ARLA FOODS

Annual Report **2003/04**

ARLA FOODS

Contents

Arla Foods' products are consumed all over the world, 24 hours a day, and in vastly differing situations.

In this Annual Report photographer Håkan Lindgren illustrates the meeting between people and some of Arla Foods' products.

Arla Foods' mission is to offer modern consumers milk-based products that provide inspiration, security and well-being

Behind Arla Foods' mission

Consumer confidence is crucial to Arla Foods' existence. While traditional family values such as safety, naturalness and stability are an integral part of the Group, we also wish to meet consumers' desire for inspiration and enjoyment. This is why we use the word "modern" in our mission.

Inspiration, security and well-being are concepts that belong together. Once consumers feel secure with Arla Foods' products, they're ready to try new ones. Consequently, quality in all its aspects is central to Arla Foods. High environmental, ethical and product safety standards must create the well-being we offer consumers in their experience of Arla Foods' products.

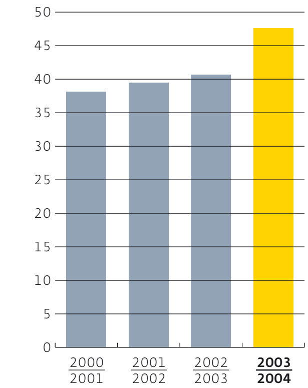
Financial highlights

Group

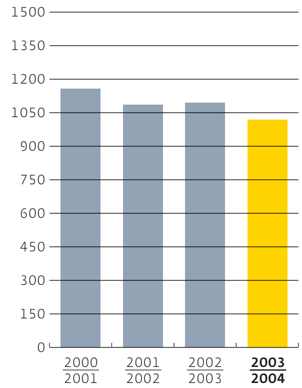
DKK million	**01.10.2003 30.09.2004**	30.09.2002 30.09.2003	01.10.2001 29.09.2002	02.10.2000 30.09.2001	17.04.2000 01.10.2000
Profit					
Turnover	47,608	40,647	39,441	38,133	17,453
Outside DK/SE	28,137	20,781	19,807	18,823	8,200
% outside DK/SE	59%	51%	50%	49%	47%
Operating profit	1,164	1,242	1,411	1,596	547
Interest income and expense, etc.	-394	-245	-367	-381	-159
Profit for the year	1,019	1,094	1,085	1,157	392
Supplementary payments	586	546	575	690	276
Consolidation:					
Reconsolidation	123	123	126	122	0
Other consolidation	310	425	384	345	116
Financing					
Balance sheet total	26,043	26,845	22,017	20,858	21,275
Fixed assets	14,761	13,973	10,395	10,523	11,055
Investments in tangible fixed assets	2,981	2,062	2,046	1,877	905
Capital base	7,541	7,399	7,101	6,448	6,343
Equity ratios (%)					
Capital base	29%	28%	32%	31%	30%
Capital base + subordinate bond loan	33%	–	–	–	–
Inflow of raw milk					
Total million kg. weighed in in the group	8,512	7,241	7,041	7,085	3,344
hereof in DK	4,053	4,137	3,964	3,967	1,914
hereof in SE	2,141	2,114	2,157	2,167	993
Others	2,318	990	920	951	437
Number of members	11,605	12,758	13,642	14,909	16,121
hereof in DK	5,877	6,625	7,103	7,921	8,639
hereof in SE	5,728	6,133	6,539	6,988	7,482
Employees					
Number of employees	20,855	17,791	17,866	18,200	18,622

The comparative figurs for the years 2000 and 2000/2001 have not been changed in connection with the changed accounting policies in 2002/2003.

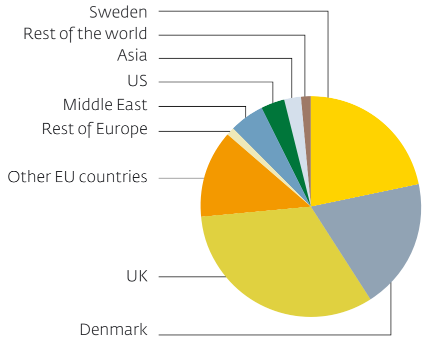
Net turnover
DKK billion



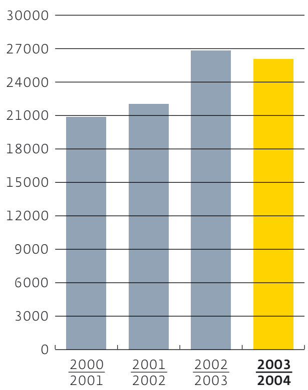
Result of the year
DKK million



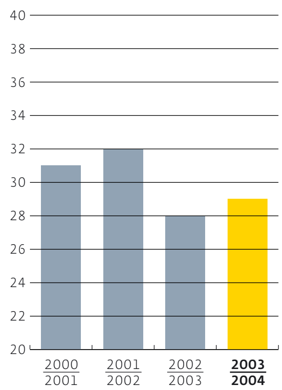
Net turnover
divided into markets (%)



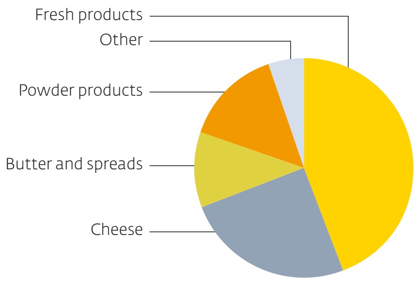
Balance sheet
DKK million



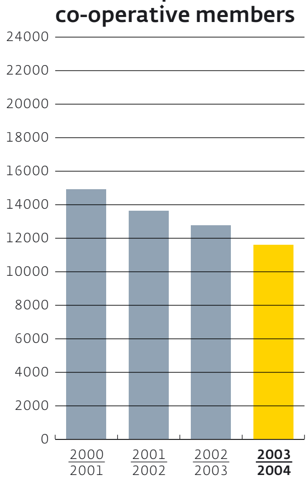
Solvency
Percentage



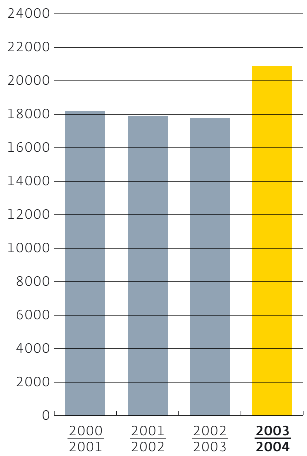
Net turnover
according to product categories (%)



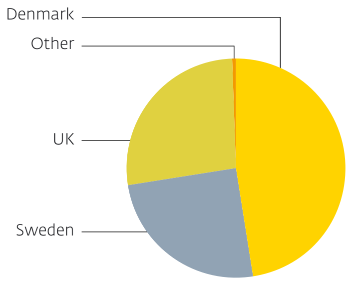
Number of co-operative members



Number of employees



Weighed-in milk
across markets (%)



Flashback on the year

Media criticism

During the financial year, the Danish media hit out at Arla Foods, claiming that the Group exploited its dominant position in the Danish market at the expense of smaller Danish dairies. Having taken note of the criticism, Arla Foods has pointed out that the Group, together with the small dairies in Denmark, is determined to face up to the competition from companies abroad.

Dairy closures in Sweden

In line with the Group's structural plan, several of Arla Foods' Swedish dairies closed during the year, including four cheese dairies. It was also decided to shut down the dairy in Karlskrona in 2006. Following the closure of the two milk powder plants at Kimstad and Mjölby, production will be transferred to the new milk powder plant in Vimmerby in 2005.

From Local to Nordic

The Danish fermented product, Cultura, was listed in Swedish stores during the financial year when three joint Nordic product areas were selected: fermented products, speciality cheese and cooking. One of the objectives is to co-ordinate Arla Foods' ranges and marketing activities in the Nordic countries.

Quality from the start

The quality programme, Arlagården, which came into force in October 2003, places new demands on the milk's quality as well as on animal welfare, environmental issues and traceability.

In Denmark, Arlagården was presented to the media at a meeting at co-operative member, Holger Poulsen's farm where he explained Arlagården's value to his business.

Structural changes in the UK

In October 2003, the UK's Secretary of State for Trade and Industry approved the merger between Arla Foods' UK subsidiary and Express Dairies. Since then, the new company, Arla Foods UK plc, has worked on adjusting its structure.

This led to the closure of the dairy in Bamber Bridge in July 2004 shortly before the bottling lines at Hatfield Peverel ceased operations.

Ruislip Dairy in West London is scheduled for closure in January 2005. The diary in Newcastle is scheduled to follow suit four months later.

Arla Foods UK plc plans to build a liquid milk dairy in Scotland in a joint venture with the farmer-owned Milk Link.

The Chairman's Report

Chairman, farmer Knud Erik Jensen

Deputy chairman, farmer Åke Hantoft

Arla Foods' milk volumes have increased in 2003/04. At the start of the financial year, we were given the official go-ahead for the merger with Express Dairies in the UK which means that 25% of Arla's milk is now supplied by milk producers who are not co-operative members of the Arla Foods group.

Our UK colleagues visited us in Denmark during the year and we look forward to a good partnership.

Our co-operative members' milk production is in ever fewer hands, slightly fewer in Denmark than in Sweden, as one in four co-operative members at the time of the merger in April 2000 has now ceased milk production. This dramatic development is currently being accelerated by the EU's Agricultural Reform.

When, in October 2003, Arla Foods approved its operating and investment budget based on earnings of DKK 2.37 per kg co-operative member milk, we talked about a paradigm shift in the milk price.

This was based on the EU's intention to implement the broadest agricultural reform in the history of the union.

This means that we are now beginning a new era in the history of the Swedish and Danish dairy industry with substantially lower prices than we have been accustomed to.

The milk policy reform came into force on July 1, 2004 with the first of a three-stage reduction in the intervention prices for butter and skimmed milk powder. If these price reductions take full effect, it may impact on the milk price paid to the farmer by up to –22%. However Arla Foods is working on averting the full effect through, e.g., our strategy plan. The EU has also introduced a so-called milk premium by way of compensation although this will affect milk producers in different ways in Denmark and Sweden.

The broad debate on equity structure among our co-operative members led to a decision by the Board of Representatives in the summer to launch the option of co-operative member accounts. Although many expressed their support for the current collective model, there was also support for the concept of co-operative member accounts. The Supervisory Board will now consider the various capitalisation models including the conditions for the admission of new co-operative members and we will present a concrete model for co-operative member accounts to the Board of Representatives. This decision, however, cannot be taken until the tax authorities in the two countries have responded.

As milk producers we are all independent business people who decide ourselves how to plan our production and manage our farms.

We alone make all decisions relating to our farms.

As owners of Arla Foods, however, we have opted for a common approach to decision-making. We operate under a democratic system where the majority make the decisions – as co-operative businesses have done ever since the earliest days of the co-operative movement.

We have to accept, however, that the surrounding world sometimes finds it difficult to understand our governance structure and the fact that our decisions are joint decisions. Consequently, we must make it clearer that we are a co-operative organisation owned by co-operative members.

The joint decisions over the years have created an Arla Foods in which we – the Swedish and Danish milk producers – can take great pride. We can be particularly proud of having built a business with the ability to operate in a tough competitive environment.

Knud Erik Jensen
Chairman


Leif Backstad (Elected by the employees)


Farmer Viggo Ø. Bloch


Steen Bolvig (Elected by the employees)


Bjarne Bundesen (Elected by the employees)


Farmer Christer Eliasson


Farmer Anders Ericsson


Leif Eriksson (Elected by the employees)


Farmer Elisabeth Gauffin


Farmer Thomas Johansen


Farmer Sören Kihlberg

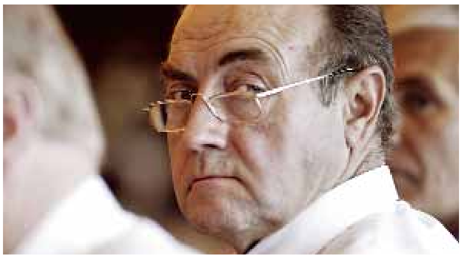

Farmer Ove Møberg


Farmer Per Norstedt


Farmer Jan Toft Nørgaard


Farmer Kaj Ole Pedersen


Farmer Gunnar Pleijert


Farmer Søren Rasmussen


Farmer Pejter Søndergaard


Farmer Bent Juul Sørensen

Arla Foods Supervisory Board. *The members of Arla Foods' Supervisory Board photographed during the board meeting on October 5, 2004.*

CEO's review


CEO Åke Modig

Tougher competition and pressure on milk performance price
Competition in the dairy markets continues to intensify, forcing farmgate prices across Europe to fall. The trends were noticeable as far back as during the merger between Arla and MD Foods in 2000, but after some good years with strong demand and a strong dollar, our earnings are now being adversely affected. The EU's agricultural reforms, WTO and lower export subsidies are all contributing to significantly lower revenue for Europe's dairy companies. At the same time, increased consolidation on the customer side is causing the market to become more transparent, thus strengthening the impact of the political reforms. The CAP reform, which was approved in September 2003, was anticipated although the resulting four pre-determined reductions in the intervention prices are creating unnatural political pressures in the market. Consolidated profits totalled DKK 1,019 million, i.e. DKK 75 million below last year. Profits were positively affected by sales of non-core companies and negatively affected by goodwill amortisation and provisions for structural initiatives in Arla Foods UK plc.

International trading conditions
The world market for dairy products strengthened in 2004 with USD prices as high as in the record year 2001. US price levels remain high while milk supplies to world markets are limited. Growth in Oceania continues to be limited, whereas milk production in Argentina is rising rapidly. Europe's competitiveness has been reduced by the strong performance of the Euro – over the past two years the Euro has risen by 25% against the US dollar. Within the context of the CAP reform the EU Commission has aggressively cut back export subsidies by 35-40% from the first year of the reform (2004).

The EU's ten new member countries did not create further pressures in the internal market. The milk prices rose substantially in most of the new member countries and the price gap vis a vis the existing European member states has narrowed. The new member countries will undoubtedly prove to be attractive markets and it is important that Arla Foods is present in these markets.

Structural development in the European dairy industry
The structural development in the European dairy industry is accelerating rapidly. It is no longer just the small co-operative companies that are merging with large ones – the majors are also joining together. All indications are that eventually there will be two or three very large dairy groups in the EU. The merger between Arla and MD Foods is now in place and we are ready to take an active role in the game for the European dairy industry's future.

Domestic markets are important
Arla Foods' domestic markets, Denmark and Sweden, are under pressure. Imports of dairy products increased dramatically during the year and now include products like yoghurt, cream, crème fraiche as well as discounted cheeses. The launch of Danmælk in Denmark was forced by the decision of several multiples to start imports of German liquid milk. Danmælk has taken market share from Arla Ekspres milk while, at the same time, we have lost market shares to small Danish dairies. The most serious event in 2004, however, was that a large proportion of Danish consumers lost confidence in Arla Foods. We must regain this


Deputy Man. Director Povl Krogsgaard


Deputy Man. Director Andreas Lundby


Group Executive Director Hans Åke Hammarström

confidence by, for instance, using the Arlagården concept as a key argument. We must also strengthen Arla Foods' profile as a co-operative company and ensure that consumers perceive Arla as a business characterised by care and consideration. Relations with the smaller dairies improved during the year and there is now a mutual commitment to defending the Danish dairy sector against increasing imports.

Profitability

Compared to last year, profitability suffered in more or less all markets. Sweden lost market share and in Denmark the total volume declined. More importantly, however, general price levels for milk fell during the year which adversely affected overall earnings.

In Europe prices were maintained although smaller volumes of speciality cheese forced us to compensate with larger volumes of firm cheese at lower returns.

Sales outside the EU developed positively although earnings in Saudi Arabia declined due to falling foreign exchange rates and stronger competition from local producers. On the backdrop of current developments, Arla Foods will have to consider increasing local production. Arla Foods Ingredients' revenue was affected by lower intervention prices, falling export subsidies and a weaker dollar. Compared to last year the decline has been significant.

Exports to the UK developed highly satisfactorily, both in relation to volume and profitability. The partnership with New Zealand's Fonterra and the subsequent access to the Anchor brand have strengthened the position in the UK market. At the same time, Lurpak continues to advance and the brand is now the undisputed market leader within the "branded butter and spreads" category. Greater involvement in the UK has also enhanced relations with the UK retail sector which will provide a strong basis for future development.

Milk performance price

Our farmgate prices for 2003/04 were undoubtedly a disappointment. For the budget year 2004/05 the negative development looks likely to continue although, to the greatest possible extent, new initiatives will be taken to alleviate the effects of the declining market. The Board of Representatives has targeted that Arla Foods' earnings per kg milk from co-operative members should be 5% above that of Arla's peer group, i.e. the five largest cooperative dairy companies in Europe. In 2003, earnings were clearly above that of the peer group although for the calendar year 2004 these are expected to decline somewhat while still achieving the 5% target.

Future strategies

The strategies for the period up to 2007 have been set in an extensive dialogue with the owners as well as internally. The main theme is to create organic growth through increasing added value. The key to greater profitability is to raise the value of products based on our raw materials. In the domestic markets, where our core business lies, the objective is to maintain our market shares, continue pro-active product development and develop our relations with families with children and other consumer groups. Internationally, the objective is to increase exports of speciality cheese and reassert Arla Foods' market leading position within selected sub-categories: cream cheese, feta, Danish blue, mozzarella and national speciality cheese.

