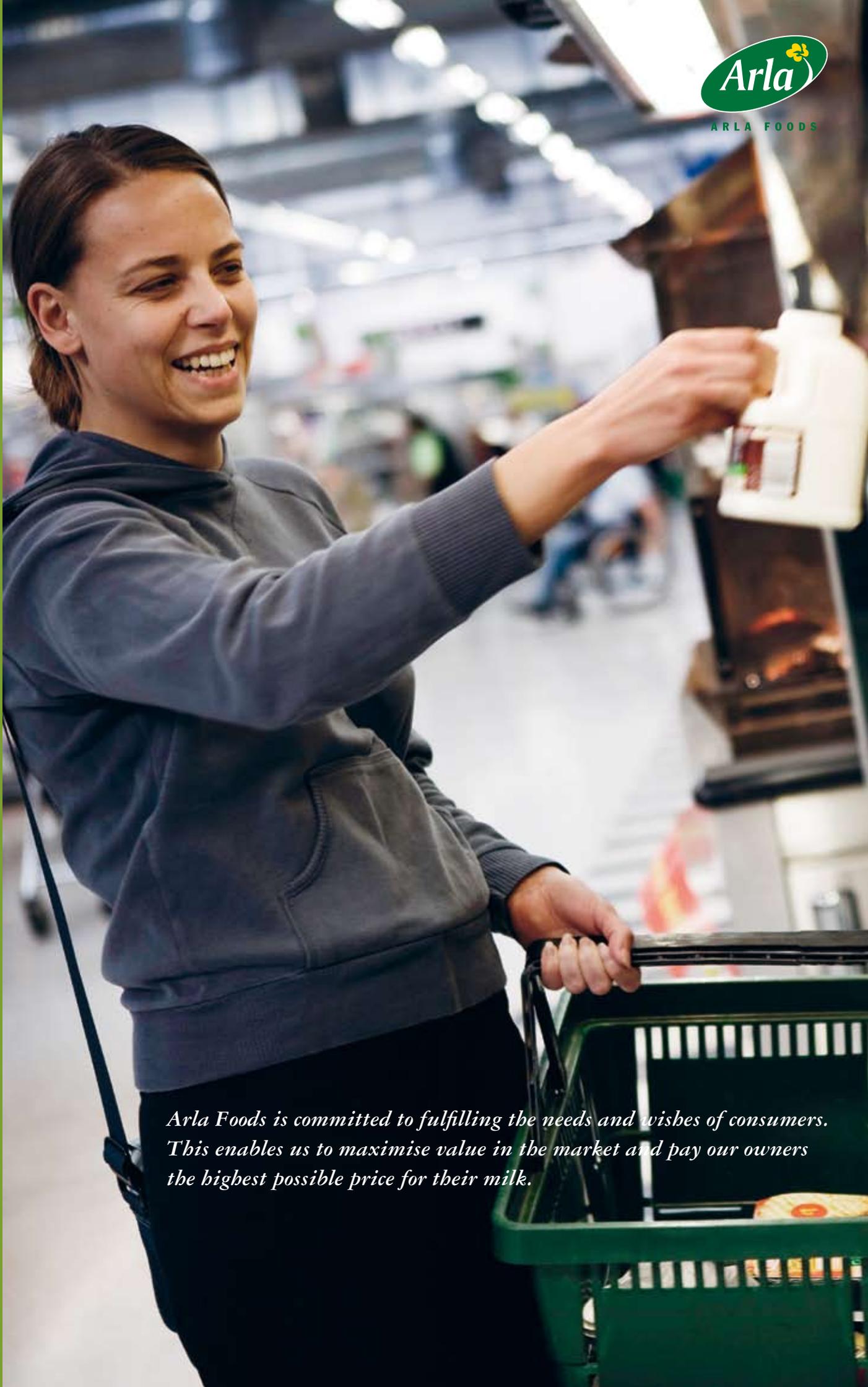




ARLA FOODS



ANNUAL REPORT

2007

Arla Foods is committed to fulfilling the needs and wishes of consumers. This enables us to maximise value in the market and pay our owners the highest possible price for their milk.

Financial highlights

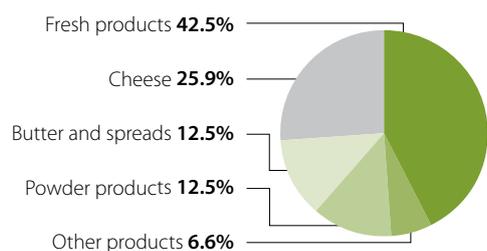
Group

DKK million	01.01.2007 31.12.2007	2006-01-01 2006-31-12	01.10.2005 ¹⁾ 31.12.2005	01.10.2004 30.09.2005	01.10.2003 30.09.2004
Profit					
Revenue	47,742	45,491	11,487	46,351	47,263
Outside DK/SE	29,339	27,393	6,955	27,784	28,137
% outside DK/SE	61%	60%	61%	60%	60%
Operating profit	1,520	1,161	113	1,459	1,193
Net financial items	-562	-409	-124	-573	-423
Profit for the year	938	933	30	755	1,019
Supplementary payments	503	336	75	369	586
Consolidation					
Reconsolidation acc. to the articles of association	121	122	0	247	123
Change in policy	0	91	-45	-46	-
Delivery-based owner certificates	174	184	0	185	-
Strategy fund	140	200	-	-	-
Other consolidation	0	0	0	0	310
Financing					
Total assets	30,725	26,611	27,057	26,336	26,043
Fixed assets	17,473	15,762	15,682	15,593	15,441
Investments in property, plant and equipment	1,895	1,792	599	2,499	2,981
Equity	8,145	7,971	7,411	7,435	7,361
Equity ratios (%)					
Equity	27%	30%	27%	28%	28%
Equity + subordinate bond loan	30%	34%	31%	32%	32%
Inflow of raw milk					
Total million kg. weighed in in the group	8,360	8,592	2,063	8,415	8,512
Members in DK	3,976	4,047	970	4,058	4,053
Members in SE	1,957	2,067	499	2,114	2,141
Others	2,427	2,478	594	2,243	2,318
Number of members					
In DK	4,170	4,591	4,987	5,197	5,877
In SE	4,352	4,817	5,288	5,360	5,728
Total	8,522	9,408	10,275	10,557	11,605
Employees					
Average number of full-time employees	16 559	17 933	19 356	20 076	20 855

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.

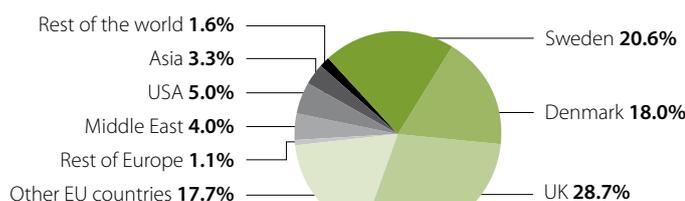
Revenue

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.

The co-operative company

Arla Foods amba

OWNERSHIP

Arla Foods is one of the international dairy industry's key players. This is largely owing to the merger between visionary and committed Danish and Swedish milk producers in 2000. At the start of 2008, a total of 8,522 Danish and Swedish co-operative members own the co-operative, Arla Foods amba.

DEMOCRACY

The co-operative members supply Arla Foods' most important raw material, cows' milk, on a daily basis. They also elect members of the Supervisory Board and Arla Foods' supreme body, the Board of Representatives.

CO-OPERATIVE CONCEPT

Both the founding companies – the Swedish Arla and the Danish MD Foods – are rooted in the co-operative movement which dates back more than a century. At that time, farmers joined together to produce and sell dairy products in the best and least expensive way. Although today, Arla Foods is a global company, the original concept still applies today.

OUR MISSION

Arla Foods' mission is to provide modern consumers with milk-based products that create inspiration, confidence and well-being.

GLOBAL COMPANY

Arla Foods has sales offices in 27 countries and production in 12: Denmark, Sweden, UK, Finland, USA, Canada, Argentina, Brazil, Poland, Germany, Saudi Arabia and China. The company's dairy products are exported across the globe and many of the products are sold under well-known brand names.

ENVIRONMENT AND CLIMATE

Food production and transport inevitably impact on the environment. Arla Foods' ambition is to minimise emissions and continually improve its environmental efforts throughout the production chain in order to contribute to organically sustainable development.

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4 THE CEO'S REPORT

8 ARLA FOODS ON THE WORLD MAP



10 THE FARM

While the number of farms is declining, they are producing more milk, both conventional and organic. The Arlagården quality programme is a major factor in guaranteeing quality. Our dairy farmers benefited from an increase in the milk price of almost 40 per cent. This chapter takes a closer look at the key environmental factors on the farm.



14 THE MILK

Competition for milk became tougher and world market prices increased. Milk as a raw material has become an international commodity. Production is becoming less regulated and quotas are being phased out. The way we collect our milk from the farms impacts on the climate – and we can do something about it.



18 PROCESSING

The raw milk is processed at the dairies. During the year, we acquired the remaining shares in the British Arla Foods UK and took a 30 per cent stake in the Finnish Ingman Foods. We achieved growth in China and Argentina. We also continued developing new and exciting products – with due respect for social, economic and environmental sustainability.



24 THE CUSTOMER

Through close partnerships with our customers, we offer consumers healthy and inspiring products. Apetina, Cultura and Lurpak are some of the brands that both create and follow the trend in our markets. Our customers are also our partners in the battle for the environment.



30 THE CONSUMER

Inspiration, confidence and well-being. These are the most important components in what we offer our consumers through consumer contact, research, the sheer joy of food and knowledge – knowledge about everything from organic products to recipes, useful bacteria and packaging.

35 ACCOUNTS

58 GROUP CHART

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64 ARLA FOODS' HOME MARKETS

Arla Foods' Chairman on a year that was the first in a new chapter of the history of milk

2007 was characterised by expansion in growth markets, innovation within the organisation as well as in our relations with our co-operative members and milk producers, and a strong commitment to making the value chain more efficient. By far the most exciting events, however, were the huge changes to the structure of the dairy industry and the almost 40 per cent increase in the milk price. These extraordinary events also presented significant demands as well as interesting challenges.

IT IS NOT QUITE A YEAR since I became Chairman of the Supervisory Board. But these past months have been more fascinating and instructive than I had dared to hope. The start of the year was characterised by a continuing focus on efficiency and on the strategy aimed at processing milk in current and new markets with strong growth potential.

Among the year's most significant events was the acquisition of a share in Ingman Foods in Finland and the remaining shares in Arla Foods UK as well as stronger focus on certain growth markets such as China and Russia.

Midway through the year, however, conditions for milk production underwent rapid change as, for the first time in 15 years, we saw a global shortage of milk. Everything we had taken for granted changed. There is now an ongoing battle for milk - a battle that we are confident of winning. In 2007, we began to address the changes necessary

to ensure that our company can handle the challenges. At the same time, the changes have created a particularly advantageous situation for co-operative members.

Open to new suppliers

The competition for milk means that we must find new ways of committing suppliers to Arla Foods outside Sweden and Denmark. It is imperative that we exercise a high degree of control over the entire value chain as traceability is an additional key value for both customers and consumers. In the UK, we have begun a dialogue with our milk supplier association, Arla Foods Milk Partnership, with the aim of finding a solution to the co-ownership of our UK company in 2008. It will be very interesting to map out a common course with our British colleagues and I hope that the solution will form the basis for similar dialogues in other markets.



Arla Foods' commitment to environment and climate change issues will strengthen the company.

The structural changes continue and we currently have fewer co-operative members than before although fewer but bigger farms are producing more. However, as demand in our markets is rising, there is considerable potential for recruiting more co-operative members. We have strong brands which are in great demand, and we are active within a sector with a future. While the tremendous price development that took place in the second half of the year was a necessary adjustment, we must, however, be ready to change the conditions for those supplying milk to Arla Foods. 2007 saw the start of a process that will unveil the type of company Arla Foods will be, how we can best serve our milk producers and how to recruit new milk suppliers.

Strength through processing

During the financial year, we registered a growing interest in Arla Foods from the world around us as well as in the



Farm conditions have changed and competition is tougher than ever. Demands are harder, but the resulting opportunities are greater.

conditions of our milk producers and in the international dairy industry in general. It is important that we can present our views on the future clearly and unequivocally. The EU's decision to discontinue export subsidies happened faster than expected. It is now a question of adapting to new situations. Our strategy aiming at added value and strong brands that generate extra value means that we can offer our markets high quality food products that will strengthen the company and, in turn, benefit our owners.

Focus on the climate

We have also noted an ever growing interest in environmental and climate issues and in our role as a food company. Our ambition is to be at the forefront of environmental issues in the dairy industry. Through efficient production and stringent requirements, we must be able to offer our customers and consumers added value while, at the same time, being a company that our co-operative members and employees are proud of. Our approach to climate and environmental issues will strengthen the company and secure the best possible payment for our co-operative members and suppliers.

Modernisation and improvement

As a company we must maintain our ability to react quickly and become more open and market-oriented than before. We must explore all options for creating an efficient organisation and exploit the opportunities we have for sourcing milk for processing. Competition is tougher than ever, but this is only healthy. Our ability to adapt to change is crucial for achieving our ambition to be one of the world's foremost dairy companies - for consumers, customers, suppliers and employees.

The Supervisory Board's work has been characterised by harmony and a positive atmosphere. Our discussions have been lively and engaged, which, in view of the challenges we have faced, is only natural. I believe that our discussions have driven the process forward and led to a better understanding of the problems and the necessary steps we must take to improve conditions for Arla Foods' co-operative members. I



At the beginning of 2007, we bought 30 per cent of the shares in Finland's second largest dairy company, Ingman Foods Oy Ab. Immediately afterwards, the first products from the new joint company were launched.

recall the discussions about Arla Foods' future with particular pride. We found ourselves in an entirely new situation and realised that we had to start questioning previously accepted truths.

Criticism sets the agenda

A survey of co-operative members' views of the company was carried out in 2007. Although the negative trend with regard to confidence has, in all likelihood, bottomed out and Arla Foods has received positive feedback in respect of daily operations and communication, the business failed to perform in important areas such as finance, management and democracy. We have faced up to the criticism and we plan to involve our co-operative members more in discussions as to how Arla Foods should be modernised. Improvement is ongoing and all elected individuals have a duty and a responsibility to take part.

A stronger Arla Foods is emerging

The Supervisory Board has already made considerable progress towards the new Arla Foods and a number of decisions that will enhance our market information and transparency together with our co-operative members have been taken. More improvements will follow in 2008.

I AM GRATEFUL for having had the opportunity to be part of an historic and exciting year, and I would like to express my warm

thanks for the good work carried out by the Supervisory Board, the elected bodies and Arla Foods' employees. I am confident that we shall look back on 2007 as the first year in a whole new chapter in Arla Foods' history.

Ove Moberg, *Chairman*



The CEO on the impact of global markets inside and outside the company

2007 was a year of great change and extreme price changes – internationally as well as within Arla Foods. Our customers, too, felt the impact of price rises from changes in the global market – as did our co-operative members. The milk price paid to our Swedish and Danish owners rose by almost 40 per cent during the year. Nevertheless, we are still experiencing a decline in our sourced milk. We also bought the remaining shares in the UK business, our largest home market, and expanded our activities eastwards: in Finland through Ingman Foods and with a joint venture in Russia.

2007 SHOULD HAVE BEEN A YEAR when we continued to pursue our strategy of focusing on our core business, developing existing markets and identifying new growth markets. Although 2007 encompassed all of these, nothing could have prepared us for the unique events that were to follow.

We have been faced with high world market prices on other occasions, but never before have they made such an impact. This development was completely unexpected, even for the most experienced agricultural experts. All indications are that in 2007, we saw a significant shift in the world's milk production and I believe that the higher price levels are here to stay although we will see significant fluctuations in raw material prices as a consequence of the world market's direct impact on prices within the EU.

