"ARLA MUST PRODUCE GOOD AND HEALTHY DAIRY PRODUCTS AND SHOW RESPECT FOR ANIMALS AND THE ENVIRONMENT"

Annual Report **2004/05**

Arla Foods' organisation

Corporate Centre
Executive Board

Peder Tuborgh, Managing Director

Povl Krogsgaard, Deputy Managing Director · **Andreas Lundby**, Deputy Managing Director

Corporate Finance/IT

Jørn Wendel Andersen, Finance Director

Consumer Nordic

Hans-Åke Hammerström,
Group Executive Director

Consumer UK

Kim Nielsen,
Group Executive Director

Consumer International

Mikael Sternberg Christiansen,
Group Executive Director

Global Ingredients

Peter Lauritzen,
Group Executive Director

Contents

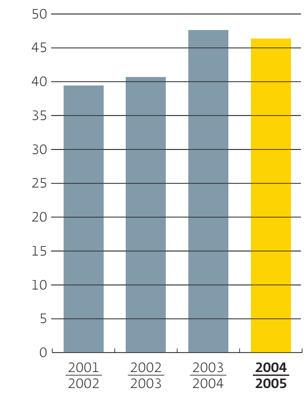
Financial highlights

Group

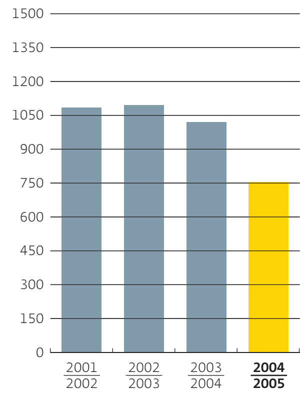
DKK million	**01.10.2004 30.09.2005**	01.10.2003 30.09.2004	30.09.2002 30.09.2003	01.10.2001 29.09.2002	02.10.2000 30.09.2001
Profit					
Net turnover	46,351	47,263	40,647	39,441	38,133
outside DK/SE	27,784	28,137	20,781	19,807	18,823
% outside DK/SE	60%	60%	51%	50%	49%
Operating profit	1,505	1,193	1,242	1,411	1,596
Interest income and expense, etc.	-573	-423	-245	-367	-381
Profit for the year	801	1,019	1,094	1,085	1,157
Supplementary payments	369	586	546	575	690
Consolidation:					
Reconsolidation	247	123	123	126	122
Other consolidation	185	310	425	384	345
Financing					
Balance sheet total	26,382	26,043	26,845	22,017	20,858
Fixed assets	14,901	14,761	13,973	10,395	10,523
Investments in tangible fixed assets	2,499	2,981	2,062	2,046	1,877
Capital base	7,624	7,541	7,399	7,101	6,448
Equity ratios (%)					
Capital base	29%	29%	28%	32%	31%
Capital base + subordinate bond loan	33%	33%	–	–	–
Inflow of raw milk					
Total million kg. weighed in in the group	8,415	8,512	7,241	7,041	7,085
hereof in DK	4,058	4,053	4,137	3,964	3,967
hereof in SE	2,114	2,141	2,114	2,157	2,167
others	2,243	2,318	990	920	951
Number of members					
hereof in DK	5,197	5,877	6,625	7,103	7,921
hereof in SE	5,360	5,728	6,133	6,539	6,988
total	10,557	11,605	12,758	13,642	14,909
Employees					
Number of employees	20,076	20,855	17,791	17,866	18,200

The comparative figures for the year 2000/2001 have not been adjusted for the change in accounting policies in 2002/2003

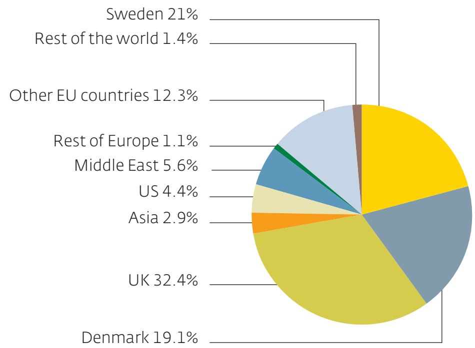
Net turnover
DKK billion



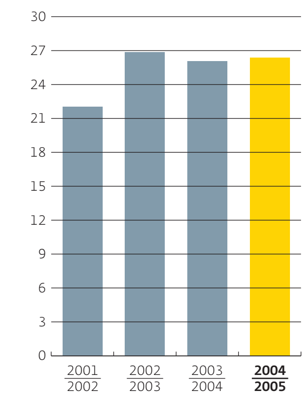
Result of the year
DKK million



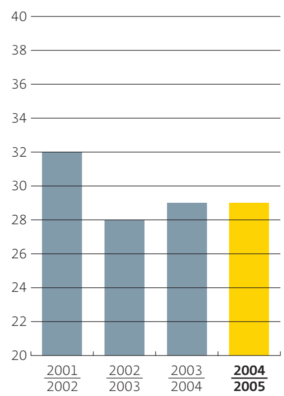
Net turnover
divided into markets (%)



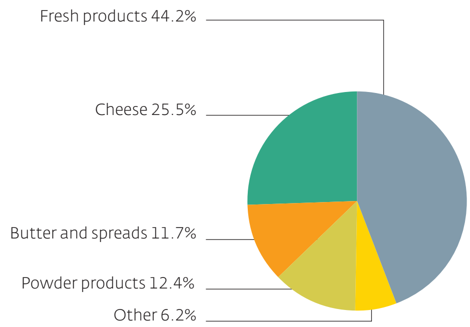
Balance sheet
DKK billion



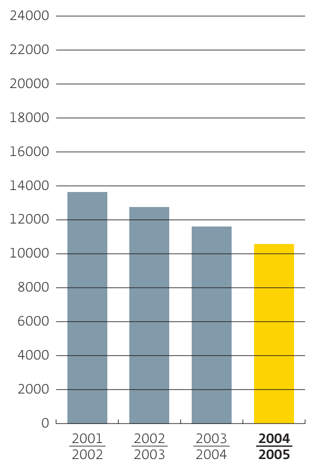
Solvency
Percentage



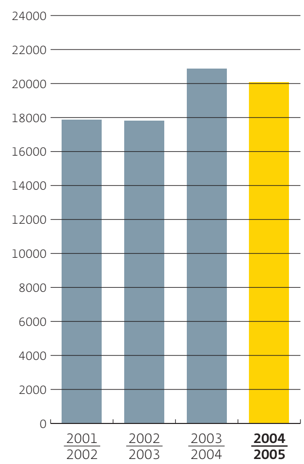
Net turnover
according to product categories (%)



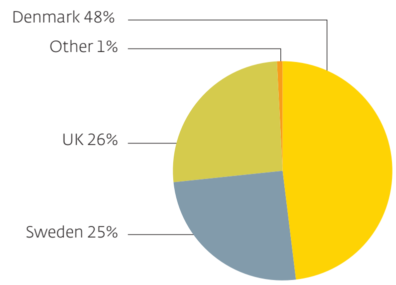
Number of co-operative members



Number of employees



Weighed-in milk
across markets (%)



ARLA FOODS CARES ABOUT THE ENVIRONMENT AND ABOUT THE WELFARE OF ANIMALS. HEALTHY COWS AND ENVIRONMENTAL-FRIENDLY FARMING METHODS ARE THE BEST GUARANTEE THAT CONSUMERS CAN ENJOY THE HIGHEST QUALITY MILK

Arla Foods' co-operative members have agreed on a common set of rules for milk production at their farms. These rules are set out in the Arlagården Quality Programme which enables Arla Foods to document each step of the milk production process - from farm to table.

This, in turn, allows us to offer a sense of confidence and security when consumers purchase our products.

Peder Tuborgh
Managing Director

The Chairman's Report

On many occasions in the past, Arla Foods has demonstrated its robustness in difficult times. This resilience will also help us through the times ahead.

The pressure on our business is increasing, and Arla Foods is feeling the impact of the Common Agricultural Policy reform - as are Europe's other dairy companies. The challenge now is to handle the pressure.

Throughout the company there is a commitment to move forward, and management has mapped out our future course. Over the years, we have undertaken long-term investments, with the result that Arla Foods today is a strong organisation. The Supervisory Board is working dedicatedly to keep the milk price paid to co-operative members at an unchanged level in 2006.

The year presented substantial challenges, and I have to admit that not everything functioned as smoothly as in previous years. Issues such as a failed merger, falling milk prices and co-operative members who have found it difficult to retain their confidence in the future have taken up a significant part of the Board's time.

It was with considerable disappointment that, in May, we and Campina had to accept that we were unable to reach an agreement on a merger between our two companies. The Board had invested a substantial amount of effort to find a solution which we felt was right for Arla Foods. We continue to believe that Campina could be a potential merger partner, and we will not dismiss the possibility of future mergers with Campina or other companies.

As a consequence of the failed merger, Managing Director Åke Modig decided to resign his position although he remained in his post for a further two months until the Board announced the appointment of the new Managing Director Peder Tuborgh.

Following the approval of our strategy plan, we tried to avoid further falls in the milk price during the year under review.

The effects of the EU's Common Agricultural Policy reform include the gradual removal of the export subsidies for products destined for third countries. The reform has led to a substantial lowering of the milk price.

The declining prices mean that some of our co-operative members have found it difficult to maintain their confidence.

