa dairy

POLAND

- 1 Gdansk, office
- 2 Goscino dairy
- 3 Tychowo, warehouse
- 4 Warszawa, office

GERMANY

- 1 Düsseldorf, office
- 2 Harbarnsen, Biolac powder factory



Financial review

INTRODUCTION

The substantial falls in GBP and SEK compared to DKK during the second half of 2008 significantly impacted on the Group's accounting figures for 2008. This applies both to individual items in the income statement and to the balance sheet figures as at December 31, 2008.

GROUP STRUCTURE

At the beginning of 2008, Arla Foods purchased the remaining 50 per cent of Cocio Chokolademælk A/S. The cheese wholesaler, J. Hansen, was acquired on 1 March, 2008.

The beginning of 2008 saw the disposal of the Medipharm AB group at a profit of DKK 256 million. Group revenue in 2007 relating to this disposal amounted to approx. 100 million.

In mid-2008, 3.2 per cent of Arla Foods UK plc was sold to British milk producers. Accounting profits for the Arla Foods group from this sale totalled DKK 31 million.

The parent company, Arla Foods amba, is unchanged with a branch in Sweden which is only responsible for sourcing milk from Arla Foods amba's Swedish members. The milk is subsequently sold to Arla Foods AB. This construction ensures that Danish and Swedish co-operative members are paid under common guidelines. It also secures influence in the cooperative election system – including election to the company's supreme body, the Board of Representatives, and the Board of Directors – in line with Arla Foods amba's Articles of Association. Arla Foods' dairy activities in Denmark, including fixed assets and employees, etc., primarily come under Arla Foods amba while all dairy activities in Sweden, apart from weigh-in from Swedish co-operative members, come under the subsidiary, Arla Foods AB.

INCOME STATEMENT

Profit for the year, supplementary payment and consolidation

Profit for the year came in at DKK 556 million against DKK 938 million in 2007. The result is significantly negatively affected by falling prices for dairy products in the second half year, historically low exchange rates for GBP and SEK and increased interest expenses.

Arla Foods' earnings per kg milk weighed-in by co-operative members reached 282 Danish øre/361 Swedish öre as against 247 Danish øre/307 Swedish öre in 2007.

Supplementary payments accounted for DKK 137 million as against DKK 503 million for the previous year. Net consolidation is DKK 298 million. The consolidated amount is recognised in reserves in respect of delivery-based owner certificates at an amount of 3.0 Danish øre/3.8 Swedish öre and 2.1 Danish øre/2.6 Swedish öre per kg milk weighed in by co-operative members in respect of the strategy fund.

Revenue

Totalling DKK 49,469 million in 2008 against DKK 47,742 million in 2007, revenue was positively affected by increased sales prices in the second half of 2007 and high global market prices in the first

half of 2008. By contrast, falling world market prices and strong falls in GBP and SEK impacted negatively on the second half of 2008.

Operating profit

Operating profit totalled DKK 1,149 million in 2008 against DKK 1,520 million in 2007. Production costs include an on-account payment to co-operative members of DKK 16.1 billion against DKK 13.9 billion for the previous year.

Operating profit was significantly affected by falling prices for dairy products in the second half of 2008 which are regarded as having impacted negatively on the result by approx. DKK 1,150 million. Moreover, the result is characterised by falling foreign exchange rates which impacted negatively at approx. DKK 500 million. The on account price was lowered twice during 2008 which resulted in a reduced payment of DKK 910 million compared to the original budget.

The reduction in the on account price for co-operative members and the fall in foreign exchange rates and dairy product prices had a detrimental effect on operating profit by approx. DKK 740 million.

Depreciation/amortisation and impairment are on a par with 2007 when the lower GBP and SEK rates are taken into consideration.

The development in other cost items are in line with general inflation levels.

The year's total milk volume weighed in represented 8,243 million kg (8,360 million kg. in 2007) of which co-operative member milk amounted to 5,854 million kg (5,933 million in 2007). British and Finnish suppliers account for the vast proportion of non-cooperative member milk.

Profit from ordinary activities before tax

Profit from ordinary activities before tax totalled DKK 589 million against DKK 1,161 million in 2007. Gains on the divestment of enterprises came in at DKK 287 million against DKK 184 million for the previous year.

Net financing costs were DKK 862 million against DKK 562 million in 2007. Financial items include the Group's net interest expenses at DKK 607 million against DKK 556 million in 2007. The rise in other financial expenses is largely attributable to foreign exchange losses on debt and losses on securities.

Tax

The tax charge for the year fell markedly which is primarily attributable to the companies in the UK and Sweden.

BALANCE SHEET

Total assets

Total assets fell to DKK 29,280 million at 31 December 2008 against DKK 30,725 million at 31 December 2007.

As previously stated, all balance sheet items were affected by foreign exchange developments. GBP and SEK alone were responsible for a fall in the balance sheet of almost DKK 3.1 billion compared to the rates at 31 December 2007.

Fixed assets

Intangible assets came in at DKK 4,030 million against DKK 5,152 million and consist, for the most part, of goodwill arising from the acquisition of Arla Foods UK, Tholstrup Cheese and Arla Ingman as well as IT development projects.

Property, plant and equipment represented DKK 9,838 million as against DKK 10,663 million. The additions for the year amounting to DKK 1,539 million include investments in the UK, Sweden and Denmark.

Investments reached DKK 1,337 million against DKK 1,658 million.

Current assets

Inventories total DKK 4,273 million at December 31, 2008 against DKK 4,081 million last year. The rise can largely be attributed to increased stock as a result of the declining demand for dairy products.

Receivables total DKK 5,602 million against DKK 5,994 million the previous year and are, therefore, unchanged.

Securities and cash at bank and in hand together amount to DKK 4,200 million against DKK 3,177 million the previous year. The rise is mainly owing to bonds receivable in connection with the raising of mortgage credit loans.

Equity

Equity at 31 December 2008 was DKK 7,797 million, representing a fall of DKK 348 million compared to 31 December 2007.

The share of the result used for consolidation totalled DKK 419 million. Of this amount, DKK 121 million is attributable to re-consolidation in accordance with the articles of association. Falling exchange rates gave rise to a negative net adjustment of DKK 558 million directly on the equity.

The equity ratio measured as equity in proportion to total assets accounted for 27% at 31 December 2008, which is unchanged on the year.

The equity ratio including the subordinate bond loan of DKK 1,000 million accounted for 30% at 31 December 2008, which is unchanged on the year.

Provisions

Pension commitments relate to the UK and Sweden (defined benefit schemes) and reached DKK 1,719 million as against DKK 2,369 million the year before. The decline was, for the most part, the result of the fall in exchange rates.

Other provisions totalled DKK 173 million at December 31, 2008 against DKK 386 million at December 31, 2007. These primarily concern insurance-related provisions for industrial injuries.

Liabilities

The group is primarily financed through mortgage loans and loans with other credit institutions as well as a subordinate bond loan of DKK 1 billion.

FINANCIAL RISKS AND MANAGEMENT THEREOF

Group policy for financial risk management

As a result of Arla Foods' international activities, the group results and balance sheet are exposed to financial risks. The overall objectives and policies of Arla Foods' financial risk management are laid down in the group's finance policy, which is approved by the Board of Directors.

The group's financial risks are monitored and managed centrally in accordance with the finance policy which lays down the framework for the group's foreign exchange, financing, interest, liquidity and credit risk and adopted financial instruments and counterparties.

Foreign exchange risks

Foreign exchange matters are a significant factor for Arla Foods and, therefore, have a major impact on the income statement and balance sheet. Commercial risks are hedged to a wide extent.

GBP, SEK, DKK, EUR and USD account for the major part of revenue, while production and other operating costs, for the most part, are settled in GBP, SEK, DKK and USD. There is ongoing focus on ensuring that purchasing is undertaken in currencies that reduce the group's overall currency exposure. Expected currency flows may be hedged for up to 15 months by way of forward exchange and option contracts with matching terms. Of the group's total revenue of DKK 49,469 million, other currencies than DKK accounted for approx. 81% against 82% last year.

Exchange rate adjustment and currency hedging using financial instruments for sale and purchase in foreign currencies are estimated to have resulted in a negative net effect in the region of DKK 25 million in 2008. As at December 31, 2008, DKK 2 million (DKK 34 million at December 31, 2007) was taken directly to equity, equating to the market value of the hedging instruments used for hedging cash flow after the balance sheet date.

The group's equity is exposed to currency risks relating to the translation of investments in foreign subsidiaries. These currency risks are hedged on the basis of evaluations of individual companies. As at December 31, 2008, the currency-related translation risks on the net investments in the UK and Sweden are unhedged, while Finland is hedged by EUR loans.