Our ability to create benefits of scale in production and development by gaining sufficient volume will be an important competitive parameter in future. Within the ingredients area, the challenge is to be a global market leader within functional whey proteins in order to provide solutions for the global food industry. Retail milk powder is another focus area. In the UK the company will build on growing exports and create growth within the field of fresh dairy products and speciality cheese. At the same time, the position within butter, spreads and liquid milk will be developed.

Our market investments in international brands will focus on Lurpak and the Arla Master brand.

Innovation

To implement our strategies and continually adapt our range, we must exploit our technologi-

Group Executive Director Kim Nielsen

Group Executive Director Michael Stevns

Group Executive Director Peder Tuborgh

cal skills and innovative ability. To secure our long-term development, we have to concentrate our innovation resources even more. Even at a time when conditions are forcing us to re-examine our resources, it is imperative that we maintain our innovation budget. The public sector's commitment to research, technology development and training is also a decisive factor in the Group's ability to maintain its competencies within a number of innovation areas.

Financial basis

Financially, the Group is robust. Following the raising of a subordinated loan, the Group's solvency is now on a par with our European competitors. We can expand within strategic areas but do not have the resources required for mega acquisitions. In connection with recent years' substantial structural programmes, we have had a negative cash flow. We must adjust our capital expenditure to circumstances and a reduction in the investment budget is an example of this. During the year we sold Cremo and AM Foods and we will maintain our focus on the core business.

Operational efficiency

A rising share of our business is within own label. To operate an efficient business means that we, together with our customers, cut costs from our production, distribution and service systems and exploit our combined resources including raw milk, optimally. To achieve operational efficiency we must maximise our total resources, including our raw material, milk. The strong emphasis in recent years on the Ett Arla project and on modern management tools in production has laid the foundation for more efficient production, distribution and administration. During 2005 the final pieces will fall into place and we intend to increase activity levels to secure the benefits.

Earlier, we embarked on the Trim Project, which aims at cutting the administration by 600 staff over three years. Trim will achieve its target. The extensive structural programme approved in connection with the merger between Arla and MD Foods has been concluded. Fifteen dairies have been closed or are in the process of shutting down. The original programme envisaged the closure of 18 dairies but in the end the view was that it would not be profitable to shut down the final three dairies. In terms of profitability, the programme has delivered the returns promised to the Board of Representatives – i.e. five Danish øre per kg milk. Further structural adjustments have been approved for Denmark and Sweden including the closure of two liquid milk dairies.

A committed workforce

A pre-condition for meeting our future targets is that we have the support of a committed workforce. Barometer surveys, which indicate how employees view their work, their workplace and the management, show that we are moving in the right direction although there are some areas with scope for improvement. As industry will increasingly compete for talented employees, this is a battle that we must also win because only by employing the best and most committed staff will we be able to meet the tougher competition. During 2004/05 we shall enhance communication with our staff and create better instruments for following up and developing our managers and staff. The major changes that are ahead will be carried out in close collaboration with our staff and their organisations in order to tap into the ideas and concepts that are available across the organisation.

The outlook for 2004/05

We expect to increase sales volumes of selected cheeses in European markets and to stabilise market developments in the Middle East. The acquisition of National Cheese in Canada will strengthen our strategic position in the interesting North American market. We also see further international opportunities to enhance our competitive position within selected cheeses. In 2004/05, lower intervention prices and export subsidies will materialise. Together with a weak dollar this will mean a reduction in earnings and, consequently, the Supervisory Board has decided to accept a lower level of result by maintaining the on account price despite lower revenue expectations.

Challenges in 2005

In Denmark, the greatest challenge in 2005 is to restore the confidence of Danish consumers. We can only do this if we genuinely accept that we are here for the sake of the consumers. If we can convey that our company and our co-operative members' farming businesses exist to provide consumers with confidence, inspiration and well-being, we will be able to achieve our ambition of re-establishing confidence in Arla as a brand and in Arla Foods as a dairy supplier to Denmark's 5 million consumers.

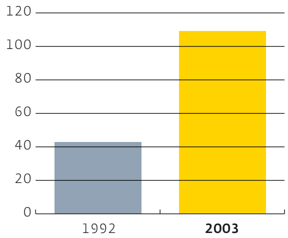
In Sweden the challenge lies in regaining lost market share while, in the UK, we must reap the synergy benefits from the merger and further develop imports from Denmark and Sweden.

We must be willing to put in an extraordinary effort to ensure that Arla Foods can continue to deliver one of the highest milk prices in Europe and achieve the target of 5% above the peer group.

Markus Aujalay, head chef at Restaurant Fredsgatan 12 in Stockholm, was named "Chef of the Year 2004". For the past twenty years, the Chef of the Year competition has been organised by the dairy companies in Sweden in partnership with Gastronomiska Akademien and is recognised as the official Swedish championships for professional chefs. Besides the title, the winner is presented with the Gastronomiska Akademien's dairy medal.

Fresh products

Turnover for discount stores in the European retail sector
Billion euro including tax



Rolling commercials for open rural landscape
As part of a campaign for Swedish milk production, all Swedish distribution vehicles carried the message: "Swedish milk makes for an open landscape" in the summer of 2004.

The reason for using milk producers and their herds to promote Sweden's rural landscape is owing to Sweden's heavy forestation, which means that forests will gradually take over as more milk producers cease milk production.

The fresh products area in Denmark and Sweden was characterised by increased competition from foreign dairy products and the multiples' own brands. Arla Foods is facing the challenge by launching more new and more own label products.

The discount chains' arrival in the Swedish market and the retail sector's emphasis on own label has impacted on Arla Foods' sales in Sweden. Competition in the market place has become significantly tougher, resulting in an overall decline in volumes of 2.5%. The target for the new financial year is to maintain the volumes at their present level and counter increasing imports.

Consequently, Arla Foods has started to produce products – including crème fraiche, yoghurt and cream - under the multiples' own labels while, at the same time, further profiling Arla Foods' own brands.

Retail sector's confidence intact

As imports of cheap German liquid milk have intensified competition in Denmark, Arla Foods launched the discount milk brand, Danmælk.

Neither tougher competition nor media criticism appear to have shaken the retailers' confidence in Arla Foods. Towards the end of the year, Arla Foods was named "best supplier" by Danish supermarket chains and wholesalers in a survey that evaluated areas such as co-operation, confidence in the company, product development, supply stability and the strength of the brands. Approximately 80% of the Danish retail sector and all leading suppliers participated.

Intense sugar debate

In Sweden, and later in Denmark, the debate about sugar in dairy products resurfaced. Arla Foods launched a fruit yoghurt with a lower sugar content in Sweden and the sugar content is provided for all sweetened products. In Sweden the sugar debate, which has partly supplanted the fat issue, has resulted in lower sales of fruit yoghurt. Instead consumers are increasingly opting for natural varieties within the fermented product segment. In Denmark work is being undertaken to reduce the quantity of sugar, primarily in drinking yoghurt and chocolate milk. Despite the debate, drinking yoghurt in both countries has advanced well.

Sales of cooking products, which in Sweden are marketed under the Kelda brand and in Denmark under the Karoline brand, are seeing highly positive developments which has meant that production at Esbjerg Dairy has been extended to three shifts. The number of products and flavours has now been extended to include products like oriental soup and a reduced fat Bernaise sauce.

Overall, Arla Foods launches a large number of products every year. These have generated growth especially within drinking yoghurt, cooking products and reduced fat cheese.

Major order for the UK

In the UK, the market for own label fresh milk for the multiples remains strongly competitive. During the year, the UK multiples reduced the number of suppliers. In May, Arla Foods UK plc secured a contract with the UK's second largest supermarket chain, Asda, for approximately 450 million litres milk annually although the company lost a contract with another multiple. Overall, Arla Foods UK plc maintained its market share.

New large dairy commissioned
In July, the first milk arrived at Stourton Dairy outside Leeds. Towards the end of September, the entire production had been transferred to Stourton from the old dairy in Leeds.

The Asda contract reflects the chain's desire for closer collaboration with Arla Foods' UK milk suppliers. In consequence, Arla Foods UK plc and the milk producer group, Arla Foods Milk Partnership, has appointed a group of milk suppliers to cater for Asda. This allows full traceability from the farm to milk carton.

Arla Foods' milk volume is one of the UK's largest and its milk suppliers extend from South West England to North East Scotland.

In September 2004, the new dairy at Stourton, near Leeds, was commissioned and the old dairy in Leeds closed down. Stourton Dairy can process 250 million litres milk per annum but is designed to cope with even larger volumes. Besides the current production of liquid milk for own label, Stourton Dairy will also produce Arla Foods' own branded milk, Cravendale PurFiltre. The brand, which has a longer shelf life due to a special filtration technology, advanced 34% in the supermarket sector during the year although it only accounts for 3.5% of the total market. As demand is rising, Stourton must be able to bottle this too. This facility will be ready for production during the summer of 2005. Doorstep sales continue to decline.

Production

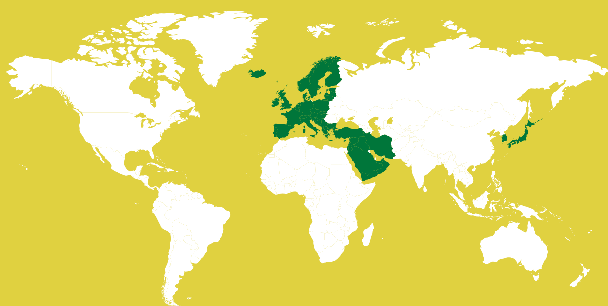
In Sweden, a new dairy structure for Arla Foods' southern area will be completed in 2006. Hence production of milk, cream and fermented products will be expanded at the dairy in Jönköping as will the dairy's distribution system.

In Gothenburg a new chilling facility will be constructed and some parts of the production transferred to Jönköping. Karlskrona Dairy will be shut down in the autumn of 2006.

In Denmark, Århus Dairy Centre was closed at the end of the financial year and production transferred to the dairies in Christiansfeld and Hobro.

Milk for different needs
In Denmark, Arla Foods countered the competition from cheap German liquid milk by launching the discount milk, Danmælk. This takes longer from the cow to the chilled cabinet than Arla Ekspres milk, which is milked, collected, bottled and supplied to stores within 24 hours. Consequently, Arla meets different consumer requirements through different products: the cheaper Danmælk, the fresher Ekspres and the organic Harmonie. Ongoing efforts are being made to improve the packaging. A screw cap will be introduced on cartons around the turn of the year.

Homemade pizza is an international hit – especially with children – and shredded mozzarella helps to make daily cooking easier. Arla Foods sells mozzarella to more than 20 countries, primarily in Europe, the Middle and the Far East. In Denmark, Arla Foods sells mozzarella under the Karoline brand, a range of cooking products.



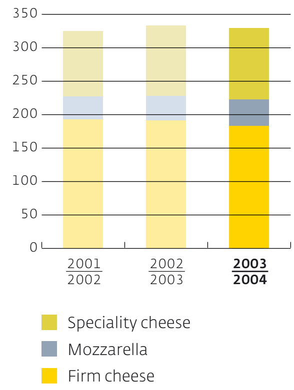
Cheese

With regard to the European cheese market, the year was characterised by continuing strong interest from the retail sector in own label cheese and by growing imports of discount cheese to Scandinavia. Backed by many years of experience of own label, Arla Foods has considerable potential within this area. By focusing on certain categories and through an expanded and modern production process, Arla Foods will create added value for the retail trade and for the Group.

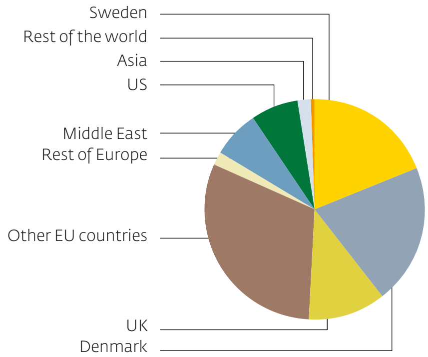
Over the years, Arla Foods has established cheese markets around the world, not least in North America where Danish havarti is in demand, and in the Middle East (feta and cheese spreads in glass containers).

At the same time, Arla Foods has grown its share of sales of imported cheese in Denmark, Sweden and the UK through the acquisition of import businesses. In 2003/04, Arla Foods produced approximately 335,000 tons cheese, which is largely in line with last year.

Cheese production
1,000 tons



Net turnover cheese
Distributed across markets (%)



Denmark/Sweden

Speciality cheese is one of three product areas which, towards the end of the financial year, became part of Arla Foods' new joint Nordic marketing organisation. In January, Buko cream cheese was launched in Sweden under a new joint Nordic design.

In Sweden, sales of firm cheese were affected by increasing imports of discount cheese. In response, considerable emphasis is being put on Arla Foods' own brands and a number of well-known cheese brands such as Präst and Svecia were gathered under the Kvibille brand which previously comprised Cheddar cheese. The year also saw the addition of more varieties of cottage cheese which are sold under the Keso brand in Sweden.

In Denmark, the market for firm cheese is stagnant and the year saw further price pressure where even branded products are sold at very low campaign prices. However, Arla Foods' firm cheese brands (Klovborg, Riberhus, Malthe, Cheasy and Den Go'e) maintain a market share in excess of 50%. Overall, however, the Danish cheese market suffered a slight decline. Consumption is driven by the dessert and cooking cheese segments in which imports from other European countries are rising.

Europe

Sales of Arla Foods' cheese to the European market increased during the year as did earnings. The branded cheese range gained market share and sales of processed own label products also rose together with sales of cheese for the food industry.

This development should be seen on the backdrop of a continuing weak European market and low consumer confidence. As a result, the discount chains continue to advance in almost all European markets while the tough price competition remains unchanged. In Arla Foods' largest export market, Germany, competition remains exceedingly strong. In Holland, Italy and France competitive pressures are increasing due to the inroads of the discount chains. For certain product categories, competition also strengthened during the year when imitation products of Arla Foods' processed products required fast replacement of the ranges.

Yellow cheese
Arla Foods' largescale exports of firm cheese for the European markets, especially Germany, are dominated by own label. Arla Foods' strengths are that the Group offers a higher level of added value for both products and packaging. The decline in the number of service counters in the supermarkets remains a challenge particularly in Germany where Arla Foods has a strong position. Over the coming year, there will be strong focus on developing the company's position in firm cheese in Spain, Greece and Poland. Sales of branded products as well as own label in the German market will be further developed.

Cream cheese
Sales of cream cheese in Europe continue to be strongly affected by the growth of the discount sector which has led to considerable price pressure. The market for bread spread products (a blend of cream cheese and margarine) is also growing and taking volume from cream cheese, especially in Germany, which remains Arla Foods' largest European market within this field. Consequently, there will be further focus on product development for both Arla Foods' strong brand Buko and for own label.

Feta
In most European markets, Arla Foods enjoys a significant market share through the Apetina brand which saw positive development during the financial year. The brand is, for instance, the market leader by far in Holland and Norway. Over the coming year, there will be further focus on launching Arla Apetina products in new markets as well as emphasis on own label.

Danish blue mould cheeses under one umbrella
From the end of 2004, Arla Foods' Danish production of blue mould cheese will be centred at Høgelund Dairy which, upon completion of an expansion and upgrading programme, will produce 11,000 tons blue mould cheese per year. The dairy's three old cheese tanks will be replaced by 240 small open vats to allow the cheese grains to become totally uniform in flavour and consistency. This will result in less waste, greater flexibility and better cheese.

Shredded cheese/mozzarella
In the retail sector, shredded cheese/mozzarella is also coming under increased pressure from own label and discount products, especially in Germany. The challenge is to offer high quality products at competitive prices and thus qualify as an own label supplier. Early in the new financial year a shredded light mozzarella was launched as the first of its type in European markets. A range of ready-to-serve cartons with flakes and cubes of cheese has also been launched under the Arla Finello brand. Both products illustrate Arla's competencies with regard to concept, product and packaging development.

Mould cheese
Consumption of mould cheese is stagnating in European markets. The challenge is to offer new product and packaging types which appeal to a larger target group or to find new applications.

The Middle East

The Middle East – and Saudi Arabia in particular – is an important market in which Arla Foods benefits from a strong position due to its two cheese brands, Puck (processed cheese in glass containers) and The Three Cows. While the latter consists primarily of feta in brick packs, canned processed cheese was added to the range during the year.

Despite difficult conditions (a declining dollar, lower EU subsidies and price increases) Arla Foods, which operates its own dairy in the country, succeeded in maintaining its position in the Saudi market.

Overall, in other Middle-Eastern markets, sales of cheese products advanced. In particular, the joint venture operation in the United Arab Emirates and Oman performed satisfactorily.

America

In the United States, Arla Foods' licensed production of havarti saw significant growth resulting in highly satisfactory earnings. Arla Foods also has substantial exports of Danish Blue to the US.

In Canada, the acquisition of National Cheese was completed shortly after the close of the financial year. National Cheese, which employs a workforce of approximately 250 people, produces speciality cheeses, mainly Italian types. As the acquisition provides Arla Foods with access to a nationwide sales and distribution system, Arla Foods can now service the Canadian multiples which, in turn, opens up new opportunities for advancing the Group's traditional ranges.