The Supervisory Board, October 2005

The following board members were absent when the photo was taken:

Thomas Johansen
Leif Backstad
(elected by the employees)

The fall in the number of co-operative members, however, is on level with last year. In Denmark, the number of co-operative members fell by approximately 11.5% on the year while the figure in Sweden was approx. 6.5%.

We must, of course, maintain our focus on the milk price in everything we do, and the management is committed to maintaining earnings. The aim is to help give co-operative members renewed confidence in the value of their work. We believe that our co-operative members share a wish to invest in the future, which is important for the company in order to secure stable milk supplies for our dairies.

The Satisfaction Survey which was carried out among members in May 2005 showed a fall in satisfaction levels among Arla Foods' co-operative members.

The outcome of the survey was affected by the disappointment at the failed merger and dissatisfaction with declining earnings. The Supervisory Board, of course, accepts the result of the survey and, together with the regional boards, we intend to strengthen member democracy and focus on the work of the local districts over the coming year. The survey also showed that the closer a co-operative member is to the company the greater the satisfaction.

The decision to establish individual capital is a further element in creating closer ties between co-operative members and the company. Many co-operative members have expressed the wish that some of the company's capital should be allocated to individual savings accounts, which members can cash in when retiring or leaving the company. The exact nature of the arrangement has been subject to much debate, and a proposal for supply-based owner certificates will be presented to Arla Foods' Board of Representatives in December 2005 for final approval.

During the financial year, the majority of co-operative members received inspection visits from an adviser from the Arlagården Quality Programme, which supports the co-operative member in taking active ownership in relation to the Quality Programme. As anticipated, by far the majority of visits resulted in few or no remarks. In the few incidents which resulted in non-conformity notes, the co-operative member participated actively in rectifying the conditions. Only in one case was it necessary to expel a co-operative member from the company.

A review of the quality programme is underway and the Supervisory Board expects all co-operative members to support the ongoing Arlagården process.

Arlagården is an invaluable tool in our relations with consumers and customers in that the programme provides documentation for animal welfare and environmental conditions at the farms.

The Supervisory Board and the management will continue their endeavours to maintain the current milk price level in 2006. We are also committed to re-establishing confidence in the future among our co-operative members.

Leif Eriksson, elected by the employees
Bent Juul Sørensen
Bengt Darhult
Sören Kihlberg
Gunnar Pleijert
Viggo Ø. Bloch
Bjarne Bundesen, elected by the employees
Steen Bolvig, elected by the employees
Knud Erik Jensen, Chairman

Report from the Executive Board

The Executive Board, October 2005 (from left)

Deputy Managing Director Povl Krogsgaard
Managing Director Peder Tuborgh
Deputy Managing Director Andreas Lundby

The result for the year, DKK 801 million, is better than expected, and should be characterised as satisfactory. The second half year made a particularly positive contribution.

During the year, the EU's Common Agricultural Policy reform impacted significantly on the underlying parameters for Arla Foods' activities. The pace with which the EU is implementing the reforms has set a tough and rigorous agenda for the company, and has resulted in a dramatic decline in earnings for Arla Foods' owners over the past two years. The cuts are occurring at a time when the relatively strong world market prices for dairy products (measured in USD) have not benefited Arla Foods to the same extent because the foreign exchange rate was very low for most of 2004/05.

In global markets, Arla Foods has seen more stable prices than last year, especially with regard to branded products. In particular, the latter part of the financial year developed better than expected.

Sales of cheese to a number of European markets increased, so that both turnover and earnings developed positively within this segment.

In the domestic markets in Sweden and Denmark, imports of foreign liquid milk have increased competition. Consequently, Arla Foods launched a discount liquid milk for its customers in Sweden. In Denmark, the intense competition in the dairy sector continues between dairies and across national borders. This increases the pressure on Arla Foods to offer customers a varied range of dairy products in different price categories.

Consumer dialogue

In Denmark, the ongoing dialogue with consumers was further developed during the year through the establishment of Arla Forum where approximately 100 consumers per day submit opinions or raise questions relating to Arla Foods by e-mail, phone or letter.

For more than 30 years, Arla Forum in Sweden has been the focal point for dialogue with Swedish consumers and the Danish Arla Forum is now benefiting from the Swedish experience.

The need for greater openness towards the surrounding world was expressed by Danish consumers and not least by Arla Foods' 8,500 Danish employees who took part in workshops where the criticisms directed at Arla in Denmark were debated.

The dialogue is developing all the time, and in October 2005 Arla Foods began so-called weblogs on its Danish website. Here consumers can read three staff members' and a co-operative member's experiences and opinions in diary form. The weblog also offers an opportunity for a direct debate with the four writers.

Strategy plan: "Our Future"

As part of the work on the strategy plan for 2008, Arla Foods' management reached the conclusion that two routes were open to the company: Arla Foods could either pursue its own path or look for a merger partner. At the same time, the management believed that the Dutch dairy company, Campina, would be the best merger partner for Arla Foods. Following discussions with Campina during the autumn of 2004, the boards of the two companies presented their co-operative members with a draft proposal for a merger in December 2004. However, following a due diligence process and further intensive negotiations, the two companies agreed, in May, to discontinue the merger negotiations.

Consequently, Arla Foods had to reconsider the options for going its own way.

The "Our Future" strategy plan sets out the further development of the company as well as sharply defined priorities for its operations. Firstly, we intend to expand the Nordic markets through the development of new dairy products for consumers in all Nordic countries. During the 2005 calendar year, we launched approximately 100 new products in the Nordic market.

Secondly, we are committed to becoming market leader within a range of certain products in selective markets e.g. within the cream/processed cheese area where we are undertaking investments aimed at doubling cheese production at our dairy in Saudi Arabia. The expansion of production in Riyadh should be seen within the context of a general strengthening of Arla Foods' presence in the Middle East.

Thirdly, Arla Foods will develop new markets – as evidenced by the decision to invest in milk production in China. In August, Arla Foods signed a joint venture agreement with China Mengniu Dairy Company for production and sale of milk powder to the rapidly growing Chinese retail sector. A further example is the acquisition of the Canadian cheese company, National Cheese, in November 2004. The acquisition has increased Arla Foods' import quotas for cheese, which led to growth in sales in this market during the year.

During the financial year there was considerable emphasis on rationalising and globalising our product portfolio, particularly within the European market. These endeavours will continue in all Arla Foods' markets where, through a new brand strategy, we intend to develop our global brands. This, in turn, will require stronger marketing initiatives in certain selected markets.

New organisation

To implement the strategy plan, a new organisation was introduced with effect from October 1, 2005 comprising four large business areas: Consumer Nordic, Consumer UK, Consumer International and Global Ingredients. The four business areas have full responsibility for production, sales, product development and marketing within their respective fields. The initiative is based upon the conviction that the driving force behind the company lies in being as close as possible to the market. As a consequence, several cross-functional staff projects will be assigned to the business areas with fewer being part of the central cross-functional Corporate Centre.

Innovation

The challenge for Arla Foods' product development over the coming year is to create several new, exciting dairy products within different price categories. We shall focus on nutritional products with reduced fat and sugar while, at the same time, spearheading the development of, especially, speciality cheeses and dairy products for cooking.

The development work will be decentralised so that part of the development function will move closer to the individual business areas. These changes are also aimed at moving closer to the markets and, therefore, to consumers.

HR

As internationalisation grows, Arla Foods' management faces a substantial task in motivating staff to prepare for greater mobility and to take up the challenge of working in other cultures and in other countries. The Group will also focus more closely on developing its next generation of managers through specific management development programmes. Through the ongoing staff satisfaction surveys, Arla Foods management has identified stress and harassment as two areas that require a more co-ordinated approach throughout the Group.

Increased focus on costs

On the backdrop of the falling milk price, Arla Foods, in June, set a target for cutting 5% of operational costs over and above inflation. This equates to cost savings of between DKK 500 and DKK 600 million in 2006.

These measures comprise a general restraint within the Group and a clearer prioritisation of development projects, including deferment of low prioritised projects.

The savings will be supported by the rationalisation programmes, which have been implemented since 2001: one of these is the structure plan which has significantly contributed to rationalisation at the dairies and has created a modern, efficient production system. In addition, we will harvest the benefits of Ett Arla which, over the past three years, has gathered Arla Foods' business systems under one common umbrella.

Moreover, investment levels have been reduced for 2006.

Finally, further savings are being achieved through 600 staff cuts over a three-year term, i.e. from 2003 and 2006.

The need to cut costs has forced the entire Group to consider alternative solutions within all areas.

Arla Foods' external suppliers have also been asked to submit savings proposals. Together with suppliers, therefore, Arla Foods is ready to find better and less expensive solutions.

Financial basis

The Group has a sound financial standing which is on par with our competitors in Europe. We have opportunities to expand within strategic areas and a certain robustness in terms of major investments.

During the year, effort was committed to the issue of placing some of the company's future consolidation in individual accounts. After the close of the financial year, the Board of Representatives will consider the introduction of individual capital in the form of supplier-based owner certificates.

The need for continued consolidation from the owners is based on the wish to maintain a financing framework that allows for continued development of the Group's strategies.

Challenges in 2006

While continuing to cut costs in 2006, we must also maintain the ability to develop our markets and portfolio. The challenge, therefore, is to achieve the rationalisation targets and invest in marketing and product development. In respect of our co-operative members the aim is to maintain the milk price at the level of the 2004/05 financial year despite the negative effects of the EU's CAP reform.