Rising global demand

The earnings of Swedish and Danish milk producers have long been under pressure, latterly because of significant cost increases, especially in respect of substantially higher feed prices. The consequence has been falling volumes of milk sourced over the past year; a trend that has also been noticeable in other European countries. At the same time, global milk production declined because drought in Australia and floods in Argentina caused acute feed shortages. Nevertheless, interest in

milk remained unaffected. Demand for milk, yogurt and cheese has, in fact, risen considerably thanks to the ever higher living standards in growth countries like China, India and Russia. The global surplus of dairy products was replaced by shortages as demand increased. As the EU's stocks of butter and milk powder ran dry and could no longer act as a buffer during times of shortages, this had an immediate impact on price.



The battle for producers

The imbalance between supply and demand raised payments to European milk producers to levels that exceeded Arla Foods' payments. At the beginning of September, it became clear that two per cent of our co-operative members wanted to withdraw. Several had been attracted by quick profits from the high milk powder prices in Germany. World market changes enabled us to introduce price increases to our customers which, in turn, meant that our co-operative members received a higher payment. A number of co-operative members who had submitted their resignations therefore decided to stay with Arla Foods and, by the end of 2007, a number of new co-operative



Peder Tuborgh, CEO.

members had joined. The decline in milk sourcing has, however, resulted in a fall in cheese production. But never before in Arla Foods' long history have we sent such a strong and positive signal to our owners and suppliers.

The strategy is succeeding

We are confident that the decision to focus on added value products and to continue to develop our customer relationships offers the best prospects for long-term revenue – even during boom periods with high commodity prices.

The new, dynamic market demands that we have strong brands and can react quickly from a position of financial strength to meet the tough competitive conditions head on.

Without the substantial price increases in the second half year we would not, overall, have seen a rise in turnover during the financial year as acquisitions were offset by corresponding divestments. This convinces me that we should continue to focus on growth markets, identify strategic acquisitions and continue to strengthen our brands. A number of initiatives will be pursued to secure our long-term access to milk – a challenge that we must face up to, although this can result in a tough decision regarding the allocation of milk between different product categories. The EU's milk quotas were not fully utilised in 2007, and in Sweden total milk production declined significantly.

One good year to follow another

2007 was characterised by major change that contributed negatively to the net result. When the EU's export subsidies were discontinued, we lost considerable revenue. A weak US

OUR IDEA OF A READY MEAL



The UK is Arla Foods' largest market and Lurpak® the UK's leading BSM brand by value.

dollar cut into earnings from export markets and in our home markets milk consumption continued to decline as it has done over the past few years. Arla Foods' underlying profitability, however, lies in our ability to reward our owners and suppliers. On the backdrop of the rapid development in global markets and our success in implementing price increases in most of our markets, payments to our owners and suppliers increased substantially towards the end of the year. 2008 is likely to see considerably improved earnings for Arla Foods' co-operative members. The effects from the price increases will initially impact positively on the result for 2008. How earnings will develop over the full year is uncertain in view of the rapid changes in the market.

Advances in the UK

The UK is Arla Foods' largest market. Following the acquisition of the remaining shares in the UK company in April, a new leadership team took over and a new strategy and vision for the company was developed. We have also started

negotiations with the milk producers in Arla Foods Milk Partnership to find a solution with regard to part ownership of the UK company in 2008.

We have successfully carried out efficiency measures and invested in new, modern facilities as well as upgraded existing plants. We have achieved considerable market advances during the year. Lurpak, for instance, became the UK's leading brand in the BSM category in June.

Strategic acquisitions

During the year, we reviewed all activities to identify areas that offer the best development opportunities. These efforts started in our German export market – where we had established a strong position in dessert cheese – with the launch of Castello as the global dessert cheese brand. Together with a local partner, we began to sell and market cheese and butter in the exciting Russian market which is undergoing rapid growth. We also invested in expansion and new technology to enhance profitability at our powder plant in Argentina.

Rising production worldwide

In China, our joint venture with Mengniu, the leading dairy company in the world's most heavily populated country, made great strides forward during the year. In April, the construction of a new milk powder factory began. The aim of this investment is to quadruple production capacity by the summer of 2008.

The advance in China underpins our commitment to milk powder in Algeria, a growth market with 33 mil-



Feed impacts on profitability as well as the environment.

lion inhabitants. Based on the Milex brand, we established a sales office in Vietnam, perhaps Asia's fastest growing market.

The initiatives in growth markets are in keeping with our strategy to use the milk for profitable brand products rather than commodity products wherever possible. In 2007, we continued to dispose of companies that no longer match our strategy.



Puck® is one of Arla Foods' most well-known brands in the Middle East

Turnaround in the Middle East

Although we have not yet achieved our goal of returning to 2006 pre-boycott levels in the Middle East, we have recovered 95 per cent of our previous market share in the region. 2008 will show whether our current initiatives in terms of product launches and high profile campaigns will generate further results.

Focus on employees

Early in the year, we carried out the second part of our organisational changes where we specified the roles of the various business areas. Moreover, we set up a group function tasked with developing the Group's strategy as well as common processes and tools for the company. The turbulent year also resulted in major challenges for our employees. We have introduced rationalisation programmes within all parts of the company – at the dairies, in the sales organisation, the administration and in our customer organisation. Significant changes require an extra effort from employees and I am impressed how well everything has gone.

A new character

A great deal of work has been dedicated to the communication of the group's

core values– Lead Sense and Create – otherwise known as Our Character.

We are also focusing on developing our leadership skills and are prioritising development and improvements as well as new competencies. This work is central to the entire group and I believe that it is crucial for our continued progress. To ensure that Arla Foods' core values are communicated to all employees, tools and processes under

the auspices of Human Resources have been globalised and a number of national initiatives taken throughout the group. Since May, the Group Director responsible for Human Resources has had a seat on the group's Executive Management Group.

The recent survey of more than 14,500 employees shows continuing development, substantial commitment and greater satisfaction with the workplace and its leaders. In 2008, we intend to focus on maintaining this positive development, e.g. by expanding co-operation between different departments and countries and strengthening our focus on creativity and innovation.



Arla Foods has highly pro-active employees – regardless of whether they are running a marathon at one of our chilled warehouses or developing new products.

Sweden – focus on organic products

In Sweden, our second largest home market, we saw a fall in the consumption of liquid milk of 3 per cent, in part because more people are eating out, but also because of tough competition from both Swedish dairy companies and international brands. Sales of organic products increased both within the public and retail sectors.

At the end of 2007, we decided to significantly upgrade our organic milk targets. In Sweden, the aim is to double the volume of organic milk up to and including 2011. This target is highly ambitious and, together with the significant price increases for our organic products, signals that we are intent on offering consumers the products they demand.

We continue to work on efficiency measures and structural rationalisations, including the closure of the dairy in Örebro and the start of the relocation of fruit juice production from Alingsås to Ringe. In Sweden, the dairy structure continues to be too extensive in relation to the milk volumes produced. One of the most important challenges in 2008 will be to address this.

Denmark – managing the competition

Dairy product consumption was, in general, relatively stable. We did, however, register a strong rise in demand for organic products and we faced new competition from large, international food companies. Even so, in 2007, we succeeded in maintaining our market share within almost all product categories despite the fact that the share of own label products continues to rise within most dairy categories.





The average Danish farm has 102 cows, the average UK farm 98 while Swedish farms have 48 and Finnish farms 22.

In 2007, Arla Foods continued its long-term effort devoted to strengthening the group's image in the Danish market. This remains one of the main challenges for the organisation going forward.

Finland – A new home market

Early in the year, we were given the green light to acquire 30 per cent of the shares in Finland's second largest dairy company, Ingman Foods Oy AB. The acquisition is part of Arla Foods' focus on the Nordic market. Over the next three years, Arla Foods is entitled to purchase the remaining 70 per cent of the shares.

Named Arla Ingman Foods Oy AB, the new company has a turnover of more than 250 million euros. The new joint organisation began operations in the spring of 2007 and new common working methods and processes for marketing and sales were implemented. Our campaign for the new Arla Ingman started in April and the new company has been well received.

New environmental targets

A large number of Arla Foods' dairies have carried out exemplary work to safeguard important values for both

customers and consumers as well as securing a good working environment for employees. In the UK, for instance, we are the first dairy company to meet the requirements for both environmental and health and safety standards. In our home markets, all vehicles are continually being upgraded to safeguard environmental standards and sound business operations.

A look back on 2007 clearly shows that, in several countries, significant strides have been made within the environmental area from which others can learn and be inspired. This applies to energy consumption, CO₂ emissions, water consumption, waste and recycling. We are now continuing the work with our sub-contractors in order to bring about further reductions before the end of 2008.

We shall also continue to participate actively in the climate debate and ensure that we can supply the products with the health profile and the reduced climate impact demanded by our customers and consumers. The group's previous environmental targets have already been met and in 2007, we began working towards meeting new and ambitious targets.

This annual report focuses on the

environment and later this year, we will publish our climate strategy and a sustainability report for the group. Late in 2007, we signed up to the United Nation's Global Compact – an initiative for ethical business which matches our own guidelines well.

Full speed ahead

This has been an extremely exciting year with plenty of challenges in both new and existing markets. Arla Foods has embarked on the modernisation of its ownership structure to achieve a stronger position in the tough battle for milk. With more clearly formulated ground rules for 2008 and bolstered by increased earnings I am confident that we are well positioned to fulfil our ambition of providing our owners with well-deserved, improved earnings in 2008 by continuing to offer inspiring products for our customers and consumers.

Peder Tuborgh, CEO

Arla Foods around the world

Arla Foods is a global dairy business. Its products are sold worldwide in more than 100 countries. We have production in 12 countries and sales offices in 27. Our owners live in Denmark and Sweden which, along with the UK and Finland, are our home markets.

GERMANY/EU
As demand increased, the commodity price for milk powder rose in Germany. Export subsidies were abolished in June owing to high global market prices.

USA
Areas under maize cultivation are expected to be the largest since World War II - at the cost of milk production. Maize is largely used for ethanol production.

SOUTH AMERICA
Floods in South America contributed to the milk shortage. Several hundred thousand cows died in 2007.

SALES OFFICES

- 1 Norway, Oslo
- 2 Germany, Düsseldorf
- 3a The Netherlands, Lelystad
- 3b The Netherlands, Wageningen
- 4a France, Lyon
- 4b France, Paris
- 5 Spain, Madrid
- 6 Italy, Cerimido
- 7 Greece, Athens
- 8a Poland, Warsaw
- 8b Poland, Tychowo
- 9a Russia, St Petersburg
- 9b Russia, Moscow
- 10 Argentina, Buenos Aires
- 11 Brazil, São Paulo
- 12 USA, New Jersey
- 13 Canada, Concord, Ontario
- 14 Mexico, Leon
- 15 Dominican Rep, Santa Domingo
- 16 Algeria, Alger
- 17 Lebanon, Beirut
- 18 United Arab Emirates, Sharjah
- 19 Qatar, Doha
- 20 Kuwait, Safat
- 21 Saudi Arabia, Riyadh
- 22 Bangladesh, Dhaka
- 23 Malaysia, Kuala Lumpur
- 24 Vietnam, Ho Chi Minh City
- 25 Korea, Seoul
- 26 China, Beijing
- 27 Japan, Tokyo

PRODUCTION

- 1 United Kingdom (see map on page 66)
- 2 Denmark (see map on page 66)
- 3 Sweden (see map on page 66)
- 4 Finland (see map on page 66)
- 5 Germany, Harbarnsen
- 6 Poland, Goscino
- 7 Argentina, Portena
- 8 Brazil, Cruzeiro
- 9a USA, Hollandtown, Wisconsin
- 9b USA, Muskegon, Michigan
- 10a Canada, Atwood, Ontario
- 10b Canada, Concord, Ontario
- 10c Canada, Prince Edward Island
- 11 Saudi Arabia, Riyadh
- 12 China, Hohhot



ASIA
 When economic growth in Asia caused milk consumption to rise dramatically, the region's own production proved inadequate. Most of the imported milk comes from the EU and New Zealand.

AUSTRALIA
 As a result of a drought, Australia withdrew as a player in the global milk market.



THE FARM



THE MILK



PROCESSING



THE CUSTOMER



THE CONSUMER

This year's Annual Report reflects the fact that Arla Foods' value chain extends from cow to consumer. We also provide information about our attitude to the environment. Welcome to Arla Foods' journey through 2007. (For specific information, please refer to the index on page 63).

THE FARM





NO FARMS – NO MILK. One of Arla Foods' greatest challenges is to safeguard its milk supplies. As a result of the structural changes within the Swedish and Danish agricultural sectors, two milk producers cease milk production every day. In return, the number of cows and the volume of milk they produce is increasing.

The total milk volumes we receive in Denmark and Sweden have declined somewhat and we have introduced a range of initiatives to ensure that we source sufficient milk through, for instance, buying milk on a contract basis from non-co-operative members. We have also strengthened our efforts to increase the company's share of organic milk.

It is crucial for Arla Foods to offer milk producers long-term, stable payments since operating a profitable farm enhances the milk producer's confidence in the future.

One advantage for Arla Foods is that we control the entire value chain, from cow to consumer. Moreover, because of our co-operative ownership we occupy a very special position – that of one of the world's biggest food companies controlled by the milk producers themselves.

FOCUS ON THE ENVIRONMENT

All milk is produced at the farms, which is where the greatest environmental impact occurs.

Through the requirements laid down by the authorities and the company's own quality programme and agreements with milk suppliers in various countries, Arla Foods ensures that farmers show due regard for the environment.





PAYMENT FOR FARMERS UP BY 40 PER CENT

FALLING MEMBERSHIP

INCREASED DEMAND FOR ORGANIC PRODUCTS

Fewer farms are producing more milk

Arla Foods is a co-operative owned by 8,522 Danish and Swedish milk producers. The company is controlled by the 140 elected milk producers on the Board of Representatives, its ultimate authority, and by the 14 elected milk producers who form the Supervisory Board. In addition, 10 employee representatives, elected by the employees in Sweden and Denmark, serve on the Board of Representatives and four on the Supervisory Board.



As well as being owners of the company, Arla Foods' Swedish and Danish milk producers supply approximately 6 billion kg milk per year. The co-operative based structure affords the milk producers influence in accordance with the one man-one vote principle.

During the financial year, the number of co-operative members fell by nine per cent. The volume of milk, however, declined only by three per cent as many farms increased their herds and modernised their farm operations. Although Danish farms, on average, have more cows than Swedish farms, the trend is similar in both countries. Expanding production requires substantial investment and the farmer's strong belief in the future.

Shortage of organic suppliers

Arla Foods is the biggest supplier of organic products in Denmark and Sweden and the world's biggest supplier of organic dairy products. The number of organic farmers is rising and currently accounts for close to seven per cent of our milk.

By autumn 2007, demand for organic products had grown significantly in Denmark and in Sweden. Indeed, demand in Sweden exceeded our local production which led to a shortage of organic milk. This was further exacerbated by the seasonal de-

cline in milk production. Arla Foods is committed to recruiting more organic suppliers and aims to increase the overall volume of organic milk in Denmark and double the volume in Sweden to around 650 million kg in both countries by 2011.

Organic farms use neither sprays nor artificial fertiliser and the livestock are fed organic feed. As organic milk production requires more land, this can prove to be a barrier.

Arlagården ensures quality

Together with the Swedish and Danish co-operative members, we have developed the Arlagården quality programme setting out rules and guidelines for the running of members' farms. Consequently, we take responsibility for ensuring that the milk and other raw materials are produced to a high quality and in a responsible manner. Approximately every third year, external quality consultants visit co-operative members to check that the quality programme is complied with.

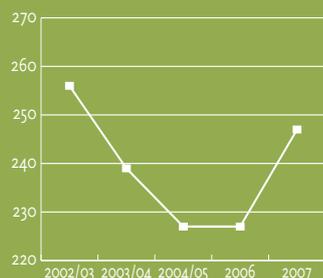
In Finland, milk suppliers comply with the dairy industry's national model for quality in primary production, which is similar to Arlagården. In the UK, all milk producers follow the industry standard quality assurance regulations, Assured Farm Standards. In addition, a number of farms receive bonus payments for meeting specific retailer requirements.

Historic increase in the milk price

In 2007, the price paid by Arla Foods to its co-operative members in Denmark and Sweden per kg milk was increased by 78.6 øre. The reason for this unprecedented rise was the extremely high demand for milk in world markets in the sec-



Arlagården's four cornerstones are the milk's composition, food safety, animal welfare and regard for the environment.