Through the Dan-Vigor joint venture in Brazil, Arla Foods operates production of fresh cheese. After some difficult years, 2003/04 saw very substantial progress so that the result is significantly above the budget albeit still not satisfactory.

Asia

Arla Foods' largest market in Asia, Japan, remains characterised by stagnating consumption and, therefore, stronger price competition. Priced at the high end of the market, this has impacted on sales of Arla Foods' cream cheese, mozzarella, mould cheese and firm cheese in Japan.

Exports to Korea of, primarily, mozzarella in blocks developed negatively, first and foremost due to sharp price competition from Australian mozzarella.

Sales of speciality cheeses to Australia and Puck processed cheese to Pakistan developed positively during the year.

Eastern Europe

The positive trends in the Russian economy resulted in substantial growth in Arla Foods' exports of speciality cheese to the Russian market. Consequently, the prospects are for a substantial increase in Arla Foods' activities.

Other East European markets also experienced a positive development. Consequently, volumes trebled during the year.

Production

The following changes to cheese production were implemented during the financial year.

Sweden:

- Stånga Dairy was shut down in the spring of 2004 and the production of firm cheese transferred to Falkenberg Dairy, which was expanded.
- Borgholm Dairy was closed in the spring of 2004 and the production transferred to Kalmar Dairy, which was also expanded.
- Towards the end of 2004, operations at Åseda and Vestervik Dairies ceased and the production was transferred to Falkenberg Dairy (Sweden) and Nr. Vium Dairy (Denmark).

Denmark:

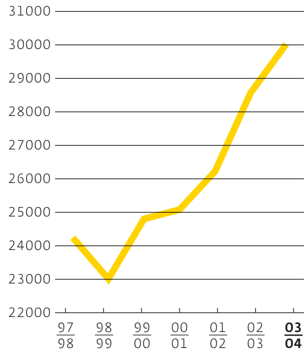
- Snejbjerg Dairy closed at the end of 2003.
- Glejbjerg and Vellev dairies closed during 2004 and production was transferred to Hjørring and Taulov dairies.
- Following the expansion of Høgelund Dairy, Arla Foods' Danish Blue production will be centred here. Consequently, Grenå Dairy will be closed from year-end 2004.
- Capacity at the Bov feta dairy will be expanded.
- Holstebro Flødeost, which produces most of the cream cheese for the European markets, is undergoing considerable capacity expansion and a range of rationalisation measures are being carried out.

Poland

During the year, Arla Foods' dairy in Poland was converted for production of mozzarella and edam for export.

Development in Arla Foods Feta production

Tons



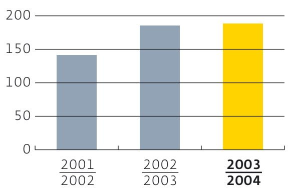
In recent years, Arla Foods has seen two-digit growth rates in feta exports to several European countries. These exports currently amount to 33% of the volumes sold to Iran between the mid-80s and the mid-90s.

Buko has gone Nordic

Available in Denmark since 1952, the Buko cream cheese brand has been one of Arla Foods' greatest export successes, especially to Germany. In January, Buko cream cheese was launched in Sweden as one of the joint Nordic products aimed at marketing and building products for the entire Nordic market.

Butter and spreads

Production and packing of butter and spreads
Million kg



Consumers' desire for reduced fat products has led to a fall in the consumption of butter and spreads in most markets. Despite this, Arla Foods has, by and large, succeeded in maintaining its production and sales of yellow fats. In 2003/04, production of such products totalled 188,300 tons, which is slightly above the level of the previous financial year.

Butter and spreads under the world renowned Lurpak brand is exported to markets across the globe.

Growth in the UK

In the UK, by far Arla Foods' largest export market for butter and spreads, the three products Lurpak, Lurpak Spreadable and Lurpak Lighter Spreadable recorded 11% growth within the butter, spreads and margarine segment where the brand is currently the second largest in the market. In addition, Arla Foods partners the New Zealand dairy company, Fonterra, with regard to the packing and marketing of Fonterra's butter and spreads under the Anchor brand for the UK. Sales of Anchor have also advanced slightly.

With regard to the rest of Europe, Lurpak is now easily the leading butter brand in Greece. During the year under review, the launch of Lurpak Lighter Spreadable received a positive reception. In Italy, Lurpak sales came under pressure from discount butter.

The Middle East remains a very substantial market for Lurpak. In the largest single market, Saudi Arabia, demand remains fairly stable although Lurpak is under some pressure from locally packed, cheap butter.

New Lurpak product

A new product, Lurpak Butter Ghee, was launched in several countries around the Persian Gulf and in new markets in North Africa where it was well received. A grainy, semi-firm product used typically in baking and frying, Butter Ghee sells at a premium over ordinary butter. Annual butter sales total around 20,000 tons in the Middle East while the market for Butter Ghee amounts to approximately 13,000 tons. In the longer term, the aim is to sell Lurpak Butter Ghee in European cities.

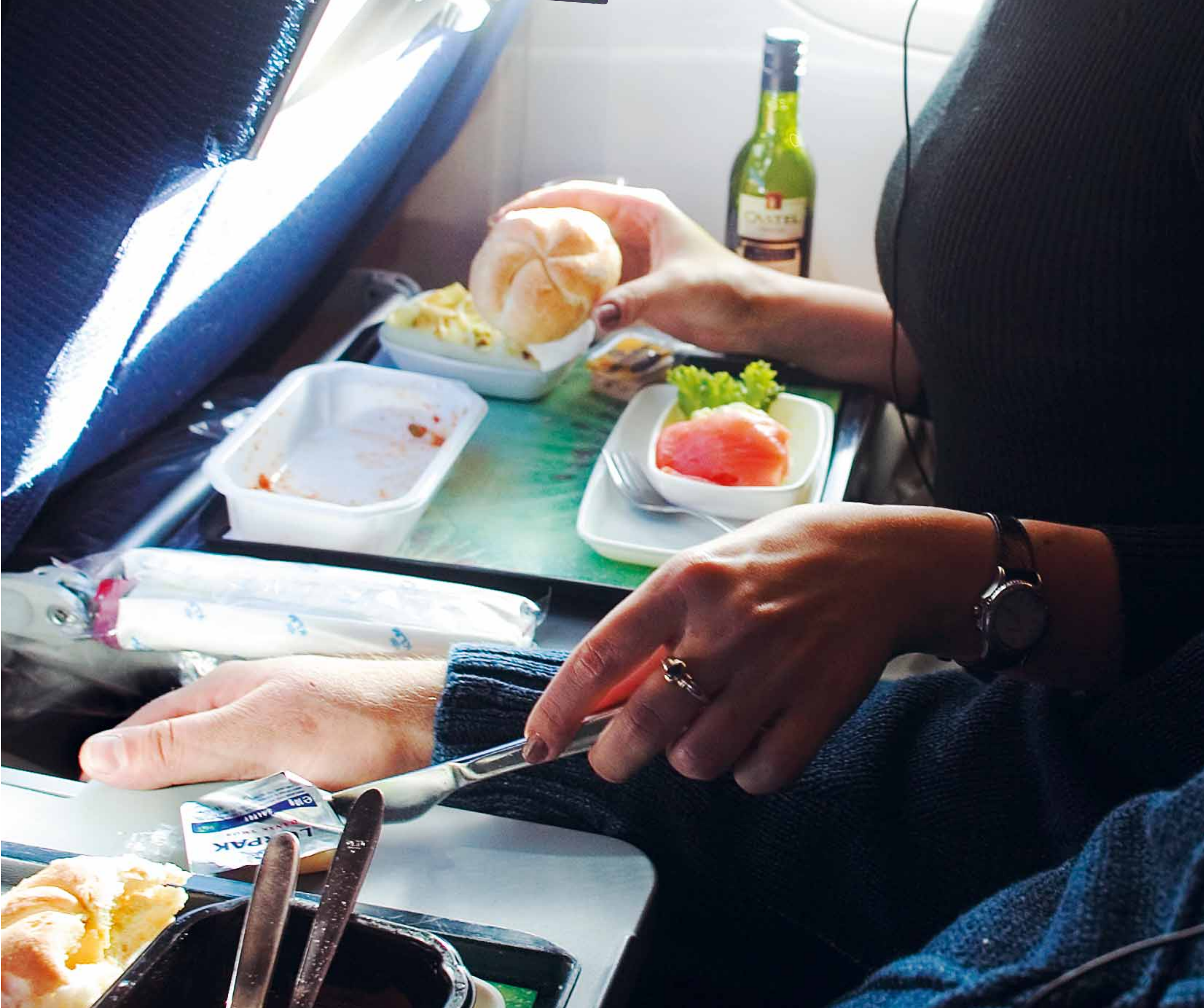
In Denmark, earnings from butter and spreads were on a par with last year although volumes declined somewhat, especially under the impact of discounted butter from abroad which, in recent years, has accounted for 20% of the market. This has made it more difficult for Lurpak to retain volumes.

In September, Arla Foods launched a New Zealand butter product in the Danish market. The product, Green Lea, is made from New Zealand butter from Arla Foods' partner, Fonterra.

Launched in the spring of 2004 in Sweden, liquid butter and rapeseed oil was so successful that, by the end of the financial year, the product had established a position as number three in the market. Bregott and butter also performed well. Moreover, during the year a new recipe was developed for Lätt och Lagom which will be relaunched in the New Year.

Butterdane A.m.b.a.
Arla Foods' exports of butter and spreads takes place through Butterdane A.m.b.a. in which Arla Foods has an approximately 95% share.

New Lurpak product for the Middle East
Lurpak Butter Ghee was launched in the countries along the Persian Gulf and in new North African markets during the year. Butter Ghee is made by melting the butter and removing the water by a centrifugal process. The result is a grainy, semi-firm product which is used for baking and frying.

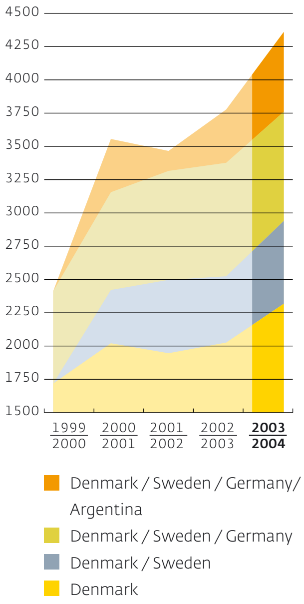


From the desert of Saudi Arabia to the luxury hotels of Rio de Janeiro, from the UK to the skyscapers of Singapore, every day millions of people in over 50 countries as well as tens of thousands of airline passengers across the skies spread Lurpak butter on their bread.

The Lur mark was registered as Denmark's official quality mark for butter over a century ago and is known in almost all corners of the world – even in space.

Ingredients

Whey received
Million kg



Sales of milk-based ingredients for the global food industry play an important role for Arla Foods. Moreover, the company supplies several markets in the third world with retail packed milk powder.

One fourth of Arla Foods' milk in Denmark and Sweden as well as 2.9 billion kg whey are processed into milk powder and proteins. In addition, Arla Foods processes whey into whey proteins in Germany and Argentina through joint ventures.

In 2003/04, Arla Foods' turnover within this area was DKK 5,788 million which is on par with last year.

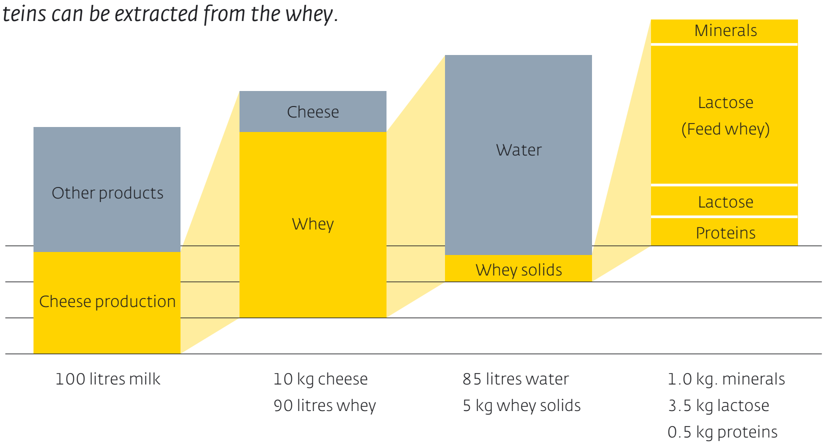
Although price levels in US dollars were high, lower EU subsidies and the implementation of the first phase of the EU's agricultural reform from July 1, 2004 meant that DKK prices were on par with previous years.

The reform means that EU subsidies will decline until 2007. Overall, when fully implemented, the EU's agricultural reform will result in a fall in Arla Foods' Ingredients' revenue of around DKK 550 million per annum compared to pre-reform revenue.

Arla Foods Ingredients' business is divided into two business areas: industry and ingredients sales, which are responsible for the sale ofretail packed milk powder under the Dano and Milex brands to retail stores.

From milk to proteins

When 100 litres milk is processed into cheese, the result is 10 kg cheese and 90 litres whey. 5 kg minerals, lactose and proteins can be extracted from the whey.



Industry

This business area comprises production and sales of added value ingredients for global food producers.

Arla Foods is an important supplier to several areas of application, including the nutrition, dairy, meat and ice cream industries.

2003/04 saw positive results in several markets in Eastern Europe and the Middle East. The opening of an office in Mexico and the expansion of the representative office in China have further strengthened Arla Foods' presence in these markets.

The application of new technology is expected to increase Arla Foods' market shares especially within ice-cream, yoghurt and cheese. In addition, the further development of milk proteins which offer a range of competitive benefits continues.

During the year under review, a new business area, bakery, was established, which sells milk proteins as a substitute for egg whites in cakes. This area is believed to offer considerable potential, especially in Europe and South America.

In May 2004, Cremo, Denmark, disposed of its cheese powder business to the Irish Kerry Group. As, for some time, this product area had been suffering from surplus capacity, consolidation was necessary to achieve satisfactory earnings.

On the industry side, Arla Foods Ingredients is involved in two joint ventures.

In Argentina, Arla Foods Ingredients partners the leading dairy, SanCor, and processes local raw materials into a broad range of milk proteins. Since the factory's commissioning in 2002 both whey intake and net result have developed positively and the factory in Porteña is set to produce more processed products which have, until now, exclusively been made in Denmark. The Argentinean factory supplies markets in South and Central and Latin America.

The second joint venture, Sweetgredients, is with Nordzucker in Germany. The low calorie sweetener, tagatose, is produced at the Sweetgredients' plant in Nordstemmen, Germany. This

Specially designed milk proteins
Years of research into milk's hidden components have created a broad range of functional milk proteins designed to give products like ice-cream, dairy and meat products the right flavour and consistency.

Fruit drinks with milk proteins may be used for dietary and weight control purposes.

production is the world's first (and so far only) commercial production of tagatose and offers Sweetgredients the opportunity to test the market potential for the product before any decision on largescale production is taken. The primary applications for the low calorie sweetener are breakfast products, chocolate and drinks. At the close of the financial year, tagatose had been approved by the authorities in the United States, Japan, Korea, Australia and New Zealand and by the international organisation JECFA (The Joint FAO/WHO Expert Committee on Food Additives). Approval in Europe is expected within the next few years.

Production

Over the past three years, Arla Foods has invested close to DKK 1 billion in the development of the milk powder plants in Denmark and Sweden where the facilities at Arinco and Akafa in Denmark and Visby in Sweden have all been significantly upgraded. Consequently, the milk powder plant in Kjersing in Denmark was closed in March 2004. In December 2004, one of the world's most modern milk powder plants will be commissioned at Vimmerby in Sweden, with an annual capacity of 380 million kg milk. The facilities at Kimstad and Mjölby in Sweden will subsequently be closed in 2005. The same is the case with the production of milk powder at the two Swedish cheese dairies in Falkenberg and Kalmar. Once the new facility at Vimmerby in Sweden is commissioned, Arla Foods' range in Sweden will switch from skimmed milk powder to full-cream milk powder. This is expected to offer general financial benefits.

Quality is an important focus area and microbiology has high priority in the endeavour to maintain high and consistent quality levels across the production plants in Denmark and Sweden.

New powder factory in Sweden
The new milk powder factory in Vimmerby, Sweden, will handle around one fifth of Arla Foods' Swedish milk volume of 380 million kg. Production starts at the end of 2004.

Innovation

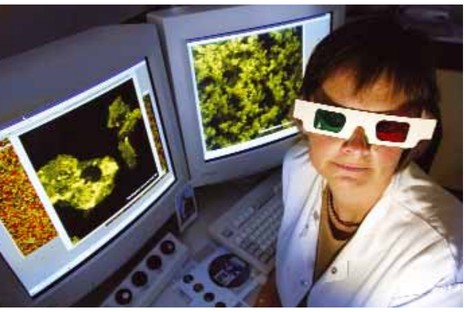
The group staff function, Innovation,
employs 200 people, has an annual spend of approx. DKK 200 million and develops around 200 new products each year.

Food should be physiologically healthy as well as appeal to the five senses: sight, taste, smell, touch and even hearing. This is the message from consumers to food companies.

Arla Foods Innovation operates as an integrated part of the business areas (the divisions) to create the best products within all dairy product categories. Each year, the 200 employees develop around 200 new products within the cheese, drinks, butter and milk powder sectors. In Sweden and Denmark alone, between 30 and 50 products are launched every year in each market. The development departments are located at various sites in Sweden and Denmark.