The market conditions for the coming year will mirror those of the past year: a continuation of the general discount trend within the retail sector and tougher competition not least in the domestic markets where pressure from foreign milk is increasing.

The EU has shown its determination to implement the Common Agricultural Policy reform and to aim for further liberalisation of world markets within the framework of the WTO.

We believe in the liberalisation process and will face up to these very substantial challenges for the benefit of our owners – also after the completion of the CAP reform.

WHERE IS "ARLAGÅRDEN?"

"Arlagården" is everywhere – North, South, East and West. Arlagården is the name of Arla Foods' Quality programme which applies to all co-operative members and their farms. Launched on October 1, 2003 the name, Arlagården, has since become the generic term for all farms supplying milk to Arla Foods.

The Arlagården Quality programme rests on four cornerstones: the milk's composition, food safety, animal welfare and respect for the environment.

Semi-skimmed milk

Harmonie organic skimmed milk

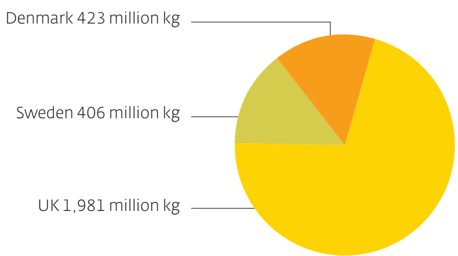
Arla Ekspres mini milk

Organic school milk

Café Met mochalatte

Fresh products

Production of drinking milk
total 2,810 million kg



The rising competition for space in the dairy cabinets continued in 2004/05. The discount sector is gaining market share in both Denmark and Sweden and is putting pressure on other retailers who are increasingly selling own label products. Virtually all players in the dairy sector are competing for contracts with the multiples for own label products. Moreover, imports of discount products from other parts of Europe are increasing.

Arla Foods' two main strategies for the fresh product segment are to maintain market share for its basic products by offering the retail sector added value at all price levels and to develop products focusing on nutrition and convenience.

In Denmark, other dairies have gained ground while Arla Foods has lost market share. Despite this, increased focus on product development and a rising number of new product launches have enabled Arla to secure the position of its branded products in the market. For dairy cabinets, Arla Foods has developed a range of new products such as regional milk, Jersey milk, milk in cartons with screw tops and lactose-free milk.

Again this year, Arla Foods' co-operation with other Danish dairies was given high priority, including the partnership with organic dairies concerning the launch of new products, joint organic campaigns etc. These endeavours will continue in the coming year.

Despite the current trends, Arla Foods' market shares in Sweden remained stable although it was necessary to start own label production and offer discount products to the Group's customers. One example is the launch of drinking milk under the Klöver brand. Klöver milk has a somewhat longer shelf-life than milk sold under the Arla cow brand and is also sold through another distribution system. As this involves lower costs, Arla Foods can offer a lower price. Hopes are that the Klöver brand will diminish Swedish consumers' interest in buying foreign milk.

Another drinking milk project is the launch of a so-called 24 hour fresh milk from Hjordnära Dairy where both co-operative members and customers live in the vicinity of the dairy. On the island of Gotland, Arla Foods is highlighting local origin on milk cartons. The objective of these projects is to strengthen the link between the Arla cow, the dairy and the near market.

Both in Sweden and Denmark, efforts to develop even healthier products (reduced fat and sugar, useful bacteria etc) continue undiminished. First and foremost, the aim is to offer consumers freedom of choice. It is, however, clear that regardless of its properties, a product must have an appealing taste to become accepted and successful. One example is the launch of Yoggi Mini in Sweden, a product that is entirely without added sugar.

Denmark saw the launch of a range of new reduced sugar products within the yoghurt and chocolate milk categories. Further work is aimed at reducing the sugar content in selected products. In the milk category, a lactose reduced drinking milk will be launched towards the end of 2005. Milk with extra calcium was launched in Sweden during the year.

Besides healthy products, new trends are also favouring convenience products which, for instance, simplify cooking in the home or enable consumers to eat "on the hoof". Eating away from home is increasing at the same rate as the number of single person households. Products in Arla Foods' cooking series, "Arla-Köket" in Sweden and "Karolines Køkken" in Denmark aim to help consumers simplify and improve their cooking – in their daily lives as well as on special occasions.

Production/distribution

The expansion of the Jönköping Dairy in Sweden is expected to be completed in the summer of 2006 after which production at Karlskrona and parts of the production at Gothenburg will be closed. At Gothenburg, the extension of the distribution terminal is expected to be ready for commissioning around year end 2005. The dairy will be adapted to serve Gothenburg and the surrounding area.

In Sweden, over the past year, considerable resources have been committed to creating a nationwide distribution network for all Arla Foods' speciality products. This was necessitated by the nationwide multiples' demand for identical ranges and conditions for their stores.

Consumer relations

Arla Foods in Denmark has derived inspiration from Sweden where, for thirty years, the company has used the Arla Forum as a channel for dialogue with consumers. Each day, approximately 200 consumers in Denmark and Sweden contact the Arla Forum with questions or comments.

In addition, around 22,000 consumers per day in the two countries click on the Group's website to search for recipes and other cooking ideas.

The UK

Arla Foods UK plc continues to be the leading supplier of liquid milk in the UK market and the company maintained its market share over the past year. Within UHT milk and in the organic area, new contracts were signed with the multiples, as were contracts for cream products.

The majority of Arla Foods' milk in the UK is sold as own label. At the same time, however, Arla Foods UK plc has been successful at marketing its own milk brand, Cravendale, which is bottled through a special filtration process which ensures that the milk lasts longer than conventional fresh milk and results in an improved taste. Early in the financial year it proved necessary to ration Cravendale's sales because the new bottling plant for Cravendale milk at Stourton Dairy in Leeds was not commissioned until the summer of 2005.

Overall, Arla Foods UK plc controls 35% of the UK market for fresh milk. Each day the company supplies 2,200 supermarkets across the British Isles.

Arla Foods UK plc's programme for rationalising its dairy structure, following the merger with Express Dairies in 2003, was completed at the end of the financial year.

The benefits were, however, undermined by continuing intense competition between the multiples and, in the latter part of the year, also in other sectors. Cost increases resulted in a downgrading of the company's expectations during the year.

The year under review saw price increases aimed at covering the rising costs of production and distribution.

The company also closed loss-making operations such as the mail and parcel delivery operations, while the London Foodservice business was sold to Dairy Crest. The wholesale cheese packing business, H.T. Webb, was discontinued in the first half of the year. Contrary to expectations, the strategic alliance with Milk Link concerning fresh flavoured/added value products proved to be loss-making in 2004/05 whereas the fresh milk business in Scotland is now making a positive contribution. The new dairy at Lockerbie will begin production in December.

Supplies from Arla Foods Milk Partnership rose to 70% of the milk received during the year, and are expected to continue to rise. The number of members now exceeds 1,600.

Cravendale milk – Arla Foods UK plc's own brand – is produced using a special filtration process that makes the milk last longer than conventional fresh milk and results in an improved taste.

HOW CAN ARLA FOODS OFFER GUARANTEES FOR MILK SUPPLIED BY 10,500 MILK SUPPLIERS?

The Arlagården Quality Programme ensures that milk from Arla Foods' co-operative members meets a high standard. At the same time, the quality programme assures customers – including the multiples – that the products can be traced back to the individual farm from where they originate.

Kvibille Cheddar

Dofino, sliced cheese

Höhlenkäse

Klovborg

Esrom sliced cheese

Cheese

The advance of the discount chains in the European retail sector is intensifying the competition to supply cheese at a lower price. Supermarkets, therefore, are increasingly keen to sell cheese under their own label as well as in importing low price cheese to Arla Foods' home markets in Denmark and Sweden. In other European markets, however, Arla Foods has succeeded in increasing both turnover and earnings from cheese.

The implementation of the EU's CAP reform has impacted significantly on Arla Foods' sales of cheese to overseas markets. The fact that the reform has coincided with a weak dollar has particularly impacted on Arla Foods' revenues. As a consequence, the company has attempted to compensate for this through price increases.

The Middle East, one of Arla Foods' large market areas for processed cheese and feta, has been designated a focus area. Consequently, Arla Foods is now expanding its dairy in Saudi Arabia.

The Group's total cheese production reached 330,000 tons in 2004/05, which is largely in line with last year's level.

The Nordic Countries

The objective is to increase overall sales of cheese in the Nordic countries – primarily Finland and Norway.

In Denmark, overall cheese sales are stagnating. Within firm cheese, consumption continues to switch from cheese packs to easier-to-handle sliced and shredded cheese. Arla Foods' three primary brands within this area, Riberhus, Klovborg and Cheasy, maintain their strong position in the market although continuous efforts are required to sustain this position. Immediately following the close of the financial year, a range of cheeses from Tistrup Dairy with a more pronounced flavour were launched – a popular cheese type among cheese lovers.

Within a short space of time, Sweden has seen a substantial change in sales of firm cheese. Whereas previously, stores handled the cutting and packing of cheese themselves, the dairies are now increasingly undertaking this task, which, in the case of Arla Foods, is the responsibility of the four-year-old Alexander processing plant in Götene. During the financial year, Arla Foods started to produce Gouda cheese in order to compete with Dutch and German cheeses. In Sweden, all mature cheese now comes under the Kviblille brand, which makes it easier for consumers to find the product they want.