The milk price in Sweden and Denmark over the past five years. (In Danish øre.)



The number of co-operative members/suppliers and kg weighed in milk in Sweden and Denmark over the past five years.



Arla Foods,
a democratic co-operative company



Milk producers' confidence in the future is illustrated in both Denmark and Sweden by a greater willingness to invest. One sign is that Dutch farmers – who, for many years, have been drawn to Denmark – are now moving to Sweden because of the competitive prices for milk and farm land.

ond half of the year. At the same time, the intake of milk was limited owing to the drought in Australia and floods in South America. Moreover, production in the US declined because many farmers are growing maize for ethanol production.

Retaining milk supplies from our co-operative members and suppliers is crucial for Arla Foods and offering a competitive milk price is the means to ensure this. Our objective is to pay our milk suppliers one of the highest prices in Europe.

As Arla Foods' owners are the milk suppliers in Denmark and Sweden, the company's democratic structure ensures that major decisions are long-term in nature while, in the short-term, we are committed to being competitive. For Arla Foods, it is important that our owners are proud of the fact that they have created one of the world's largest dairy companies.

The farm's environmental impact – for good and ill

Milk production involves the use of a range of products such as feed for the cows, diesel for machinery and fertiliser for the fields - all of which impact on the environment. Milk production, therefore, generates a substantial amount of emissions which impact on the environment: the fields give off nitrogen, the cows emit methane gas and the tractors run on diesel.

Dairy farms, however, also have many positive effects on the environment. Green fields promote biological diversity and encourage more insects and plants. There are also opportunities for generating energy from crop rotation. Biogas can, for example, be extracted from cowshed manure and be used for heat and fuel.

The key environmental factors on a farm

FEED: Transport, field utilisation and sprays are the key environmental factors in respect of cattle feed. Lengthy

transport of concentrated feed results in higher energy costs and greenhouse gas emissions. In some parts of the world, production of concentrated feed leads to land erosion and affects the eco-system because of the quantity of sprays used. Only a very small proportion of the feed, however, is imported into our home markets as most of the feed is produced on the farm.

Grass, the most common type of feed on Arla's farms, is harvested several times a year and is grown intensively which prevents weeds from spreading. As grass does not attract fungus or insects, this limits the need for sprays

FERTILISER: Efficient use of cowshed manure can reduce the need for artificial fertiliser. Restricting the use of artificial fertiliser is justified for financial as well as environmental reasons. The nitrogen in artificial fertiliser involves the use of ammonia, an energy-demanding process which causes greenhouse gas emissions, carbon dioxide and nitrous oxide. In modern factories, however, such emissions are considerably lower and national initiatives to extend the use of cowshed manure coupled with stringent legislation, (mainly in Denmark) have contributed to reducing the amount of fertiliser used in fields to what is required



Group buying was introduced in 2007 for Swedish and Danish co-operative members. Through a common purchasing arrangement, we have reduced prices of oil, diesel and electricity and also offer cleaning products etc. that are approved in accordance with the Arlagården quality programme.

by the crops only. Artificial fertiliser is not permitted in organic milk production. Instead, the farmer endeavours to maximise the use of cowshed manure.

DIESEL CONSUMPTION: Diesel consumption varies according to the type of operations on the farm, e.g. the amount of feed grown at the farm and how cowshed manure is used. If the farmer buys in a large quantity of feed, the environmental impact takes place at the supplier.

CO-OPERATIVE MEMBER SURVEY

At the end of 2007, a survey of co-operative members was carried out in Denmark and Sweden. The core areas of finance, management and democracy received the lowest marks whilst daily operations, for instance, received high marks. The results of the survey are currently being considered and the conclusions will be included in the drive to modernise the company, i.e. The New Arla.

NATURAL ROTATION ON THE FARM

Many milk producers endeavour to limit their farms' environmental impact

through additional measures. For instance, surplus heat from the cowshed is used to heat the farmhouse, cooling water is recycled and, at some locations, washing water is used for outdoor cleaning.

OUR FARMS LEAD THE WAY

In Sweden, dairy companies have taken the decision not to spread slurry from municipal purification plants on fields because of the possible content of heavy metals. When MD Foods in Denmark merged with Arla in Sweden, this restriction was extended to Danish milk producers

through Arlagården. The Danish Dairy Board subsequently banned slurry on fields for all member dairies. Consequently, Arla Foods has contributed to setting safer food and environmental standards.

ARLA FOODS' CLIMATE STRATEGY

- Focus area Milk production:
- Feed composition
 - Use value materials in fertiliser
 - Biogas production from waste materials



THE MILK





OUR MOST IMPORTANT RAW MATERIAL IS MILK.

Milk supplies are a local as well as a global issue: locally in that we wish to buy milk from farms as close to our consumers as possible and globally because of our large exports of dairy products and because the supply is considerably influenced by international events and trends.

A lot has changed over the past year. In Denmark and Sweden, the volume of milk received fell in tandem with the global milk shortage. Consequently, we have taken several measures to safeguard our milk supplies.

The ever increasing demand for dairy products, however, creates opportunities for improving our profitability, i.e. though focusing on added value products and through switching parts of our production to products that are currently most profitable at short notice. This proved successful in the autumn when milk powder prices were unusually high.

As a result of the high powder prices – and the increased prices achieved from the retail sector – we were able to raise the payments to our Danish and Swedish milk suppliers substantially.

FOCUS ON THE ENVIRONMENT

Arla Foods is not just one of the world's largest dairy companies, it is also a major transporter. Day after day, 365 days a year, we collect milk from the farms on tankers and deliver it to the dairies. Consequently, we always strive to optimise our routes and reduce CO₂ emissions.





GLOBAL MILK SHORTAGE

PRODUCTION FLEXIBILITY MEANS PROFITABILITY

EU'S EXPORT SUBSIDIES SET AT ZERO

Falling milk supply in Arla Foods

During the financial year, the overall volume of weighed in milk at Arla Foods totalled 8,360 million kg, i.e. a 3 per cent fall on the year. This is primarily owing to Arla Foods UK's disposal of its doorstep sales business in 2006 with its subsequent impact on 2007. The fall, however, has been offset by close to 300 million kg owing to our part ownership of Arla Ingman in Finland.

Supplies from our Danish and Swedish farmers have also declined by three per cent, which is a problem. There are a number of reasons for this: for several years now, profitability of milk production has been of a low level and producer loyalty towards Arla Foods has dwindled. Competition for milk rose during the autumn of 2007 when world market prices rocketed. Milk producers currently have several potential buyers for their milk – ranging from local farm dairies to the North European spot market.

Measures to secure supplies

To address the reduction in milk supplies, Arla Foods has launched a number of measures in Denmark and Sweden. In October 2007, the Board of Representatives introduced a logistics supplement for larger producers. This supplement will



Drought in Australia and floods in South America contributed to the milk shortage in 2007.

be financed through reduced collection costs from larger farms. The regulations relating to payments on delivery-based owner certificates in the event of change of ownership and repayments when former members rejoin Arla Foods have been changed.

The trend is, however, expected to turn after the milk price and the payment to co-operative members was in-



The rising demand for milk worldwide first and foremost applies to commodity powder. But the general interest in environmental and climate issues is also boosting demand for organic and locally produced products.

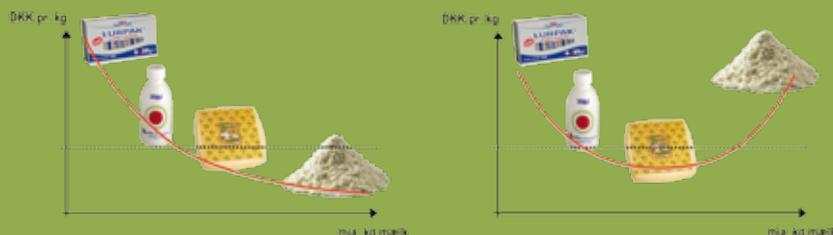
creased by almost 40 per cent during the year as a result of the favourable conditions. Payments to milk suppliers in the UK and Finland also increased.

To secure our supply of raw milk in the UK, we have initiated discussions with the UK milk suppliers in Arla Foods Milk Partnership (AFMP) with regard to becoming part owners in Arla Foods UK. In the home markets, we have also paved the way for procuring milk from suppliers who are not Arla Foods co-operative members, providing they meet our quality requirements.

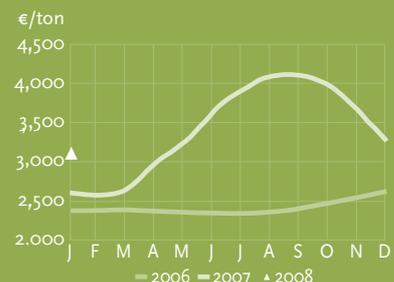
On world market terms

The world is experiencing a shortage of dairy products with resultant high market prices. As a consequence, the EU export subsidies were set at zero. For Arla Foods, this means a fall of around DKK 170 million compared to the 2007 budget. During the financial year, 15 per cent derived from sales from markets outside the EU.

Further rules governing milk production are set to be abolished and the EU plans to gradually raise individual countries' milk quotas until 2015. The aim is to increase the opportunities for higher production before the quotas are discontinued. The demand for milk quotas – which has always been greater in Denmark than in Sweden – fell in connection with the quotas exchange in November 2007. The Danish quota price was DKK 2.81 (after having been around DKK 4 for several years) while in Sweden, the price was a record low 6 Swedish öre in the autumn 2007 when the price increases for farmers had not yet been effected.



The chart to the left shows the effect on prices under our added value strategy. The chart to the right shows the challenge in 2007 when earnings on non-added value products rose significantly. Thanks to our added value products, we have succeeded in implementing price rises that resulted in the chart reverting to normal by the end of 2007.



By August 2007, the powder price had doubled in 12 months. Later in the year, it fell back.

Milk – an international commodity

As a consequence of changes in the global market, we were able to implement significant price adjustments for our customers and milk suppliers. By switching some of the production to more profitable areas more rapidly, we can also achieve greater profitability. During the autumn, for example, we increased production of milk powder because of the high prices. This contributed to the business area, Global Ingredients, achieving its best result so far. Our overall strategy, however, is based on added value products such as yellow cheese, dessert cheese and fruit yogurt to ensure the group's long-term profitability.

Milk's journey from farm to dairy

Arla Foods is a major transporter partly because we collect the milk at the farms and transport it to the dairies. One consequence of dairy closures over the past few years is that tankers cover longer distances although the concentration of production has overall environmental benefits. We endeavour to make the journeys as short as possible and avoid half-full tanks. Our vehicles are equipped with satellite navigation, which promotes careful route planning and reduces the number of kilometres driven.



The milk is collected from the farms at least every second day. When the tanker arrives, the milk is tested. Every week, the farmer receives a newsletter containing up-to-date information. In many cases, the tanker driver acts as an important link between Arla Foods and the co-operative members.

New tankers reduce emissions

Collecting milk around the clock, Arla Foods' tankers cover hundreds of thousands of kilometres per year. To achieve maximum operational safety and profitability, the tankers are replaced every three years. Regardless of whether we buy, lease or employ transport companies in the markets where we collect the milk, the tankers are all more or less of the same standard. As the vehicles are replaced on a regular basis, this enables us to invest in more environmental-friendly engines. New ve-

Buffer tanks at the farms offer flexibility for both farmers and for Arla Foods. They enable us to collect the milk round the clock and shorten our journeys while farmers can plan their work better. Farmers also receive a slightly higher price for their milk.



hicles automatically reduce emissions of nitrogen and particles while CO₂ emissions are only affected in a minor way.

Training reduces diesel consumption

Carbon dioxide emissions from transport are an important factor in climate change. As well as reducing driving wherever possible, we strive to limit fuel consumption by, for instance, training our drivers in fuel-saving driving. In Denmark, fuel consumption has been reduced by almost 6 per cent compared to the 2007 budget by means of lower speeds and greater focus on declutching and running the engine at idle. In Sweden, we have reduced the consumption of fossil fuels by adding 5 per cent rapeseed oil methyl ester to the tanks. In the UK, sustainable bio-fuels are being trialled.

We monitor developments in international markets in respect of sustainable fuels and reduction of noise levels.

Key environmental issues in milk collection

- Use vehicles with **MODERN** engines
- Drive with **FULLY LOADED** vehicles along carefully planned routes
- Use **FUEL-SAVING** devices
- Use **BIO FUELS**



The tankers are washed when they return to the dairy. As the vehicles have driven in traffic, the water used to wash them contains heavy metals from the dirt on the road. At Stockholm dairy, we have established a purification plant to prevent the heavy metals from impacting on the municipal purification plant. All drains at the dairy are colour coded to show whether they lead to the Mälars Lake or to the purification plant.



Arla Foods' diesel consumption in Denmark and Sweden (1,000 litres). The 2003/04 financial year compared to 2007 (collection and distribution).



Arla Foods' emissions of carbon dioxide in Denmark and Sweden (tons). The 2003/04 financial year compared to 2007 (collection and distribution).

ARLA FOODS' CLIMATE STRATEGY

Focus area Transport:

- Use bio fuel
- Training in environmental-friendly driving
- Greater efficiency/better route planning



PROCESSING

The image is a blurred, low-angle shot of an industrial or manufacturing environment. In the foreground, a large, curved, green object, possibly a piece of machinery or a component, is out of focus. The background is filled with various industrial elements, including metal beams, pipes, and lights, all rendered in a soft, bokeh-like blur. The overall color palette is dominated by blues, greys, and the bright green of the foreground object. The word "PROCESSING" is overlaid in the top left corner in a clean, white, sans-serif font.



THE DAIRIES ARE THE HEART OF OUR COMPANY.

It's at the dairies we process the milk and employ the majority of our workforce. All Arla Foods' employees should enjoy a high level of job satisfaction irrespective of where they are located. Consequently, we continually strive to improve the working environment – both physically and mentally.

All our employees should also be aware that they are part of one global company, a fact supported by our new set of values, Lead, Sense, Create.

Arla Foods employs 16,559 people, a fall of 8 per cent compared to last year.

We have acquired parts of Ingman Foods in Finland and now own all of Arla Foods UK. We are also continuing our expansion in selected growth markets such as China and Argentina.

By overhauling the dairies' overall structure and ensuring their efficiency and cost effectiveness, we can maintain rational production at all times. During the year, we took further steps to restructure Swedish production.

As one of the world's leading dairy companies, we continue to develop new, innovative products. One example is our space yoghurt, which has attracted considerable attention for providing the astronauts on board NASA's spaceship, Discovery, with their daily breakfast.

FOCUS ON THE ENVIRONMENT

At Arla Foods' dairies we do, indeed, cry over spilled milk. Although our most important raw material can be replaced, we look after every single drop because the milk has already impacted on the environment during production. Moreover, we endeavour to reduce overall energy and water consumption.





WORK ON THE STRUCTURE AND A NEW NORDIC ORGANISATION

100 PER CENT IN THE UK AND 30 PER CENT IN FINLAND

FOCUS ON GROWTH MARKETS SUSTAINED

PRODUCTION

Major player in the global market

Arla Foods is one of the world's leading dairy companies with production facilities located in 12 countries. Our strategy aims to drive growth in selected markets and during the year, the company acquired the remaining 49 per cent of Arla Foods UK plc and 30 per cent of the Finnish Ingman Foods Oy. We have also increased our investments in China and Argentina.

Production of fresh products in Denmark, Sweden and Finland has been combined under Consumer Nordic. As a major player, we can now further optimise our marketing, production and use of raw materials, which is a significant benefit.

As part of our increased focus on the core business, dairy production, production of whey, stewed fruit and infant formula at the Götene plant (160 employees) was sold to Semper AB, which, until 2003, was a subsidiary of the Arla Foods group.



Arla Foods' now owns all of Arla Foods UK plc and 30 per cent of the Finnish Arla Ingman.

Focus on production efficiency

The rationalisation process continues at our Nordic dairies. In June, the Swedish Örebro dairy was closed and its production switched to Jönköping, Stockholm and Linköping dairies. Of the 187 employees 73 have, so far, been offered new positions, including at the new fresh products distribution centre at Örebro. A new distribution centre has also become operational at Ronneby in Sweden. A decision in principle has been taken to transfer the production of liquid milk from Linköping to Jönköping.