Changing eating habits with new eating times, consumer wishes for calorie reduced products, frequently changing tastes and a higher level of convenience (i.e. innovative packaging, product portioning and a greater level of preparation) - continue to demand range renewal.

Consumer assessments
Product development takes place in close co-operation with consumers who make taste profiles of the products.



Products in 3D
Arla Foods employs the most advanced analysis methods, e.g. three-dimensional images of the products' structure.

Strong network

To develop tasty, inspiring, healthy and competitive products, a strong network within the areas of knowledge and skills is essential. Arla Foods Innovation, therefore, collaborates with consumers and customers to test concepts and trial products: with chefs to find the optimum flavour, with suppliers of ingredients, technology and packaging to compose, produce and package such ideas and with researchers from across the world to solve other basic issues.

Last year, focus on research and product development remained largely unchanged measured in cost terms. However, greater efficiency in the selection and roll-out of projects resulted in an increase in the real value of the work.

Technology development and research

By developing new process technologies, Innovation assists in laying the foundation for the production of entirely new products, enhancing production calculations and, not least, improving production safety.

Research covers the entire value chain from farm to table and takes account of the commercial challenges facing the Group. To take low calorie products: as demand for such products increases, so do the demands on eating quality and on the sale and alternative use of residual milk fat.

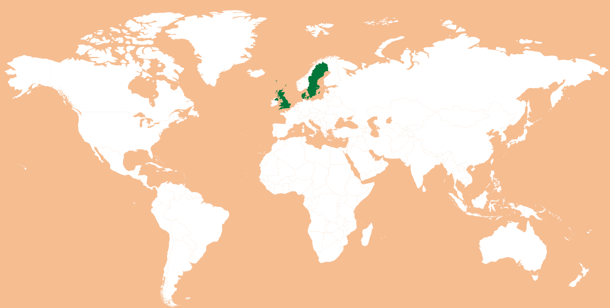
Nutritional policy

Under the headline "Milk is natural and healthy", Arla Foods adopted a nutritional policy during the year based on the company's values in relation to consumers. Thus the company wishes to take an active part in the nutritional debate wherever and whenever it concerns milk and dairy products.

- **Objective**
  Our nutritional policy will ensure that all stakeholders can identify with the statement
  "Milk is natural and healthy".

- **Values**
  Confidence
  Welfare
  Inspiration

- **Means**
  Information
  Dialogue
  Research



Coffee bars are cropping up everywhere as coffee becomes ever more popular. Milk is almost as an important ingredient as the coffee itself because in many cafés, milk is used in around 80% of all coffee drinks, e.g. café au lait, cappuccino and cafè latte. A typical large café uses 100-120 litres milk per day.

In Denmark and Sweden, Arla Foods has, on several occasions, been the main sponsor of the national Barista championships.

Arla Foods' responsibility

The ten global guidelines
- *Business behaviour*
- *Management principles*
- *Workplace*
- *Market approach*
- *Human rights*
- *Relations with society*
- *Farm operations*
- *Environmental considerations*
- *Food safety*
- *Nutrition and health*

As Arla Foods meets the needs of millions of consumers across the world for dairy products, the responsibility for quality and food safety as well as nutrition and health is an integral part of our daily business.

Trading with other businesses in more than 100 countries, Arla Foods also plays a part in the interaction between countries, businesses and people. Whenever dilemmas and conflicts arise, Arla Foods must address them.

Arla Foods employs a workforce of 21,000 worldwide who share a commitment to their work. To create a common understanding of the company's attitudes Arla Foods laid down global guidelines for ten areas during the year under the heading of “Our responsibility”.

“Our responsibility” expresses Arla Foods' commitment to managing quality and ethics in a sustainable and responsible manner aimed at achieving appreciation and financial success.

Arlagården

Today, animal welfare, traceability and food safety are crucial quality issues for shoppers as well as for supermarket buyers, canteens and restaurants.

The Arlagården quality programme is based on the premise that modern consumers want to be informed about food quality over and above its nutritional value and bacteriological quality.

The programme, which came into force in October 2003, focuses on the first link in the value chain, i.e. the milk producers. Through Arlagården, Arla Foods in Denmark and Sweden sets out demands in respect of the milk's quality as well as animal welfare, environmental issues, food safety and traceability, including documentation.

School children on farm visits
In Sweden, Arla Foods offers school children up to year 3 a visit to one of Arla Foods' co-operative member farms. The scheme, called Arla Minior, also includes teaching material. Farm visits give children the opportunity to see where milk comes from and to taste some milk-based products.

Clear requirements

Arlagården comprises a clear description of the requirements milk producers must meet if they wish to supply milk to Arla Foods. The programme is designed so that it is clear what requirements originate from which legislation, e.g. feed or animal legislation, and which requirements originate from the industry or from Arla Foods. It also lists the documentation that milk producers are required to provide.

In the event of serious deficiencies at the farm (e.g. animal neglect), Arlagården lists the sanctions that Arla Foods can enforce.

Stringent requirements in relation to legislation

Swedish and Danish legislation already imposes stricter requirements – particularly in the area of animal welfare – than is the case in most other countries.

Arla Foods' quality programme's requirements and recommendations are divided into four main areas: milk composition, food safety, animal welfare and environment.

Arlagården's wide-ranging requirements go beyond current legislation for feed, disease prevention, cleaning, monitoring of milk tanks etc. For example, cattle feed must be of a high quality and originate from approved feed suppliers that comply with voluntary agreements in the industry. Furthermore, the feed must not be grown in fields fertilised with slurry from municipal purification plants.

Arla Foods, of course, also focuses on the milk's flavour and its bacteriological quality. Arla Foods, therefore, recommends that co-operative members equip their milk tanks with alarms that continuously monitor the temperature of the milk and cleaning processes. Tank alarms are required on all new tanks.

As co-operative members' farms are part of Arla Foods' external profile, it is recommended that the farms are orderly and generally make a good impression.

Safety and traceability

More than ever before, customers and consumers are making increasing demands in respect of food safety and product traceability.

Arlagården means enhanced traceability. The origin of the feed is documented on suppliers' invoices and delivery notes and as milk producers are obliged to keep a medicine journal, this documents the medicines used. Milk samples are taken regularly at the farm so it can always be documented which farm has supplied the milk, which tanker has transported the milk and which dairy has processed it.

Danish and Swedish quality staff

At the close of the financial year, around 60 specially trained staff in Denmark and Sweden were engaged in the first round of visits to all milk producers who supply milk to Arla Foods. The purpose of the consultant visits is to introduce the quality programme, assist co-operative members in complying with the programme and evaluate the farms.

The results from the visits will determine whether a farm is "approved", "approved with action plans, which must be implemented before the next ordinary visit" or is to receive "a follow-up visit".

Follow-up on a farm's own audits, responsibility for which was transferred to the industry on April 1, is carried out at the same time as visits to Danish farms.

By September 30, 2004, approx. 1,900 visits had been completed in Sweden and Denmark. Visits to the remaining 10,000 suppliers are expected to take place before the end of April 2006.

To increase consumer awareness of Arlagården, a number of initiatives have already been taken with more planned. The quality programme and scenes from a farmer's working day are, for instance, depicted on milk cartons and on the Internet.

A dialogue with consumers

The launch of Arlagården in Denmark in 2004 was marked by some 70 events, including cattle shows and consumer fairs where over half a million people took part. One tenth of Denmark's population has now had the opportunity to learn about milk production and meet some of Arla Foods' co-operative members.

Arlagården was also introduced at consumer fairs in Sweden. In both countries, emphasis is on openness and dialogue between milk producers and consumers.

Harmonisation of quality systems

With regard to quality management, all Arla Foods' dairies comply with one or several internationally recognised standards. However, minor variations can occur in the design of the systems at the individual plants which means that customers experience differences in the documentation that accompanies the products.

To harmonise this and create consistent documentation, Arla Foods drew up a common Foods Safety Policy during the year. The implementation of common systems will begin during 2005.

The policy will create a common framework for food safety at the Group's production sites - initially in the UK, Sweden and Denmark. To support the policy, a joint set of regulations is being drawn up, i.e. a Code of Practice. The first regulations within the HACCP and personal hygiene areas are in place and several initiatives within the field of hygienic design of machinery are in preparation.

Overall implementation is expected to be completed by 2007.

Arla Foods' employees

In the significantly tougher competitive climate, Arla Foods' managers must be ready to adopt a pro-active stance to the changes and developments required. New patterns must replace old and managers must lead and contribute to new solutions. At the same time, Arla Foods' managers have highly qualified staff at their disposal who are, indeed, among the best in the modern dairy industry. Consequently, Arla Foods constantly puts high priority on the recruitment and development of employees.

Since the merger in 2000, the number of employees at Arla Foods has fallen steadily owing to closures and rationalisations at the dairies. The Trim project of 2003/04 also reduced the number of white-collar workers by 344 full-time positions.

The increase in the number of employees in the UK is owing to last year's merger with Express Dairies. The two dairy closures planned for the beginning of 2005 will reduce the number of employees by approx. 400.

Image and development

When it comes to graduate recruitment, Arla Foods' image is all important. In Denmark, Arla Foods' image as an employer has fallen among Economics and Engineering students over the past three years. In Sweden, however, the trend is more stable. Among the more mature Economics and Engineering graduates, the company has a higher position in both countries.

Few surveys exist for other graduate groups. However, it is clear that the industry is losing popularity and this must be addressed.

In the area of staff development, Group HR has embarked on several initiatives.

Joint internal and external training programmes are being established for dairy staff and several Arla Foods' production areas have been analysed with a view to securing future skills. Arla Foods has also developed new and wide-ranging courses for Arla Foods' managers. During 2004, 572 managers from all levels took part in management development courses and 18 management groups have begun or planned joint development programmes.

Young employees are encouraged to gain international experience and Arla Foods is keen to recruit staff for foreign postings. In 2003/04, 130 staff and their families were seconded abroad. In view of the situation in the Middle East, the Group devoted much effort to securing the safety of expats and their families.

Progress in survey

Arla Foods carries out an annual staff satisfaction survey, the Barometer.

In 2003, the survey was completed by 85% of staff in Sweden, Denmark and Germany. At Group level, the result showed an advance of 6 index points. In response to the question whether appraisal interviews had taken place, 72% responded in the affirmative, an increase of 17 index points. Barometer 2003, however, showed that 26% of staff suffer from stress. Group management have, therefore, launched some initiatives and have recommended that the individual workplaces address the problem.

In the Swedish part of Arla Foods, work has been ongoing to ensure that salaries reflect employees' qualifications. All Swedish dairies, therefore, are replacing hourly pay with monthly salaries for all permanent, hourly paid staff. Arla Foods is the first Swedish company within the food sector to do this. Monthly salaries will mean a more even income for staff, simpler administration and increased efficiency. This is also an important signal about the company's view of employees' contribution to its development.

Environment and working environment

Arla Foods is committed to reducing the environmental effects from farm to table and to a healthy and safe working environment in order to promote sustainable development.

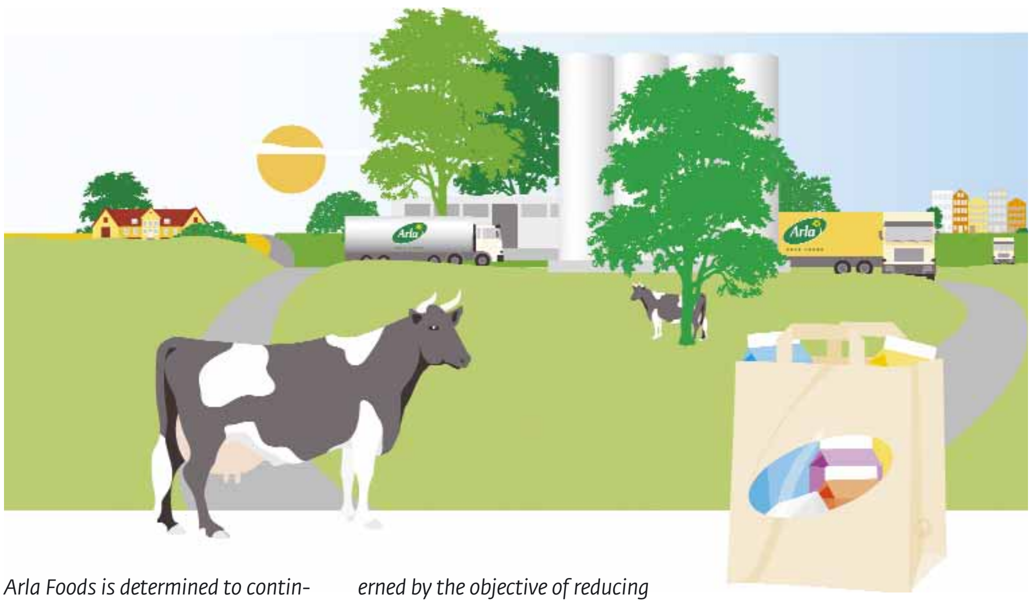
Arla Foods' environmental work takes place within the framework of the Group's environmental management system, environmental policy and the related targets for the environment and working environment. The environmental targets must be met by 2005/06.

The objectives apply to the entire group with the exception of the UK, where new targets for the environment and working environment have been drawn up since the merger with Express Dairies last year. Many resources have been committed to ensure that all Arla Foods UK plc's production plants apply for IPPC accreditation (Integrated Prevention Pollution Control) before April 1, 2005.

As the trend for energy consumption has been unsatisfactory, certain energy projects have been initiated at selected plants to review the potential for reducing energy consumption further. These projects have produced some positive results and equivalent projects will be set in motion at other plants in the new year.

With regard to accidents at work, owing to the fact that the accident frequency has declined less than desired, a risk evaluation of workplaces at the dairies has been initiated to prevent future accidents.

The properties of all products containing chemicals used at the Group's plants must be assessed in relation to the effect on health and the environment before 2005/06.



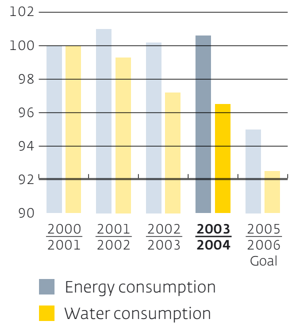
Arla Foods is determined to continually reduce the environmental impact of the supply chain, from farm to table. The Danish and Swedish farms under the quality programme, Arlagården, strive to reduce environmental impact.

Like production at the dairies, transport of milk to the dairies and subsequently to the stores is governed by the objective of reducing CO_2 and NO_X emissions. Targets for the production's consumption of water, energy and chemical consumption as well as the working environment and environmental accreditation have also been set out.

In other focus areas, waste, packaging and product development, local targets or procedures have been stipulated for reducing environmental and working environmental impact. The endeavours also include ethics and value creation and the Arla Foods Group's image.

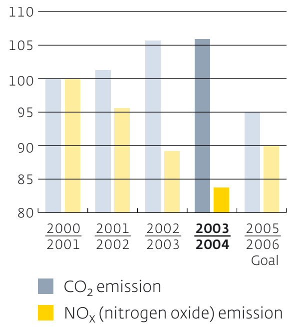
Energy and water consumption

Index in relation to raw and finished goods and product mix



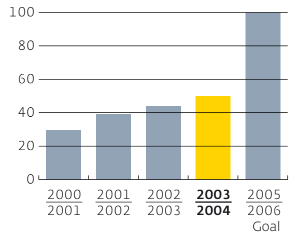
CO_2 and NO_X emissions

Index in relation to raw and finished goods and product mix



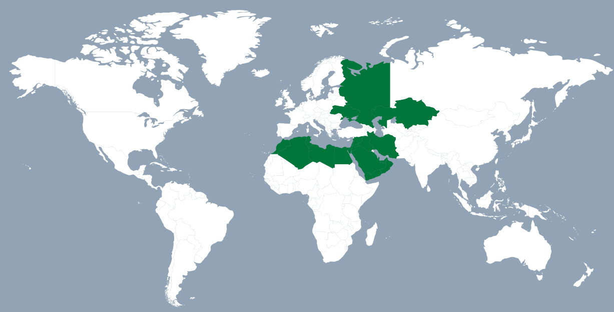
ISO 14001 accredited plants in Sweden and Denmark

Percentage



The two top charts show the Group's plants (except the UK)

For many years, the Puck brand has been known in the Middle East for its white, mild processed cheese in glass containers. The product is market leader in its category. Puck is also one of Arla Foods' strongest international brands and one of the largest dairy brands in the Middle East. At the beginning of 2004, the brand was extended to include a Cheddar variety which was launched in all six Middle Eastern markets.



Other activities

Rynkeby Foods A/S and JO Bolaget AB

An integrated partnership under joint management, Rynkeby Foods A/S and JO Bolaget are market leaders in Denmark and Sweden within the fields of fruit drinks and fruit juices.

In general, the juice and fruit drinks markets are seeing slow development while, at the same time, being under pressure from a number of foreign, discounted products. Within the fruit juice area, focus will be on strengthening sales and innovation of fresh, chilled fruit juice.

Rynkeby Foods, wholly owned by Arla Foods, produces and markets fruit juice, squash, ice tea, wine and marmelade.