Within the field of speciality cheese, Arla Foods has three common Nordic brands:

Høng, which comprises mould cheese, is under general pressure from discount suppliers.

Buko is Arla Foods' processed and cream cheese brand. During the financial year, processed cheese products that can be displayed outside the chilled dairy cabinets in supermarkets, have seen a particularly positive development in the Danish market.

Apetina covers feta products. Arla Foods is the market leader within feta in Norway although stronger competition is expected here. In Sweden and Finland, Arla Foods accounts for approximately half the feta market. The Apetina name will also be launched in Denmark following the decision by the EU Court in October 2005 to award Greece sole rights to the name feta after October 2007.

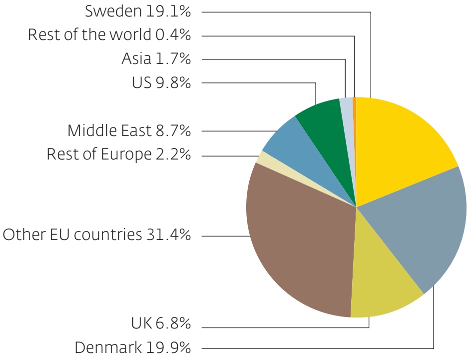
The rest of Europe

Overall, sales of cheese to the European market have advanced significantly compared to last year. In most categories, Arla Foods has gained market shares and an important part of the growth has been within the fields of added value and branded products. At the same time, consumer knowledge about the Arla Master Brand has grown considerably in selected markets.

This should be seen on the backdrop of the largely unchanged market conditions in Europe compared to last year. Demand continues to be characterised by weak economic development, and lower demand from consumers. Price competition, primarily due to the discount sector's

Net turnover cheese

Distributed across markets (%)



advance, has continued relentlessly, particularly within Arla Foods' largest export market Germany, but also in Holland, Italy and France. This competition imposes a constant demand on innovation and marketing.

Supply and demand in the market for more bulk type products have been reasonably balanced. Consequently, price trends have been more stable than has been the case in recent years. Levels, however, remain very low.

Within firm cheese, the year as a whole was satisfactory with stable demand and advances within added value products, especially in Southern Europe. Sales from service counters continue to decline especially in Germany and Holland, but now also in Spain. This, again, poses significant demands for changes to the sales process. Concurrently, the battle for shelf space in the self-service counters is exceedingly tough. "Silk cut" (ultra thin) slices have now been launched in Germany, Spain and Belgium.

The dairy in Poland has now been entirely converted to mozzarella production. Here, as in other European markets, earnings from bulk type products have come under pressure.

Nevertheless, Arla Foods retains a high market share within high quality shredded cheese/mozzarella in a number of European countries. The market for industrial mozzarella for pizza producers continues to increase, and Arla Foods has increased its sales significantly following the start of production in Poland.

In most European markets, consumption of cream cheese is on the increase, and Arla Foods has recorded highly satisfactory sales in both northern and southern Europe.

Germany remains the most important market with sales of Arla Buko setting new records. Sales of own label cream cheese are also developing satisfactorily although prices remain under pressure.

The European feta market continues to grow. Arla Foods has a leading position in feta in a number of European markets, and substantial sales of own label products to Europe's largest multiples. Arla Foods has had significant success with feta in cubes, but also light varieties and feta in oil are experiencing extraordinary growth. As capacity was almost 100% utilised in the peak season, marketing was not quite on a par with last year. Due to the EU Court's decision concerning the use of the feta name, it is crucial that Arla Apetina achieves a strong position in the minds of consumers over the next few years.

Consumption of blue mould cheese is stagnating and, in certain European markets, is in decline. Nevertheless, Arla Foods has maintained its market share in all markets. In general, the soft, milder types of blue/white mould cheeses are gaining ground. Arla Foods endeavours to develop new products that respond to consumer wishes for milder and softer types as well as products that combine modern technology and traditional cheese-making. The task remains to develop and supply new product types and packaging solutions that appeal to a larger target group and provide inspiration for new applications.

Arla Foods has a leading position within feta in several European markets and in general, European consumption of feta is rising.

The Middle East

The Middle East is an important market for Arla Foods, and during the financial year, it was decided to prioritise the area through significant investment and a doubling of production in Saudi Arabia over the next five years. Moreover, Arla Foods has entered into three joint ventures with its local partners in Lebanon, Qatar and Kuwait. As a result, the Group operates a fully integrated business system in Saudi Arabia, the United Arab Emirates, Oman, Kuwait, Lebanon and Qatar.

Despite price increases, sales improved across the region with growth exceeding both population and economic growth. Arla Foods' strong position is, in particular, based on its two cheese brands. Puck (processed cheese in glass containers) and The Three Cows, primarily feta in brick packs.

Arla Foods' largest market, Saudi Arabia, saw strong competition within some of the most important product areas during the year. Nevertheless, Arla Foods succeeded in maintaining or expanding its market share, resulting in fair growth compared to the previous year. Cheese, in particular, achieved a highly satisfactory market position.

America

Despite the weak US dollar, the US operation achieved the budgeted result. The company's focus on added value products has, in particular, strengthened the Danish blue and havarti ranges, securing substantial new orders from leading supermarket chains. Arla Foods' licensed production of havarti also developed positively, both in terms of volumes and earnings. Economic growth remains significantly larger in the US than in Europe and the opportunities are considerable.

The acquisition of National Cheese in Canada in November 2004 and the subsequent integration of the company have proceeded highly satisfactorily and the new company has had a favourable reception from all concerned. The result for the first year meets the business plan in full and the synergies are becoming increasingly clear.

In Brazil, Arla Foods' joint venture, Dan-Vigor, produced a good performance once again. The result is on budget, which is satisfactory.

Asia

In Japan, Arla Foods' largest market in Asia, continuing economic slowdown and a fall in food prices are putting pressure on Danish cheese, which is sold at a premium. However, quality, service and many years' commitment and co-operation mean that customers remain loyal to Danish cheese. As a result, only marginal volumes have been lost.

In South Korea, the previous years' negative trends in sales of mainly mozzarella in blocks and retail products were reversed during the year.

Eastern Europe

The opportunities for exports to Russia are developing in a positive direction, and although the market demands a certain number of resources in order to exploit its potential, Russia will have high priority over the coming years.

The other East European markets again saw substantial growth, with sales more than doubling over the year. As is the case in Russia, it is important that Arla Foods offers a broad range of speciality cheese to the growing, modern retail sector in these markets.

Production

During the financial year, the following changes to cheese production in Denmark were implemented or planned.

Following the upgrading of Høgelund Dairy, Arla Foods' Danish blue production is now centred at one location.

Around May 2006, Vejle Cheese Depot will be closed and production transferred to Taulov, Nr.Vium, Hjørring and Poland.

Work continues on significant capacity expansion at Holstebro Flødeost.

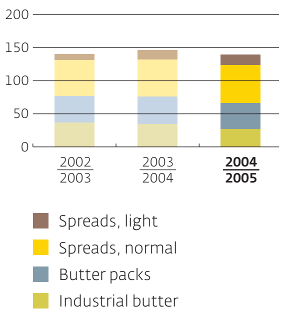
The expansion of production and packing capacity at Bov Mejeri (feta production) by approximately 40% is scheduled for completion in 2006.

The transfer of processed cheese production from Bislev Mejeri to Danya in Saudi Arabia is expected to take place early in 2007.

In Sweden, the structure of the cheese dairies has undergone change in recent years, with the result that all production of round firm cheese (Grevé, Präst, Svecia and Herrgård) is centred on Kalmar, all hushållsost is produced at Falkenberg, filéost at Götene and dessert cheese and cheddar in Kvibille.

Butter and spreads

Production of butter, spreads and light products (excluding contract production)
1,000 tons



In most of Arla Foods' markets around the world, consumers are demanding a wider choice of reduced fat products. As this presents a considerable challenge for the butter and spreads area, the value of a brand such as Lurpak, which is known in all corners of the globe, is crucial. Although, due to the weak dollar, Arla Foods has implemented significant price increases in several markets, sales of Lurpak nevertheless have increased in a number of markets.

Production and packaging of butter and spreads amounted to 185,000 tons in 2004/05, i.e. more or less in line with last year.

Sales of butter and spreads in the important UK market continue to advance, driven by the two strong brands, Lurpak and Anchor. In total, turnover for butter and spreads increased by 15% in the UK during a year when Lurpak sales showed particular advances while all major competitor brands lost ground. In particular, the advance derives from Lurpak Spreadable and Lurpak Lighter Spreadable, which will be complemented by Lurpak Unsalted Spreadable early in 2006.

Anchor products also recorded advances and have taken market shares from rival products, partly as a result of the launch of an Anchor Lighter Spreadable product.

The Middle East is another large and important market area for Lurpak. Saudi Arabia, the largest single market, is showing stable demand although Lurpak continues to be under some pressure from locally packed cheap butter. The four-year-old joint venture in the United Arab Emirates/Oman has seen substantial growth in, for instance, sales of Lurpak. There are also high expectations for sales in Kuwait, Qatar and Lebanon where the establishment of joint ventures proceeded according to plan at the close of the financial year. Sales of Lurpak Butter Ghee, which was launched last year in several countries around the Persian Gulf, are also on schedule.