Due to milk shortages, we have reduced the production of

yellow cheese by 6,200 tons during the autumn (in favour of milk powder), which led to 63 employees at the Danish cheese dairies of Branderup, Hjørring, Nr. Vium and Taulov and 12 weekend workers at Falkenberg being made redundant. Aars cheese dairy with 70 employees was also closed during the autumn. The transfer of fruit juice production from Alingsås in Sweden to the fully owned subsidiary, Rynkeby Foods in Denmark, will be completed in the spring of 2008. The move will affect around 120 Swedish employees.

Arla Foods in Finland

In January 2007, Arla Foods' purchase of 30 per cent of the Finnish Ingman Foods was approved by the competition authorities. Arla Foods has an option to purchase the remaining 70 per cent stake in the company within a three year period. The new Arla Ingman produces fresh products, milk and cheese at four dairies. With a turnover of DKK 2.5 billion, it employs 400 people and uses almost 300 million kg milk per year.

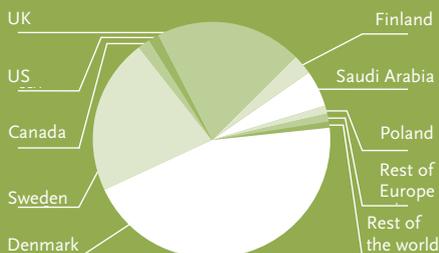
During the spring, Arla Ingman began to launch products under its new name. The company has successfully been integrated within the Nordic organisation.

Arla Foods in the UK

In April, Arla Foods acquired the remaining 49 per cent of the shares of Arla Foods UK after which the company was delisted from the London Stock Exchange. Following the acquisition, the UK company appointed a new leadership team and drew up a new strategy and vision. The change in ownership has resulted in closer co-operation between subsidiary and parent company, particularly in the field of innovation and purchasing.

Arla Foods has nine processing sites in the UK and employs around 3,350 people. The company accounts for 29 per cent of the group's turnover and processes approx. 1,900 million kg milk per year. Arla Foods UK is the largest supplier of fresh milk to UK supermarkets.

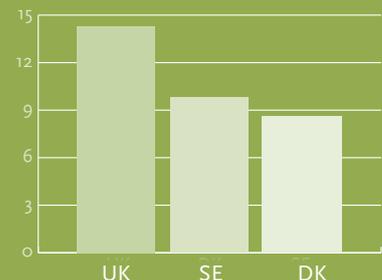
Arla Foods UK enjoyed a particularly successful year. Customer prices were raised and the company allocated its milk optimally. Previous investments in growth and efficiency measures have borne fruit and the company received a number of awards, including the title of Food Manufacture magazine's Company of the Year.



Number of employees per country
Arla Foods employs 16,559 people



Nr. Vium dairy, one of Denmark's biggest yellow cheese dairies, celebrated its centenary in October. The dairy produces around 35,000 tons havarti, esrom and port salut per year, most of which is exported.



Turnover in the largest markets (DKK billions).



Respect for nature's cycle at new plant. Arla Foods has created the most natural cycle possible at the milk powder factory in Vimmerby. Wet fields for cleaning slightly dirty water have been established, and 80 per cent of the heat derives from wood chippings, tree tops and bark from nearby forests. The ash is returned to the forest to create a cycle for carbon dioxide and nutrients. At the factory in China there will also be an environmental focus, with an energy consumption that is 20 per cent lower than at equivalent Chinese factories.

Continuing focus of growth markets

One of Arla Foods' main aims is to increase production in its growth markets. The joint venture, Mengniu Arla, which was established by Arla Foods and China Mengniu Dairy in China in 2006, has embarked on the construction of a new milk powder factory in China. The new factory will quadruple capacity and will be the largest and most advanced milk powder plant in China, the largest milk powder market in the world with annual growth in the 10-15 per cent range. Mengniu Arla currently employs a workforce of 750 and part of the organisation has relocated from Inner Mongolia to Beijing.

Turnover in **Poland** increased by around 30 per cent to DKK 120 million compared to 2006 owing to a stronger sales organisation. It is positive that, despite tough competition, Arla Foods has succeeded in retaining its local milk supplier for mozzarella production.

Further investments in expansion and technology have been undertaken at the plant in **Argentina**, which produces whey protein powder for the dairy and bakery industries. The factory, which we operate in partnership with the local dairy company, SanCor, was profitable during the year under review in part because of high world market prices for protein powder.

2007 also proved to be a good year for Arla Foods' joint venture, Dan-Vigor, in **Brazil**, with a rise in volume of between 3 and 5 per cent as well as the launch of new products. We have invested in a plant that concentrates the so-called permeate powder from cheese production, which results in significantly lower transport costs.

Our US company continues to progress in terms of locally produced and imported cheese. The consolidation of our yellow cheese brands under the Dofino® brand has been successful

thanks to a major communication effort between customers and consumers. The distribution has been overhauled and we have adapted to the US system of food agents and national distribution.

In **Canada**, demand for our products was substantial and in 2007, we were the first dairy company in the country to produce blue mould cheese. High quality contributed to the fact that 90 per cent of our customers switched to the new product during the year under review. Despite the price increases, there were also other successful launches, several new varieties of cream cheese under the Buko® brand and the white cheese, Apetina®, in a crumbled version. Technical investments were made at the dairy in Concord and costs to improve the distribution chain for Arla Foods Canada as a whole were higher than budgeted which produced a negative result.

NEW AND SAFE PRODUCTS Innovation for future growth

Research and product development are crucial for continuing growth. Our common focus is to develop the methods used to optimise the use of our raw material, milk, and to ensure that our products offer consumers additional, health-related added value. We should, for instance, develop more lactose-reduced dairy products.

Arla Foods' space yogurt attracted considerable attention during the year when Swedish astronaut, Christer Fuglesang, enjoyed a daily portion during his first voyage into space at the end of 2006. Sold via our Swedish website, the space yogurt is a good example of our commitment to innovation. The yoghurt (or other space products) is also suitable for more down-to-earth activities such as polar expeditions or mountaineering.



Our innovation work is primarily based in Denmark and Sweden although a new research strategy makes it easier for different parts of the company to contribute to the research, e.g. expediting projects and liaising with external institutions. During the year, the Foodtutum department continued to look into the unusual ideas from employees and co-operative members.

Safe products are all important

Arla Foods is committed to the new, international standard for food safety, ISO 22000. All dairies in Denmark and Sweden have been audited accordingly. Our aim is for all dairies to meet these requirements. Food safety is currently one of the six prioritised research areas at Arla Foods.



ARLA FOODS IN THE MIDDLE EAST

Following the boycott against Arla Foods in 2006, we have now recovered up to 95 per cent of the previous volume in the Middle East. While some markets are performing better than before, it has been difficult to re-establish market shares in Saudi Arabia, Arla Foods' most important market in the region. Sales here currently run at 83 per cent of pre-boycott volumes.

During the year, several marketing activities were carried out in the region, including a largescale advertising campaign for Lurpak®, and the launch of a spreadable white cheese, the first of its type in the Middle East. Price rises prompted by, for instance, the low rate of the dollar, can impact on future sales.

ARLA FOODS' CLIMATE STRATEGY

Focus area Food Production:

- Use of new technology
- Choosing CO₂ neutral fuels instead of fossil
- Greater efficiency





Suppliers comply with Code of Conduct

We impose demands on our suppliers of ingredients, packaging, chemicals and transport in respect of quality, environment and social responsibility. Consequently, suppliers have to sign our Code of Conduct.

THE EMPLOYEES

Motivation – a continuing priority

Arla Foods' employees and their development are important to our continued progress. In order to better support both the organisation and its employees, the Human Resources Department was restructured and assigned additional resources and is now represented on the Executive Management Group. Common communication channels for employees have been established. Intranet is now available at many dairies and offices, and newsletters are published in Swedish, Danish and English.

For a growing, global company, one common framework is essential in which everyone is treated equally regardless of culture, history and tradition. A new set of values, Our Character, which embraces the concepts of Lead, Sense, Create, commits us to ensuring that all leaders and employees, within 1000 days, will have a common perception of Arla Foods irrespective of where they are located around the world. In the UK, the implementation of Our Character was launched at the start of 2008.



Our Character – Lead, Sense, Create – will permeate throughout Arla Foods.

Arla Foods prioritises motivation and job satisfaction highly and we encourage our employees to apply for positions within the group in other countries and to increase their geographical mobility. Our leadership programme, which focuses on good leadership, began in 2007. During the year under review, the concepts of Envision, Engage and Deliver were explored.

Changes create pressure

Several factors caused many of our employees to be subject to considerable pressure during the year, including the ongoing structural rationalisation involving dairy closures and redundancies. At the same time, the restructuring of the Nordic

business created uncertainty for many employees within HR, finance and marketing. Moreover, changes in global markets have demanded extra attention from the production and sales organisations.

Efforts to create a more efficient and streamlined Arla Foods have resulted in the loss of 145 administrative positions, 75 in Sweden and 70 in Denmark.

In order to enhance efficiency, the sales departments were reorganised. As a consequence, a new central customer centre was established for order processing staff in Sweden. The changes affected around 100 individuals and resulted in 35 fewer positions. The customer service structure is already established in other home markets.

Efforts to reduce the number of industrial accidents continue and, over the past year, we adopted a range of measures to develop and improve safety. Another priority has been to address the problem of heavy lifting and repetitive work primarily at distribution centres, chilled stores and packing depots. We also endeavour to raise awareness of the negative effects of stress.



Barometer takes the temperature

Over the past four years, Arla Foods' employees' perception of their workplace and the company's leadership has become more positive. The result of the employee survey from 2007 is the best ever – 64 per cent are positive, 22 per cent neutral and 14 per cent negative in their attitude to the workplace and their immediate leader.

Another gratifying result is that fewer employees are suffering from stress. A new focus area for 2008 – concurrent with the continued effort to combat stress – is to increase co-operation between departments and countries and to place greater emphasis on creativity and innovation.

The year's survey was conducted in nine languages and involved 14,513 employees. The 90 per cent response rate is testament to the commitment of the liaison team, shop stewards, managers and employees.

SUSTAINABILITY

Sustainability from cow to consumer

One essential pre-requisite for Arla Foods' business is that customers, consumers, employees and owners have confidence in the company. We believe that we can contribute to such confidence through acting responsibly. A few years ago, our guidelines for ethical, social and environmental responsibility were set out in the publication, "Our responsibility – Arla Foods' guidelines."

BIOBOOSTER CLEANS WATER

At Hobro Dairy Centre, we employ new technical solutions for cleaning waste water and can recover product waste and dirt to produce biogas. The system, known as a Bio-Booster, is the world's first of its size and attracts visitors from across the globe.



ARLA FOODS YOUNG SCIENTIST AWARD

Arla Foods' new research award went to Janne Kunchel Lorenzen from the Institute of Human Nutrition at Copenhagen University. The young scientist received the award for her research into the link between the intake of calcium and human appetite.



NEW TRAININGS

Food production is a qualification developed by Arla Foods to safeguard future dairy competencies and facilitate the recruitment of production staff. The training is undertaken in Denmark with two years' practical work in Sweden or Denmark. Arla Foods has also established a two-year post high-school training for dairy technicians.





Over a two year period, four Danish distribution centres singled out 50 products that involved problematic lifting. 49 of these areas have been resolved and the final one will be resolved soon. Over the same period, machinery that facilitates cheese handling was installed at Kalmar. Better fork-lift trucks are now used for order picking at Jönköping.

At the end of 2007, the company also committed itself to the UN initiative for ethical businesses – Global Compact. The ten underlying principles covered by the Global Compact dovetail well with our own guidelines.

Our Responsibility will be updated in 2008 and we will also publish a sustainability report on our progress at Group level. In the UK and Sweden, we have made progress in our work on sustainability, an area that has received particular attention for several years now.

Maximising our raw material

From an environmental standpoint, it is crucial for the dairies to minimise any milk wastage as the raw material has already impacted on the environment at the farm and during transport to the dairy. The aim, therefore, is to keep waste to the absolute minimum. This applies to raw materials as well as to energy and water.

A higher concentration of milk products, e.g. whey protein powder in South America, also offers environmental benefits in the form of less cooling, storing and transport.

As we operate production in several countries and under differing environmental legislation and systems, we can learn from each other. In the UK, for instance, we are well ahead in climate issues, while in Sweden, we have made strides in terms of environmental consequential calculations. In Denmark we're strong on energy saving measures.

Fewer dairies lessen environmental impact

Over the past few years, several of our dairies have been closed and production relocated. Fewer and more modern dairies have enabled us to reduce our environmental impact despite increased production. Our overall target is to reduce total en-

ergy and water consumption by 5 per cent before 2010.

Dairies use a substantial amount of water for washing and cleaning. We endeavour, however, to recycle the water used for heating, for instance. In the UK, water consumption has been reduced by over 21 per cent in the past year, and consumption is now 20 per cent lower than in 2004.

Several dairies in other countries have built so-called wet fields, a natural cleaning facility with dams, where the water is purified without chemicals.

Whey and buttermilk are by-products which cannot always be fully processed into food products. In several countries, these by-products are converted into biogas for electricity, heat or vehicle fuel.

Structured environmental work

Certifying the dairies in accordance with different standards is one way of ensuring that environmental work is carried out in a structured way. Of our 61 dairies, 27 are currently certified in accordance with the ISO 140001 environmental management system and a further 20 dairies will be certified during 2008. Moreover, all dairies have set their own environmental targets and action plans which are in accordance with local requirements. Our sites in the UK also have certified management systems for the working environment.

Less waste from the dairies

Arla Foods' objective is to reduce the total amount of waste from dairies and increase materials for recycling. Different countries, however, have different legislation and systems for dealing with waste. All our plants, however, address waste issues based on local practice. In Sweden, where legislation prevents the depositing of waste, volumes have been significantly reduced.

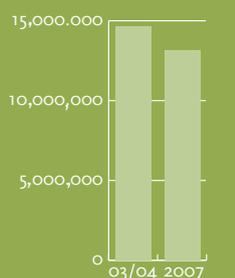
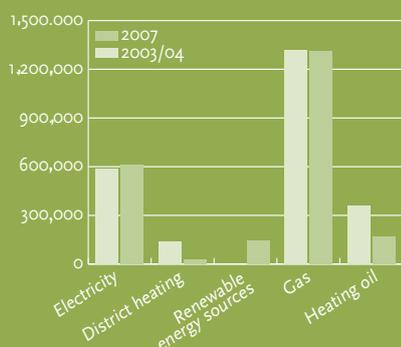
Key environmental issues at the dairies:

- Reducing **ENERGY CONSUMPTION**
- Reducing the proportion of **FOSSIL ENERGY**
- Developing **CIRCULATORY SOLUTIONS**
- Reducing **PRODUCT WASTE**
- Reducing **WATER CONSUMPTION**

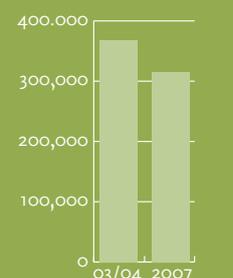


Making plastic bottles at the dairy. By producing plastic bottles at some of the dairies, on-site blow moulding, Arla Foods in the UK saved 340 tons of packing material and 13,500 unnecessary deliveries of protective packaging.

Energy consumption per energy source. Total worldwide, 2003/04 financial year compared to 2007. Energy consumption has fallen by 6 per cent in four years and the proportion of fossil energy has fallen by 12 per cent.



Water consumption. Total worldwide. Cubic metres.



Direct CO₂ emissions from Arla Foods dairies. Total worldwide (tons).

THE CUSTOMER





THE CUSTOMER IS ALWAYS RIGHT. In an ever more competitive market, good customer relations are a pre-condition for selling our dairy products. Through sound partnerships with our customers, we can offer healthy and inspiring products that have been sustainably produced.

Our customers are demanding and inspire us to become better at everything we do – in terms of our environmental work and the service we offer as well as our product development. We have already come far in many areas which means that we can help our customers improve their businesses, too.