Financing and interest rate risks

The finance policy underpins the group's objectives and strategies and one of the targets is to reduce the risk of refinancing. The group's policy is to hold long-term debt with diversified maturity.

Long-term, fixed-interest rate loans represent the group's most important source of financing. New loans are raised as floating-rate loans, and interest swaps and interest options are used for managing the interest rate risk, ensuring efficient interest rate management and a higher degree of flexibility. To reduce interest costs and achieve greater flexibility in liquidity management, the group's bond portfolio is actively used as a financing source through sales and repurchase transactions. At 31 December 2008, the total interest-bearing liabilities including the group's pension commitments in the UK and Sweden amounted to DKK 15,641 million (DKK 14,934 million at December 31, 2007). If the pension commitments are disregarded, the average term to maturity of long-term interest-bearing liabilities is approx. 5.9 years against 5 years at 31 December, 2007.

The group's net interest-bearing liabilities totalled DKK 11,441 million at December 31, 2008 (DKK 11,757 million at December 31, 2007).

To hedge the group's interest expenses, hedging agreements have been concluded. At 31 December 2008, the market value of these agreements was DKK - 28 million (DKK 22 million at December 31, 2007), which was taken directly to equity.

Arla Foods' results are affected by interest rate developments. A change of 1 percentage point in the coming year is deemed to impact on the result by approx. DKK 75 million at December 31, 2008.



The Group's net interest-bearing debt excluding pension commitments

Equivalent value, DKK million	Total	2009	2010	Expiry			
				2011	2012	2013	> 2013
DKK	-7,683	-1,217	-107	-341	-16	-66	-5,936
EUR	-1,029	-14	-106	-559	0	0	-350
GBP	-68	-18	-50	0	0	0	0
USD	-3	-3	0	0	0	0	0
SEK	-362	-114	0	-238	0	0	-10
Others	-577	-563	-14	0	0	0	0
Total	-9,722	-1,929	-277	-1,138	-16	-66	-6,296

The group's net interest-bearing debt excluding pension commitments is as follows:

	DKK million
Short-term liabilities	6,129
Securities and cash in bank and in hand	-4,200
Net short-term liabilities	1,929
Long-term liabilities	7,793
Net interest bearing debt	9,722

Liquidity risks

The group manages its liquidity risk by ensuring the availability of sufficient operating liquidity and credit facilities for operations. Financing for important changes in the group's balance sheet are assessed separately.

To a significant extent, the management of day-to-day liquidity flow is conducted through the group's financing company, Arla Foods Finance A/S, via cash pool arrangements with the group's bankers. The companies with excess liquidity finance the companies with a liquidity deficit whereby individual companies and the group as a whole achieve a better return. A Commercial Paper programme of SEK 2.5 billion is available for the issue of securities with terms of up to one year by Arla Foods amba and Arla Foods AB. At 31 December, 2008, the CP programme was used to the sum of SEK 85 million.

As at 31 December 2008, the group's liquidity reserve was specified as follows:

Liquidity reserve

DKK million	2008	2007
Cash at bank and in hand	739	1,179
Securities (free)	339	549
Undrawn facilities	3,992	4,661
Total liquidity reserve	5,070	6,389

The majority of the undrawn facilities are short-dated.

Credit risks

Arla Foods' trade receivables are not deemed to be exposed to any unusual risks. Bad debt losses on receivables are at the same modest level as in previous years. In order to minimise credit risk, credit management is continuously in focus in the Group's entities and the group regularly credit rates its customers and co-operative partners. Credit insurance is taken out for customers deemed to pose a risk.

On the backdrop of the credit crisis, credit insurance agencies have reduced the number and size of credit approvals primarily in respect of Southern and Eastern Europe. As sales have been reassessed in the light hereof, the reduction has only resulted in a marginal increase in the group's commercial credit risks.

Raw material risks

The supply of raw milk constitutes the group's greatest raw material risk. Besides milk, the group is exposed to a range of other raw material risks. The most important relates to energy where purchasing is hedged directly with the suppliers according to fixed price agreements. The purpose of hedging is to ensure price predictability.

EVENTS AFTER THE BALANCE SHEET DATE

On January 1, 2009, Arla Foods acquired operating activities from Hirtshals Andelsmejeri.

As at 1 February 2009, the remaining part of JO-Bolaget in Sweden (fruit juice sales) was acquired.

The accounting consequences of these transactions will be included in the 2009 annual report.



Statement by the Board of Directors and Executive Management Board

The Board of Directors and Executive Management Board have today discussed and approved the annual report of Arla Foods a.m.b.a for 2008.

The annual report has been prepared in accordance with the Danish Financial Statements Act and the company's Articles of Association. We consider the accounting policies used to be appropriate. Accordingly, the annual report gives a true and fair view of the group's and the parent company's assets, liabilities and financial position at 31 December 2008 and of the results of the

group's and the parent company's operations and consolidated cash flows for the financial year, 1 January - 31 December 2008.

Moreover, in our view, the management report comprises a true and fair account of the development in the overall financial position of the Group and parent company and a description of the key risks and uncertainties that the Group and parent company are faced with.

We recommend that the annual report be approved by the Board of Representatives.

Aarhus, 25 February, 2009

Executive Management Board:

Peder Tuborgh
CEO

Povl Krogsgaard
Vice CEO

Andreas Lundby
Vice CEO

/ Jørn Wendel Andersen
Executive Director/CFO

Board of Directors:

Ove Møberg
Chairman

Åke Hantoft
Vice Chairman

Leif Backstad

Bjarne Bundesen

Erik Karlsson

Gunnar Pleijert

Viggo Ø. Bloch

Leif Eriksson

Steen Nørgaard Madsen

Ingela Svensson

Steen Bolvig

Heléne Gunnarson

Torben Myrup

Pejter Søndergaard

Palle Borgström

Thomas Johansen

Jan Toft Nørgaard

Bent Juul Sørensen



Independent auditors' report

To the members of Arla Foods amba

We have audited the annual report of Arla Foods amba for the financial year, 1 January – 31 December 2008, which comprises the statement by the Executive Management Board and the Board of Directors on the annual report, management's review, accounting policies, income statement, balance sheet, statement of changes in equity and notes for both the group and the parent company as well as the consolidated cash flow. The annual report has been prepared in accordance with the Danish Financial Statements Act.

The Executive Management Board and the Board of Directors' responsibility for the annual report

The Executive Management Board and Board of Directors are responsible for the preparation and fair presentation of this annual report in accordance with the Danish Financial Statements Act. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an annual report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and basis of opinion

Our responsibility is to express an opinion on this annual report based on our audit. We conducted our audit in accordance with Danish Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual report is free from material misstatement.

Aarhus, 25 February 2009

KPMG

Statsautoriseret Revisionspartnerselskab

Finn L. Meyer

State Authorised Public Accountant

KPMG AB, Sweden

Carl Lindgren

Authorised Public Accountant

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual report, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the company's preparation and fair presentation of the annual report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Executive Management Board and the Board of Directors, as well as evaluating the overall presentation of the annual report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit did not result in any qualification.

Opinion

In our opinion, the annual report gives a true and fair view of the group's and the parent company's financial position at 31 December 2008 and of the results of the group's and the parent company's operations and consolidated cash flows for the financial year, 1 January–31 December 2008 in accordance with the Danish Financial Statements Act.



Accounting policies

GENERAL INFORMATION

The annual report of Arla Foods amba for 2008 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act. The annual report comprises the consolidated accounts for the Arla Foods group and the annual accounts for the parent company.

The accounting policies, described below, are applied consistently during the financial year and for comparative figures.

The annual report is presented in Danish kroner, which is the functional currency of the parent company.

Basis for preparation

Assets are recognised in the balance sheet when, as a result of a previous event, it is probable that future economic benefits will accrue to the group and the value of the assets can be reliably measured.

Liabilities are recognised in the balance sheet when the group, as a result of a previous event, has a legal or actual liability and an outflow of economic benefits is probable and when the liability can be reliably measured.

Initial recognition of assets and liabilities is made at cost. Assets and liabilities are subsequently measured as described below for each individual item.

In recognising and measuring assets and liabilities, any foreseeable risks and losses occurring prior to the presentation of the annual report that evidence conditions existing on the balance sheet date are taken into account.

Income is recognised in the income statement as earned while costs incurred are recognised with the amounts relating to the financial year. Value adjustments concerning financial assets and liabilities are recognised in the income statement as financial income or financial costs.

Consolidated financial statements

The consolidated financial statements comprise the parent company, Arla Foods amba, and subsidiaries in which Arla Foods amba directly or indirectly holds more than 50% of the voting rights or which it, in some other way, controls. Enterprises in which the group holds between 20% and 50% of the voting rights and over which it exercises significant influence, but which it does not control, are considered associates. The group chart appears on pages 60-61.