Rynkeby experienced strong competition from imported low-price fruit juice, which has impacted on the year's result. As in the previous year, the result was positively affected by special items of DKK 6 million from the sale of factory buildings.

Rynkeby Foods A/S		
DKK million	**03/04**	02/03
Turnover	**719**	790
Operating profit	**21**	36

JO Bolaget is a trading company specialising in fruit juice, fruit drinks and fruit soups and is engaged in purchasing, product development and marketing. The company is jointly owned by Arla Foods and Skånemejerier, which produces, sells and distributes the products.

The result, which is stable and satisfactory, is integrated into the two dairy companies' dairy activities.

Sales of ready-to-drink fruit juice and concentrated juice in Sweden declined during the financial year partly owing to competitive developments, the sugar debate and an unfavourable summer. However, JO Bolaget managed to maintain sales of chilled juice which accounts for 60% of the company's sales.

Rynkeby Foods intends to strengthen the chilled fresh fruit juice segment

Chilled fruit juice accounts for 60% of JO Bolaget's sales

Frödinge Mejeri AB

Frödinge Mejeri AB produces and sells cheesecake, frozen layer cake, pies and tarts to markets in the Nordic area, the UK, Germany and Russia. Sales in the Swedish home market fell by 1% on 2002/03, although the launch of new products in the second half of the year led to improved sales as several launches within the dessert area were positively received. In the healthy eating segment, the company launched a range of fat-reduced savoury pies.

Sales to the UK market advanced. During the year, Frödinge started production of layer cakes for the UK market for an international food company.

In Germany, the company's volume has not yet fully recovered. The setting up of a new sales team has taken longer than expected and the market in general has declined.

Finland continues to show positive development and is gaining market shares. In 2004/05, the expansion, particularly in export markets, is expected to continue.

Frödinge Mejeri AB		
DKK million	**03/04**	02/03
Turnover	**267**	245
Operating profit	**15**	14

Kladdkaka from Frödinge – launched in 2004

The Medipharm Group

Medipharm produces bacteria cultures for animal feed, ensilage and food. The company's main markets are the EU and the US.

Factors behind the decline in turnover include reduced sales of cheese ripening cultures and ensiling products and the lengthy process concerning EU approval for the sale of feed additives. The low dollar rate also had a negative impact on the result.

In June 2004, Medipharm obtained permanent approval for the product, Enterococcus faecuim M74, which is added to feed for calves and piglets. The company was the first in the EU to obtain this type of approval, which is expected to make a positive impact on next year's sales.

Following Arla Foods' launch of the probiotic bacteria culture, F-19, sales of this culture are rising. Negotiations and trials are being conducted with major companies in the US and Korea regarding the inclusion of F-19 in their product ranges.

The business area, contract fermentation, experienced good growth during the year. In general, there is substantial interest in "probiotic bacteria for human use."

Medipharm has subsidiaries in the US, the Czech Republic and Hungary. The US and the Czech Republic businesses saw a positive development with increased sales within ensiling and feed additive products.

The Medipharm Group		
DKK million	**03/04**	02/03
Turnover	**87**	96
Operating profit	**4**	7

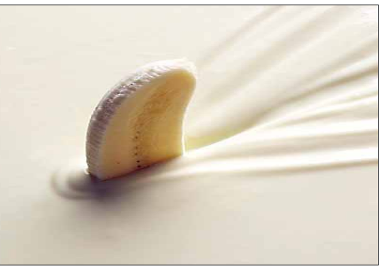
Muesli in Top Cups for dairy products produced by Crispy Foods.

A/S Crispy Food International

A/S Crispy Food International's main activity is the filling of Top Cups for Europe's dairy industry. The company also supplies müesli in bulk and retail packs for customers in the dairy, bakery and retail sectors.

Crispy Food has performed well in recent years with high growth in turnover. In 2003/04, Crispy Food International invested in a new development laboratory, more development staff were taken on, the company received ISO 14001 environmental accreditation and new investments were channelled into the company's organisation and IT as well as production efficiencies. Alongside the ongoing improvements in the company's market profile, this gives grounds for optimism with regard to both turnover and profit for the coming years.

A/S Crispy Food Intl.		
DKK million	**03/04**	02/03
Turnover	**54**	53
Operating profit	**5**	5



Dairy Fruit processes fruit for dairy products.

Dairy Fruit A/S

Dairy Fruit produces fruit preps for dairy products as well as fruit compote and marmalade.

In 2003/04, Dairy Fruit focused on maintaining sales to its main markets, Denmark and Sweden, and expanding sales to Germany, the UK, Holland, Iceland and Finland within the company's core business of fruit preps. Sales to new markets are expected to increase over the coming years.

The company has expanded its activities into liquid spice mix, which is expected to strengthen its customer base.

During the year, Dairy Fruit purchased an adjacent property to allow for further expansion.

Dairy Fruit A/S		
DKK million	**03/04**	02/03
Turnover	**212**	200
Operating profit	**10**	7

Procudan

The trading company, Procudan, primarily focuses on sales of ingredients and packaging for the food and pharmaceutical industries. Procudan also produces cheese wax.

While most of the turnover derives from the Danish market, sales to Iceland and Sweden also developed satisfactorily. In the spring of 2003, Procudan established a subsidiary in Sweden, which in its first full year of operations performed satisfactorily. Further growth is expected for the coming year.

During the year, the company entered some new business areas, including sales of flavourings. Milk filter production was disposed of. At the same time, however, Procudan has taken over responsibility for all sales to Denmark, Sweden and Norway.

Expectations are for growth in both turnover and profits in the coming financial year.

Procudan	
DKK million	**03/04**
Turnover	**196**
Operating profit	**2**

Procudan makes cheese wax in many colours.

The Danapak Group

In 2003/04, Danapak amba, which produces and sells cardboard packaging, became a limited company, Danapak Holding A/S, after the cooperative owners agreed to sell their share to Arla Foods. Danapak Holding A/S is now a wholly-owned subsidiary within the Arla Foods Group.

In 2003/04, Danapak continued its endeavours to adjust to the increasingly competitive market conditions. The factory in Greve ceased operations at the end of 2003 and production was transferred to Herning and Korsør. The level of innovation continues to grow.

In Germany, Danapak's largest export market (with production in Bremen), the market remains weak and suffers from overcapacity. Consolidation within the industry is minimal and Danapak remains committed to promoting and participating in further consolidation.

The associated Danapak Flexible group, with production in Denmark and the UK, is 40% owned by Danapak and 60% by the Austrian Teich Group, a major European player within flexible packaging. 2003/04 recorded a break-even result against a Danapak share of DKK –12 million for 2002/03. The improvement is expected to continue in 2004/05.

The Danapak Group		
DKK million	**03/04**	02/03
Turnover	**383**	429
Operating result	**–19**	–46

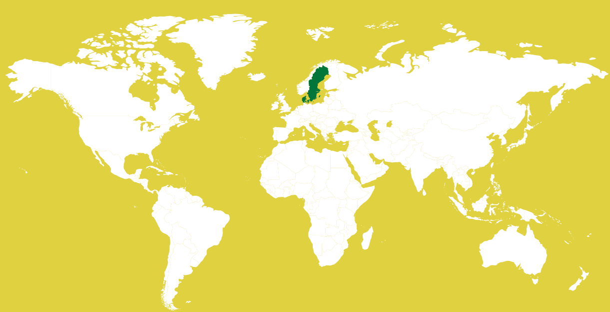
Danapak supplies carton packaging for a wide variety of customers including Arla Foods.

Delimo A/S

During the year under review, the cheese importing company, Delimo A/S, which is wholly-owned by Arla Foods, worked towards strengthening sales and distribution across the Nordic area.

In Norway, Arla Foods Norway is now responsible for sales of Delimo's imported speciality cheese. Negotiations have also started with Arla Foods Finland with a view to similar co-operation in the Finnish market.

During the year, Delimo A/S acquired a 51% share of Swedish cheese importer, KronOst AB.



From school to leisure activities, from sport to visiting friends…the drinking yoghurt, Yoggi Yalla is specially designed for young people on the move. Yoggi Yalla was launched in the Swedish market in 2001 and rapidly became one of Arla Foods' biggest successes.

In the spring 2004, drinking yoghurt was launched in Denmark. This is a fast growing market in both countries.

Finance review

Profit and loss account

The result for the year, supplementary payment and consolidation
The result for the year was DKK 1,019 million against DKK 1,094 million for 2002/03. The result was negatively affected by exchange rate developments, reductions in export subsidies and deteriorating market conditions, especially in the domestic markets. The result was also significantly affected by a lower on account price for co-operative member milk and non-recurring income in the form of profits from the sale of businesses.

Arla Foods' earnings per kg milk supplied by co-operative members totalled 239.06 Danish øre/293.68 Swedish øre against 256.44 Danish øre/313.48 Swedish øre in 2002/03. Earnings per kg co-operative member milk are now paid under the same terms to Swedish and Danish co-operative members.

Supplementary payments totalled DKK 586 million against DKK 546 million in 2002/03. Of the year's result, DKK 433 million is consolidated of which DKK 123 million is reconsolidated with regard to the equity/subordinate loan capital. Net consolidation is 5.00 Danish øre per kg co-operative member milk against 6.80 Danish øre per kg for 2002/03. In addition, there is the statutory regulated reconsolidation of 1.98 Danish øre per kg against 1.97 Danish øre per kg for 2002/03.

Net turnover
Turnover for 2003/04 totalled DKK 47,608 million against DKK 40,647 million in 2002/03. The increase is largely due to the inclusion of Express Dairies which increased the Group's net turnover by approx. DKK 7.5 billion. This aside, the Group saw a slight fall in net turnover which can largely be attributed to the disposal of the Group's Semper business in 2002/03.

Operating profit
Operating profit totalled DKK 1,164 million in 2003/04 against DKK 1,242 million in 2002/03. Production costs include an on account payment to co-operative members of DKK 13.9 billion against DKK 15.0 billion in 2002/03.


Finance Director Jørn Wendel Andersen

As previously mentioned, operating profit was, to a great extent, negatively affected by external factors relating to foreign exchange rates and the EU's agricultural policy. Depreciation increased by DKK 372 million mainly due to the inclusion of Express Dairies. The development in other cost items was maintained at a low level, through staff reductions, rationalisation and efficiency improvements.

The year's total milk volume was 8,512 million kg of which co-operative member milk accounts for 6,194 million kg. The majority of the non-co-operative member milk supplies relates to the UK.

Ordinary profit before tax
The pre-tax result for the year was significantly affected by non-recurring income in the form of profits from the disposal of the companies, Cremo and AM Foods, which resulted in profits of DKK 404 million.

Net financing expenses rose from DKK 245 million in 2002/03 to DKK 394 million in 2003/04. The increase is largely due to the funding in connection with the year's investments and the inclusion of Express Dairies.

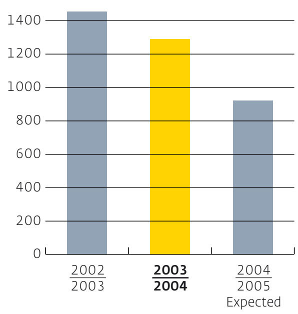
Balance sheet

Fixed assets
Intangible fixed assets of DKK 2,630 million largely comprise goodwill from the acquisition of Express Dairies and the IT development project, Ett Arla.

Tangible fixed assets totalled DKK 11,063 million against DKK 10,039 million as at 30.9.2003. The increase of DKK 1,024 million can primarily be attributed to investments in the UK (Stourton), Sweden (Vimmerby) and Denmark (Høgelund).

In connection with dairy closures in Denmark, Sweden and the UK, write-downs of

Refunds
DKK million



these plants to the expected net sales price were made. The year's write-downs totalled DKK 126 million, primarily due to the UK dairies.

Current assets

Stocks totalled DKK 3,471 million as at 30.09.2004 against DKK 3,805 million as at 30.09.2003.

Receivables totalled DKK 4,714 million as at 30.9.2004 which is largely unchanged from 30.09.2003 where the amount was DKK 4,604 million.

Equity

As at 30.09.2004, equity totalled DKK 7,361 million which equates to an increase of DKK 206 million compared to 30.09.2003. The share of the year's result, appropriated for consolidation, totalled DKK 433 million. Equity, therefore, only increased by approx. half of the consolidated amount, which is partly due to the statutory regulated distribution from equity (DKK 93 million) and partly to other accounting adjustments.

Solvency measured as net capital in relation to the balance sheet stood at 29% as at 30.9.2004 against 28% on 30.9.2003.

Solvency including the subordinated bond loan was 33% as at 30.9.2004.

Provisions

Pension commitments relate to the pension schemes in the UK and Sweden, where Arla Foods is obliged to pay pensions to former staff from the date of retirement (contribution-based pension schemes). Pension commitments total DKK 3,079 million as at 30.9.2004 against DKK 2,966 million as at 30.09.2003. The increase can primarily be explained by exchange rate changes.

Borrowings

The Group is financed through mortgage loans and loans with other credit institutions as well as a subordinated bond loan.

Managing financial risks

The Group's general policies for managing financial risks

Arla Foods' international activities mean that the Group's result and equity are affected by a number of financial risks. The main objectives and the principles governing Arla Foods' financial risk management are stipulated in the Group's finance policy, which has been approved by the Supervisory Board. The main aim of the finance policy is to ensure a stable cash-flow as well as financial flexibility.

The finance policy comprises the Group's foreign exchange, financing, liquidity and credit policies and a description of the approved financial instruments, framework and financial counterparts.

Arla Foods hedges commercial risks only and does not engage in speculative transactions. The Group's policy is that the individual business units are responsible for hedging, whereas all external hedging is undertaken centrally by the Treasury Department.

In principle, Arla Foods does not hedge equity in foreign affiliated and associated companies.

The foreign exchange risk

The foreign exchange risk is a significant financial risk for Arla Foods and has, therefore, a significant impact on the profit and loss account and the balance sheet.

The main proportion of the Group's net turnover is in GBP, SEK, DKK, EUR and USD, while most of the Group's production and other operating costs are incurred in GBP, DKK and SEK. The most significant currency risk relates to USD while the exchange rate risk relating to EUR is assessed to be low due to Denmark's fixed currency rate policy. As the Group presents its accounts in DKK, there is a material exchange rate risk in GBP in that GBP sales are substantially higher than GBP costs.

Forward exchange and options contracts with up to a 15 month term are used for hedging the currency risk.

Net turnover 2003/04 was DKK 48 billion of which DKK 38 billion was in currencies other than DKK.

Hedging instruments are estimated to have resulted in a net positive operating effect of approx. DKK 150 million in 2003/04.

A swing of 5% in USD and GBP would mean a fluctuation in the result of DKK 120 million and DKK 80 million.

Financing and interest rate risks

The objective of Arla Foods' financing policy is to underpin the Group's strategic plans and reduce the risk of financial instability and minimise long-term borrowing costs with due regard for risk and strategy.

To a great extent, the Group is financed through long, fixed-interest rate loans. As at 30 September 2004, the total interest-bearing long-term debt totalled DKK 8,924 million against DKK 8,971 million as at 30 September 2003. The average term to maturity is approx. 6.5 years while net financing expenses in 2003/04 averaged 4.4% of the net debt.

In 2003/04, Arla Foods raised a subordinated bond loan of DKK 1,000 million. The loan's term to maturity totals 6.6 years with the option of extending it for a further 3 years. The interest rate is 5.61% in the first 7 years, which resulted in interest expenses of DKK 23 million in the financial year.

During the year Arla Foods also issued commercial papers to partly finance the Group's Swedish activities.

Total interest bearing debt in the Group is split with 62% in DKK, 19% in SEK and 19% in other currencies.

To hedge the Group's interest expenses, hedging instrument contracts have been entered into. As at 30 September 2004, the market value of these contracts stood at DKK –38 million, which is recognised directly in the equity.

Arla Foods' result is, in the medium-term, significantly affected by interest rate movements. An interest rate increase of 1% in the coming financial year is, however, not deemed to have a significant impact on the result.

Liquidity risks

The liquidity risk is managed by ensuring the availability of sufficient operating liquidity and liquidity for acquisitions.

To ensure the neutralisation of excess liquidity and debt, central cash pools were established in 2003/04 to ensure that external financing is kept at a minimum and to secure optimum returns of any excess liquidity.

As at 30 September, 2004, the Group's total liquidity reserve amounted to:

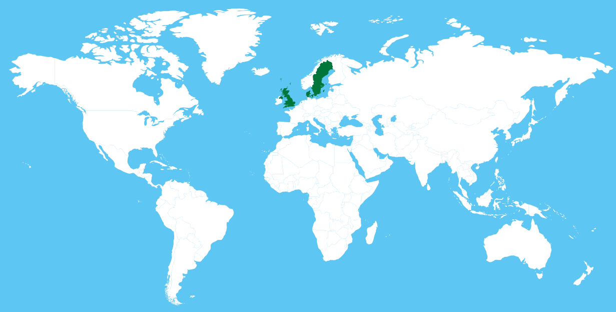
	DKK million
Liquidity reserves	873
Securities	374
Unused borrowing facilities	5,925
Total liquidity reserves	**7,172**

Credit risks

Arla Foods' trade debtors are deemed to be of an ordinary nature. Credit management is done in the Group operating units. In 2003/04, bad debts increased as a result of the provisions made in foreign subsidiaries.