We are a leading player in our home markets of Denmark, Sweden and the UK, and are responsible for some of the dairy industry's best known brands. Some of our selected brands are set to achieve an even higher profile by being transformed into global category brands or used for larger product groups.

As the dairy market becomes more global, Arla Foods' products will be established in new parts of the world. Danish fresh milk is now, for instance, being exported to Germany and The Netherlands and Millex milk powder to Vietnam.

FOCUS ON THE ENVIRONMENT

We are not alone in our concern for the environment. Our customers demand that we act in an environmentally responsible way. Our strongest focus is currently on CO₂ emissions and packaging. We show due respect for this while maintaining our own efforts towards a long-term, sustainable environment.





RETAILERS IMPOSE SUBSTANTIAL DEMANDS

PRICE RISES IN HOME MARKETS

RAPID DEVELOPMENT IN NEW MARKETS

International retailers with a sense of responsibility

Arla Foods has sales offices in 27 countries, and our products are sold in more than one hundred. Our customers include multiples, independent stores, restaurants, industrial kitchens, hospitals, local authorities and schools. Although our partnerships with customers are adapted to each individual customer and market, certain trends are noticeable. Among the most important is the fact that the major retailers are becoming ever larger, more centralised and more international.

As major buyers, supermarkets can demand that we meet their conditions in respect of organic products, the environment, food safety, packaging etc. One example is the UK where we are working together with our retail customers to increase milk's traceability. The growing demand for organic products in our home markets is also noteworthy. Our retail partnerships, therefore, motivate us to become even better suppliers.

Our quality programme, Arlagården, gives us a huge advantage in our relations with customers throughout the world. In Japan and Vietnam, for instance, Arlagården has been fundamental to our progress. The scheme also makes our work easier – were it not for Arlagården, we would be forced to adapt to a variety of quality programmes from different customers. We are now one step ahead with regard to traceability and quality. Read more about Arlagården on page 12.



Caffe Latte has become the people's drink. In Sweden, for example, 27 per cent of all drinking milk is used for coffee. Arla Foods' speciality milk product, Barista® – which was initially sold to trade customers only – is now available to Swedish consumers.

New trends create new conditions

Another motivating trend is the customer's increased interest in products in differing price categories and the continued development of products with specific health functions, for example, a high content of fibre, especially beneficial bac-

teria cultures or lactose reduced.

To meet the wishes of many multiples, the production of own label dairy products has increased. In the Nordic countries, this started at a low level, while in other countries, from a significantly higher level. In the UK, for instance, we have around 44 per cent of the milk market in the seven largest retailers sold under the retailers' own label.

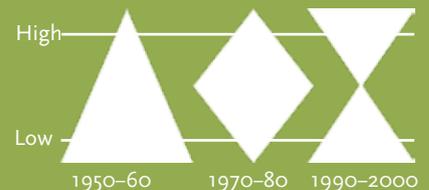
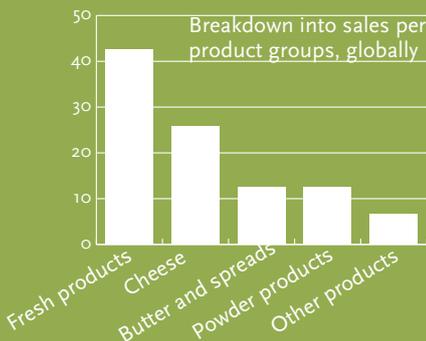


Feta became Apetina® from last October because the feta name can now only be used for white cheese made from the milk of Greek sheep and goats. Similarly, the Danish Danablu and Esrom are protected denominations for brands of origin. Sold in 35 countries, the successful Apetina® is currently one of our global brands and comes in many forms: cubed, crumbled, spreadable etc.

Fewer, but stronger brands

Arla Foods' brand strategy focuses on fewer and stronger brands in order to maximise the benefits from our investments in marketing and development. For example, Castello® is assuming an increasingly important role as the global brand for dessert cheese with Cultura® taking a similar role for our health products in the Nordic countries. In 2007, the Nordic countries became one market with a common focus on Nordic consumers and, to a greater extent, using the same brands.

We are also working to establish brand categories for the purpose of increasing awareness of the breadth of our offering. One example is Dofino® in North America, the brand for the yellow cheese category. We are also developing the values that individual brands represent. This increases the number of lines under one brand and provides opportunities for several price categories. In Denmark, semi-skimmed



CHANGED BUYING PATTERNS

Buying patterns have changed over the years. In the 1950s, focus was on low-price products, while in the 1970s, consumers opted for the middle ground. Today consumers are demanding low price as well as added value products.



Jordan's Under 20 national football team is sponsored by Arla Foods. The team's kit carries the Puck® logo.



Algerian buses advertise Danone®. Algeria is one of the world's major milk powder markets.

milk under the Ekspres® brand was joined by a new variant, "Lærkevang", which has the additional value of dairy cows grazing in fields and feeding on more grass.

Price rises for the retail sector in the autumn

In recent years, there has been a particularly large supply of food products in our home markets with resulting price pressure. This, however, changed in mid-2007. Owing to a shortage of milk and rising world market prices, retail sector prices were increased by between 10 and 15 per cent in several of our markets during the autumn.

HOME MARKETS

A good year for the UK

Arla Foods UK experienced a particularly successful year. The strongest brands are Lurpak® and Anchor® (butter) and Cravendale® (milk), all of which grew by around 10 per cent. During the year under review, Lurpak® became the number one brand by value in the BSM category. A successful marketing campaign focused on the Cravendale brand helped the brand's value top an impressive £100 million. We also won a number of prestigious awards, including the best branded dairy product supplier and the best supplier of own label products, awards voted for by our customers.

Interest in products with less sugar and fat is on the increase, and we have been focusing on products for children, e.g. flavoured milk and yoghurt. In addition, the salt content of butter and cheese has been reduced.

To contribute to the knowledge about the nutritional value of milk, Arla Foods is using packaging as a channel of information. Arla UK's milk packaging now clearly displays the fat content of milk and has won the 2007 Product of the Year award in the milk category.

Unchanged business in Denmark

Sales in Denmark were relatively unchanged on the year. The consumption of dairy products remains stable despite levelling off slightly for butter and spreads. Food prices are showing a gradual increase and demand for organic products is generally increasing.

Competition between discount chains is still evident, and the same applies to international players within the cooking category. The discount sector got off to a weak start, but subsequently took off largely owing to new stores. In many categories, discount products account for a market share of over 30 per cent.

Despite the fact that more retailers want to sell own label dairy products, Arla Foods in Denmark succeeded in retaining its market shares within almost all categories. We also succeeded in gaining new contracts during the year.

Overall, Danish volumes saw growth in 2007, largely because of new contracts for own label products and rising exports to Germany of standard and organic milk with slightly longer shelf-life. Turnover from cheese declined in favour of powder because of production reorganisation.



Rynkeby Foods, Arla Foods' 100 per cent owned subsidiary in Ringe, produces 150 million litres fruit juice and squash per year. The number of organic lines has increased, including Rynkeby's own brands.

Sweden encounters competition

Sales trends were stable during the year and several categories, including cream, butter and spreads, experienced positive development. However, we noted a certain fall in fruit yoghurt owing to increased competition. Decreasing milk consumption caused overall sales in Sweden to fall by around 1 per cent on the year.

Arla Foods is Sweden's biggest supplier of organic products for which demand has increased from the retail trade and the public sector. As there was a brief shortage of Swedish organic milk in the autumn, customers within the public



BIG ON PROTEINS

Arla Foods Ingredients is a leading global supplier of whey proteins used in infant formula. Lactodan® alpha 10 contributes to an increased nutritional content in infant milk formulas, and worldwide sales to customers continue to rise. In 2007, we increased production capacity at Danmark Protein in Nr. Vium by 50 per cent in order to meet demand.

MOST POPULAR

A study from Lund's University shows that Arla is Sweden's most popular food product brand by far. The Swedes rate Arla higher than well-known brands such as Coca-Cola, Carlsberg and Nestlé.





Transport by distribution vehicles in towns and cities demands consideration for other road users. Many vehicles are also equipped with particle filters to limit CO₂ emissions. In addition, the need for fresh products to be chilled during transportation requires energy. In Sweden, we have started to use dry ice (frozen carbon dioxide) which has lower energy consumption, less noise and no emissions to air. The size of the distribution vehicles has also been adapted to their surroundings. In Old Town in Stockholm, for instance, where vehicles cannot be longer than 8 metres, our distribution vehicles have been adapted accordingly.

sector were offered the choice between Danish organic milk and conventional Swedish milk.

The organic trend is underpinned by consumer willingness to pay more for added value such as organic, health and special taste experiences. This has also been noted among our customers who increasingly offer both discount products and products that reflect consumers' wishes to pay more for added value.

Finland, Arla Foods' new home market

The first products carrying the joint Arla Ingman logo appeared in Finnish stores in early 2007 and were well received. Yoghurt and Apetina® have seen strong growth, while milk is facing tough competition. Sales were affected by the shortage of cheese for import.

Arla Ingman accounts for around 20 per cent of the Finnish market with growth in both the retail and restaurant/industrial kitchen sectors. Sales in the fresh products

category increased by around 10 per cent bringing overall turnover in Finland to DKK 2.5 billion.

EXPORT MARKETS Growth in export markets

Owing to its geographical position close to Denmark and its 80 million consumers, **Germany** is one of our most important European export markets. We have been supplying



The **Dofino®** brand encompasses all yellow cheese in the US. Having a broad local range alongside imported cheeses benefits both categories.

RESEARCH BEHIND OUR HEALTH YOGHURT

Cultura® is Arla Foods' Nordic brand for products containing probiotic lactic acid bacteria. Cultura® contains three bacteria, of which one is Arla's own L. casei F19. Studies show that the bacteria can stabilise intestinal flora during short-term imbalance, e.g. during a course of antibiotics, and



that F19 can reduce the need for antibiotics in small children (probably due to its effect on the immune system). Experiments on mice indicate that F19 may affect the breakdown of fat and reduce the risk of abdominal fat. The results are so interesting that Arla Foods has had a new patent approved in Sweden.

BUY MILK FROM FARMS NEAR YOU

In many places we put in a special effort to supply locally produced



milk which has not been transported over long distances. From the marshland area comes the organic Marshland Milk under the Harmonie® brand. Milk cartons from the Swedish west coast are decorated with wavy lines rather than the straight lines on the cartons from Arla Ko®.



Kærgården® was not long in conquering Germany. As the first butter-based, spreadable product in the German market, the combination of taste and spreadability is proving attractive to German consumers. More than half of those who have bought Kærgården since its launch in 2006 are repeat buyers. Marketing of an unsalted and salted version will continue in 2008.

fresh milk to Germany and **the Netherland** since the end of 2007 when investments in Hobro Dairy enabled us to produce a new type of milk with an extended shelf-life. Another interesting market is **Russia**. The country has a population of over 140 million, dairy products traditionally constitute part of their diet and there is rapid economic development. With a local partner, we have set up a joint venture for sales of cheese and butter. At the beginning of 2008, the new Arla Foods Artis LLC employed around 150 employees.

Despite the unstable situation in **Lebanon**, Arla Foods' sales have exceeded budget. Dano® is the second largest brand within milk powder and during the year, a campaign that centred on our status as official supplier to NASA's space project, raised our profile. In the rest of the **Middle East**, Puck® is the umbrella brand for Arla Foods' cheese and sterilised cream products.

Since October, milk powder has been sold in **Vietnam** under the Milex® brand. The product, which contains probiotic bacteria and strengthens the immune system, has been specially developed for the Vietnamese market. Arla Foods has seven employees in Ho Chi Minh City and in Hanoi and our partner, American Trading's 120 sales representatives handle day-to-day sales.

Customers make environmental demands

In recent years, Arla Foods' home market customers have increasingly demanded that we reduce our environmental impact, explain our environmental targets and set out what we are doing to achieve them. In the UK, our retail customers specifically require us to reduce our CO₂ emissions, reduce the distances over which the milk and products are transported and increase the use of recyclable packaging materials. Arla Foods welcomes these demands which are in keeping with our own environmental strategy.

In another way we help meet customers' (and consumers') requirements for environmental-friendly products is to raise the relative share of organic dairy products, an area where we are already the world's largest supplier.

Transport from dairy to store

Distribution from the dairies is organised in the same environmental-friendly way as transport to the dairies. Most of our dairy products are delivered from the dairies in distribution vehicles to stores, restaurants and industrial kitchens. The routes are carefully planned, and some products are distributed alongside products from other suppliers.

In countries where the distance from the dairy to the store can be considerable, we first deliver the goods to a fresh goods terminal where they are reloaded on to a distribution vehicle. In this way, we protect the environment, reduce costs and make the distribution chain more efficient.



One of our co-operative members. Elin Rydström and her family farm at Lovö Prästgård outside Stockholm. Not only is Elin one of Arla Foods' 4,400 Swedish co-operative members, she is also known nationwide as the organic farmer who features in our advertisements and commercials.

Reusable return crates

The majority of Arla Foods' products in the home markets are supplied in so-called return crates, i.e. reusable crates, trays and roll cages. These return crates, which are often used to present products in stores, have a low environmental impact because they can be reused for many years. The downside is that they involve substantial handling and transport when they are returned from the stores for washing and repair. When the return crates become obsolete, the material can be recycled and turned into new products.

CARBON FOOTPRINT - CO₂ LABELLED PRODUCTS

Climate issues have been a major focus area over the past year. In the UK, the major retailers are looking to introduce labelling with information about the product's effect on the climate (CO₂ emissions), and some products have already been labelled accordingly although dairy products are not yet among them.

ARLA FOODS' CLIMATE STRATEGY

Focus area Packaging:

- Minimise the amount of packaging
- Use materials that have minimum impact on the environment
- Use more recyclable materials.



THE CONSUMER





WE MAINTAIN CLOSE CONTACT WITH OUR CONSUMERS.

They have confidence in our products and are our most important judges. We take our responsibilities as a producer very seriously and we are committed to supplying safe products.

Today's modern consumers change lifestyles and eating habits rapidly and our task is to offer them attractive products. Current popular products include dairy products with health benefits and products designed for convenience in the kitchen.

For us, building long-term relations is important and we prioritise knowledge. We're particularly keen to convey information about natural raw materials and about the relationship between animals, humans and nature. We also see research as crucial and provide financial support for research into the link between diet and health.

We take particular pride in maintaining an extensive dialogue with our consumers through various forms of communication. And we are certainly not unique in thinking that it's fun to talk about food!

FOCUS ON THE ENVIRONMENT

Consumers choose how they want to demonstrate their responsibility for the environment in terms of our products. What we can do – besides offering dairy products that have been produced in an environmentally responsible way – is to explain how our products are best handled to minimise the impact on the environment.





WE HOLD OUR CONSUMERS' CONFIDENCE IN TRUST HEALTHY PRODUCTS FOR SOCIALLY RESPONSIBLE CONSUMERS CONSUMER CHOICE IS IMPERATIVE FOR THE ENVIRONMENT

Confidence, inspiration and well-being

Our products are sold to consumers across the world. While their daily lives differ according to where in the world they are located, our mission is to ensure that everyone who buys an Arla Foods' product should do so with a sense of confidence, inspiration and well-being.

Products for modern consumers

As people are eating out more and living alone, there is a trend towards a declining consumption of dairy products in our home markets, primarily in Sweden. At the same time, consumption of milk in schools is on the rise, including Sweden. One major growth market is China whose president has expressed the wish that all Chinese children should have the chance to drink half a litre of milk per day. As the country becomes more prosperous, demand for dairy products in China is growing.

In our home markets, demand for organic products is increasing. Whereas many consumers used to base their organic purchases on environmental reasons, health is also being considered as a reason for taking the organic option. Sales of dairy products that have positive health effects on the immune and digestive systems, so-called "functional foods", are also rising.



Our websites are under constant development. In future, contact with our consumers will be enhanced by more so-called communities and weblogs.

A recent trend is that consumers are willing to pay more for taste experience and for products with a clear provenance. Ready-made soups and sauces are examples of popular products that make daily life easier for modern consumers.