The consolidated financial statements are prepared by aggregating the parent company's and the individual subsidiaries' accounts compiled according to the Group's accounting policies. Intra-group income and expense, shareholdings etc., intra-group balances and dividends and realised and unrealised gains on transactions between the consolidated companies are eliminated. Unrealised losses are eliminated in the same way to the extent that no deterioration in value has occurred.

Business combinations

The operations of enterprises acquired and sold are included in the consolidated financial statements for the part of the year in which the enterprises have been owned by the Arla Foods Group.

Acquisitions of enterprises are accounted for using the purchase method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. Provision is made for costs related to adopted and announced plans to restructure the acquired enterprise. The tax effect of fair value adjustments is taken into account.

Any positive excess of the cost of the acquired investment over the fair value of the assets and liabilities acquired (goodwill) is recognised as intangible assets. Where fair value adjustments of the assets and liabilities acquired result in a negative net asset value of the acquired enterprise, minority interests' share is included in the positive excess. Any positive excess is amortised in the income statement based on an individual assessment of the useful life, not exceeding 20 years.

Any negative excess representing an anticipated adverse development in the acquired enterprises (negative goodwill) is recognised in the balance sheet as deferred income and recognised in the income statement as the adverse development is realised.

Gains or losses on disposal, in whole or in part, of subsidiaries or associates are stated as the difference between the sales amount and the carrying amount of net assets at the date of disposal plus non-amortised goodwill and disposal costs. Gains or losses are recognised in the income statement in the item disposal of enterprises.

Minority interests

In the consolidated financial statements, the items of subsidiaries are recognised in full. The minority interests' proportionate shares of the subsidiaries' results and equity are adjusted annually and recognised separately in the income statement and balance sheet.

Foreign currency translation

For each of the reporting companies in the group, a functional currency has been set. This functional currency is the currency used in the main financial environment in which the individual reporting company operates. Transactions in currencies other than the functional currency are transactions in foreign currency.

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial costs.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the



exchange rates at the balance sheet date and at the date at which the receivable or payable arose or the exchange rate recognised in the latest financial statements is recognised in the income statement as financial income or financial costs.

On recognition of foreign subsidiaries, the income statements are translated at average exchange rates per month to the extent that this does not give a significantly different picture than if the rate on the transaction day was applied. The balance sheet items are translated at the exchange rates at the balance sheet date.

On recognition of foreign associates, the shares of profit are recognised at average exchange rates and the share of net asset value is recognised at the exchange rates at the balance sheet date.

Foreign exchange differences arising on translation of the opening equity of foreign subsidiaries at the exchange rates at the balance sheet date and on translation of the income statements from average exchange rates to the exchange rates at the balance sheet date are recognised directly in equity.

Exchange rate adjustments of outstandings with independent foreign subsidiaries where the outstandings are deemed to be part of the total investment in the company in question are taken directly to equity. Correspondingly, exchange rate adjustments on loans and derivatives that are entered into to hedge net investments in foreign companies are taken directly to equity to the extent they effectively secure the exchange rate gains/losses on the net investment.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are recognised under other receivables and payables, respectively. Setting off of positive and negative values is exclusively carried out when the company has the right and intention to settle several financial instruments net.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability as far as relates to the portion that is hedged.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future cash flow are recognised directly in equity. Income and expenses relating to such hedging transactions are transferred from equity on realisation of the hedged item and recognised in the same item as the hedged item.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement as financial income or financial costs.

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 they are received. Forgivable subsidies are recognised as obligations until it is more than probable that the conditions for forgiveness of the debt are met.

INCOME STATEMENT

Revenue

Revenue is recognised in the income statement provided that transfer of risk to the buyer has taken place and comprises the year's invoiced sales less sales discounts. Any restitutions and production subsidies from the EU are included in revenue.

The revenue 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 direct and indirect costs, including depreciation and impairment of plant, etc. and wages and salaries incurred to realise the revenue for the year. Purchases from members are recognised at on-account prices for the year and therefore do not include supplementary payments.

Distribution costs

Costs incurred in distributing goods sold during the year and in conducting sales campaigns etc. during the year are recognised as distribution costs. Also, costs relating to sales staff, write downs on trade receivables, sponsorship, advertising, exhibitions and depreciation and impairment are recognised as distribution costs.

Joint costs, including administration

Joint costs including administrative expenses comprise expenses incurred during the year for group management and administration, including expenses for administrative staff, office premises and office expenses and depreciation and impairment.

Other operating income and costs

Other operating income and costs comprise items secondary to the principal activities of the enterprises, including gains and losses on disposal of intangible assets and property, plant and equipment. Gains and losses are stated as the difference between the sales price less sales costs and the carrying amount at the time of sale.

Divestment of enterprises

Net book profits/losses on the disposal of companies and activities are recognised in this item.

Profits/losses from investments in subsidiaries and associates

The proportionate share of the results after tax of the individual subsidiaries is recognised in the income statement of the parent company after full elimination of intra-group profits/losses and less declared supplementary payments.

The proportionate share of the results after tax of the associates is recognised in both the parent company and the consolidated income statement after elimination of the proportionate share of intra-group profits/losses.

Financial income and expenses

Interest income and expenses and exchange gains and losses etc. are recognised in the income statement at amounts relating to the financial year.

Interest on pension provisions and expected returns on pension assets are recognised in financial income and expenses.

Furthermore, financial items comprise both realised and unrealised value adjustments of securities and foreign exchange adjustments, the amortisation of financial assets and liabilities as well as the interest part of the finance lease payments.

Tax on the year's taxable income

The taxable income of the companies is calculated in accordance with the national rules in force. Tax is computed based on either co-operative taxation or corporate taxation. The allocation of tax between the jointly taxed companies is according to the full absorption method.

BALANCE SHEET

Intangible assets

Intangible assets are measured at cost less accumulated amortisation and impairment.

Product development projects qualifying for recognition in the balance sheet are measured at cost, including indirect costs incurred. Other development costs are recognised in the income statement when they occur.

For IT development projects, only external costs for the establishment of the Group's IT systems are capitalised. Internal systems development costs are recognised in the income statement when they occur. The intangible assets are amortised on a straight-line basis over their expected useful lives:

Goodwill	up to 20 years
Licences and trademarks, etc	up to 10 years
Product development projects	3 years
IT development projects	5–8 years

Intangible assets are amortised from the date of acquisition or when the assets are taken into use.

Intangible assets are assessed regularly and are amortised at the recoverable amount, as long as the carrying value exceeds the expected future net income from the enterprise or activity to which the asset relates or the fair value.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

Assets are depreciated on a straight-line basis from the time of acquisition or commissioning based on an assessment of the useful life, which is:

Office buildings	50 years
Production buildings	20 years
Plant and machinery	7–12 years
Fixtures and fittings, tools and equipment	3–7 years

Assets are written down to the recoverable amount (net realisable value) if this is lower than the carrying amount.

Assets in the course of construction, land and discontinued plants that are written down at the net realisation value are not depreciated.

Assets with a short useful life, minor acquisitions and minor costs of improvement that individually and together are insignificant are expensed in the year of acquisition.

Lease contracts regarding property, plant and equipment, where the group holds all major risks and rewards incident to ownership (finance lease), are measured at their initial recognition in the balance sheet at the lower of fair value and the present value of the future lease payments. For the calculation of the net present value, the interest rate implicit in the lease or an approximation thereof is used as the discount rate. Assets held under finance lease are hereafter treated as the company's other property, plant and equipment.

Investments

Investments in subsidiaries and associates are measured according to the equity method.

Investments in subsidiaries and associates are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the group's accounting policies minus or plus non-depreciated positive or negative group goodwill and unrealised intra-group profits and losses,

For those cooperative societies that form part of the group, the ownership share, and thereby the share of the net asset value, has been calculated in accordance with the Articles of Association of the individual companies.

Investments in subsidiaries and associates with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such



enterprises are written down by the group's share at the negative net asset value if the amount owed is irrecoverable. If the negative net asset value exceeds the receivable, the remaining amount is recognised under provisions to the extent the group has a legal or constructive obligation to cover the deficit of the enterprise.

Net revaluation of investments in subsidiaries and associates is transferred to the reserve for net revaluation according to the equity method in equity to the extent that the carrying amount exceeds cost.

Subordinate loans to subsidiaries are measured at the amortised cost price. Any exchange rate adjustments to the closing rate are carried to equity.

Other securities and investments etc. are measured at fair value at the balance sheet date. Changes in the fair value are carried under financial income and costs.