Ongoing credit assessments of the Group's counterparts and customers are undertaken to minimise the credit risk. Credit insurance is taken out whenever there is deemed to be a risk.

British school children increasingly drink milk with their lunch. Approx. 10% of British primary schools run school milk schemes and the figure is growing every year. Arla Foods UK plc supplies approx. 80 million cartons of milk to British schools per year, i.e. 30% of the market. All Swedish schools run milk schemes with Arla Foods, which supplies 63% of schools. The milk is delivered in bags for automats and approx. two-thirds of children drink milk with their lunch. In Denmark, approx. 50% of schools belong to the dairies' school milk scheme and approx. 132,000 pupils – corresponding to approx. 20% of the total – receive a quarter of a litre of milk through the scheme.



Management's statement

The Management Board and the Supervisory Board have today discussed and adopted the annual report of Arla Foods amba for the financial year 1 October 2003-30 September 2004.

The annual report has been prepared in accordance with the Danish Financial Statements Act. We consider the accounting policies applied to be appropriate. Accordingly, the annual report gives a true and fair view of the Group's and the parent company's financial position at 30 September 2004 as well as of the results of the Group's and the parent company's activities and cash flows for the financial year 1 October 2003-30 September 2004.

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

Aarhus, 22 November 2004

Management Board:

Åke Modig *Man. Director*	Povl Krogsgaard *Deputy Man. Director*	Andreas Lundby *Deputy Man. Director*	/ Jørn Wendel Andersen *Finance Director*

Supervisory Board:

Knud Erik Jensen *Chairman*	Åke Hantoft *Deputy Chairman*

Leif Backstad	Anders Ericsson	Ove Møberg	Søren Rasmussen
Viggo Ø. Bloch	Leif Eriksson	Per Norstedt	Pejter Søndergaard
Steen Bolvig	Elisabeth Gauffin	Jan Toft Nørgaard	Bent Juul Sørensen
Bjarne Bundesen	Thomas Johansen	Kaj Ole Pedersen	
Christer Eliasson	Sören Kihlberg	Gunnar Pleijert	

Auditors' report

To the members of Arla Foods amba

We have audited the annual report of Arla Foods amba for the financial year 1 October 2003-30 September 2004.

The annual report is the responsibility of the company's Management Board and Supervisory Board. Our responsibility is to express an opinion on the annual report based on our audit.

Basis of opinion

We conducted our audit in accordance with Danish Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual report. An audit also includes assessing the accounting policies used and significant estimates made by the Management Board and the Supervisory Board, as well as evaluating the overall annual report presentation. We believe that our audit provides a reasonable basis for our 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 30 September 2004 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 October 2003-30 September 2004 in accordance with the Danish Financial Statements Act.

Aarhus, 22 November 2004

KPMG C. Jespersen *Statsautoriseret Revisionsinteressentskab*	PricewaterhouseCoopers *Statsautoriseret Revisorinteressentskab*

E. Black Pedersen *State Authorised* *Public Accountant*	J. Bräuner Knudsen *State Authorised* *Public Accountant*	Göran Tidström *Authorised Public* *Accountant*	Jesper Lund *State Authorised* *Public Accountant*

Accounting policies

General information

The annual report of Arla Foods amba for 2003/04 has been prepared in accordance with the provisions applying to large class C enterprises under the Danish Financial Statements Act.

The accounting policies are consistent with those applied last year.

Consolidation

The consolidated financial statements comprise Arla Foods amba (the parent company) and those subsidiaries, cf. the list of group companies on pages 54-55, in which the parent company directly or indirectly holds more than 50% of the voting rights or in which the parent company in other ways has a controlling interest. 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 have been prepared by a consolidation of similar items from the parent company's and the individual subsidiaries' annual reports. Intra-group income and expenses, shares, outstanding accounts, dividends and unrealised gains and losses have been eliminated.

As regards the acquisition and sale of subsidiaries, the operations of such subsidiaries have been included in the consolidated financial statements for that part of the year in which the subsidiaries 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 the restatement of fair values is taken into account.

Any excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities acquired (goodwill) is recognised as intangible assets and amortised in the profit and loss account based on an individual assessment of the useful life of the asset, not exceeding 20 years. Any excess of the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition (negative goodwill), representing an anticipated adverse development in the acquired enterprises, is recognised in the balance sheet as deferred income and recognised in the profit and loss account as the adverse development is realised.

If the restatement of the fair values of the acquired enterprise's assets and liabilities results in negative net asset values in the acquired enterprise, then any minority assets are recognised as part of the positive difference. The positive difference relating to the minority asset is amortised until the minority interest represents a liability again. At the same time, the results from the acquired enterprise are recognised in full in the consolidated results. Amortisation for the year on the minority asset is determined so that the impact on the group's results is that only the group's share of the results is recognised.

Gains or losses on full or part disposal of subsidiaries are stated as the difference between the sales amount and the carrying amount of net assets at the date of disposal including non-amortised goodwill and anticipated disposal costs. Gains and losses are recognised in the profit and loss account.

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 capital and reserves are adjusted annually and recognised separately in the profit and loss account and balance sheet.

Foreign currency translation

For foreign subsidiaries, the profit and loss accounts are translated using the average exchange rates, whereas the balance sheet items are translated using the exchange rates at the balance sheet date.

For foreign associates, the shares of results are recognised at average exchange rates and shares of net book value are recognised at the exchange rate at the balance sheet date.

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

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are 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 profit and loss account together with changes in the value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future cash flows are recognised directly in the equity. Income and expenses relating to such hedging transactions are transferred from the 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 profit and loss account when they occur.

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.

Profit and loss account

Turnover

The turnover includes the year's invoiced sales less sales discounts. Any refunds and production subsidies from the EU are included in the turnover.

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

Production costs

Production costs include cost of sales, including purchases from Arla Foods' members as well as costs, including depreciation, wages and salaries incurred to realise the turnover for the year. Purchases from members do not include supplementary payments.

Share of results in subsidiaries and associates

The proportionate share of the results after tax of the individual subsidiaries is recognised in the profit and loss account 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 profit and loss accounts after elimination of the proportionate share of intra-group profits/losses.

Financial items

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

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

Corporation tax

The taxable income of the companies is calculated in accordance with the national rules in force from time to time. For companies, which are jointly taxed, tax on the results for the financial year is entered at the current tax rate, calculated on the basis of the pre-tax results for the year, adjusted for non-taxable income and expenses. The deferred tax is measured at the current tax rate on all temporary differences between the carrying amount and the tax base.

Balance sheet

Fixed assets in general

Fixed assets are written down to the recoverable amount (net realisable value) if this is lower than the carrying amount. Annual impairment tests are conducted of individual assets or groups of assets. Impairment tests are made for goodwill in relation to the expected future net income from the business or activities to which the goodwill relates.

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

Intangible assets comprise goodwill from the acquisition of enterprises, product development projects, the IT development project Ett Arla, licences, trademarks, etc.

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 profit and loss account when they occur.

For the IT development project Ett Arla, only external costs for the establishment of the Group's future IT system are capitalised. Internal systems development costs are recognised when incurred in the profit and loss account.

The assets are amortised on a straight-line basis over their expected useful lives:

Goodwill	3-20 years
Licences and trademarks, etc.	10 years
Product development projects	3 years
The IT development project Ett Arla	5-8 years

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

Tangible assets
Tangible fixed assets are valued 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.

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

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

The carrying value of plant and machinery, fixtures and fittings, etc. at the establishment of the Arla Foods Group on 17 April 2000 is, however, depreciated on a straight-line basis over five years from this date.

Assets in course of construction and land are not depreciated.

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

Gains and losses on the realisation of tangible assets are recognised as depreciation.

Lease contracts regarding tangible assets, 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 discount rate. Assets held under finance lease are hereafter treated as the company's other tangible assets.

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 profit and loss account 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 in the balance sheet at the proportionate share of the enterprises' net asset values calculated in accordance with the parent company's accounting policies plus or minus 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.

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

Other investments are measured at fair value at the balance sheet date.

Stocks
Raw materials, consumables and goods for resale are measured at cost. The cost of the milk that forms part of stock has been recognised at the on-account 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.

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

Receivables

Receivables are recognised at amortised cost less write-down for anticipated bad debts based on an individual assessment. Amortised costs correspond in all material respects to nominal values.

Prepayments comprise costs incurred concerning subsequent financial years.

Other current assets

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

Equity

The parent company's equity at 30 September 2004 consists of:

Capital account:

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

Reserve fund A:

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

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

Distributable account:

The distributable account was established in accordance with Section 20, subsection 1(3) of the articles of association, and deposits on the account may therefore be individualised to the individual members in accordance with the Board of Representatives' decision.

No payments shall be made to the members of Arla Foods amba which reduce the total of the company's capital account and Reserve A and the distributable account. If such payments are made from Reserve A, a corresponding amount shall be paid into the capital account. In addition, DKK 280 million shall be added to the capital account through consolidation and concurrently with payments from Reserve A. DKK 140 million of this amount has been transferred to the capital account up to and including the financial year 2003/2004.

Reserve fund B:

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

Net revaluation according to the equity method:

The account includes net revaluation in accordance with the equity method for subsidiaries and associates.

Hedging instruments:

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

Subordinate loan capital, Arla ek. f.

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

Corporation 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 is measured 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 carry-forwards, 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 jointly taxed enterprises.

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.

Tax assets are set off in the balance sheet against tax liabilities within the same legal tax entity.

Other provisions

Pensions:

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

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

As regards the defined contribution schemes used in the Danish companies, the Group currently pays fixed contributions to independent pension funds. The Group has no commitments of additional payments.

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

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

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

Actuarial gains and losses arising as a consequence of the changed assumptions in the calculation of the pension commitment or in the computation of the assets related to the pension scheme are recognised in the profit and loss account over the anticipated service lives of the employees.

If the total actuarial gains and losses exceed 10% of the present value of the pension commitment, any excess amounts above the 10% will be recognised in profit and loss account over the average remaining service life of the employees covered by the pension scheme.

Other provisions:

Other provisions comprise, in particular, the provisions for obligations in connection with mergers and reorganisations.

Liabilities

Amounts owed to mortgage credit institutions and banks as well 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 amortised cost.

Financial liabilities also include the capitalised residual obligation on finance leases.

Other liabilities, comprising supplementary payments to members, trade payables, amounts owed to group enterprises and associates and other payables, are measured at amortised cost – usually corresponding to the nominal value.

Deferred income comprises payments received concerning income in subsequent years.

Cash flow statement

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

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

The cash flow from investing activities comprises cash flows in connection with the purchase and sale of intangible and tangible assets 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 as well as mortgage lenders.

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.

Profit and loss account

Parent company				Group	
30.09.02 30.09.03	01.10.03 30.09.04	DKK million	Note	01.10.03 30.09.04	30.09.02 30.09.03
26,034	25,392	**Turnover**	1	47,608	40,647
-23,175	-22,588	Production costs	2	-37,951	-32,873
2,859	**2,804**	**Gross profit**		**9,657**	**7,774**
-1,395	-1,410	Sales and distribution costs	2	-6,233	-4,941
-475	-581	Administrative expenses and joint costs	2/3	-2,066	-1,433
41	53	Other operating income		115	125
-183	-39	Other operating expenses		-309	-283
847	**827**	**Operating profit**		**1,164**	**1,242**
83	242	Results in subsidiaries	8	-	-
-2	-4	Results in associates	8	-29	-20
220	0	Divestment of enterprises		404	220
-37	-16	Net financial items	4	-394	-245
1,111	**1,049**	**Profit from ordinary activities before tax**		**1,145**	**1,197**
-17	-30	Corporation tax	5	-126	-106
1,094	**1,019**	**Profit for the year**		**1,019**	**1,091**
-	-	Minority interest share of results in subsidiaries	9	0	3
1,094	**1,019**	**Arla Foods amba's share of results for the year**		**1,019**	**1,094**
		Proposed profit appropriation:			
546	586	Supplementary payments to Arla Foods' members		586	546
		Transferred to capital account:			
123	123	Reconsolidation acc. to the articles of association		123	123
344	-52	Other transfers		-52	344
467	71	Total		71	467
-	124	Distributable account		124	-
81	238	Net revaluation acc. to the equity method		-	-
-	-	Other reserves		238	81
1,094	**1,019**	**Total**		**1,019**	**1,094**

Balance sheet

Assets

Parent company: Balance sheet at 30.09.03	Parent company: Balance sheet at 30.09.04	DKK million	Note	Group: Balance sheet at 30.09.04	Group: Balance sheet at 30.09.03
		Fixed assets			
		Intangible fixed assets	6		
0	0	Licences and trademarks, etc.		44	53
-	-	Group goodwill		1,980	2,260
359	585	Development projects		606	375
359	**585**	**Total**		**2,630**	**2,688**
		Tangible fixed assets	7		
1,423	1,645	Land and buildings		4,378	3,906
1,948	2,016	Plant and machinery		5,011	4,678
105	104	Fixtures and fittings, tools and equipment		448	523
325	261	Assets in course of construction		1,226	932
3,801	**4,026**	**Total**		**11,063**	**10,039**
		Investments	8		
1,977	1,711	Investments in subsidiaries		-	-
1,147	3,338	Subordinate loans to subsidiaries		-	-
96	28	Investments in associates		195	281
833	689	Other securities and investments		873	965
4,053	**5,766**	**Total**		**1,068**	**1,246**
8,213	**10,377**	**Total fixed assets**		**14,761**	**13,973**
		Current assets			
		Stocks			
491	477	Raw materials and consumables		704	780
682	702	Work in progress		732	1,119
256	214	Finished goods and goods for resale		2,035	1,906
1,429	**1,393**	**Total**		**3,471**	**3,805**
		Receivables			
1,178	1,164	Trade receivables		4,714	4,604
3,013	1,288	Amounts owed by group enterprises		0	0
119	139	Amounts owed by associates		126	158
434	223	Other receivables		957	1,229
-	-	Deferred tax asset	11	680	786
9	1	Prepayments		87	79
4,753	**2,815**	**Total**		**6,564**	**6,856**
0	**0**	**Securities**		**374**	**785**
874	**541**	**Cash at bank and in hand**		**873**	**1,426**
7,056	**4,749**	**Total current assets**		**11,282**	**12,872**
15,269	**15,126**	Total assets		**26,043**	**26,845**

Equity, minority interests and liabilities

Parent company Balance sheet at 30.09.03	Parent company Balance sheet at 30.09.04	DKK million	Note	Group Balance sheet at 30.09.04	Group Balance sheet at 30.09.03
		Equity			
5,895	6,041	Capital account		6,041	5,895
461	368	Reserve fund A		368	461
-	124	Distributable account		124	-
500	500	Reserve fund B		500	500
299	366	Net revaluation acc. to the equity method		-	-
0	-38	Hedging instruments		-6	18
-	-	Other reserves		334	281
7,155	**7,361**	**Total equity**		**7,361**	**7,155**
-	**-**	**Minority interests**	**9**	**13**	**44**
200	**167**	**Subordinate loan capital, Arla ek. f.**	**10**	**167**	**200**
7,355	**7,528**	**Total capital base**		**7,541**	**7,399**
		Provisions			
22	14	Deferred tax	11	231	342
0	0	Pension commitments	12	3,079	2,966
127	160	Other provisions	13	530	575
149	**174**	**Total provisions**		**3,840**	**3,883**
		Liabilities			
		Long-term liabilities	14		
0	1,000	Subordinate bond loan		1,000	0
1,791	1,867	Mortgage credit institutions		2,544	2,423
1,624	1,630	Banks etc.		3,166	3,290
3,415	**4,497**	**Total**		**6,710**	**5,713**
		Short-term liabilities			
24	12	Short-term portion of long-term liabilities		15	31
463	57	Banks		1,281	2,297
546	586	Supplementary payments		586	546
909	1,505	Trade payables		3,706	2,930
1,413	23	Amounts owed to group enterprises		0	1,206
13	7	Amounts owed to associates		71	13
26	24	Corporation tax		118	137
956	713	Other payables		2,175	2,571
0	0	Deferred income		0	119
4,350	**2,927**	**Total**		**7,952**	**9,850**
7,765	**7,424**	**Total liabilities**		**14,662**	**15,563**
15,269	**15,126**	**Total equity, minority interests and liabilities**		**26,043**	**26,845**
		Contingent liabilities, guarantees etc.	15		
		Related parties	16		

Equity statement

Group

DKK million	Balance at 01.10.2003	Profit for the year	Other adjustments	Payments for the year	Balance at 30.09.2004
Capital account	5,895	71	75	0	6,041
Reserve fund A	461	0	0	-93	368
Distributable account	-	124	0	0	124
Reserve fund B	500	0	0	0	500
Hedging instruments	18	0	-24	0	-6
Other reserves	281	238	-185	0	334
Total	**7,155**	**433**	**-134**	**-93**	**7,361**

Parent company

DKK million	Balance at 01.10.2003	Profit for the year	Other adjustments	Payments for the year	Balance at 30.09.2004
Capital account	5,895	71	75	0	6,041
Reserve fund A	461	0	0	-93	368
Distributable account	-	124	0	0	124
Reserve fund B	500	0	0	0	500
Net revaluation acc. to the equity method	299	238	-171	0	366
Hedging instruments	0	0	-38	0	-38
Total	**7,155**	**433**	**-134**	**-93**	**7,361**

Cash flow statement

DKK million	Group 2003/04	2002/03
Cash flows from operating activities		
Profit for the year	1,019	1,094
Depreciation and other operating items without cash impact	2,140	1,796
Shares of results in investments	29	20
Changes in provisions	-70	43
Changes in stocks	334	41
Changes in receivables	292	570
Changes in trade payables and other payables	-1,759	-722
Corporation tax paid	-138	-66
Cash flows from operating activities	**1,847**	**2,776**
Cash flows from investing activities		
Investment in intangible fixed assets, net	-195	-286
Investment in tangible fixed assets, net	-2,730	-1,983
Other investments, net	149	112
Cash flows from investing activities	**-2,776**	**-2,157**
Cash flows from financing activities		
Changes in amounts owed to credit inst. etc.	-35	-385
Cash flows from financing activities	**-35**	**-385**
Changes in cash funds and securities	**-964**	**234**
Cash funds and securities at 1 October 2003	2,211	1,840
Addition of cash on acquisition of enterprise	0	137
Cash funds and securities at 30.09.2004	**1,247**	**2,211**

Notes

1 Turnover

Group

DKK million	2003/04	2002/03
Dairy activities	45,484	37,693
Other activities	2,124	2,954
Total turnover	**47,608**	**40,647**

The turnover is analysed by product lines and geographical markets and is shown on the cover of the annual report.