Credibility through consumer dialogue

By acting responsibly and communicating openly with our customers and consumers, we believe we can retain our already high credibility. We prioritise dialogue with our consumers in all markets, although there is still some way to go before we reach where we want to be. In Denmark and Sweden, we



Scooby Doo and Shaun the Sheep are some of the well-known cartoon figures used by Arla Foods in the UK on yogurt and fromage frais cartons as part of a license agreement.

have set up a well-functioning consumer contact scheme, Arla Forum, with a total of 55,000 phone, mail and letter referrals in 2007. The fact that Arla Foods in Sweden was chosen as the country's best business in terms of telephone and mail handling shows that the employees take their responsibilities seriously. One employee was even voted "Sweden's best consumer adviser".

In Denmark, six popular blogs cover topics such as the environment, the joy of food and the workplace. Since the blogs were started in 2005, more than 110,000 have taken part. During the year, an automatic service, a so-called web assistant, was created on the Swedish website. During the first six months, it responded to 10,000 enquiries.

One example of how consumer confidence can plummet overnight was the boycott in the Middle East in 2006 after a Danish newspaper published cartoons of the Prophet Mohammed. Although sales in the region have almost returned to 2005 levels, i.e. before the boycott, some consumers are still unwilling to buy our products despite the fact that we have operated in the region for more than 40 years.

Arla Foods' communications department gained most points in a survey carried out among Danish business journal-

MILEX CANS ARE REUSABLE

In the Asian markets, Millex® milk powder is sold in aluminium cans.

The metal requires considerable resources and is rarely recycled. In certain areas, however, Millex cans are invaluable for storage.



FOCUS ON RESEARCH

Arla Foods funds a number of research projects, primarily within the dietary and health sectors. In collaboration with the Danish Dairy Board's Research Fund in Denmark we established a platform for international dairy researchers within the health area – the Arla Foods Research Seminars.



STRIPED CARTONS IN THE SPOTLIGHT

During the year, the Swedish striped milk cartons won international recognition for their characteristic and functional design where the width of the stripes indicates the fat content.





The Chef of the Year competition in Sweden is intended to promote interest in cooking with natural ingredients. Arla Foods is the main sponsor of the professional cooking competition. We also sponsor the Danish chef project KOKKE, and the international cooking competition, Nordic Challenge, which promotes Nordic ingredients.

ists for its handling of Arla Foods' communications in connection with the Middle East boycott which generated widespread media attention.

The joy of food, recipes and cookbooks

Providing inspiration for cooking and creating a passion for food is a form of consumer dialogue. Every year, we devise thousands of recipes and publish inspirational cookery books. In Denmark and Sweden, our recipe websites are visited by more than 15 million consumers every year, which makes them the Nordic countries' most visited and valued recipe resource on the internet. It is also possible to download recipes directly on to a mobile phone – a service that is currently available in Sweden and will soon be accessible to Danish consumers who need fast inspiration when standing in front of a chilled cabinet.

Knowledge about farms and milk

In our home markets, we organise activities with the purpose of raising awareness of our natural raw materials and the relationship between humans, animals and nature. We invite the entire population to our so-called Organic Day where cows are put out to grass in the spring. In 2007, this event set a new visitor record in both Denmark and Sweden.

In Denmark, our visitor dairies provide information about production processes and receive visits from a diversity of groups ranging from school classes to foreign guests. In Sweden, in partnership with schools, we arrange farm visits for children under the so-called "Arla Minior" (Arla Cub) programme. In addition, the back of milk cartons is used as a learning tool where we select topics for the purpose of engaging, inspiring and encouraging activities for children and young people between the ages of 9-16. Our cartons in Denmark and Sweden also carry information about Arla Foods' products and activities.

Consumer responsibility

It is paramount – from an environmental point of view – that consumers use the products they buy. If they throw products away, it indirectly wastes the energy and the resources that have gone into production and distribution. Arla Foods, therefore, packages its products so that consumers can select them according to requirements, e.g. small quantities or products with a long shelf-life.

One other important environmental issue relevant to the consumer is the transport of dairy products from the store to the home. Driving several kilometres for a litre of milk, for instance, causes considerably more CO₂ emissions than was generated from the entire production of one litre of milk.

Packaging should be recycled

When selecting packaging, we first look at energy consumption and climate impact. But packaging should not only be environmental-friendly, it should also suit the product. In general, we endeavour to minimise the quantity of materials used in packaging and increase the volume of recyclable

Discarding products that have been kept beyond the "use by" date harms the environment because the energy and resources that have gone into the products are wasted.

Our most common packaging consists of 80 per cent reusable cartons and 20 per cent plastic.



materials. Over the past year, the trend, however, has in part reversed; the amount of material has increased for certain products because consumers want screw lids on some packaging and smaller pack sizes.

In markets with packaging collections, Arla Foods' packaging provides information on how to sort. However, the rules governing recycling vary from country to country. Ultimately, consumers determine how packaging is handled, depending on local conditions.



ARLA FORUM KEEPS IN TOUCH

Every year, Arla Foods is in personal contact with a large number of consumers. Arla Forum receives 55,000 enquiries, mails and letters every year. Among the most common enquiries in Denmark and Sweden in 2007 were:

- Different views on packaging, including critical comments about screwable lids
- Product recalls because of quality issues, e.g. fermenting fruit yoghurt or packaging that is difficult to open
- The launch of "Lærkevang" milk

provoked a great deal of response as did the change of name from Gaio® to Cultura®.

- Requests for new products, i.e. more lactose-free products or more varieties of sauces.

Sales of Lurpak® Spreadable, Kærgården® and Bregott® are booming. In Sweden, the popular advertising campaign featuring the Bregott factory (with grazing cows) was voted the "Best campaign ever" in 2007.

OUR CONSUMERS GO FOR SPREADABLE



*Creating value for modern consumers begins
on the farm where the milk is produced.*



Financial review

Income statement

Profit for the year, supplementary payment and consolidation

Profit for the year came in at DKK 938 million against DKK 933 million in 2006. The rising prices of dairy products in the second half year had a strongly positive impact on the result, while the cessation of export subsidies, falling exchange rates and write downs relating to structural conditions in Denmark and the UK had a negative impact. Increased earnings in the second half year resulted in several rises in the on account price for co-operative member milk, reducing the group's net result.

Arla Foods' earnings per kg milk weighed-in by co-operative members reached 247.0 Danish øre/306.6 Swedish öre as against 226.7 Danish øre/281.2 Swedish öre in 2006.

Supplementary payments accounted for DKK 503 million as against DKK 336 million for the previous year. Net consolidation is 5.3 Danish øre/6.6 Swedish öre per kg weighed-in co-operative member milk. The consolidated amount is recognised in reserves in respect of delivery-based owner certificates at an amount of 3.0 Danish øre/3.7 Swedish öre and 2.3 Danish øre/2.9 Swedish öre in respect of the strategy fund.

Revenue

Revenue reached DKK 47,742 million in 2007 against DKK 45,491 million in 2006. Revenue was positively affected by a number of factors, primarily higher sales prices, but also by the full-year effect of the acquisition of the Tholstrup Cheese Group in September 2006 and Arla Ingman in Finland from January 2007. By contrast, the full-year effect of the divestment of the doorstep milk business in the UK (sold in August 2006) as well as other divestments, the cessation of export subsidies and, finally, exchange rate movements in primarily USD and USD-related currencies all impacted negatively.

Operating profit

Operating profit totalled DKK 1,520 million in 2007 against DKK 1,161 million in 2006. Production costs include an on-account payment to co-operative members of DKK 13.9 billion against DKK 13.0 billion for the previous year.

As stated, operating profit was positively affected by rising prices for dairy products which are deemed to have impacted on operating profit by approx. DKK 950 million. At the same time, the on-account price was increased four times during the second half-year, which has resulted in additional payments of DKK 1.2 billion compared to the original budget.

The increased sales prices and the rise in the on account price for co-operative member milk lifted operating profit by approx. DKK 100 million net.

Depreciation/amortisation and impairment show a rising trend as a consequence of the fact that the extent of investments and acquisitions undertaken increased amortisation on goodwill. By contrast, changes to the accounting estimates of the lifetimes of certain property, plant and equipment, which, seen in isolation, reduced depreciation by DKK 102 million, pulled in the opposite direction. The year's write downs of

intangible assets and property, plant and equipment totals DKK 150 million.

Staff reductions, rationalisation and efficiency measures kept cost development at a low level, in addition to which is the effect of the divestment of the doorstep business in the UK with its extensive distribution and administration set-up.

The year's total milk volume weighed in represented 8,360 million kg (8,592 million kg. in 2006) of which co-operative member milk amounted to 5,932 million kg (6,114 million in 2006). British and Finnish suppliers account for the vast proportion of non-co-operative member milk.

Profit from ordinary activities before tax

Profit from ordinary activities before tax totalled DKK 1,161 million against DKK 1,107 million in 2006.

Gain on the divestment of enterprises came in at DKK 184 million against DKK 364 million for the previous year.

Largely as a result of the purchase of the remaining 49% of the shares in Arla Foods UK plc, the Tholstrup Cheese and Arla Ingman groups as well as rising market rates, net financing costs were DKK 562 million against DKK 409 million in 2006.

The tax charge for the year of DKK 222 million primarily relates to the British subsidiary. As a result of the change in the tax rate, the company's tax charge increased by DKK 25 million.

Balance sheet

Total assets

Total assets increased to DKK 30,725 million at 31 December 2007 against DKK 26,611 million at 31 December 2006.

Fixed assets

Intangible assets came in at DKK 5,152 million against DKK 3,068 million and consist, for the most part, of goodwill arising from the acquisition of the British subsidiary Arla Foods UK plc, Tholstrup Cheese and Arla Ingman as well as IT development projects. Additions in the year primarily relate to Arla Foods UK plc and Arla Ingman.

Property, plant and equipment represented DKK 10,663 million as against DKK 10,827 million. The additions for the year amounting to DKK 1,895 million include the acquisition of Arla Ingman and other investments in the UK, Sweden and Denmark.

Investments reached DKK 1,658 million against DKK 1,867 million. Deferred tax assets were down by DKK 161 million, primarily prompted by reduced pension provisions and the cut in the tax rate in the UK and the development in the GBP rate.

Current assets

Inventories total DKK 4,081 million at December 31, 2007 against DKK 3,621 million last year. The rise can largely be attributed to the increased value of the milk components.

Receivables total DKK 5,994 million against DKK 5,855 million the previous year and are, therefore, more or less unchanged.

Securities and cash at bank and in hand together amount to DKK 3,177 million against DKK 1,373 million the previous year. The rise is mainly owing to the placement of mortgage credit loans in securities.

Equity

Equity at 31 December 2007 was DKK 8,145 million, representing an increase of DKK 174 million on 31 December 2006.

The share of the result used for consolidation totalled DKK 435 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 net adjustment of DKK – 153 million directly on the equity.

The equity ratio measured as equity in proportion to total assets accounted for 27% at 31 December 2007, which was down on the 30% at year end 2006.

The equity ratio including the subordinate bond loan of DKK 1,000 million accounted for 30% at 31 December 2007, which is a fall compared to the 34% at year end 2006.

Provisions

Pension commitments relate to the UK and Sweden (defined benefit schemes) and reached DKK 2,369 million as against DKK 2,875 million the year before. The decline was, for the most part, the result of increased pension fund contributions and the fall in exchange rates.

Other provisions totalled DKK 386 million at December 31, 2007 against DKK 394 million at December 31, 2006. These primarily concern insurance-related provisions for work-related accidents and provisions for legal disputes etc.

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 Supervisory Board.

The finance policy lays down the framework for the procedures governing the group's foreign exchange, financing, liquidity, interest and credit risk and provides documentation of adopted financial instruments and counterparties. In 2007, it was decided that the group's financial risks should be centrally managed.

Foreign exchange risks

Foreign exchange matters pose a significant risk to Arla Foods and, therefore, have a major impact on the income statement and balance sheet. Commercial risks are hedged to a wide extent. The centralisation of Arla Foods' financial risk ma-

agement means a consolidation of the group's currency flow whereby the overall external currency risks are reduced.

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, DKK, USD and SEK. 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 47,742 million, other currencies than DKK accounted for approx. 82%.

Currency hedging using financial instruments for sale and purchase in foreign currencies is estimated to have resulted in a positive net effect in the region of DKK 175 million in 2007. As at December 31, 2007, DKK 34 million (DKK 25 million at December 31, 2006) was taken directly to equity, equating to the market value of the hedging instruments used 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, 2007, the currency-related translation risks on the net investments in the UK and Finland are partly and fully hedged respectively.

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 2007, the total interest-bearing liabilities including the group's pension commitments in the UK and Sweden amounted to DKK 14,934 million (DKK 12,119 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 years.

The group's net interest-bearing liabilities totalled DKK 11,757 million at December 31, 2007 against DKK 10,746 million at December 31, 2006.

To hedge the group's interest expenses, hedging agreements have been concluded. At 31 December 2007, the market value of these agreements was DKK 22 million (DKK – 3 million at December 31, 2006), 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 at December 31, 2007 deemed to impact on the result by approx. DKK 100 million.

Liquidity risks

The group manages its liquidity risk by ensuring the availability of sufficient operating liquidity and liquidity for major changes in the consolidated balance sheet. Borrowing facilities related to such changes are separately assessed.

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 present, the programme remains unused. As at 31 December 2007, the group's liquidity reserve was specified as follows:

	DKKm
Cash at bank and in hand	1,179
Securities	549
Undrawn facilities	4,661
Total liquidity reserve	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. Credit management is continuously in focus in the Group's entities. Bad debt losses are at the same modest level as previous years.

In order to reduce its credit risk, the group regularly credit rates its customers and co-operative partners. Credit insurance is taken out for customers deemed to pose a risk.

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 8, 2008, Arla Foods announced its purchase of the remaining 50 per cent of Cocio Chokolademælk A/S, which, with effect from January 1, 2008, is a wholly owned subsidiary. The cheese wholesaler, J Hansen Group was purchased with effect from March 1, 2008.

On January 8, 2008, the Supervisory Board approved the sale of the Medipharm AB-group at a profit.

The accounting consequences of these transactions will be included in the 2008 annual report.

Statement by the executive board and supervisory board

The Supervisory and Executive Boards have today discussed and approved the annual report of Arla Foods amba for 2007.

The annual report has been prepared in accordance with the Danish Financial Statements Act. 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 2007 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 2007.

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

Aarhus, 22 February, 2008

Executive Board:

Peder Tuborgh
CEO

Povl Krogsgaard
Vice CEO

Andreas Lundby
Vice CEO

//ørn Wendel Andersen
Executive Director/CFO

Supervisory Board:

Ove Møberg
Chairman

Åke Hantoft
Vice Chairman

Leif Backstad

Bengt Darhult

Steen Nørgaard Madsen Johan von Schéele

Viggo Ø. Bloch

Leif Eriksson

Torben Myrup

Ingela Svensson

Steen Bolvig

Thomas Johansen

Jan Toft Nørgaard

Pejter Søndergaard

Bjarne Bundesen

Erik Karlsson

Gunnar Pleijert

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 2007, which comprises the statement by the Executive and Supervisory Boards on the annual report, Financial review, accounting policies, income statement, balance sheet, statement of changes in equity and notes for the group as well as for the parent company and the consolidated cash flow. The annual report has been prepared in accordance with the Danish Financial Statements Act.

The Executive and Supervisory Boards' responsibility for the annual report

The Executive and Supervisory Boards 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.

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 and Supervisory Boards, 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 2007 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 2007 in accordance with the Danish Financial Statements Act.

Aarhus, 22 February 2008

KPMG C. Jespersen

Statsautoriseret Revisionsinteressentskab

KPMG Bohlins AB, Sweden

Finn L. Meyer

State Authorised Public Accountant

Carl Lindgren

Authorised Public Accountant

Accounting policies

General information

The annual report of Arla Foods amba for 2007 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

The accounting policies are consistent with those applied last year.

Changes in accounting estimate

The accounting estimate relating to the useful lives of certain categories of dairy machinery has been changed (extended from 7–10 years to 12 years).

For 2007, the change resulted in a positive effect on the result of DKK 102 million.