Inventories

Raw materials, consumables and goods for resale are measured at cost plus delivery costs. The cost of the milk included in inventories has been recognised at the settlement price, including expected supplementary payments to Arla Foods amba's members.

Work in progress and finished goods are measured 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. Indirect production overheads comprise indirect materials and wages and salaries as well as depreciation of production equipment.

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is determined taking into account marketability, obsolescence and development in expected sales price.

Receivables

Receivables are measured at amortised cost less write-down for bad debt losses based on an individual assessment or receivables or at the portfolio level. Amortised cost corresponds in all material respects to nominal value.

Prepayments comprise costs incurred concerning subsequent financial years.

Other current assets

Securities are measured at the current market value at the balance sheet date. Changes in the fair value are recognised in the income statement under financial income and costs.

Tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax and the year's adjustment thereof is measured using the balance sheet liability method as the tax on all temporary differences between the carrying amount and the tax base of assets and liabilities.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the enterprises within the same legal tax entity and jurisdiction.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

The change in deferred tax assets and tax liabilities as a consequence of the changes in the tax rates is recognised in the income statement.

Provisions

Provisions are recognised when the group, as a result of an event occurring prior to or on the balance sheet date has a legal or actual liability and an outflow of economic benefits is probable to meet the liability.

Pensions

The group has entered into pension agreements with many of the group's employees. The pension schemes comprise defined contribution schemes and defined benefit schemes.

As regards *the defined contribution schemes*, the group currently pays fixed contributions to independent pension funds. The group has no commitments of additional payments.

Defined benefit schemes, which are primarily used by the group's undertakings in Sweden and the UK, are those for which the company is committed to pay a certain amount from the date of retirement, depending on employee's length of service and final salary.

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 life expectancy.

Costs in the income statement regarding defined benefit schemes are based on the above-mentioned actuarial calculations.

The actuarially calculated present value of defined benefit obligations less the market value of any assets related to the schemes are provided in the balance sheet under pension commitments.

If the actuarial assumptions change, gains and losses exceeding 10% of the present value of the pension commitments or 10% of the fair value of the plan assets will consequently only be recognised in the income statement over the average remaining service life of the employees covered by the pension scheme (the corridor method).



Other provisions

Other provisions include insurance provisions and obligations in connection with business combinations, restructuring and lawsuits, etc.

Liabilities

Amounts owed to credit institutions etc.

Amounts owed to mortgage banks, credit institutions etc. as well as the subordinate bond loan are recognised at borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at the capitalised value using the effective interest method.

Financial liabilities also include the capitalised residual obligation on finance leases. The interest portion of the leasing instalment is recognised over the term of the contract in the income statement.

Supplementary payment to co-operative members

The share of the year's result that the Board of Directors recommends to the Board of Representatives be paid to co-operative members is recognised under supplementary payment.

Other liabilities

Other liabilities, comprising trade payables, amounts owed to subsidiaries and associates and other payables, are measured at amortised cost - usually corresponding to the nominal value.

Deferred income

Deferred income, recognised under liabilities, comprises payments received concerning income in subsequent years. Deferred income is measured at amortised cost, which usually equates to the nominal amount.

CASH FLOW STATEMENT

The consolidated cash flow statement is prepared in accordance with the indirect method on the basis of the consolidated results. A separate cash flow statement for the parent company has not been prepared.

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 and securities.

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

The cash flow from investing activities comprises cash flows in connection with the purchase and sale of intangible assets and property, plant and equipment as well as investments. The effect on liquidity of the purchase and sale of companies is shown separately under Cash Flows from Investing Activities. In the Cash Flow Statement, cash flow relating to purchased companies from the time of acquisition and cash flow relating to sold companies is recognised until the point of sale.

The cash flow from financing activities comprises the raising and repayment of long-term and short-term debt to financial institutions, mortgage lenders, supplementary payments to cooperative members relating to the previous financial year and payments from equity.

The cash funds are made up of cash at bank and in hand and listed bonds which can readily be converted to cash at bank and in hand and where there is only an insignificant risk of value changes.

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

SEGMENT INFORMATION

Information on business segments and geographical markets is given in so far as they relate to the apportionment of the revenue. The segment information follow the group's accounting policies and internal financial management.

Income statement



Parent company		Group			
01.01.07 31.12.07	01.01.08 31.12.08	DKK million	Note	01.01.08 31.12.08	01.01.07 31.12.07
25,763	28,706	Revenue	1	49,469	47,742
-22,747	-25,688	Production costs	2/3	-40,868	-38,730
3,016	3,018	Gross profit		8,601	9,012
-1,436	-1,501	Sales and distribution costs	2/3	-5,449	-5,370
-731	-722	Joint costs incl. administration	2/3/4	-2,160	-2,124
42	61	Other operating income		322	174
-57	-121	Other operating expenses		-165	-172
834	735	Operating profit		1,149	1,520
66	0	Gains from divestment of enterprises		287	184
8	-220	Results in subsidiaries	9	-	-
-23	-62	Results in associates	9	15	19
85	132	Net financial items	5	-862	-562
970	585	Profit from ordinary activities before tax		589	1,161
-32	-29	Tax	6	-34	-222
938	556	Profit for the year		555	939
-	-	Minority interests	10	1	-1
938	556	Arla Foods amba's share of results for the year		556	938
		Proposed profit appropriation:			
503	137	Supplementary payment to Arla Foods amba's co-operative members		137	503
		Transferred to equity:			
121	121	Reconsolidation acc. to articles of association to capital account		121	121
174	176	Delivery-based owner certificates		176	174
		Strategy fund:			
184	262	Allocated to Strategy fund		262	184
-44	-140	Transferred from Strategy Fund		-140	-44
140	122	Strategy fund in total		122	140
435	419	Transferred to equity, total		419	435
938	556	Apportioned profit, total		556	938

Balance sheet

Parent company		Assets		Group	
Balance sheet as at 31.12.07	Balance sheet as at 31.12.08	DKK million	Note	Balance sheet as at 31.12.08	Balance sheet as at 31.12.07
		Fixed assets			
		<i>Intangible assets</i>	7		
0	0	Licences and trademarks etc.		225	154
0	19	Goodwill		3,343	4,502
36	34	Product development projects		49	53
425	403	IT DEVELOPMENT PROJECTS		413	443
461	456	Total		4,030	5,152
		<i>Property, plant and equipment</i>	8		
1,648	1,585	Land and buildings		4,401	4,973
2,264	2,353	Plant and machinery		4,383	4,677
69	84	Fixtures and fittings, tools and equipment		321	373
390	336	Assets in course of construction		733	640
4,371	4,358	Total		9,838	10,663
		<i>Investments</i>	9		
1,590	1,127	Investments in subsidiaries		–	–
4,452	4,121	Subordinate loans to subsidiaries		–	–
135	140	Investments in associates		546	517
–	–	Deferred tax assets		251	493
132	98	Other securities and investments etc.		540	648
6,309	5,486	Total		1,337	1,658
11,141	10,300	Total fixed assets		15,205	17,473
		Current assets			
		<i>Inventories</i>			
562	641	Raw materials and consumables		1,405	1,029
750	804	Work in progress		830	861
239	343	Finished goods and goods for resale		2,038	2,191
1,551	1,788	Total		4,273	4,081
		<i>Receivables</i>			
1,116	1,105	Trade receivables		4,496	4,873
3,742	3,864	Amounts owed by subsidiaries		–	–
5	5	Amounts owed by associates		114	92
228	195	Other receivables		662	800
151	136	Prepayments		330	229
5,242	5,305	Total		5,602	5,994
647	0	Securities		3,461	1,998
73	2	Cash at bank and in hand		739	1,179
7,513	7,095	Total current assets		14,075	13,252
18,654	17,395	Total		29,280	30,725