2 Costs

Parent company 2002/03	Parent company 2003/04	DKK million	Group 2003/04	Group 2002/03
		Staff costs:		
		By function		
-1,979	-1,989	Production	-4,239	-3,769
-170	-172	Sales and distribution	-2,289	-1,580
-269	-306	Administration and joint costs	-994	-671
-2,418	**-2,467**	**Total**	**-7,522**	**-6,020**
		By type		
-2,259	-2,301	Wages, salaries and remuneration	-6,334	-5,088
-144	-152	Pensions	-522	-378
-15	-13	Other social security costs	-666	-554
-2,418	**-2,467**	**Total**	**-7,522**	**-6,020**
6,742	**6,715**	**Average number of employees**	**20,855**	**17,791**

Salaries and remuneration incl. pensions for the Group include the parent company's Management Board of DKK 10 million (2002/2003: DKK 7 million) and fees to the parent company's Supervisory Board and Board of Representative of DKK 11 million (2002/2003: DKK 10 million).

Parent company 2002/03	Parent company 2003/04	DKK million	Group 2003/04	Group 2002/03
		Depreciation:		
		By function		
-649	-629	Production	-1,332	-1,241
-39	-32	Sale and distribution	-348	-162
0	-104	Administration	-289	-144
3	32	Profit/loss on sale of intangible and tangible fixed assets	52	2
-685	**-733**	**Total**	**-1,917**	**-1,545**

3 Fee to the auditors appointed by the Board of Representatives

Parent company 2002/03	Parent company 2003/04	DKK million	Group 2003/04	Group 2002/03
		Audit fee		
-4	-4	KPMG C. Jespersen	-11	-10
-2	-2	PricewaterhouseCoopers	-7	-7
-	-	Others	-4	-1
		Other services		
-3	-7	KPMG C. Jespersen	-10	-16
-1	-1	PricewaterhouseCoopers	-2	-12
0	0	Others	-5	0
-10	**-14**	**Total**	**-39**	**-46**

4 Net financial items

Parent company 2002/03	Parent company 2003/04	DKK million	Group 2003/04	Group 2002/03
		Expenses		
-16	-15	Interest expense to group enterprises	0	-11
-234	-260	Other financing charges	-520	-415
-250	**-275**	**Total**	**-520**	**-426**
		Income		
130	189	Interest income from group enterprises	0	6
83	70	Other financing income	126	175
213	**259**	**Total**	**126**	**181**
-37	**-16**	**Net financial items**	**-394**	**-245**

5 Corporation tax

Parent company 2002/03	Parent company 2003/04	DKK million	Group 2003/04	Group 2002/03
-29	-32	Tax on taxable income for the year	-116	-95
2	0	Adjustment of deferred tax	-9	-23
10	2	Correction of tax from previous years	-1	12
-17	**-30**	**Total**	**-126**	**-106**

6 Intangible fixed assets

Group

DKK million	Licences and trademarks	Group-goodwill	Product development projects	IT-development project
Cost at 01.10.2003	79	2,467	40	341
Exchange rate adjustments	0	43	0	0
Additions during the year	3	30	35	310
Disposals during the year	0	-209	0	0
Cost at 30.09.2004	**82**	**2,331**	**75**	**651**
Amortisation and impairment 01.10.2003	-26	-207	-6	0
Exchange rate adjustment	0	-5	0	0
Amortisation and impairment for the year	-12	-165	-19	-95
Amortisation and impairment, disposed assets	0	26	0	0
Amortisation and impairment 30.09.2004	**-38**	**-351**	**-25**	**-95**
Carrying amount at 30.09.2004	**44**	**1,980**	**50**	**556**

Parent company

DKK million	Product development projects	IT-development project
Cost at 01.10.2003	22	341
Additions during the year	22	310
Disposals during the year	0	0
Cost at 30.09.2004	**44**	**651**
Amortisation and impairment 01.10.2003	-4	0
Amortisation and impairment for the year	-11	-95
Amortisation and impairment, disposed assets	0	0
Amortisation and impairment 30.09.2004	**-15**	**-95**
Carrying amount at 30.09.2004	**29**	**556**

7 Tangible fixed assets

Group

DKK million	Land and buildings	Plant and machinery	Fixtures and fittings, tools, etc.	Assets in course of construction
Cost at 01.10.2003	4,691	7,185	1,078	932
Exchange rate adjustments	10	-22	1	1
Additions during the year	356	843	301	1,481
Transferred during the year	339	849	0	-1,188
Disposals for the year	-173	-388	-189	0
Cost at 30.09.2004	**5,223**	**8,467**	**1,191**	**1,226**
Depreciation and impairment 01.10.2003	-785	-2,507	-555	0
Exchange rate adjustments	2	30	2	0
Depreciation and impairment for the year	-152	-1,176	-350	0
Depreciation and impairment, disposed assets	90	197	160	0
Depreciation and impairment 30.09.2004	**-845**	**-3,456**	**-743**	**0**
Carrying amount at 30.09.2004	**4,378**	**5,011**	**448**	**1,226**
Assets held under finance lease	**9**	**237**	**22**	**0**

The official annual valuation of Danish land and buildings with a carrying amount of DKK 2,128 million is assessed at DKK 1,997 million.

Parent company

DKK million	Land and buildings	Plant and machinery	Fixtures and fittings, tools, etc.	Assets in course of construction
Cost at 01.10.2003	1,809	3,242	185	325
Additions during the year	232	423	42	261
Transferred during the year	147	178	0	-325
Disposals for the year	-57	-65	-30	0
Cost at 30.09.2004	**2,131**	**3,778**	**197**	**261**
Depreciation and impairment 01.10.2003	-386	-1,294	-80	0
Depreciation and impairment for the year	-118	-503	-38	0
Depreciation and impairment, disposed assets	18	35	25	0
Depreciation and impairment 30.09.2004	**-486**	**-1,762**	**-93**	**0**
Carrying amount at 30.09.2004	**1,645**	**2,016**	**104**	**261**
Assets held under finance lease	**0**	**4**	**23**	**0**

The latest annual valuation of land and buildings is assessed at DKK 1,578 million.

8 Investments

Group

DKK million	Investments in associates	Other securities and investments.
Cost at 01.10.2003	314	930
Transfers	-64	0
Additions during the year	0	168
Disposals during the year	0	-277
Cost at 30.09.2004	**250**	**821**
Adjustments at 01.10.2003	-33	35
Results for the year	-29	18
Exchange rate adjustments	0	-1
Other adjustments	7	0
Adjustments at 30.09.2004	**-55**	**52**
Carrying amount at 30.09.2004	**195**	**873**
Of which goodwill at 30.09.2004	**23**	

Parent company

	Investments in subsidiaries	Subordinate loans to subsidiaries	Investments in associates	Other securities and investments
Cost at 01.10.2003	1,678	1,147	103	793
Transfers	64	0	-64	0
Additions during the year	39	2,191	0	90
Disposals during the year	-435	0	0	-251
Cost at 30.09.2004	**1,346**	**3,338**	**39**	**632**
Adjustments at 01.10.2003	299	0	-7	40
Distribution/dividends	-77	0	0	0
Results for the year	264	0	3	18
Amortisation of goodwill for the year	-17	0	-7	0
Changes in intra-group profit on stocks	-5	0	0	0
Exchange rate adjustments	-1	0	0	-1
Other adjustments	-98	0	0	0
Adjustments at 30.09.2004	**365**	**0**	**-11**	**57**
Carrying amount at 30.09.2004	**1,711**	**3,338**	**28**	**689**
Of which goodwill at 30.09.2004	**106**		**23**	

9 Minority interests

DKK million	Group 01.10.03 30.09.04	Group 30.09.02 30.09.03
Minority interests beginning of year	44	87
Share of results for the year	0	-3
Changes in ownership shares, withdrawn minority interests etc.	-31	-40
Minority interests, year-end	**13**	**44**

10 Subordinate loan capital, Arla ek.f.

Parent company 30.09.02 30.09.03	Parent company 01.10.03 30.09.04	DKK million	Group 01.10.03 30.09.04	Group 30.09.02 30.09.03
236	200	Subordinate loan capital, beginning	200	236
3	-2	Exchange rate adjustments	-2	3
-39	-31	Repayments during the year	-31	-39
200	**167**	**Subordinate loan capital, year-end**	**167**	**200**

11 Deferred tax

Parent company 30.09.02 30.09.03	Parent company 01.10.03 30.09.04	DKK million	Group 01.10.03 30.09.04	Group 30.09.02 30.09.03
24	22	Deferred tax, beginning of year	-444	140
0	0	Exchange rate adjustments	-14	13
-	-	Addition on acquisition of enterprises	-	-607
-	-	Disposal on sale of subsidiary	-	-13
-2	-8	Other changes in deferred tax	9	23
22	**14**	**Deferred tax, year-end**	**-449**	**-444**

Deferred tax in the Group consists of a liability of DKK 231 million (DKK 342 million at 30 September 2003) and a deferred tax asset of DKK 680 million (DKK 786 million at 30 September 2003). The change for the year of DKK 9 million (2002/2003: DKK 23 million) represents a reduction of DKK 113 million (a reduction of DKK 3 million in 2002/2003) regarding the liability and a reduction of DKK 122 million (a reduction of DKK 26 million in 2002/2003) regarding deferred tax asset.

12 Pensions

Group		
DKK million	30.09.04	30.09.03
The provision comprises defined benefit schemes in Sweden and England and is computed as follows:		
Present value of the pension commitments	7,166	6,750
Non-included actuarial gains	292	-
Market value of the assets of the pension schemes	-4,379	-3,784
Total	**3,079**	**2,966**

DKK million	01.10.03 30.09.04	30.09.02 30.09.03
Development in provisions for the year is specified as follows:		
At the beginning of the year	2,966	699
Exchange rate adjustments	81	10
Additions on acquisition of enterprises	0	1,690
Transferred from other provisions	0	531
Costs for the year	203	36
Payments for the year	-171	0
At year-end	**3,079**	**2,966**

The defined benefit schemes in England are administered by independent pension funds who invest the amounts paid to cover the commitments. The actuarial present value of the commitments (DKK 6,416 million at 30 September 2004 against DKK 6,019 million at 30 September 2003) less the market value of the assets (DKK 4,379 million at 30 September 2004 against DKK 3,784 million at 30 September 2003) amounts to DKK 2,037 million. Following the use of the corridor method, the actuarial gain of DKK 292 million has not reduced the provision, and the net commitment therefore totalled DKK 2,329 million at 30 September 2004.

In connection with the acquisition of 51% of the shares in Express Dairies plc. at the end of 2002/2003, the entire pension commitment in existing and acquired enterprises in the UK is provided in the balance sheet at 30 September 2003.

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 750 million against DKK 731 million at 30 September 2003.

Pension costs for the year regarding defined benefit scehmes total DKK 203 million.
These costs are included in note 2.

13 Other provisions

Parent company 30.09.02 30.09.03	Parent company 01.10.03 30.09.04	DKK million	Group 01.10.03 30.09.04	Group 30.09.02 30.09.03
266	127	Other provisions, beginning of year	575	824
-	-	Additions on acquisition of enterprises	0	293
-	-	Transferred to pensions	0	-531
51	60	Provided during the year	164	184
-190	-27	Applied during the year	-209	-195
127	**160**	**Other provisions, year-end**	**530**	**575**

14 Long-term liabilities

Parent company 30.09.03	Parent company 30.09.04	DKK million	Group 30.09.04	Group 30.09.03
		Long-term liabilities falling due after five years after the balance sheet date		
0	1,000	Subordinate bond loan	1,000	0
2,526	1,351	Other long-term liabilities	2,645	2,944
2,526	**2,351**	**Total**	**3,645**	**2,944**

15 Contingent liabilities, guarantees, etc.

Parent company 30.09.03	Parent company 30.09.04	DKK million	Group 30.09.04	Group 30.09.03
2,371	3,949	Surety and guarantee obligations	1,422	999
38	33	Operating lease commitments	1,430	748
		Obligations relating to agreement on		
476	466	the supply of fixed assets	1,189	1,278
		To cover exchange risks, the following forward contracts have been entered into:		
998	130	Forward contracts (buying)	384	1,159
4,563	4,438	Forward contracts (selling)	4,950	4,613
1,050	1,650	Interest swaps	1,814	1,216
		The following assets are deposited as security for debt:		
170	155	Owner's mortgage in real estate	395	375
422	458	with a carrying amount of	1,194	1,099
0	0	Securities, carrying amount	164	336
		Arla Foods amba has received guarantee certificates from the members of the cooperative. The basis for these guarantees is the individual member's deliveries over the past 5 financial years, calculated as DKK 20 per 1,000 kg milk delivered.		
604	535	DKK 0 has been provided as security for debt.	535	604

There are a number of share option schemes in the subsidiary Arla Foods UK plc whose values depend of the price of the shares in Arla Foods UK plc. These remuneration schemes give employees and management in Arla Foods UK plc the opportunity to buy shares in the company over a number of years at a predetermined price provided that certain conditions are fulfilled. The total costs for share-based remuneration totalled DKK 12 million in 2003/04. The shares that may be acquired by management and employees by using the share option schemes, comprise 1.7% of the total share capital in Arla Foods UK plc. Neither the Management Board nor Supervisory Board of Arla Foods amba have received share-based remuneration giving the opportunity to buy shares in Arla Foods UK plc.

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

16 Related parties

Related parties comprise the Board of Representatives, the Management Board and the Supervisory Board, group enterprises and associates, cf. the group chart on pages 54-55.

Members of the Board of Representatives and the Supervisory Board are paid for milk deliveries by MD 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.

Other remuneration to Management Board and Supervisory Board have been disclosed separately in the note regarding staff costs.