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 of 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 consolidated financial statements are prepared by aggregating similar items from the parent company's and the individual subsidiaries' annual reports. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends and unrealised gains and losses on intra-group transactions are eliminated.

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 a part, of enterprises 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 expenses.

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 expenses.

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.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Derivative financial instruments are included in other receivables and payables, respectively.

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 expenses.

Subsidies

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

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

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 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, sponsor, advertising, exhibitions and depreciation 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.

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 properties.

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 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 as well as the interest part of the finance lease payment.

Tax on profit/loss for the year

The taxable income of the companies is calculated in accordance with the national rules in force from time to time. Tax is computed based on either co-operative taxation or corporate taxation. The current Danish corporation tax is allocated between the jointly taxed Danish companies in proportion to their taxable income (full absorption with refunds for tax losses).

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 on a regular basis in the income statement. The intangible assets are amortised on a straight-line basis over their expected useful lives:

Goodwill	up to 20 years
Licences and trademarks, etc.	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 any impairment need is assessed in relation to the expected future net income from the enterprise or activity to which the asset relates.

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.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets from the time of acquisition or commissioning. The expected useful lives are as follows:

Office buildings	50 years
Production buildings	20–30 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.

Gains and losses on the realisation of property, plant and equipment are recognised as other operating income and expenses in the income statement.

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.

The capitalised residual lease payments are recognised in the balance sheet as a liability and the interest part of the lease payment is recognised in the income statement over the term of the contract

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 parent company's accounting policies minus or plus 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 expenses.

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 expenses.

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 base 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 forming part of the joint taxation.

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 as a consequence of the changes in the tax rates are 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 other than provisions

Amounts owed to mortgage credit institutions and banks as well as the subordinate bond loan are recognised at the date of 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.

Supplementary payment to co-operative members:

The share of the year's result which, via the apportionment of the result is proposed to be paid to co-operative members, is recognised in 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 price, 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 as this is included in the cash flow statement for the group.

The statement shows the cash flows of the group, divided into operating, investing and financing activities and how these cash flows have affected the group's cash funds.

The cash flow from operating activities is calculated as the consolidated results adjusted for non-cash operating items such as depreciation and 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 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 recognised in the balance sheet as current assets.

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

Annual accounts for business areas

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

Income statement

Parent company		Group			
01.01.06 31.12.06	01.01.07 31.12.07	DKK million	Note	01.01.07 31.12.07	01.01.06 31.12.06
24,046	25,763	Revenue	1	47,742	45,491
-21,620	-22,747	Production costs	2/3	-38,730	-36,374
2,426	3,016	Gross profit		9,012	9,117
-1,339	-1,436	Sales and distribution costs	2/3	-5,370	-5,827
-697	-731	Joint costs including administration	2/3/4	-2,124	-2,370
99	42	Other operating income		174	422
-15	-57	Other operating expenses		-172	-181
474	834	Operating profit		1,520	1,161
0	66	Gains from divestment of enterprises		184	364
471	8	Results in subsidiaries	9	-	-
-7	-23	Results in associates	9	19	-9
24	85	Net financial items	5	-562	-409
962	970	Profit from ordinary activities before tax		1,161	1,107
-29	-32	Tax	6	-222	-170
933	938	Profit for the year		939	937
-	-	Minority interests	10	-1	-4
933	938	Arla Foods amba's share of results for the year		938	933
		Proposed profit appropriation:			
336	503	Supplementary payment to Arla Foods amba's co-operative members		503	336
		Transferred to equity:			
		Capital account:			
122	121	Reconsolidation acc. to articles of association		121	122
91	0	Other transfers		0	91
184	174	Delivery-based owner certificates		174	184
200	140	Strategy fund		140	200
933	938	Total		938	933

Balance sheet

Parent company		Assets		Group	
Balance sheet as at 31.12.06	Balance sheet as at 31.12.07	DKK million	Note	Balance sheet as at 31.12.07	Balance sheet as at 31.12.06
		Fixed assets			
		<i>Intangible assets</i>	7		
0	0	Licences and trademarks etc.		154	163
0	0	Goodwill		4,502	2,284
35	36	Product development projects		53	51
543	425	IT development projects		443	570
578	461	Total		5,152	3,068
		<i>Property, plant and equipment</i>	8		
1,628	1,648	Land and buildings		4,973	4,986
2,129	2,264	Plant and machinery		4,677	4,894
55	69	Fixtures and fittings, tools and equipment		373	392
213	390	Assets in course of construction		640	555
4,025	4,371	Total		10,663	10,827
		<i>Investments</i>	9		
1,736	1,590	Investments in subsidiaries		–	–
3,322	4,452	Subordinate loans to subsidiaries		–	–
143	135	Investments in associates		517	501
–	–	Deferred tax assets		493	654
150	132	Other securities and investments etc.		648	712
5,351	6,309	Total		1,658	1,867
9,954	11,141	Total fixed assets		17,473	15,762
		Current assets			
		<i>Inventories</i>			
569	562	Raw materials and consumables		1,029	960
755	750	Work in progress		861	795
226	239	Finished goods and goods for resale		2,191	1,866
1,550	1,551	Total		4,081	3,621
		<i>Receivables</i>			
1,074	1,116	Trade receivables		4,873	5,120
2,662	3,742	Amounts owed by subsidiaries		–	–
6	5	Amounts owed by associates		92	22
114	228	Other receivables		800	566
87	151	Pre-payments		229	147
3,943	5,242	Total		5,994	5,855
276	647	Securities		1,998	772
74	73	Cash at bank and in hand		1,179	601
5,843	7,513	Total current assets		13,252	10,849
15,797	18,654	Total assets		30,725	26,611

Parent company		Equity, minority interests and liabilities		Group	
Balance sheet as at 31.12.06	Balance sheet as at 31.12.07	DKK million	Note	Balance sheet as at 31.12.07	Balance sheet as at 31.12.06
		Equity			
6,757	6,739	Capital account		6,707	6,757
183	91	Reserve fund A		91	183
335	451	Delivery-based owner certificates		451	335
200	340	Strategy fund		340	200
500	500	Reserve fund B		500	500
-4	24	Value adjustments of hedging instruments		56	22
-	-	Other reserves		0	-26
7,971	8,145	Total equity		8,145	7,971
-	-	Minority interests	10	147	62
		Provisions			
0	0	Deferred tax	11	406	302
0	0	Pension commitments	12	2,369	2,875
38	50	Other provisions	13	386	394
38	50	Total provisions		3,161	3,571
		Liabilities other than provisions			
		<i>Long-term liabilities</i>	14		
1,000	1,000	Subordinate bond loan		1,000	1,000
66	32	Subordinate loan, Arla ekonomisk förening		32	66
1,882	1,772	Mortgage credit institutions		3,573	2,946
870	622	Credit institutions etc.		2,603	3,454
3,818	3,426	Total		7,208	7,466
		<i>Short-term liabilities</i>			
53	87	Short-term portion of long-term liabilities		99	71
44	2,227	Bank loans and overdrafts		5,258	1,707
336	503	Supplementary payments		503	336
1,190	1,632	Trade payables		3,624	3,287
1,746	1,947	Amounts owed to subsidiaries		-	-
0	2	Amounts owed to associates		67	3
0	0	Tax		12	47
582	618	Other payables		2,437	2,071
19	17	Deferred income		64	19
3,970	7,033	Total		12,064	7,541
7,788	10,459	Total liabilities other than provisions		19,272	15,007
15,797	18,654	Total equity, minority interests and liabilities		30,725	26,611
		Contingent liabilities, securities, etc.	15		
		Related parties	16		
		Co-operative members' liability	17		

Statement of changes in equity

Group

DKK million	Balance at 01.01.07	Profit for the year	Exchange rate adjustments	Other adjustments	Payments for the year	Balance at 31.12.07
Capital account	6,757	121	-153	-18	0	6,707
Reserve fund A	183	0	0	0	-92	91
Delivery-based owner certificates	335	174	0	0	-58	451
Strategy fund	200	140	0	0	0	340
Reserve fund B	500	0	0	0	0	500
Value adjustments of hedging instruments	22	0	0	34	0	56
Other reserves	-26	0	0	26	0	0
Total	7,971	435	-153	42	-150	8,145

Parent company

DKK million	Balance at 01.01.07	Profit for the year	Exchange rate adjustments	Other adjustments	Payments for the year	Balance at 31.12.07
Capital account	6,757	121	-153	14	0	6,739
Reserve fund A	183	0	0	0	-92	91
Delivery-based owner certificates	335	174	0	0	-58	451
Strategy fund	200	140	0	0	0	340
Reserve fund B	500	0	0	0	0	500
Value adjustments of hedging instruments	-4	0	0	28	0	24
Total	7,971	435	-153	42	-150	8,145

Capital account:

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

Reserve fund A:

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

1. The Board of Representatives can annually decide for the reserves to carry interest, albeit not exceeding the official Danish discount rate.
2. Any decisions concerning distribution shall be made by the Board of Representatives.
3. It is planned for the reserve fund to be paid out up to and including the financial year 2008.

When payments are made from Reserve fund A, a corresponding amount shall be paid into the capital account. In addition, DKK 280 million shall be added to the capital account through consolidation and concurrently with payments from Reserve A. DKK 245 million of this amount has been transferred to the capital account up to and including the financial year 2007 (31 December 2006: DKK 210 million).

Delivery-based owner 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.

Reserve fund B:

Reserve fund B comprises the reserves set aside on the incorporation of the company and, following a proposal by the Supervisory Board, 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 possible transfers from the annual profit appropriations to net revaluation according to the equity method.

Cash flow statement

DKK million	Group	
	01.01.07 31.12.07	01.01.06 31.12.06
Cash flow from operating activities		
Profits for the year	938	933
Depreciation and impairment	2,042	1,849
Other operating items without cash impact	27	88
Share of results in associates	-19	9
Gains on disposals of enterprises and properties, etc.	-241	-593
Changes in deferred tax assets	113	108
Changes in inventories	-460	72
Changes in receivables	-139	465
Changes in provisions	-206	-162
Changes in trade payables and other payables, etc.	1,324	-312
Tax paid	-94	-103
Cash flows from operating activities	3,285	2,354
Cash flows from investing activities		
Investment in intangible fixed assets, net	-2,990	-727
Sale of intangible fixed assets	55	31
Investment in property, plant and equipment	-1,895	-1,792
Sale of property, plant and equipment	483	1,282
Investments, net	49	-62
Cash flows from investing activities	-4,298	-1,268
Cash flows from financing activities		
Supplementary payments regarding the previous financial year	-336	-75
Paid out from equity	-150	-126
Changes in long-term liabilities	-258	190
Changes in short-term liabilities	3,579	-1,064
Cash flows from financing activities	2,835	-1,075
Changes in cash funds and securities	1,822	11
Cash funds and securities at 01.01.2007	1,373	1,362
Exchange rate adjustment of cash funds	-18	0
Cash funds and securities at 31.12.2007	3,177	1,373

Notes

1 Revenue

DKK million	Group	
	01.01.07 31.12.07	01.01.06 31.12.06
Consumer Nordic	19,233	17,306
Consumer UK	13,723	14,306
Consumer International	8,133	7,306
Global Ingredients	5,691	5,382
Other	962	1,191
Total revenue	47,742	45,491

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

2 Staff costs

Parent company			Group	
01.01.06 31.12.06	01.01.07 31.12.07	DKK million	01.01.07 31.12.07	01.01.06 31.12.06
-2,189	-2,312	Wages, salaries and remuneration	-5,519	-5,728
-154	-165	Pensions	-384	-430
-13	-13	Other social security costs	-566	-543
-2,356	-2,490	Total	-6,469	-6,701
		<i>Staff costs relate to:</i>		
-1,901	-2,013	Production costs	-3,797	-3,796
-176	-193	Sales and distribution costs	-1,884	-2,046
-279	-284	Joint costs including administration	-788	-859
-2,356	-2,490	Total	-6,469	-6,701
		<i>Of which:</i>		
-8	-8	Fees to parent company's Board of Representatives	-8	-8
-6	-6	Fees to the parent company's Supervisory Board	-6	-6
-13	-13	Fees to the parent company's Executive Board	-13	-13
5,823	5,594	Average number of full-time employees	16,559	17,933

3 Depreciation/amortisation and impairment

Parent company			Group	
01.01.06 31.12.06	01.01.07 31.12.07	DKK million	01.01.07 31.12.07	01.01.06 31.12.06
-188	-207	Intangible assets	-533	-401
-593	-627	Property, plant and equipment	-1,509	-1,448
-781	-834	Total	-2,042	-1,849
		<i>Depreciation/amortisation and impairment relate to:</i>		
-602	-692	Production costs	-1,433	-1,286
0	0	Sales and distribution costs	-141	-243
-179	-142	Joint costs incl. administration	-468	-320
-781	-834	Total	-2,042	-1,849

The group's writedowns for the year amount to DKK 17 million for intangible assets and DKK 133 million for property, plant and equipment.

4 Fee to the auditors appointed by the Board of Representatives

Parent company			Group		
01.01.06 31.12.06	01.01.07 31.12.07	DKK million	01.01.07 31.12.07	01.01.06 31.12.06	
		<i>KPMG:</i>			
-3	-3	Audit fee	-14	-12	
-20	-7	Other services	-9	-25	
-23	-10	Total	-23	-37	

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		
01.01.06 31.12.06	01.01.07 31.12.07	DKK million	01.01.07 31.12.07	01.01.06 31.12.06	
		<i>Costs:</i>			
-23	-63	Interest expenses, subsidiaries	-	-	
-203	-295	Other financing charges	-641	-493	
-226	-358	Total	-641	-493	
		<i>Income:</i>			
211	390	Interest income, subsidiaries	-	-	
39	53	Other financing income	79	84	
250	443	Total	79	84	
24	85	Net financial items	-562	-409	

6 Tax

Parent company			Group		
01.01.06 31.12.06	01.01.07 31.12.07	DKK million	01.01.07 31.12.07	01.01.06 31.12.06	
-32	-32	Tax on taxable income for the year	-55	-93	
0	0	Adjustment of deferred tax	-138	-82	
0	0	Change in tax rate	-25	0	
3	0	Correction of tax from previous years	-4	5	
-29	-32	Total	-222	-170	

The change in the tax rate relates to the reduction in the tax rate in the UK from 30 to 28 per cent.

7 Intangible assets

DKK million	Group			
	Licences and trademarks	Goodwill	Product development projects	IT-development projects
Cost at 01.01.2007	245	2,953	154	977
Exchange rate adjustments	7	-325	-2	-3
Additions during the year	11	2,877	38	64
Disposals during the year	-2	-86	-40	0
Cost at 31.12.2007	261	5,419	150	1,038
Amortisation and impairment at 01.01.2007	-82	-669	-103	-407
Exchange rate adjustments	-2	5	1	1
Amortisation and impairment for the year	-25	-284	-35	-189
Amortisation and impairment, discontinued assets	2	31	40	0
Amortisation and impairment at 31.12.2007	-107	-917	-97	-595
Carrying amount at 31.12.2007	154	4,502	53	443

DKK million	Parent company			
	Licences and trademarks	Goodwill	Product development projects	IT-development projects
Cost at 01.01.2007	0	0	99	939
Additions during the year	0	0	26	64
Disposals during the year	0	0	-22	0
Cost at 31.12.2007	0	0	103	1,003
Amortisation and impairment at 01.01.2007	0	0	-64	-396
Amortisation and impairment for the year	0	0	-25	-182
Amortisation and impairment, discontinued assets	0	0	22	0
Amortisation and impairment at 31.12.2007	0	0	-67	-578
Carrying amount at 31.12.2007	0	0	36	425

8 Property, plant and equipment

DKK million	Group			
	Land and buildings	Plant and machinery	Fixtures and fittings, tools, etc.	Assets in course of construction
Cost at 01.01.2007	6,041	9,826	1,349	555
Exchange rate adjustments	-221	-259	-49	-14
Additions during the year	608	491	165	631
Transferred during the year	43	489	0	-532
Disposals for the year	-195	-391	-203	0
Cost at 31.12.2007	6,276	10,156	1,262	640
Depreciation and impairment at 01.01.2007	-1,055	-4,932	-957	0
Exchange rate adjustments	30	137	36	0
Depreciation and impairment for the year	-351	-993	-165	0
Depreciation and impairment, discontinued assets	73	309	197	0
Depreciation and impairment at 31.12.2007	-1,303	-5,479	-889	0
Carrying amount at 31.12.2007	4,973	4,677	373	640
Of which assets held under financial lease	4	106	5	0

The latest official annual valuation of Danish land and buildings with a carrying amount of DKK 2,092 million is assessed at DKK 1,486 million.