Parent company		Equity, minority interests and liabilities		Group	
Balance sheet as at 31.12.07	Balance sheet as at 31.12.08	DKK million	Note	Balance sheet as at 31.12.08	Balance sheet as at 31.12.07
		Equity			
6,739	6,241	Capital account		6,292	6,707
91	0	Reserve fund A		0	91
451	575	Delivery-based owner certificates		575	451
340	462	Strategy fund		462	340
500	500	Reserve fund B		500	500
24	19	Value adjustments of hedging instruments		-32	56
8,145	7,797	Total equity		7,797	8,145
-	-	Minority interests	10	144	147
		Provisions			
0	0	Deferred tax	11	172	406
0	0	Pension commitments	12	1,719	2,369
50	14	Other provisions	13	173	386
50	14	Total provisions		2,064	3,161
		Liabilities			
		<i>Long-term liabilities</i>	14		
1,000	1,000	Subordinate bond loan		1,000	1,000
32	0	Subordinate bond loan, Arla ekonomisk förening		0	32
1,772	1,804	Mortgage credit institutions		5,018	3,573
622	977	Credit institutions etc.		1,775	2,603
3,426	3,781	Total		7,793	7,208
		<i>Short-term liabilities</i>			
87	29	Short-term portion of long-term liabilities		44	99
2,227	398	Bank loans and overdrafts		6,085	5,258
503	137	Supplementary payments		137	503
1,632	1,586	Trade payables		3,143	3,624
1,947	2,943	Amounts owed to subsidiaries		-	-
2	14	Amounts owed to associates		45	67
0	1	Tax		6	12
618	680	Other payables		1,983	2,437
17	15	Deferred income		39	64
7,033	5,803	Total		11,482	12,064
10,459	9,584	Total liabilities		19,275	19,272
18,654	17,395	Total equity, minority interests and liabilities		29,280	30,725
		Contingent liabilities, securities, etc.	15		
		Related parties	16		
		Co-operative members' liability	17		

Statement of changes in equity

Group

DKK million	Balance at 01.01.08	Profit for the year	Exchange rate adjustments	Other adjustments	Payments for the year	Balance at 31.12.08
Capital account	6,707	121	-536	0	0	6,292
Reserve fund A	91	0	0	0	-91	0
Delivery-based owner certificates	451	176	-22 ¹⁾	0	-30	575
Strategy fund	340	122	0	0	0	462
Reserve fund B	500	0	0	0	0	500
Value adjustments of hedging instruments	56	0	0	-88	0	-32
Total	8,145	419	-558	-88	-121	7,797

Parent company

DKK million	Balance at 01.01.08	Profit for the year	Exchange rate adjustments	Other adjustments	Payments for the year	Balance at 31.12.08
Capital account	6,739	121	-536	-83	0	6,241
Reserve fund A	91	0	0	0	-91	0
Delivery-based owner certificates	451	176	-22 ¹⁾	0	-30	575
Strategy fund	340	122	0	0	0	462
Reserve fund B	500	0	0	0	0	500
Value adjustments of hedging instruments	24	0	0	-5	0	19
Total	8,145	419	-558	-88	-121	7,797

1) Exchange rate adjustment at 31.12.08 relating to the portion of delivery-based owner certificates registered in SEK totals DKK -22 million. The amount has been transferred to exchange rate adjustment under the Capital Account.

Capital account:

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

Reserve fund A:

Payment from Reserve fund A and reconsolidation according to the Articles of Association to the Capital Account through profit appropriation is completed with the approval of the 2008 Annual Report.

Delivery based ownership certificates:

The certificates were established in accordance with section 19, sub-section 1 (3) of the articles of association and accompanying regulations. Deposits on the certificates of each owner are payable on termination of membership of Arla Foods amba in accordance with the provisions of the regulations and subject to the approval of the Board of Representatives.

Strategy fund:

The fund was established pursuant to article 19, (1) (7) of the Company's articles. The Board of Representatives may decide to use the strategy fund to offset significant and temporary negative liquidity effects arising on acquisitions and integration of large companies or strategic structural measures. Notwithstanding the above objective of the fund, the Board of Representatives may use any given year's payment to the fund after a period of five years counting the year in which the contribution was made.

Changes to the Strategy Fund for the year:

Allocated / Used	2006	2007	2008	Total
	200	184	262	646
2007	-44	0	0	-44
2008	-140	0	0	-140
Balance	16	184	262	462

Reserve fund B:

Reserve fund B comprises the reserves set aside on the incorporation of the company and, following a proposal by the Board of Directors, the Board of Representatives can decide to use the fund to cover extraordinary losses or write-downs, but solely in respect of such activities or businesses that are not primarily based on the milk volumes sourced from co-operative members and only if such losses are not covered by other reserves under the equity.

Value adjustments of hedging instruments:

The item includes changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future cash flows.

No payments shall be made to the members of Arla Foods amba which reduce the total of the company's capital account, Reserve A and transfers from the annual profit appropriations to net revaluation according to the equity method.



Cash flow statement

DKK million	Group	
	08-01-01 08-12-31	07-01-01 07-12-31
Cash flow from operating activities		
Profits for the year	556	938
Depreciation and impairment	1,815	2,042
Other operating items without cash impact	-38	27
Share of results in associates	-15	-19
Gains on disposals of enterprises and properties, etc.	-377	-241
Changes in deferred tax assets	158	113
Changes in inventories	-192	-460
Changes in receivables	392	-139
Changes in provisions	-609	-206
Changes in trade payables and other payables etc.	-238	1,324
Tax paid	-53	-94
Cash flow from operating activities	1,399	3,285
Cash flow from investing activities		
Investment in intangible fixed assets, net	-390	-2,990
Sale of intangible fixed assets	0	55
Investment in property, plant and equipment	-1,539	-1,895
Sale of property, plant and equipment	339	220
Investments, net	45	49
Sale of subsidiaries	452	263
Cash flow from investing activities	-1,093	-4,298
Cash flow from financing activities		
Supplementary payments regarding the previous financial year	-503	-336
Paid out from equity	-121	-150
Change in long-term liabilities	585	-258
Change in short-term liabilities	772	3,579
Cash flow from financing activities	733	2,835
Changes in cash funds and securities	1,039	1,822
Cash funds and securities at 01.01.2008	3,177	1,373
Exchange rate adjustment of cash funds	-16	-18
Cash funds and securities at 31.12.2008	4,200	3,177

Notes

1 Revenue

DKK million	Group	
	01.01.08 31.12.08	01.01.07 31.12.07
Consumer Nordic	20,912	19,233
Consumer UK	13,348	13,723
Consumer International	7,335	8,133
Global Ingredients	7,027	5,691
Other	847	962
Total revenue	49,469	47,742

Revenue is analysed by product lines and geographical markets and is disclosed in the financial highlights.

2 Staff costs

Parent company			Group	
01.01.07 31.12.07	01.01.08 31.12.08	DKK million	01.01.08 31.12.08	01.01.07 31.12.07
-2,312	-2,336	Wages, salaries and remuneration	-5,401	-5,519
-165	-175	Pensions	-404	-384
-13	-12	Other social security costs	-482	-566
-2,490	-2,523	Total	-6,287	-6,469
		<i>Staff costs relate to:</i>		
-2,013	-2,004	Production costs	-3,625	-3,797
-193	-219	Sales and distribution costs	-1,905	-1,884
-284	-300	Joint costs incl. administration	-757	-788
-2,490	-2,523	Total	-6,287	-6,469
		<i>Of which:</i>		
-4	-4	Fees to parent company's Board of Representatives	-4	-4
-5	-5	Fees to the parent company's Board of Directors	-6	-6
-13	-17	Fees to the parent company's Executive Management Board	-17	-13
5,594	5,507	Average number of full-time employees	15,927	16,559

3 Depreciation/amortisation and impairment

Parent company			Group	
01.01.07 31.12.07	01.01.08 31.12.08	DKK million	01.01.08 31.12.08	01.01.07 31.12.07
-207	-187	Intangible assets	-483	-533
-627	-601	Property, plant and equipment	-1,332	-1,509
-834	-788	Total	-1,815	-2,042
		<i>Depreciation/amortisation and impairment relate to::</i>		
-692	-619	Production costs	-1,249	-1,433
0	-29	Sales and distribution costs	-149	-141
-142	-140	Joint costs incl. administration	-417	-468
-834	-788	Total	-1,815	-2,042

The Group's writedowns for the year amount to DKK 20 million for property, plant and equipment.



4 Fees to the auditors appointed by the Board of Representatives

Parent company			Group	
01.01.07 31.12.07	01.01.08 31.12.08	DKK million	01.01.08 31.12.08	01.01.07 31.12.07
		<i>KPMG:</i>		
-3	-3	Audit fee	-13	-14
-7	-5	Other services	-12	-9
-10	-8	Total	-25	-23

Other services comprise, inter alia, fees relating to due diligence in connection with acquisitions and fees in connection with tax consultancy.

5 Net financial items

Parent company			Group	
01.01.07 31.12.07	01.01.08 31.12.08	DKK million	01.01.08 31.12.08	01.01.07 31.12.07
		<i>Costs:</i>		
-63	-25	Interest expenses, subsidiaries	-	-
-295	-275	Other financing charges	-1,067	-641
-358	-300	Total	-1,067	-641
		<i>Income:</i>		
390	407	Interest income, subsidiaries	-	-
53	25	Other financing income	205	79
443	432	Total	205	79
85	132	Net financial items	-862	-562

6 Tax

Parent company			Group	
01.01.07 31.12.07	01.01.08 31.12.08	DKK million	01.01.08 31.12.08	01.01.07 31.12.07
-32	-29	Tax on taxable income for the year	-62	-55
0	0	Adjustment of deferred tax	-1	-138
0	0	Change in tax rate	7	-25
0	0	Correction of tax from previous years	22	-4
-32	-29	Total	-34	-222

The change in the tax rate for 2008 relates to the reduction in the tax rate in Sweden from 28 to 26.3 per cent and for 2007 to the reduction in the tax rate in the UK from 30 to 28 per cent.