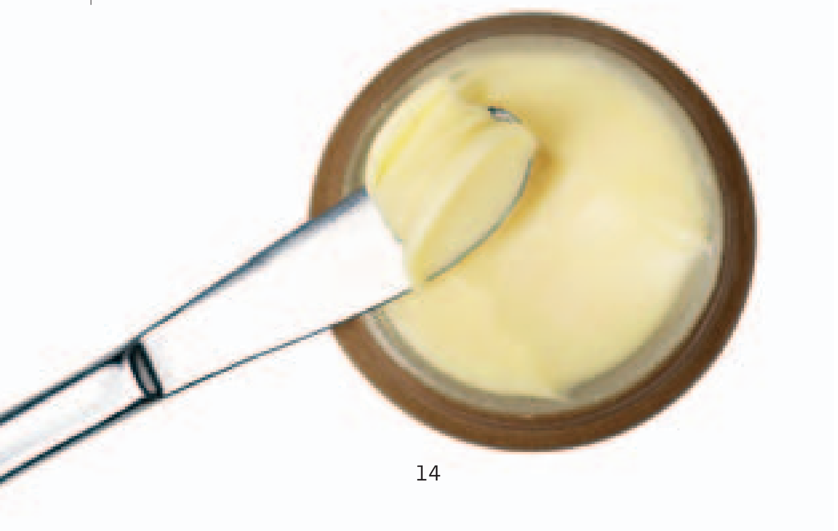
In South East Asia, increased focus on Lurpak, e.g. through sales of Lurpak minicups for large local airlines and hotel chains have resulted in increased sales. Overall tonnage for the region rose by 13% year on year. Sales of Lurpak butter to China again doubled (although from a low starting point) and there are significant expectations for developments over the coming year.

In Denmark the competition from competing branded products and own label remains tough. The decline in consumption of fats means pressure on prices as well as a need to develop new consumer areas where new products can be introduced, e.g. Kærgården Sandwich which was launched in the spring. A number of exciting niche products, however, have also contributed to the expansion of the butter segment. Lurpak with Læsø salt, for instance, continues to grow. In addition, consumers appear to be increasingly opting for cheap butter instead of margarine so that margarine is suffering a greater decline in volume than butter fat.

In the Swedish market, Arla Foods' butter and spreads retain a stable position. During the financial year, liquid butter- and rape seed oil saw most advances, achieving a clear number two spot within the category in a very short space of time.

Butterdane A.m.b.a.
Arla Foods' exports of butter and spreads from Denmark are handled by Butterdane A.m.b.a.

In recent years, butter consumption has switched from butter to spreads with reduced fat content.



CAN FARMERS AFFORD TO CONSIDER THE ENVIRONMENT?

They can't afford not to!
Today, consumers pose major demands on food products and want to assure themselves that they are produced with due consideration for the environment and animal welfare. Environmental-friendly farming methods are important to provide the best quality milk. Consequently, the environment is one of the areas included in the Arlagården Quality Programme.

Bregott

Lurpak Butter Ghee

Lurpak with Læsø salt

Lurpak Spreadable

Butter and rape seed oil

Ingredients

The opening of a new milk powder factory in Vimmerby in Sweden together with the decision to establish a joint venture in China are examples of the year's positive events for Arla Foods Ingredients, as is the fact that the result for the year was better than expected. However, there were major differences compared to the budget partly resulting from the ongoing falls in export subsidies and a continuing low US dollar. These negative factors, however, were offset by efficiency measures and price increases.

Milk powder

A joint venture between Arla Foods (49%) and the leading Chinese dairy company, Mengniu Dairy Company (51%), is expected to be concluded in the winter of 2005/06. The company, which will have its own sales and distribution system, will produce and sell milk powder in consumer packs for the Chinese market and will focus on two areas – a high quality brand and a local brand.

Retail packed milk powder is primarily used as a basic source of nutrition for children in countries where the local production does not cover the need for milk. Arla Foods' retail packed milk powder is sold in consumer packs under the Dano and Milex brands in several markets, including the Dominican Republic, Yemen and Bangladesh.

The Dominican Republic's economy has seen a significant improvement and purchasing power has returned with increased sales and market share. Market conditions in Yemen remain difficult with slower-than-expected growth. In Bangladesh, a local packing depot was opened in co-operation with Arla Foods' distributor, and the product, Vitakids, was successfully launched.

Over the coming year, several new products will be launched, especially in the Middle East and Latin America.

Arla Foods is currently a global leading company within own-label, milk-based nutritional products. There continues to be great potential in this business area because major international

Milk powder offers a solution first and foremost in parts of the world where there is no access to fresh, locally produced milk or where local production does not cover the needs of the population.

companies are interested in outsourcing all or parts of their production.

World market prices have been high measured in US dollars, but falling subsidies – including the CAP reform – have meant that prices in DKK have been on a par with, or slightly above, the previous year. In the latter half of the year, prices, however, were satisfactory.

The CAP reform, which means that EU subsidies will be cut until 2007, will, when fully implemented, result in a significant fall in Arla Foods' revenue from the ingredients business.

Milk proteins

The area covers the production and sale of added value ingredients for global food producers and Arla Foods has a leading position in the world market for functional dairy ingredients. As, in the food industry in general, there is now greater focus on reducing production costs and in order to meet the food industry's requirements, Arla Foods Ingredients has developed new types of functional milk proteins. The launch of new milk protein products for the meat and dairy industries has been positively received. In addition there has been a profitable development in the sale of protein for the ice-cream industry. In 2004, Arla Foods established a new business area which focuses on milk proteins for the bakery industry.

The development of the concept, and sales, have proceeded as planned, and expectations are high for this area.

In general, there is good progress in sales of added value speciality products and earnings are satisfactory.

During the year, a subsidiary was established in Mexico, which has already resulted in sales growth.

Production

The new factory in Vimmerby in Sweden, one of the world's most modern milk powder plants, came on stream in 2004/05. At the same time, the Swedish plants in Kimstad and Mjölby were closed down, and production of milk powder at the two Swedish cheese dairies, Falkenberg and Kalmar, ceased. Arla Foods' product range in Sweden has changed from skimmed to whole milk powder, which has resulted in a better financial performance.

At the end of the financial year, it was decided to close the Danish powder factory, Samden, in the summer of 2006.

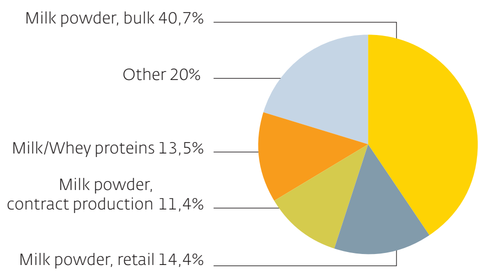
Within the milk protein area, Arla Foods operates plants in Sweden, Denmark, Germany and Argentina. In order to pursue the expansion strategies in the industrial area, opportunities for increasing whey volumes will be examined over the next 1-2 years.

In order to ensure efficient and rational operations, a structural plan was drawn up in 2001/02 for processing milk powder in Denmark and Sweden. The plan was completed in 2005 with the commissioning of the new plant in Vimmerby. In addition, the plants in Visby in Sweden and Arinco and Akafa in Denmark will be significantly upgraded. The total investment for the structural plan is in the region of DKK 1 billion.

Arla Foods' production facilities are now among the most efficient and advanced in the world with regard to processing milk-based ingredients.

Ingredients production

Distributed across product groups



Innovation

Health, convenience and indulgence are the three drivers behind Arla Foods Innovation's product development.

Firstly, health is all about cutting down on fat and sugar content. Consumers can currently choose a sugar and/or fat reduced variety of most products and several milk varieties were recently launched in which the content of natural milk sugar is reduced. Secondly, adding vitamins, minerals and bioactive components to dairy products is another important area. Further work on the documentation of the probiotic culture, F19, was carried out during the year. The same was the case with calcium's role as a means of weight reduction.

Convenience is another major trend. Arla Foods' ranges in this area have been extended, and have been well received by the markets. Examples include butter and rape seed oil, which have been adapted for frying and sandwich spreading, and feta products mixed with herbs, vegetables and oil ready for adding to salads.

The final major trend is "indulgence", e.g. Lurpak butter with Læsø salt, Kelda blue cheese sauce, crème fraiche in various flavours, and the development of a series of new gourmet dairy products, which are sold to a number of leading restaurants in Denmark under the name of Arla Innovation. The range has been developed in close co-operation with Danish top chefs. Expectations are high for this area.

During the financial year, a small department was set up to examine long-term ideas or concepts that do not fit current focus areas. One of the department's projects is the partnership with NASA concerning the development of dairy products for consumption in space. Astronauts received the first consignments of yoghurt from Arla Foods in 2004/05.

During the year under review, Innovation continued its close research partnership with universities at home and abroad within the three strategic areas: Product, consumers and process.

Some of Innovation's new research areas are Nutrigenomics and Nanotechnology. Nutrigenomics is a new scientific discipline which examines the connection between diet and genes. This knowledge may, for instance, be of use in connection with the development of new customised products for disease prevention. Nanotechnology is the study of matter on an ultra-small scale. Within food products, the research, for example, could lead to the development of zero fat products and the enhancement of production equipment.

For the coming year, the financial commitment to R&D will remain unchanged. However, with more rigorous project prioritisation, the investments are expected to offer better returns.

In 2005, Arla Foods launched a lactose-free milk in the Swedish and Danish markets. The milk can be consumed by consumers who are unable to tolerate milk's natural sugar, lactose.