Arla Foods – Group chart

Subsidiaries, associates and other investments at 30 September 2004

Subsidiaries **Ownership**

100% **Arla Foods AB, Sverige**
- ASM Mjölksocker AB, *Sweden (100%)*
- Arla Foods Specialost AB, *Sweden (100%)*
- Bregott AB, *Sweden (62%)*

100% **Arla Foods Holding AB, Sweden**
- Oy Arla Foods Ab, *Finland (100%)*

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, *Great Britain (100%)*
    - Arla Foods UK Plc., *Great Britain (51%)*
      - Arla Foods Ltd., *Great Britain (100%)*
      - Express Ltd., *Great Britain (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%)*
    - GB Finans 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%)*
  - Denmark Protein A/S, *Denmark (100%)*
  - Delimo A/S, *Denmark (100%)*
    - Delimo AB, *Sweden (100%)*
      - Rosamunda AB, *Sweden (51%)*
        - Kronost AB, *Sweden (100%)*
  - Økomælk A/S, *Denmark (100%)*
  - Enigheden A/S, *Denmark (100%)*
- Medlemsartikler ApS, *Denmark (100%)*
- Arla Foods Ingredients GmbH, *Germany (100%)*
- De danske Mejeriers Fællesindkøb A/S, *Denmark (100%)*
  - Dairy Fruit A/S, *Denmark (100%)*
  - A/S Crispy Food International, *Denmark (100%)*
  - Ejendomsselskabet Østre Gjesingvej 19 A/S, *Denmark (100%)*
- Danapak Holding A/S, *Denmark (100%)*
  - Danapak A/S, *Denmark (100%)*
    - Danapak Kartonnage A/S, *Denmark (100%)*
    - Danapak Faltschachtelsysteme GmbH, *Germany (100%)*
    - Danapak Cartons Ltd., *Great Britain (100%)*
    - Danapak Leasing ApS, *Denmark (100%)*
    - Danapak WP A/S, *Denmark (100%)*

100%	Arla Foods AS, *Norway*
100%	Arla Foods Inc., *Canada*
100%	Arla Foods GmbH, *Germany*
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*

Subsidiaries, associates and other investments at 30 September 2004 (continued)

Subsidiaries	Ownership
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 Ltd., *Great Britain (100%)*
	Arla Foods Ingredients Korea Co. Ltd., *South Korea (70%)*
	AM Produktion K/B, *Sweden (67%. The remaining 33% is held by Arla Foods AB)*
	AM Foods K/S, *Denmark (67%. The remaining 33% is held by Arla Foods amba)*
100%	Arla Foods Sp. Z o.o., *Poland*
100%	**Frödinge Holding AB, Sweden**
	Frödinge Mejeri AB, *Sweden (100%)*
100%	**Medipharm Holding AB, Sweden**
	Medipharm AB, *Sweden (100%)*
	Medipharm Investments Ltd., *USA (100%)*
	Medipharm CZ s.r.o., *the Czech Republic (100%)*
	Medipharm Hungary Kft, *Hungary (51%)*
95%	Andelssmør A.m.b.a., *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%	Synbiotics AB, *Sweden (owned through Arla Foods 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%	Sweetgredients GmbH & Co. KG, *Germany (owned through Arla Foods Ingredients GmbH)*
50%	Dan Vigor Ltda. *Brazil (owned through Arla Foods International A/S)*
50%	Cocio A/S, *Denmark (owned through Denmark Protein A/S)*
40%	Danapak Flexibles-koncernen, *Denmark (owned through Danapak A/S)*
40%	Riverwood Danapak A/S, *Denmark (owned through Danapak A/S)*
40%	Arla National Food Products LLC, *The United Arab Emirates*
35%	K/S Danske Immobilien, *Denmark (owned through Arla Foods Finance A/S)*

Other investments

91%	Mejeriforeningen, *Denmark*
42%	Svensk Mjölk Ekonomisk förening, *Sweden*
19%	Lantbrukarnas Riksförbund, förening upa, *Sweden*

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

Arla Foods, global

1 Canada
2 USA
3 Brazil
4 Argentina
5 Norway
6 Finland
7 Sweden
8 Denmark
9 UK
10 Holland
11 Germany
12 Poland
13 France
14 Spain
15 Italy
16 Greece
17 Saudi Arabia
18 United Arab Emirates
19 Bangladesh
20 Malaysia
21 China
22 Korea
23 Japan

Arla Foods, Denmark

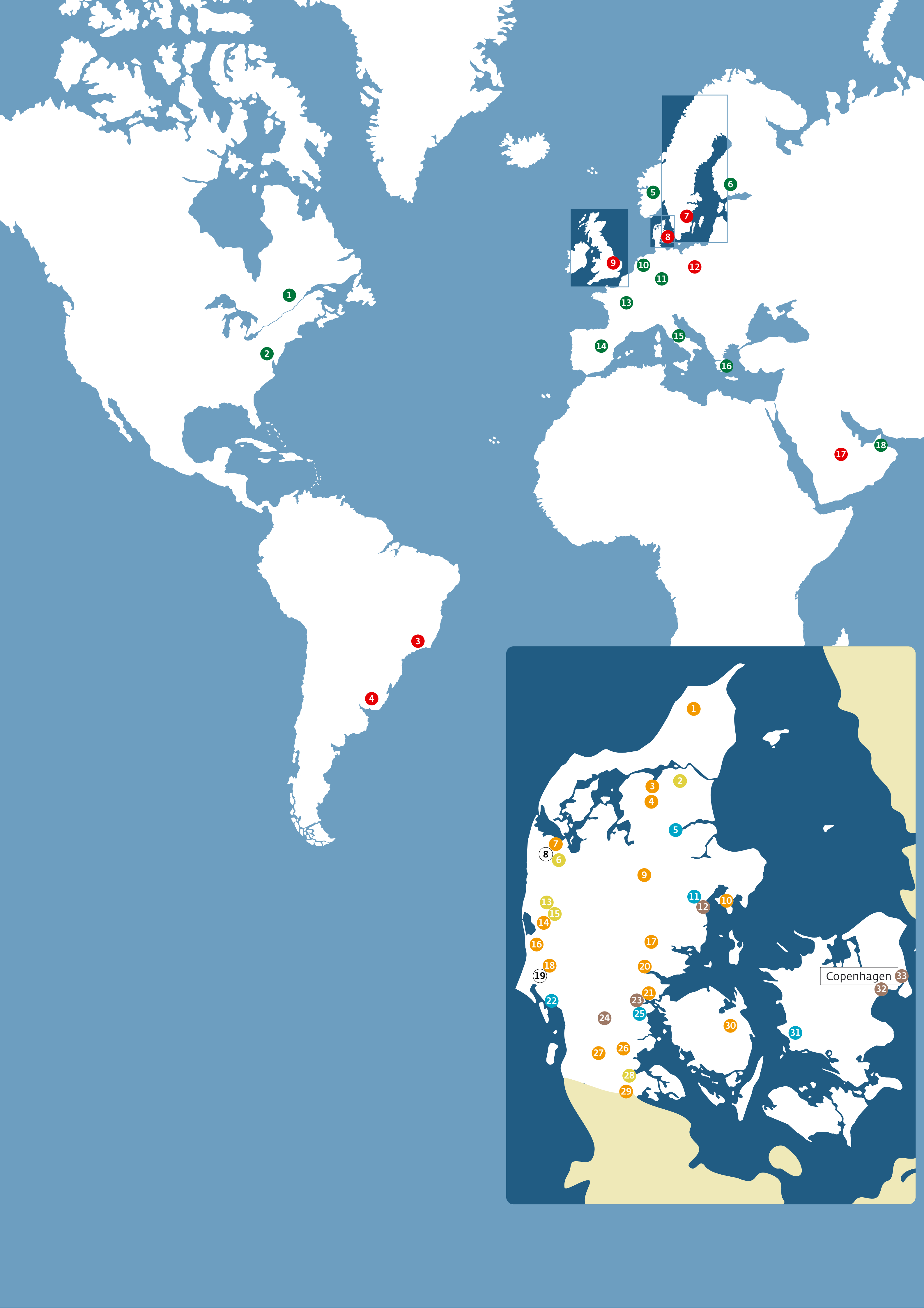
1 Hjørring Dairy
2 Akafa
3 Bislev Dairy
4 Aars Dairy
5 Hobro Dairy Centre
6 Hoco
7 Holstebro Cream Cheese
8 Holstebro Dairy
9 Rødkærsbro Dairy
10 Vrinners Cream Cheese
11 Brabrand Dairy
12 Viby, Head Office
13 Arinco
14 Nr. Vium Dairy
15 Denmark Protein
16 Troldhede Dairy
17 Klovborg Dairy
18 Tistrup Dairy
19 Varde Butter Dairy
20 Vejle Cheese Warehouse and Packing Plant
21 Taulov Dairy
22 Esbjerg Dairy
23 Kolding Export Depot
24 Central Workshop
25 Christiansfeld Dairy Center
26 Høgelund Dairy
27 Branderup Dairy
28 Samden
29 Bov Dairy
30 Birkum Cheese
31 Slagelse Dairy Centre
32 Ishøj Fresh Products Depot
33 Copenhagen Overseas Division

Arla Foods, Sweden

34 Kvibille Dairy
35 Falkenberg Dairy
36 Åseda Dairy
37 Karlskrona Dairy
38 Kalmar Dairy
39 Visby Dairy
40 Jönköping Dairy
41 Göteborg Dairy
42 Göteborg Members Division
43 Alingsås Dairy
44 Mjölby
45 Östgöta Dairy
46 Kimstad
47 Skövde Dairy incl. Hjordnära
48 Götene
49 Årsta Depot
50 Stockholm, Swedish Office
51 Stockholm Dairy
52 Örebro Dairy
53 Vimmerby

Arla Foods, UK

54 Claymore Dairies
55 Newcastle
56 Northallerton Creamery
57 Settle Creamery
58 Liverpool
59 Leeds/Stourton
60 Manchester
61 Nottingham
62 Ashby
63 Ruislip
64 Hatfield Peverel
65 Oakthorpe
66 Sheffield Park
67 Kettering
68 HT Webb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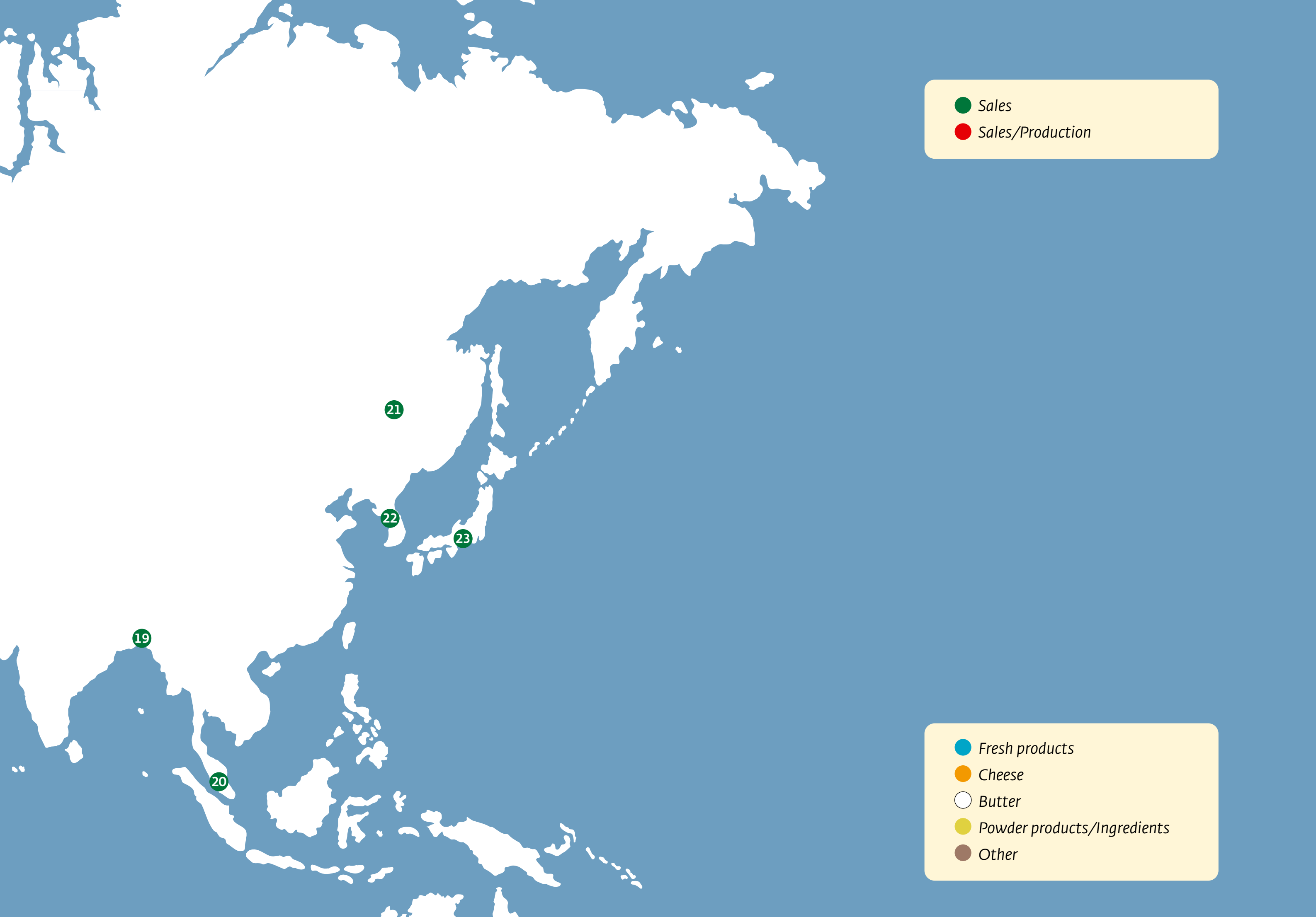
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Sales/Production
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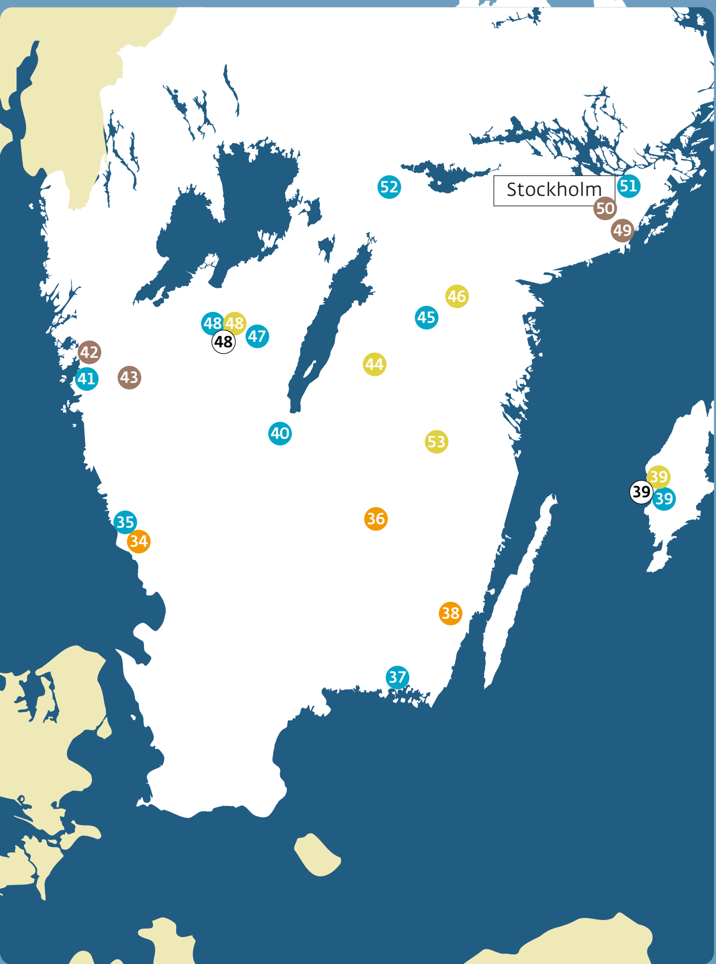
20
Fresh products
Cheese
Butter
Powder products/Ingredients
Other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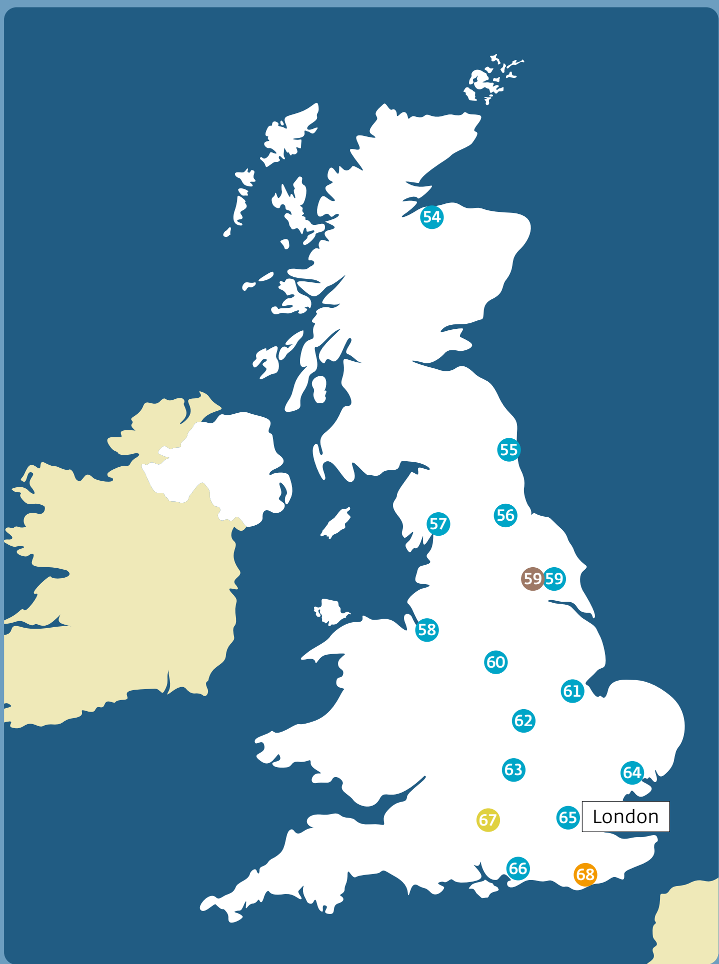
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Smör- & Rapsolia – six months after its launch in Sweden in the spring of 2004, this new product is now the third largest in the market.

Arla Apetina – the summer's promotional campaigns generated significantly increased sales in Poland.

Cheasy 13% - improved flavour increased sales in the fat reduced dairy products' segment in Denmark.

Puck – processed cheese with a cheddar flavour was launched in six Middle Eastern markets in January.

Kvibille – one of Sweden's best known cheese brands was extended by a range of mature firm cheeses.

Islatte – since its launch in Sweden in the summer of 2003, this milk drink has become a firm favourite with many adults.

Cravendale – Arla Foods' own milk brand in the UK market saw a growth of 34% during the year.

Lurpak Butter Ghee – launched successfully in several Middle Eastern and North African markets during the spring.

Yoggi Yalla – the successful Swedish drinking yoghurt was also launched in Denmark and was aimed at a younger target group.

Buko Toscana – successful launch in Germany in May 2004.

Karoline's – two new varieties of the Danish sauce range were successfully launched in the spring.

Lurpak Lighter Spreadable – UK sales rose by 50% on the year.

ARLA FOODS

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