7 Intangible assets

Group

DKK million	Licences and trademarks etc.	Goodwill	Product development projects	IT-development projects
Cost at 01.01.2008	261	5,419	150	1,038
Exchange rate adjustments	-42	-935	-6	-7
Additions during the year	139	80	32	139
Disposals during the year	-5	-272	-34	0
Cost at 31.12.2008	353	4,292	142	1,170
Amortisation and impairment 01.01.2008	-107	-917	-97	-595
Exchange rate adjustments	19	165	4	4
Amortisation and impairment for the year	-44	-239	-34	-166
Amortisation and impairment, discontinued assets	4	42	34	0
Amortisation and impairment 31.12.2008	-128	-949	-93	-757
Carrying amount at 31.12.2008	225	3,343	49	413

Parent company

DKK million	Licences and trademarks etc.	Goodwill	Product development projects	IT-development projects
Cost at 01.01.2008	0	0	103	1,003
Additions during the year	0	24	21	137
Disposals during the year	0	0	-22	0
Cost at 31.12.2008	0	24	102	1,140
Amortisation and impairment at 01.01.2008	0	0	-67	-578
Amortisation and impairment for the year	0	-5	-23	-159
Amortisation and impairment on discontinued assets	0	0	22	0
Amortisation and impairment at 31.12.2008	0	-5	-68	-737
Carrying amount at 31.12.2008	0	19	34	403

CHARLOTTE MØLLER ANDERSEN, Financial Controller in the Group Finance Department, gathers accounting figures from throughout the company and helps prepare the annual accounts. She has been employed at Arla for six months.

How long have you worked with the financial statements?

We started last autumn making timetables and manuals for the subsidiaries, so they could report in the correct way. It is important that all of them are submitted in the same manner in the consolidated financial statements. Mid-January is the deadline for the reports from around the globe, and then we have four to five weeks to review them and put together the consolidated financial statements. At the same time, we review the documentation with our external accountants.

How do you review the accounts?

We compare, for instance, the capital and reserves from year to year to ensure that the basis for the accounts is sound. In addition to that, we make sure that receivables and payables among the group subsidiaries are offset, so the consolidated financial statements presents Arla Foods as one company. Finally, we perform an analysis to see whether the overall accounts look sound.

What is the most exciting part of your job?

It's the contact I have with the many different people located all over the world. You gain an understanding of cultural differences, and you experience that we are an international company.



8 Property, plant and equipment

Group

DKK million	Land and buildings	Plant and machinery	Fixtures and fittings, tools etc.	Assets in course of construction
Cost at 01.01.2008	6,276	10,156	1,262	640
Exchange rate adjustments	-610	-763	-137	-50
Additions during the year	273	746	109	411
Transferred during the year	46	203	19	-268
Disposals for the year	-105	-438	-121	0
Cost at 31.12.2008	5,880	9,904	1,132	733
Depreciation and impairment at 01.01.2008	-1 303	-5,479	-889	0
Exchange rate adjustments	103	423	95	0
Depreciation and impairment for the year	-332	-876	-124	0
Depreciation and impairment, discontinued assets	53	411	107	0
Depreciation and impairment 31.12.2008	-1,479	-5,521	-811	0
Carrying amount 31.12.2008	4,401	4,383	321	733
Of which assets held under financial lease	4	69	12	0

The latest official annual valuation of Danish land and buildings with a carrying amount of DKK 1,947 million is assessed at DKK 1,532 million.

Parent company

DKK million	Land and buildings	Plant and machinery	Fixtures and fittings, tools etc.	Assets in course of construction
Cost at 01.01.2008	2,528	5,191	153	390
Additions during the year	65	375	34	115
Transferred during the year	12	151	6	-169
Disposals for the year	0	-293	-7	0
Cost at 31.12.2008	2,605	5,424	186	336
Depreciation and impairment at 01.01.2008	-880	-2,927	-84	0
Depreciation and impairment for the year	-140	-436	-25	0
Depreciation and impairment, discontinued assets	0	292	7	0
Depreciation and impairment at 31.12.2008	-1,020	-3,071	-102	0
Carrying amount 31.12.2008	1,585	2,353	84	336
Of which assets held under financial lease	100	74	14	0

The latest official annual valuation of Danish land and buildings with a carrying amount of DKK 1,585 million is assessed at DKK 1,115 million.

9 Investments

Group

DKK million			Investments in associates	Deferred tax assets	Other securities and investments etc.
Cost at 01.01.2008			610	812	690
Additions during the year			100	0	113
Disposals during the year			-74	0	-166
Cost at 31.12.2008			636	812	637
Adjustments at 01.01.2008			-93	-319	-42
Dividends during the year			-39	-	0
Results for the year			15	-51	-5
Exchange rate adjustments			-35	-84	-9
Transferred from deferred tax (liability)			-	-121	-
Other adjustments			62	14	-41
Adjustments 31.12.2008			-90	-561	-97
Carrying amount 31.12.2008			546	251	540

A deferred tax asset of DKK 110 million (DKK 105 million at 31.12.2007) has not been recognised as it is not expected to be utilised.

Parent company

DKK million	Investments in subsidiaries	Subordinate loans to subsidiaries	Investments in associates	Deferred tax assets	Other securities and investments
Cost at 01.01.2008	1,868	4,629	187	-	104
Additions during the year	194	335	64	-	8
Disposals during the year	-6	-67	0	-	-13
Cost at 31.12.2008	2,056	4,897	251	-	99
Adjustments at 01.01.2008	-278	-177	-52	-	28
Dividends during the year	-318	-	0	-	0
Results for the year	-181	-	-62	-	0
Goodwill amortisation for the year	-28	-	0	-	0
Changes in intra-group profit on inventories	-11	-	0	-	0
Exchange rate adjustments	-17	-602	3	-	-9
Other adjustments	-96	3	0	-	-20
Adjustments at 31. 12.2008	-929	-776	-111	-	-1
Carrying amount at 31. 12.2008	1,127	4,121	140	-	98

10 Minority interests

Group

DKK million	01.01.08 31.12.08	01.01.07 31.12.07
Minority interests, beginning of year	147	62
Share of the year's result	-1	1
Additions and disposals, changes in ownership shares, etc.	-2	84
Minority interests 31 December	144	147



11 Deferred tax

Parent company			Group	
01.01.07 31.12.07	01.01.08 31.12.08	DKK million	01.01.08 31.12.08	01.01.07 31.12.07
0	0	Deferred tax, beginning of year	406	302
0	0	Exchange rate adjustments	-17	-10
-	-	Disposal of enterprises	-3	0
0	0	Change in tax rate	-7	-8
0	0	Transferred to deferred tax (asset)	-121	0
0	0	Acquisition of companies	0	64
0	0	Other changes during the year	-86	58
0	0	Deferred tax 31 December	172	406

Deferred tax primarily relates to property, plant and equipment in Sweden and Finland.

12 Pensions

The provision comprises defined benefit schemes in Sweden and the UK. The defined benefit schemes ensure pension to the employees covered based among other things on seniority and final salary.

The net pension commitment is recognised in the balance sheet as follows:

	Group	
DKK million	31.12.08	31.12.07
Present value of defined benefit schemes	5,406	7,784
Market value of plan assets	-3,711	-5,959
Net pension commitments	1,695	1,825
Non-recognised actuarial gains, net	24	544
Net pension commitments recognised	1,719	2,369

Development in net pension commitment:

DKK million	01.01.08 31.12.08	01.01.07 31.12.07
Net pension commitment recognised in the balance sheet, beginning of year	2,369	2,875
Exchange rate adjustments	-462	-189
Expensed in the income statement, net	59	81
Group payments to plan assets	-247	-398
Net pension commitment recognised in the balance sheet, year end	1,719	2,369

The defined benefit schemes in the UK are administered by independent pension funds that invest the amounts paid to cover the commitments. The actuarial calculated present value of the commitments (DKK 4,481 million at 31.12.2008 against DKK 6,875 million at 31.12.2007) less the market value of the assets (DKK 3,711 million at 31.12.2008 against DKK 5,959 million at 31.12.2007) amounts to DKK 770 million (DKK 916 million at 31.12.2007).