WHY DOESN'T ARLA EXCLUSIVELY PRODUCE ORGANIC PRODUCTS?

Consumers present dairy producers with various demands. Some consumers go for freshness while, for others, price is paramount. Others, again, consider "organic" to be the deciding factor.

As Arla must meet these varying requirements, the company produces both organic and non-organic dairy products. Arla Foods produces organic dairy products in Denmark, Sweden and the UK.

Apetina feta

Høng Bellablu

Finello mozzarella

Puck cream cheese spread

Rosenborg Danish Blue

Arlagården

Through the Arlagården Quality Programme, Arla Foods' co-operative members offer consumers an insight into how milk is produced as well as into the quality of life of dairy cows. The co-operative members are united behind a set of common rules governing their milk supplies to Arla Foods. All farms, therefore, adhere to a clear set of rules concerning animal welfare, the environment and food safety.

The rules are gathered together in the Arlagården Quality Programme, which was launched in the autumn of 2003. The programme provides a clear description of the requirements each co-operative member must meet if he/she wishes to supply milk to Arla Foods.

Consumers are placing ever stricter demands on farm production. As a result, with its focus on the environment, animal welfare and food safety, the Arlagården programme is extremely important for the Group's sales.

In 2005, Arlagården was actively used in marketing in a broad range of areas. The programme, for instance, was described on milk cartons in Sweden and Denmark as well as being part of the concept of Arla Foods' stand at the world's largest trade fair for food and beverages, Anuga, in October. In the spring of 2005, Arlagården got its own website in Denmark, with an Arlagården internet game for children proving a great success.

In April 2004, specially trained quality staff started visiting all co-operative members in Sweden and Denmark. By April 2006, all Arla Foods' co-operative members will have received an introductory visit during which their farms are assessed.

In June 2005, a review and evaluation of the Arlagården Quality programme was initiated, aimed at providing improvements in relation to customers, consumers and co-operative members. The review is, however, also necessary because new EU legislation concerning hygiene regulations comes into force in January 2006.

The Arlagården Quality programme

The Arlagården Quality Programme gives Arla Foods the tools for making the link between the milk from the farm and the finished product in stores transparent to consumers.

Arla Foods' sales departments worldwide are now beginning to use Arlagården as a sales tool in the competition with the many rivalling dairy products. Arlagården is Arla Foods' guarantee to customers that the company's products are produced from the highest quality raw materials in terms of nutrition, hygiene, safety, taste and traceability. This is also an asset in terms of consumers' growing awareness of food safety and health.

The Arlagården Quality Programme has been developed in close co-operation with the company's co-operative members. As it comprises all Arla Foods' Danish and Swedish co-operative members, it is unique compared to other dairy company's quality programmes.

In some aspects, Arlagården's requirements and regulations go beyond current legislation, e.g. Arla Foods' demands on milk producers in terms of animal welfare and the environment are more stringent than the general requirements laid down in Swedish and Danish legislation, although these are already high compared to other countries.

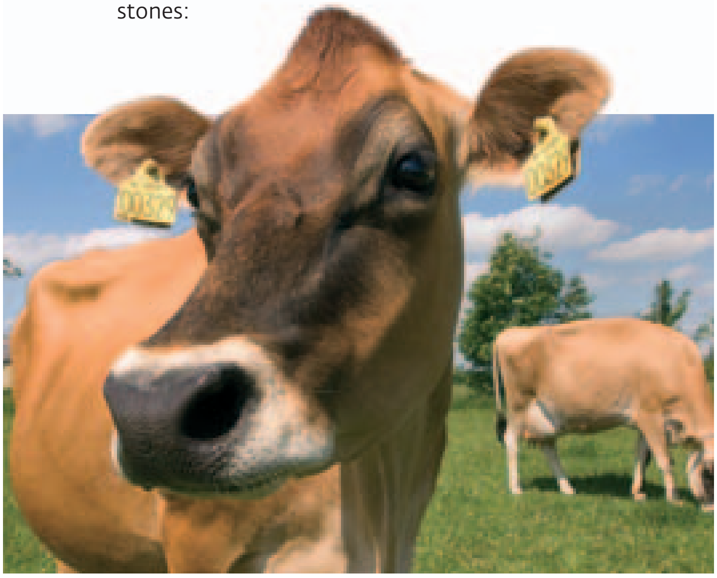
One example is that cattle feed must not be grown in fields fertilised with slurry from municipal sewage works. The feed must also be of a high quality and originate from approved feed suppliers that comply with voluntary agreements in the industry. Arlagården is based on Arla Foods' quality policy for farms in Denmark and Sweden, which is founded upon the following four cornerstones:

Milk composition
Milk must have a natural composition of fat, protein, minerals and other important components. Milk must also have a good, fresh taste and have a composition where the finished dairy products meet consumers' requirements with regard to confidence and well-being.

Food safety
The Arlagården Quality Programme enables milk to be traced from the cow to the finished product. Traceability produces safe dairy products and confidence among consumers. The milk, therefore, must not contain undesirable elements. Ensuring a high standard of hygiene is imperative on the milk's journey from the cow to the dairy.

Animal welfare
As healthy cows are a pre-requisite for healthy milk, animal welfare is at the top of Arla Foods' agenda. Milk production must take place in such a way that promotes animal health and well-being. Clean and well tended animals are, therefore, one of Arlagården Quality Programme's key requirements. Animal well-being also covers breeding, treatment of sick animals etc.

Respect for the environment
Arla Foods takes great care to ensure that the environment and nature are respected during milk production. Production at the farm must be environmental-friendly and show respect for nature. This means that the farm must preserve the surrounding environment and cultural landscape and optimise the use of nutritional materials and reduce the use of chemicals.



Arla Foods' employees

Under constant adjustment to markets and consumer requirements across the world, Arla Foods has a special obligation to ensure that its managers are clear in their objectives and expectations, assume personal responsibility and are result-oriented. Consequently, Arla Foods places great emphasis on developing managers who play an active role within their teams. Arla Foods wishes to employ modern managers with empathy, openness and the ability to listen and communicate.

As there is a clear correlation between a high level of satisfaction among staff and good management, Arla Foods' managers regularly participate in training programmes aimed at ensuring that, through personal commitment, enthusiasm and development, they will be able to create results through their colleagues and staff.

Over the past two years, approx. 800 managers at all levels have participated in management development courses, and many management teams have been through common development processes.

During the year under review, Danish and Swedish Economics and Engineering students placed Arla Foods significantly higher than before on the list of attractive work places. Among graduate Economists and Engineers with commercial experience, the company has retained its high position. Nevertheless, Arla Foods must endeavour to make such positions even more attractive because the industry sector's popularity continues to decline.

With the aim of ensuring the requisite future skills in production, work is ongoing to enhance internal training and to develop professional dairy courses and training in partnership with training institutions.

Mobility is important and Arla Foods strives to create an open, internal job market where all job vacancies are initially advertised internally so that our staff have the opportunity to develop their careers. In addition, Arla Foods encourages staff to gain international experience through foreign postings. In 2004/05, 125 staff (including their families) moved abroad to work for the company.

Over the past three years, Arla Foods has carried out the "Barometer" attitude survey among staff. In 2004, 89% of the staff in Sweden, Denmark and Germany took part. At Group level there was a four index point improvement in work satisfaction, and work continues on developing this at individual workplaces. Arla Foods' management also advanced by four index points. Barometer 2004, however, also showed that 4.5% of staff feel bullied and that many staff continue to feel stressed. Group management will, therefore, continue to focus on these issues.

The next Barometer survey will be carried out in the spring of 2006.

Since the merger in 2000, the number of employees in Arla Foods has continued to fall as a result of structural changes and rationalisation. The number of full-time salaried staff has been reduced by 510 since 2003.

In 2004/05, the number of employees fell by approx. 780 partly as a result of efficiency measures and due to disposals of subsidiaries.

Environment and working environment

Arla Foods takes responsibility for ensuring that the quality of the environment and working environment reflects the quality of the company's products in order to meet customers' and other stakeholders' expectations in this area, too.

Arla Foods' environmental and working environmental policy with its related targets are part of the Group's overall policies from farm to table, which demands a high level of responsibility on local, national and global levels. Such responsibility is becoming ever more pertinent as production is concentrated at fewer and larger plants. The policies are set out in Arla Foods' ethical programme, "Our Responsibility".

Group targets with regard to water, energy, CO_2, NO_x, ISO 14001 environmental certification, accidents at work and chemicals apply to the whole group with the exception of the UK.

The Group targets must be met before October 1, 2006. Work on revising the current objectives has already begun and will take account of areas where the environmental impact from farm to table is greatest as well as ethics, value creation and image. Waste, packaging and product development, which have not so far been covered by the Group targets, is part of the review.

Arla Foods' plants in Denmark, Sweden and the UK, which cover over 99% of the Group's overall production, are subject to EU regulations and environmental approvals. Environmental approval has been completed in Denmark and Sweden while the final applications from the UK dairies are expected to be approved by the authorities before the end of 2005.

External environment

WATER: Increased use of recycled water from production, together with a greater awareness among employees about the use of water, has resulted in a significant reduction in water consumption throughout the Group.

ENERGY: Transport has largely contributed to reducing NO_x emissions, which is owing to several factors: ongoing investment in modern vehicles which create less pollution, routes are planned to avoid unnecessary driving, drivers are trained to drive more economically and computers have been installed in many vehicles to monitor diesel consumption.