DKK million	Parent company			
	Land and buildings	Plant and machinery	Fixtures and fittings, tools etc.	Assets in course of construction
Cost at 01.01.2007	2,361	4,676	105	213
Additions during the year	194	354	52	390
Transferred during the year	3	210	0	-213
Disposals for the year	-30	-49	-4	0
Cost at 31.12.2007	2,528	5,191	153	390
Depreciation and impairment at 01.01.2007	-733	-2,547	-50	0
Depreciation and impairment for the year	-166	-425	-36	0
Depreciation and impairment, discontinued assets	19	45	2	0
Depreciation and impairment at 31.12.2007	-880	-2,927	-84	0
Carrying amount 31.12.2007	1,648	2,264	69	390
Of which assets held under financial lease	110	93	6	0

The latest official annual valuation of Danish land and buildings with a carrying amount of DKK 1,648 million is assessed at DKK 1,037 million.

9 Investments

Group

DKK million		Investments in associates	Deferred tax assets	Other securities and investments etc.
Cost at 01.01.2007		582	812	722
Additions during the year		31	0	158
Disposals during the year		-3	0	-190
Cost at 31.12.2007		610	812	690
Adjustments at 01.01.2007		-81	-158	-10
Dividends during the year		-6	0	0
Results for the year		19	-80	0
Exchange rate adjustments		-15	-48	-3
Disposals, adjustments		-8	0	9
Change in tax rate		0	-33	0
Other adjustments		-2	0	-38
Adjustments at 31.12.2007		-93	-319	-42
Carrying amount at 31.12.2007		517	493	648
Of which goodwill		5		

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

Parent company

DKK million	Invest- ments in subsidiaries	Subordinate loans to subsidiaries	Investments in associates	Deferred tax assets	Other securities and investments
Cost at 01.01.2007	1,887	3,311	166	-	113
Additions during the year	67	2,081	21	-	8
Disposals during the year	-86	-763	0	-	-17
Cost at 31.12.2007	1,868	4,629	187	-	104
Adjustments at 01.01.2007	-151	11	-23	-	37
Dividends during the year	-55	-	0	-	0
Results for the year	13	-	-16	-	0
Goodwill amortisation for the year	-23	-	-7	-	0
Changes in intra-group profit on inventories	18	-	0	-	0
Exchange rate adjustments	-94	-184	-6	-	-3
Disposals, adjustments	54	-4	0	-	0
Other adjustments	-40	-	0	-	-6
Adjustments at 31.12.2007	-278	-177	-52	-	28
Carrying amount at 31.12.2007	1,590	4,452	135	-	132
Of which goodwill	150		0		

10 Minority interests

Group

DKK million	01.01.07 31.12.07	01.01.06 31.12.06
Minority interests, beginning of year	62	14
Share of the year's results	1	4
Additions and disposals, changes in ownership shares, etc.	84	44
Minority interests 31. december	147	62

11 Deferred tax

Parent company			Group		
01.01.06 31.12.06	01.01.07 31.12.07	DKK million	01.01.07 31.12.07	01.01.06 31.12.06	
0	0	Deferred tax, beginning of year	302	331	
0	0	Exchange rate adjustments	-10	10	
-	-	Disposal of enterprises	0	-13	
0	0	Change in tax rate	-8	0	
0	0	Acquisition of undertakings	64	0	
0	0	Other changes during the year	58	-26	
0	0	Deferred tax, year end	406	302	

Deferred tax primarily relates to property, plant and equipment in the UK, 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 on final salary.

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

	Group	
DKK million	31.12.07	31.12.06
Present value of defined benefit schemes	7,784	8,951
Market value of plan assets	-5,959	-6,180
Net pension commitment	1,825	2,771
Non-recognised actuarial gains, net	544	104
Total	2,369	2,875

Development in net pension commitment:

DKK million	01.01.07 31.12.07	01.01.06 31.12.06
Net pension commitment recognised in the balance sheet, beginning of the year	2,875	3,035
Exchange rate adjustments	-189	84
Expensed in the income statement, net	81	25
Group payments, plan assets	-398	-269
Net pension commitment recognised in the balance sheet, year end	2,369	2,875

The defined benefit schemes in the UK are administered by independent pension funds that invest the amounts paid to cover the commitments. The actuarial present value of the commitments (DKK 6,875 million at 31.12.2007 against DKK 8,034 million at 31.12.2006) less the market value of the assets (DKK 5,959 million at 31.12.2007 against DKK 6,180 million at 31.12.2006) amounts to DKK 916 million.

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

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

The actuarial present value of the commitments is recognised in the balance sheet at DKK 909 million against DKK 917 million at 31.12.2006. As the limit value of the corridor was exceeded at 01.01.2007, DKK 2 million was expensed during the year. Following the use of the corridor method, the actuarial loss of DKK 108 million has not increased the provision, and the net commitment therefore totalled DKK 801 million at 31.12.2007.

12 Pensions (cont.)

Pension assets relate to:

DKK million	%	Group	
		31.12.07	31.12.06
Shares	49	2,894	3,599
Bonds	32	1,938	1,649
Properties	11	647	708
Other assets	8	480	224
Total	100	5,959	6,180

Return on pension assets:

DKK million	01.01.07 31.12.07	01.01.06 31.12.06
Expected return on plan assets	420	342
Actuarial gains/losses on plan assets for the year (not recognised)	-97	159
Actual return on plan assets	323	501

The group expects to pay DKK 471 million to defined pension schemes in 2008.

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

	31.12.07	31.12.06
Discounting rate	5.70%	5.01%
Future payroll increase	3.50-4.65%	2.70-4.50%
Expected average return on plan assets	6.66%	6.39%

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

Group

01.01.06 31.12.06	01.01.07 31.12.07	DKK million	01.01.07 31.12.07	01.01.06 31.12.06
62	38	Other provisions, beginning of year	394	273
0	0	Exchange rate adjustments	-5	0
18	22	Provisions during the year	127	226
-42	-10	Used during the year	-130	-105
38	50	Other provisions, year end	386	394
31.12.06	31.12.07	DKK million	31.12.07	31.12.06
0	0	Insurance provisions	147	113
7	0	Restructuring	13	25
31	50	Other provisions	226	256
38	50	Total	386	394

14 Long-term liabilities

Parent company			Group	
31.12.06	31.12.07	DKK million	31.12.07	31.12.06
		<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
1,823	1,804	Other long-term liabilities	4,179	2,380
2,823	2,804	Total	5,179	3,380

15 Contingent liabilities, security, etc.

Parent company			Group	
31.12.06	31.12.07	DKK million	31.12.07	31.12.06
3,944	4,994	Surety and guarantee obligations	517	667
127	162	Operating rent and lease commitments	1,145	1,367
404	405	Obligations relating to agreement on purchase fixed assets	623	548
		<i>To cover exchange and interest rate risks, the following forward contracts have been entered into:</i>		
668	198	Forward contracts (buying) (nominal)	552	1,551
5,247	6,064	Forward contracts (selling) (nominal)	6,321	5,564
2,376	1,181	Interest swaps	2,090	3,955
		<i>The following assets are deposited as security for debt:</i>		
118	118	Owners' mortgage in real estate	1,956	1,342
255	224	with a carrying amount of	1,400	1,199
0	648	Securities, carrying amount	1,449	0

Lawsuits:

The group is party to a few legal disputes. The outcome of these cases is not expected to significantly affect the assessment of the financial position.

16 Related parties

Arla Foods amba has no related parties exercising control.

Related parties exercising significant influence comprise the Board of Representatives, the Supervisory and the Executive Boards.

In addition, subsidiaries and associates, c.f. group chart on pages 58–59, are related parties.

Members of the Board of Representatives and/or the Supervisory Board 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 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, 2007

Ownership

100%

Subsidiaries

Arla Foods AB, Sweden

- L&L International (Sweden) aktiebolag, Sweden (100%)
- Bregott AB, Sweden (100%)
- Arla Foods Russia Holding AB, Sweden (75%)
 - Arla Foods Artis Ltd., Russia (100%)
- Arla Ingman Oy Ab, Finland (30%)¹⁾
 - Oy Arla Foods Ab, Finland (100%)
 - 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%. The remaining 67% is held by Arla Foods International A/S)

100%

Arla Foods Holding A/S, Denmark

- Arla Foods International A/S, Denmark (100%)
 - Danya Foods Ltd., Saudi Arabia (75%)
 - Arla Foods UK Holding Ltd., UK (67%)
 - Arla Foods UK Plc., UK (100%)
 - Arla Foods Finance Limited, UK (100%)
 - Arla Foods Holdings Co. Limited, UK (100%)
 - Arla Foods UK Services Limited, UK (100%)
 - Claymore Dairies Ltd., UK (75%)
 - Arla Foods Limited, UK (100%)
 - Arla Foods UK Property Co. Ltd., UK (100%)
- AF A/S, Denmark (100%)
 - Arla Foods Finance A/S, Denmark (100%)
 - Kingdom Food Products ApS, Denmark (100%)
 - Ejendomsanpartsselskabet St. Ravnsbjerg, Denmark (100%)
 - Rynkeby Foods A/S, Denmark (50%. The remaining 50% is held by Kinmaco ApS)
 - Kinmaco ApS, Denmark (100%)
 - Arla Foods Energy A/S, Denmark (100%)
 - Arla Insurance Company (Guernsey) Limited, Guernsey (100%)
 - Arla Foods Trading A/S, Denmark (100%)
- Arla Foods Distribution A/S, Denmark (100%)
 - Danmark Protein A/S, Denmark (100%)
- Medlemsartikler ApS, Denmark (100%)
- Arla Foods Ingredients GmbH, Germany (100%)
- Fidan A/S, Denmark (100%)
 - Dairy Fruit A/S, Denmark (100%)
- Procudan A/S, Denmark (51%)
- Danapak Holding A/S, Denmark (100%)
 - Danapak A/S, Denmark (100%)
- Tholstrup International B.V., The Netherlands (100%)
 - Tholstrup Cheese Holding A/S, Denmark (100%)
 - Tholstrup Cheese A/S, Denmark (100%)
 - Arla Foods GmbH, Germany (100%)
 - Tholstrup Cheese USA Inc, USA (100%)
 - Tholstrup Cheese TC Sverige AB, Sweden (100%)
- Arla Kallassi Foods Lebanon S.A.L., Lebanon (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%	Arla Foods Sp. Z o.o., Poland
100%	Arla Foods SA, Poland
100%	Medipharm Holding AB, Sweden
	Medipharm AB, Sweden (100%)
	Medipharm Investments Ltd., USA (100%)
	Medipharm CZ s.r.o., Czech Republic (100%)
	Medipharm Hungary Kft, Hungary (100%)
100%	Rasmus Hansen Eksport K/S, Denmark ²⁾
100%	Danos Eksport K/S, Denmark ²⁾
100%	Kohave Foods Eksport K/S, Denmark ²⁾
100%	Chesco Cheese Eksport K/S, Denmark ²⁾
100%	Rasmus Hansen Oversøisk K/S, Denmark ²⁾
100%	DOFO Cheese Eksport K/S, Denmark ²⁾
100%	Danske Landmænd Eksport K/S, Denmark ²⁾
100%	Oerum Dairies Eksport K/S, Denmark ²⁾
100%	Boel Foods Eksport K/S, Denmark ²⁾
100%	Marygold Trading K/S, Denmark ²⁾
100%	Enico Trading K/S, Denmark ²⁾
95%	Andelssmør A.m.b.a., Denmark
92%	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%	Synbiotics AB, Sweden (owned through Medipharm AB)
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%	Cocio Chokolademælk A/S, Denmark (owned through Danmark Protein A/S)
50%	Staplemead Dairy Products Ltd., UK (owned through Arla Foods UK Services Limited.)
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 Mjölk Ekonomisk förening, Sweden
40%	Arla Foods Qatar WLL, Qatar (owned through Arla Foods Holding A/S)
40%	Danapak Flexibles Group, 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)
	Other investments
19%	Lantbrukarnas Riksförbund, förening upa, Sweden

1) Call/put options have been entered into in respect of the remaining 70% of the shares.

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

The group more over owns a number of companies without materiel commercial activities.

Supervisory Board



Ove Møberg

Chairman

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



Åke Hantoft

Vice Chairman

Born 1952, 220 cows,
Laholm, Sweden.
Board member since
1998.

ELECTED BY MEMBERS



Viggo Ø. Bloch

Viggo Ø. Bloch

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



Steen Nørgaard Madsen

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



Torben Myrup

Born 1956. 150 cows,
Aars, Denmark.
Board member since
2006.



Jan Toft Nørgaard

Born 1960. 300 cows,
Skærbæk, Denmark.
Board member since
1998.



Pejter Søndergaard

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



Bent Juul Sørensen

Born 1958, 330 cows,
Ærøskøbing, Denmark.
Board member since
1998.

EMPLOYEE REPRESENTATIVES



Leif Backstad

Born 1947. Employed
at Lindhagensgatan in
Stockholm, lives in Ekerö,
Sweden. Board member
since 2001.



Bengt Darhult
Born 1945. 320 cows,
Heberg, Sweden.
Board member since
2005.



Thomas Johansen
Born 1959. 165 cows,
Egtved, Denmark.
Board member since
2002.



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



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



Johan von Schéele
Born 1946. 150 cows,
Hasselfors, Sweden.
Board member since
2005.



Ingela Svensson
Born 1957. 70 cows,
Gamleby, Sweden.
Board member since
2007.



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



Bjarne Bundesen
Born 1958. Employed
at Christiansfeld Dairy
Centre, lives in Rødekro,
Denmark. Board member
since 2003.



Leif Eriksson
Born 1951. Employed
at Götene Dairy, lives in
Lidköping, Sweden.
Board member
since 1998.

Executive Management Board

CORPORATE CENTRE, Executive 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
CORP. HUMAN RESOURCES



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: 4,950. Turnover: DKK 19.2 billion.



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: 3,350. Turnover: DKK 13.7 billion.



Tim Ørting Jørgensen
Executive Director
CONS. INTERNATIONAL

Consumer International has overall responsibility for production, innovation and marketing of cheese, butter, spreads and margarine within Arla Foods and for the sale of cheese and butter, spreads and margarine outside Denmark, Sweden and the UK. Employees: 5,650. Turnover: DKK 8.1 billion.



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: 1,500. Turnover: DKK 5.7 billion.

CORPORATE CENTRE

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

Corporate Commerce handles group marketing, research and development.

Corporate Supply Chain handles milk supply, technology, global procurement and investment.

Corporate Finance & IT handles financial, economic, IT and legal matters.

Corporate Affairs handles contact with owners, Group HR, communication and Group development.

In addition, Arla Foods has four business areas:

- Consumer Nordic
- Consumer UK
- Cons. International
- Global Ingredients

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Home Markets

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

- UNITED KINGDOM**
- 1 Claymore Dairies
 - 2 Lockerbie dairy
 - 3 Appleby distribution depot
 - 4 Northallerton creamery
 - 5 Settle creamery
 - 6 Manchester dairy
 - 7 Stourton dairy
 - 8 Stourton national distribution centre
 - 9 Arla Foods UK head office, Stourton
 - 10 Ashby dairy
 - 11 Frome distribution depot
 - 12 Oakthorpe dairy
 - 13 Hatfield Peverel dairy
 - 14 Sheffield Park distribution depot

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

SWEDEN

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

¹⁾ incl. distribution depot

²⁾ The production in Alingsås will be transferred to Danish Ringe during 2008.

FINLAND

- 1 Söderkulla, Arla Ingman head office
- 2 Sibbo dairy
- 3 Lapinjärvi dairy
- 4 Kuusamo dairy
- 5 Urjala dairy
- 6 Kitee, milk powder factory

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