Following the use of the corridor method, the actuarial gain of DKK 241 million (DKK 652 million at 31.12.2007) has not reduced the provision and consequently the net commitment totalled DKK 1,011 million (DKK 1,568 million at 31.12.2007).

The defined benefit schemes in Sweden are not covered by payments to pension funds.

The actuarial calculated present value of the commitments is recognised in the balance sheet at DKK 925 million against DKK 909 million at 31.12.2007. As the limit value of the corridor was exceeded at 01.01.2008, DKK 1 million was expensed during the year. Following the use of the corridor method, the actuarial loss of DKK 217 million (DKK 108 million at 31.12.2007) has not increased the provision, and the net commitment therefore totalled DKK 708 million at 31.12.2008 (DKK 801 million at 31.12.2007).

12 Pensions (cont.)

Pension assets relate to:

DKK million	Group			
	%	31.12.08	%	31.12.07
Equities	42	1,574	49	2,894
Bonds	37	1,364	32	1,938
Properties	10	350	11	647
Other assets	11	423	8	480
Total	100	3,711	100	5,959

Return on pension assets:

DKK million	01.01.08 31.12.08	01.01.07 31.12.07
Expected return on plan assets	370	420
Actuarial gains/losses on plan assets for the year (not recognised)	-1,288	-97
Actual return on plan assets	-918	323

The group expects to pay DKK 213 million to defined pension schemes in 2009 against DKK 247 million in 2008.

Assumptions for the actuarial calculations at the balance sheet date are:

	31.12.08	31.12.07
Discounting rate	4.0–6.2%	5.0–5.8%
Future payroll increase	3.5–4.2%	3.5–4.7%
Expected average return on plan assets	6.7%	6.7%

When calculating actuarial commitments, assumptions vary from country to country in line with local circumstances.

Expected return on plan assets is determined by external actuaries on the basis of the composition of the assets and general expectations of economic developments.

13 Other provisions

Parent company

Parent company			Group	
01.01.07 31.12.07	01.01.08 31.12.08	DKK million	01.01.08 31.12.08	01.01.07 31.12.07
38	50	Other provisions, beginning of year	386	394
0	0	Exchange rate adjustments	-9	-5
22	10	Provisions during the year	67	127
0	0	Reversed re. previous year	-140	0
-10	-46	Used during the year	-131	-130
50	14	Other provisions, year end	173	386
<hr/>				
31.12.07	31.12.08	DKK million	31.12.08	31.12.07
0	0	Insurance provisions	105	147
50	14	Other provisions	68	239
50	14	Total	173	386

Other provisions relate to provisions for restructuring and lawsuits, etc.



14 Long-term liabilities

Parent company			Group	
31.12.07	31.12.08	DKK million	31.12.08	31.12.07
		<i>Long-term liabilities falling due more than 5 years after balance sheet date:</i>		
1,000	1,000	Subordinate bond loan	1,000	1,000
1,771	1,751	Mortgage credit institutions	4,916	3,517
33	20	Credit institutions, etc.	380	662
2,804	2,771	Total	6,296	5,179

15 Contingent liabilities, security, etc.

Parent company			Group	
31.12.07	31.12.08	DKK million	31.12.08	31.12.07
4,994	6,118	Surety and guarantee obligations	461	517
71	81	Operating rent commitments	298	352
91	90	Operating lease commitments	572	793
405	565	Obligations relating to agreement on purchase of fixed assets	812	623
		<i>To cover exchange and interest rate risks, the following forward contracts have been entered into:</i>		
198	141	Forward contracts (buying)(nominal)	281	552
6,064	8,217	Forward contracts (selling) (nominal)	9,848	6,321
1,181	1,515	Interest swaps	2,514	2,090
		<i>The following assets are deposited as security for debt:</i>		
118	118	Owners' mortgage in real estate	2,356	1,956
224	187	with a carrying amount of	1,088	1,400
648	0	Securities, carrying amount	3,122	1,449

Lawsuits:

The group is party to a few lawsuits. The outcome of these cases is not expected to significantly affect the assessment of the financial position beyond what is stated in the balance sheet or disclosed in the annual report.

16 Related parties

Arla Foods amba has no related parties exercising control.

Related parties exercising significant influence comprise the Board of Representatives, the Board of Directors and the Executive Management Board.

In addition, subsidiaries and associates, c.f. group chart on pages 60-61, are related parties.

Members of the Board of Representatives and/or the Board of

Directors are paid for milk supplies to Arla Foods amba on equal terms with other members of the company.

There have been no other transactions with related parties during the year, apart from intra-group transactions that have been eliminated in the consolidated financial statements.

Salaries and remuneration have been disclosed separately in the note 2 regarding staff costs.

17 Co-operative members' liability

No co-operative members are personally liable for the parent company's obligations.



Group chart

Subsidiaries, associates and other investments 31 December, 2008

Ownership	Subsidiaries
100%	<ul style="list-style-type: none"> Arla Foods AB, Sweden <ul style="list-style-type: none"> L&L International (Sweden) aktiebolag, Sweden (100%) Arla Foods Russia Holding AB, Sweden (75%) <ul style="list-style-type: none"> Arla Foods Artis Ltd., Russia (100%) Arla Ingman Oy Ab, Finland (100%) <ul style="list-style-type: none"> Ranuan Meijeri Oy, Finland (100%) Kiteen Meijeri Oy, Finland (100%) Halkivahan Meijeri Oy, Finland (100%) Massby Facility & Services Oy, Finland (60%) Jk Juusto Kaira Oy, Finland (58%) FRAS Integration Ab, Sweden (69%) Arla Foods UK Holding Ltd, UK (33%) ¹⁾
100%	<ul style="list-style-type: none"> Arla Foods Holding A/S, Denmark <ul style="list-style-type: none"> Arla Foods International A/S, Denmark (100%) <ul style="list-style-type: none"> Danya Foods Ltd., Saudi Arabia (75%) Arla Foods UK Holding Ltd., UK (67%) ¹⁾ <ul style="list-style-type: none"> Arla Foods UK Plc., UK (94%) ¹⁾ <ul style="list-style-type: none"> Arla Foods Finance Ltd., UK (100%) Arla Foods Holdings Co. Ltd., UK (100%) <ul style="list-style-type: none"> Arla Foods UK Services Ltd., UK (100%) <ul style="list-style-type: none"> Arla Foods Creamery Ltd., UK (100%) Claymore Dairies Ltd., UK (75%) Arla Foods Ltd., UK (100%) Arla Foods UK Property Co. Ltd., UK (100%) AF A/S, Denmark (100%) <ul style="list-style-type: none"> Arla Foods Finance A/S, Denmark (100%) <ul style="list-style-type: none"> Kingdom Food Products ApS, Denmark (100%) Ejendomsanpartsselskabet St. Ravnsbjerg, Denmark (100%) Rynkeby Foods A/S, Denmark (50%) ¹⁾ Kinmaco ApS, Denmark (100%) <ul style="list-style-type: none"> Arla Foods Energy A/S, Denmark (100%) Rynkeby Foods A/S, Denmark (50%) ¹⁾ Arla Insurance Company (Guernsey) Ltd., Guernsey (100%) Arla Foods Trading A/S, Denmark (100%) Arla Foods Distribution A/S, Denmark (100%) <ul style="list-style-type: none"> Danmark Protein A/S, Denmark (100%) Medlemsartikler ApS, Denmark (100%) Arla Foods Ingredients GmbH, Germany (100%) Fidan A/S, Denmark (100%) <ul style="list-style-type: none"> Dairy Fruit A/S, Denmark (100%) Procudan A/S, Denmark (51%) Danapak Holding A/S, Denmark (100%) <ul style="list-style-type: none"> Danapak A/S, Denmark (100%) Tholstrup International B.V., The Netherlands (100%) <ul style="list-style-type: none"> Tholstrup Cheese Holding A/S, Denmark (100%) <ul style="list-style-type: none"> Tholstrup Cheese A/S, Denmark (100%) <ul style="list-style-type: none"> Arla Foods GmbH, Germany (100%) Tholstrup Cheese USA Inc, USA (100%) Arla Kallassi Foods Lebanon S.A.L., Libanon (50%)