Projects at several of the Group's dairies have shown that chilling systems and compressed air are areas where energy can be saved, thus reducing CO_2 emissions. Chilling systems and compressed air have, therefore, been designated as new focus areas. To an increasing extent, staff will also become involved in the work to identify further energy savings. The new Swedish powder plant at Vimmerby has invested in a new biofuel plant, which will contribute to reducing CO_2 emissions.

CHEMICALS: By the end of the financial year, the majority of all chemicals were assessed for their effect on health and the environment with the remainder expected to be assessed during 2006.

ISO 14001: The aim is for all plants in Denmark and Sweden to be environmentally certified by the end of 2006. ISO 14001 helps to ensure that all relevant environmental conditions have been examined and that improvements will be effected on an ongoing basis.

Working environment

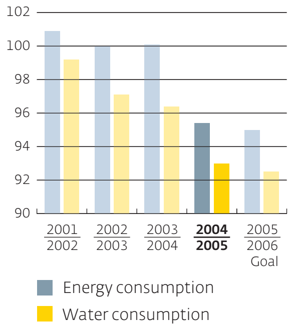
All machinery in Denmark and Sweden is risk assessed. Experience shows that focus should be on the purchase of new machinery and the reconditioning of existing machinery, as well as on staff training in accident prevention caused by machinery.

In Denmark, Arla Foods is participating in the "Sikkernok?" (Safe Enough?) industry project, which aims to reduce the number of industrial accidents in the dairy industry. Action plans are being drawn up at the relevant plants and employees are continually updated on accident prevention. This should contribute to a lower accident frequency, which has so far been slow to occur.

In Denmark, 89% of Arla Foods' dairies have been assigned "best class" position in connection with inspections by the Danish Working Environment Authority.

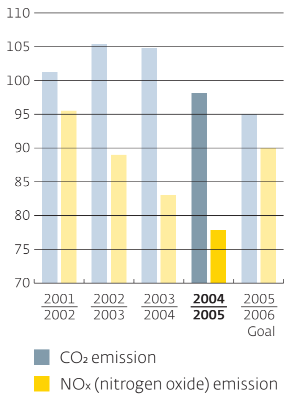
Energy and water consumption

Index in relation to raw and finished goods and product mix 2000/2001 = index 100



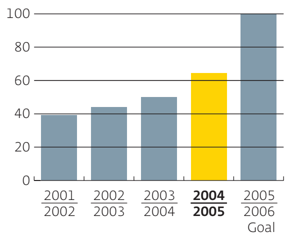
CO_2 and NO_x emissions

Index in relation to raw and finished goods and product mix 2000/2001 = index 100



ISO 14001 certified plants in Sweden and Denmark

Percentage



The two top charts cover the Group's plants (apart from the UK)

ISN'T IT A PROBLEM THAT ARLA FOODS' OWNERS ARE ALSO SUPPLIERS?

On the contrary, it's an advantage for both parties.
As far as the dairy is concerned one of the benefits is that the raw material – milk – has clear traceability.
The owners, the co-operative members, benefit from the fact that the company assumes responsibility for ensuring the highest possible milk price. The co-operative members also have an interest in securing the company's long-term existence.

Kelda Thai soup

Kærgården Sandwich

Arla Köket double cream

Karolines Køkken Creme fraiche

Karolines Køkken Mornay Sauce

Other activities

Rynkeby Foods A/S and JO Bolaget

Under joint management, Rynkeby Foods and JO Bolaget are market leaders in Denmark and Sweden within the fields of fruit drinks and fruit juices.

The juice and fruit drinks market saw slow development in 2004/05, while, at the same time, competition from foreign discount products intensified. Focus, therefore, was on strengthening sales and innovation of fresh, chilled fruit juice.

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

During the year under review, turnover fell as a result of the competitive situation and because of the measures to restore profitability. Nevertheless, earnings for 2004/05 saw a substantial improvement largely as a result of efficiency measures, innovation and the strengthening of the Rynkeby brand.

Although efforts in the coming year will focus on raising profitability and increasing exports, the competitive situation and increasing raw material prices are expected to mean that turnover and result will be on par with 2004/05.

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

Increased competition from own label products has taken further market shares from JO Bolaget. However, the decline only applies to the aseptic range, while sales of chilled juice increased, offsetting the decline. As the raw material situation was good as well as stable, JO Bolaget's result was satisfactory.

Over the coming year, competition from own label brands and higher raw material prices will put earnings under pressure, although the result is expected to be at the same level as the previous financial year.

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 developed highly satisfactorily, especially sales of frozen layer cake and desserts. Sales in the Finnish and UK markets also saw positive developments although efforts to recover the previously lost volumes in Germany failed.

The rate of new product development was high with a total of 15 new products launched in various markets. New products launched over the past two years account for more than 25% of the company's turnover.

The new year will see more focus on cost and efficiency while the company's market position will be further developed.

The Medipharm Group

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

A declining sales trend was reversed during the year, and sales increased compared to the previous year. Previous focus on the US has paid off in the form of new customers and, hence, new sales. In general, the company's products within the area of biological ensiling agents saw particularly good growth over the year.

The company expects continued growth within the various product areas.

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 muesli in bulk and retail packs for customers in the dairy, bakery and retail sectors.

During the year under review, Crispy Foods almost succeeded in compensating for the loss of a large customer through new orders. The company has rationalised production and expanded its product potential by means of ultra-hygienic filling of wet products into Top Cups (e.g. sauce) as well as pressed muesli (e.g. for biscuits).

60% of Crispy Food's turnover during the financial year originated from exports, while 29% was related to Arla Foods. A sound development in both turnover and result is expected for the coming financial year.

Dairy Fruit A/S

Dairy Fruit is market leader within fruit preps and liquid spice mix for the dairy industry in Sweden and Denmark as well as a licenced producer of fruit porridge and marmalade for the catering industry in Denmark.

During the financial year, Dairy Fruit maintained tonnage in the main markets of Denmark and Sweden. Moreover, the company has built up a network in Germany, Iceland, Holland and Finland with a view to developing exports. A new production department for liquid spice mix has come on stream.

Turnover shows a slight fall compared to last year despite the fact that sales volumes increased slightly.

The result is satisfactory.

Procudan A/S

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

In 2004/05, Procudan continued its positive performance despite increased competition. Activity levels thus increased in all markets and sales are evenly spread across the three product areas.

Most of the turnover continues to derive from Denmark, but satisfactory growth in Sweden and Norway has strengthened its chances of becoming a strong, Scandinavian supplier.

During the year, investments were made in IT and further rationalisation and production of cheese wax.

Expectations for the coming year are for continued growth in turnover and result.

Delimo A/S

Delimo A/S imports speciality cheese for customer across the Nordic region. The financial year was characterised by negotiations with the retail sector in Sweden concerning a new company, Delimo AB, which will be better able to service major customers with imported speciality cheese. Delimo AB, which was established in the 2003/04 financial year, will tackle all issues within the area of Key Account Management and marketing. Delimo A/S has a 51% stake in the Swedish cheese importing company, Kron Ost.

The year was also characterised by challenges stemming from the supermarkets' purchase of imported speciality cheese. Delimo, however, proved to be competitive in both service and price.

Financial review

Profit and loss account

Profit for the year, supplementary payment and consolidation
Profit for the year totalled DKK 801 million against DKK 1,019 million for 2003/04. In 2004/05, the profit is also adversely affected by the exchange rate development, reductions in restitutions and deteriorating market conditions, especially in the domestic markets, just as non-recurring income in the form of profits from the sale of enterprises is significantly lower in 2004/05 than the year before. On the other hand, the profit is positively affected by a lower on-account price for co-operative member milk.

Arla Foods' earnings per kg milk supplied by co-operative members totalled 228.08 Danish øre/280.89 Swedish öre as against 239.06 Danish øre/293.68 Swedish öre in 2003/04.

Supplementary payments totalled DKK 369 million against DKK 586 million in 2003/04. Net consolidation is 3.00 Danish øre per kg co-operative member milk against 5.00 Danish øre per kg for 2003/04. The consolidated amount is recognised in full in reserves in respect of supply based members certificates.

Net turnover
Net turnover for 2004/05 totalled DKK 46,351 million against DKK 47,263 million in 2003/04. Following a changed procedure for elimination of intra-group sales, comparative figures have been restated. In 2004/05, the Group experienced a decrease in turnover of DKK 912 million. Acquisition of a company in Canada at the beginning of 2004/05 increased the turnover by approx. DKK 400 million, whereas disposal of enterprises in 2003/04 resulted in decreasing sales of approx. DKK 800 million. Finally, the international decreasing price level of dairy products resulted in a decreased turnover of approx. DKK 500 million.

Operating profit
Operating profit totalled DKK 1,505 million in 2004/05 against DKK 1,193 million in 2003/04. Production costs include an on-account payment to co-operative members of DKK 13.4 billion against DKK 13.9 billion in 2003/04.

As mentioned previously, operating profit is to a great extent adversely affected by external factors relating to foreign exchange rates and the EU's agricultural policy. Depreciation decreased by approx. DKK 100 million. The development in other cost items was maintained at a low level through staff reductions, rationalisations and efficiency improvements.

The year's total milk volume was 8,415 million kg, of which co-operative member milk accounts for 6,172 million kg. The majority of the non-co-operative member milk supplies relates to the UK.