100%	Arla Foods AS, Norway
100%	Arla Foods Inc., Canada
100%	Arla Foods S.r.l., Italy
100%	Arla Foods Inc., USA
100%	Arla Foods S.A.R.L., France
100%	Arla Foods S.A., Spain
100%	Arla Foods Hellas S.A., Greece
100%	Arla Foods Ingredients amba, Denmark
	Arla Foods Ingredients Inc., USA (100%)
	Arla Foods Ingredients KK, Japan (100%)
	Arla Foods Ingredients AB, Sweden (100%)
	Arla Foods Ingredients S.A. de C.V., Mexico (100%)
	Arla Foods Ingredients Korea Co. Ltd., South Korea (70%)
100%	Cocio Chokolademælk A/S, Denmark ²⁾
100%	Arla Foods Sp. Z o.o., Poland
100%	Arla Foods SA, Poland
100%	Arla Foods Financial Services Centre Sp.Z.o.o., Poland
100%	Aktieselskabet J. Hansen, Denmark
100%	Medipharm Holding AB i likvidation, Sweden
100%	Rasmus Hansen Eksport K/S, Denmark ³⁾
100%	Danos Eksport K/S, Denmark ³⁾
100%	DanDanland Foods Export K/S, Denmark ³⁾
100%	Kohave Foods Eksport K/S, Denmark ³⁾
100%	Chesco Cheese Eksport K/S, Denmark ³⁾
100%	Rasmus Hansen Oversøisk K/S, Denmark ³⁾
100%	DOFO Cheese Eksport K/S, Denmark ³⁾
100%	Danske Landmænd Eksport K/S, Denmark ³⁾
100%	Oerum Dairies Eksport K/S, Denmark ³⁾
100%	Boel Foods Eksport K/S, Denmark ³⁾
100%	Marygold Trading K/S, Denmark ³⁾
100%	Enico Trading K/S, Denmark ³⁾
96%	Andelssmør A.m.b.a., Denmark
91%	Mejeriforeningen, Denmark
75%	AFF P/S, Denmark
	Associates
50%	JO-Bolaget Fruktprodukter HB, Sweden (owned through Arla Foods AB)
50%	HB Grådö Produktion, Sweden (owned through Arla Foods AB)
50%	Restaurangakadamen AB, Sweden (owned through Arla Foods AB)
50%	Arla Foods UK Farmers JV Company Ltd., UK (owned through Arla Foods UK Holding Ltd.) ⁴⁾
50%	Arla Foods Ingredients S.A., Argentina (owned through Arla Foods Ingredients amba)
50%	Biolac GmbH & Co. KG, Germany (owned through Arla Foods Ingredients GmbH)
50%	Dan Vigor Ltda., Brazil (owned through Arla Foods International A/S)
50%	Agri-Norcold A/S, Denmark (owned through Mejeriforeningen)
49%	Mengniu Arla (inner Mongolia) Dairy Products Co., Ltd, People's Republic of China
49%	Arla Foods Kuwait Company LLC, Kuwait owned through Arla Foods Holding A/S)
42%	Svensk Mjölök Ekonomisk förening, Sweden
40%	Arla Foods Qatar WLL, Qatar (owned through Arla Foods Holding A/S)
40%	Danapak Flexibles-koncernen, Denmark (owned through Danapak A/S)
40%	Arla National Food Products LLC, United Arab Emirates
35%	K/S Danske Immobilien, Denmark (owned through Arla Foods Finance A/S)
25%	Al Berit Alban LLC, Bahrain (owned through Arla Foods Holding A/S)
	Other investments
19%	Lantbrukarnas Riksförbund, förening upa, Sweden

1) The company appears elsewhere in the Group Chart.

2) The company is owned equally by Arla Foods amba and Danmark Protein A/S.

3) These companies are owned equally by Arla Foods amba and Arla Foods Ingredients amba

4) This company owns 6.3% of the shares in Arla Foods UK plc., UK

The group also owns a number of companies without commercial activities.



Board of Directors



Ove Møberg
Chairman
Hejnsvig, Denmark, 80 cows.
Born 1948.
Board member since 1992.



Heléne Gunnarson
Tvååker, Sweden, 150 cows.
Born 1969.
Board member since 2008.



Åke Hantoft
Vice Chairman
Laholm, Sweden, 220 cows.
Born 1952.
Board member since 1998.



Thomas Johansen
Egtved, Denmark, 200 cows.
Born 1959.
Board member since 2002.

ELECTED BY MEMBERS

The board of directors consists of 14 milk producers – eight Danes and six Swedes. In Denmark, the elected chairman in each of the four regions automatically becomes a member of the board. The other four Danish members are elected by the Board of Representatives, Arla's top decision-making body. In Sweden an election committee suggests the candidates and all six members of the Board are elected by the Board of Representatives.



Erik Karlsson
Karlskoga, Sweden, 75 cows.
Born 1954.
Board member since 2005.



Viggo Ø. Bloch
Varde, Denmark, 120 cows.
Born 1955.
Board member since 2003.



Steen Nørgaard Madsen
Silkeborg, Denmark, 135 cows.
Born 1956.
Board member since 2005.



Palle Borgström
Älvängen, Sweden, 140 cows.
Born 1960.
Board member since 2008.



Torben Myrup
Gundersted, Denmark, 160 cows.
Born 1956.
Board member since 2006.



Jan Toft Nørgaard
Ribe, Denmark, 450 cows.
Born 1960.
Board member since 1998.



Gunnar Pleijert
Mörlunda, Sweden, 100 cows.
Born 1949.
Board member since 2003.



Ingela Svensson
Gamleby, Sweden, 85 cows.
Born 1957.
Board member since 2007.



Pejter Søndergaard
Vestervig, Denmark, 120 cows.
Born 1947.
Board member since 2002.



Bent Juul Sørensen
Ærøskøbing, Denmark, 350 cows.
Born 1958.
Board member since 1998.

EMPLOYEE REPRESENTATIVES:

There are four employee representatives on the Arla Board of Directors, two from Denmark and two from Sweden. Danish employees elect six people to the Board of Representatives. These six people later vote to choose which two of them will represent employees on the company's Board of Directors. In Sweden the employee representatives for both the Board of Representatives and the Board of Directors are chosen during a joint meeting for all union organisations. An election committee makes suggestions for eligible employee representatives.



Leif Backstad
Ekerö, Sweden.
Works at Lindhagensgatan, Stockholm.
Born 1947.
Board member since 2001.



Steen Bolvig
Holstebro, Denmark.
Works at the powder factory, Hoco.
Born 1956.
Board member since 2003.



Bjarne Bundesen
Christiansfeld, Denmark.
Works at Christiansfeld Mejeri Center.
Born 1958.
Board member since 2003.



Leif Eriksson
Lidköping, Sweden.
Works at Götene Mejeri.
Born 1951.
Board member since 1998.



Executive Management Board

CORPORATE CENTRE, EXECUTIVE MANAGEMENT BOARD



Povl Krogsgaard
Vice CEO



Peder Tuborgh
CEO



Andreas Lundby
Vice CEO



Jørn Wendel Andersen
Executive Director/CFO
CORPORATE FINANCE/IT



Ola Arvidsson
Executive Director/HR
CORPORATE HUMAN RESOURCES

CORPORATE CENTRE

Corporate Centre handles global matters that extend across the Arla Foods organisation.

- **Corporate Supply Chain** handles milk supply, technology, quality, security, environment, global procurement and investment.
- **Corporate Affairs** handles contact with owners,

communication and group development.

- **Corporate Commerce** handles group marketing, research and development.
- **Corporate Human Resources** handles employee training and organisational development issues.
- **Corporate Finance & IT** handles financial, economic, IT and legal matters.

BUSINESS GROUPS

In addition, Arla Foods has four business areas:

- **Consumer Nordic**
- **Consumer UK**
- **Consumer International**
- **Global Ingredients**



Hans-Åke Hammarström
Executive Director
CONSUMER NORDIC

Consumer Nordic is responsible for sales of cheese, butter and fresh products in Sweden, Denmark, Finland and Norway. Consumer Nordic also has overall responsibility for production, innovation and marketing in respect of fresh products.
Employees: 4,880
Turnover: 20.9 billion DKK



Peter Lauritzen
Executive Director
CONSUMER UK

Consumer UK comprises the subsidiary, Arla Foods UK plc, which produces milk, butter and cream products in the UK. In addition to local production, Consumer UK handles exports from Denmark and Sweden to the UK.
Employees: 3,070
Turnover: 13.3 billion DKK



Tim Ørting Jørgensen
Executive Director
CONSUMER INTERNATIONAL

Consumer International has overall responsibility for production, innovation and marketing of cheese, butter and spreads within Arla Foods and for the sale of cheese, butter and spreads outside the Nordic region and the UK.
Employees: 5,520
Turnover: 7.3 billion DKK



Jais Valeur
Executive Director
GLOBAL INGREDIENTS

Global Ingredients is responsible for the production and sale of milk powder and milk-based ingredients products throughout Arla Foods.
Employees: 1,310
Turnover: 7.0 billion DKK



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