Ordinary profit before tax
Profit from disposal of enterprises totalled DKK 39 million against DKK 404 million in 2003/04, whereas net financing costs increased from DKK 423 million in 2003/04 to DKK 573 million in 2004/05. Net financing expenses are significantly affected by refinancing costs and increased investments during the financial year. The 2003/04 profit was also affected by non-recurring profits from sale of securities.

Balance sheet

Fixed assets
Intangible assets totalled DKK 2,838 million against DKK 2,630 million and primarily comprise group goodwill from the acquisition of Express Dairies at the beginning of 2003/04 and the IT development project Ett Arla. Additions during the year primarily relate to the acquisition of an enterprise in Canada and the IT development project Ett Arla.

Tangible assets totalled DKK 10,879 million against DKK 11,063 million at 30 September 2004. Additions during the year of DKK 2,499 million primarily relate to the acquisition of an enterprise in Canada and investments in the UK (Stourton), Sweden (Vimmerby) and Denmark (Høgelund). Disposals for the year of DKK 1,062 million are primarily attributed to the entering of a sale and lease back agreement in the UK (Stourton) and divestment of the Danapak Kartonnage Division.

Jørn Wendel Andersen

SHOULD MILK ONLY BE DRUNK BY CHILDREN?

Milk contains vitamins and minerals, which everyone needs throughout their lives. Milk, in fact, contains 14 of the 18 most important vitamins and minerals. Both the Danish and Swedish food agencies recommend half a litre of reduced fat milk and dairy products per day. Arla Foods offers a wide range of drinking milk. As well as the traditional types with varying fat content, Arla Foods has also launched a lactose-free, calcium-enriched milk to meet the requirements and wishes of consumers of all ages.

Yoggi Yalla cranberry/strawberry/lychee

Cultura vanilla drink

Yoggi lätt&Jättsockrad blueberry/banana/ vanilla

Cheasy peach melba

Postman Pat Yoghurt

Current assets
Inventories totalled DKK 3,595 million at 30 September 2005 against DKK 3,471 million at 30 September 2004. Trade receivables totalled DKK 4,497 million at 30 September 2005 as against DKK 4,714 million at 30 September 2004.

Equity
At 30 September 2005, equity totalled DKK 7,481 million, corresponding to an increase of DKK 120 million compared to 30 September 2004. The share of the year's profit used for consolidation totalled DKK 432 million. Equity, therefore, only increased by approx. 1⁄4 of the consolidated amount, which is partly due to the statutory regulated distribution and payments from the distributable account in the amount of DKK 217 million and partly due to negative accounting adjustments.

Equity ratio measured as total equity in relation to total assets represented 29% at 30 September 2005 which is the same as last year.

Equity ratio including the subordinated bond loan represented 33% at 30 September 2005 which is also the same as last year.

Provisions
Pension commitments relate to the pension schemes in the UK and Sweden in which Arla Foods is obliged to pay pensions to former employees from the date of retirement (defined benefit schemes). Pension commitments totalled DKK 3,063 million at 30 September 2005 against DKK 3,079 million at 30 September 2004.

Liabilities
The Group is primarily 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 profit and balance sheet are affected by a number of financial risks. The main objectives and principles governing Arla Foods' financial risk management are laid down in the Group's finance policy, which is reviewed and approved by the Supervisory Board each year. The Group's listed UK subsidiary Arla Foods UK plc is, however, subject to its own finance and treasury policy.

The finance policy comprises the Group's foreign exchange, financing, liquidity, interest and credit issues and a description of the approved financial instruments and counterparties.

Foreign exchange risks
Foreign exchange risks constitute a significant risk for Arla Foods and has, therefore, a significant impact on the profit and loss account and balance sheet. Arla Foods does, to a large extent, hedge its commercial risks. It is group policy that the individual business entities are responsible for hedging. The majority of the external hedging is made centrally via the finance department.

The main part 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 settled in GBP, DKK and SEK. Expected sales are hedged by up to 15 months by way of forward exchange and options contracts with matching terms. Of the Group's total turnover of DKK 46 billion, approx. 80 % represents another currency than DKK.

Arla Foods' investments in foreign subsidiaries and associates are principally not hedged.

Agreements on hedging instruments are estimated to have resulted in a net positive operating effect of DKK 15 million in 2004/05 as opposed to a negative DKK 19 million recognised directly in equity at 30 September 2005, corresponding to the market value of foreign exchange hedging instruments used after the balance sheet date.

Financing and interest rate risks
The finance policy underpins the Group's objectives and strategies and reduces the refinancing risk. The Group strives at having a suitable long term to maturity on the debt and a certain diversification of maturity.

To a great extent, the Group is financed through long, fixed-interest rate loans. At 30 September 2005, the total interest-bearing long-term debt totalled DKK 10,376 million including the Group's pension commitments in the UK and Sweden. If the pension commitments are disregarded, the average term to maturity is approx. 5.1 years.

To hedge the Group's interest expenses, hedging instrument contracts have been entered into. At 30 September 2005, the market value of these contracts represented a negative amount of DKK 68 million, which is recognised directly in equity.

Arla Foods' profit is, in the medium term, affected by the development in the interest rate. An interest rate increase of 1 percentage point in the coming financial year is, however, not considered to have a significant impact on the profit.

Liquidity risk

The liquidity risk is managed by ensuring the availability of sufficient operating liquidity and liquidity for significant changes in the consolidated balance sheet. Borrowing facilities related to such changes are assessed separately.

The Group uses a central cash pool arrangement, which ensures a reasonable return of any excess liquidity. A Commercial Paper program of SEK 2.5 billion for Arla Foods amba and Arla Foods AB can be used for the purpose of issuing securities with terms of up to one year. At present the program remains unused. As at 30 September 2005, the Group's total liquidity reserve amounted to:

	DKK million
Cash funds	1,142
Securities	614
Unused drawing facilities	6,319
Total capital resources	8,075

The majority of the unused drawing facilities can be terminated at short notice.

Credit risks

Arla Foods' trade receivables are not considered particularly risky. Credit management is conducted in the Group's entities on a regular basis. Bad debt losses equal those of last year.

Ongoing credit assessments of the Group's customers and counterparties are undertaken to minimise the credit risk. Credit insurance is taken out whenever there is deemed to be a risk. Counterparties to financial contracts must at a minimum be considered "investment grade" by either Moody's or Standard & Poors.

CAN YOU VISIT ARLAGÅRDEN?

A number of Arla Foods' co-operative members in Denmark and Sweden welcome visits to their farms. So far, most of the visitors have been school children, but other groups are also welcome.

Dano milk powder

Milex Choco

Milex milk powder

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 2004-30 September 2005.

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 2005 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 2004-30 September 2005.

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

Aarhus, 5 December 2005

Management Board:

Peder Tuborgh *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	Steen Nørgaard Madsen	Johan von Schéele
Viggo Ø. Bloch	Leif Eriksson	Ove Møberg	Pejter Søndergaard
Steen Bolvig	Thomas Johansen	Jan Toft Nørgaard	Bent Juul Sørensen
Bjarne Bundesen	Erik Karlsson	Kaj Ole Pedersen	
Bengt Darhult	Sören Kihlberg	Gunnar Pleijert	

Auditors' report

To the members of Arla Foods amba
We audited the annual report of Arla Foods amba for the financial year 1 October 2004-30 September 2005.

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 2005 and of the results of the Group's and the parent company's operations and consolidated cash flows for the financial year 1 October 2004-30 September 2005 in accordance with the Danish Financial Statements Act.

Aarhus, 5 December 2005

KPMG C. Jespersen
Statsautoriseret Revisorinteressentskab

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 2004/05 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. A few reclassifications have been made in the annual report. These reclassifications do not affect the profit for the year or capital and reserves. Comparative figures have been restated.

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 (badwill), 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 (goodwill). 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 equity. Income and expenses relating to such hedging transactions are transferred from equity on realisation of the hedged item and recognised in the same item as the hedged item.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the 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

Net turnover

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

The net 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 charged directly to 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 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 incidental to ownership (finance lease), are measured at their initial recognition in the balance sheet at the lower of fair value and the present value of the future lease payments. For the calculation of the net present value, the interest rate implicit in the lease or an approximation thereof is used as the discount rate. Assets held under finance lease are hereafter treated as the company's own 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 entities 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 2005 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 originally 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 up to and including the financial year 2008.

If 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 175 million of this amount has been transferred to the capital account up to and including the financial year 2004/2005.

Supply based members certificates:
The certificates have been established in accordance with Section 20, subsection 1(3) of the articles of association and accompanying regulations Deposits on the certificates of each owner are payable on termination of membership of Arla Foods amba in accordance with the provisions of the regulations and subject to the approval of the Board of Representatives.

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.

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

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 carryforwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the 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.

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 the UK, are those for which the company is committed to pay a certain amount from the point of 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.

Costs in the profit and loss account regarding defined benefit schemes are based on the above-mentioned actuarial calculations.

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.

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 the 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	
01.10.03 30.09.04	01.10.04 30.09.05	DKK million	Note	01.10.04 30.09.05	01.10.03 30.09.04
25,047	24,803	**Net turnover**	1	46,351	47,263
-22,243	-21,933	Production costs	2	-36,486	-37,459
2,804	**2,870**	**Gross profit**		**9,865**	**9,804**
-1,410	-1,362	Sales and distribution costs	2	-6,087	-6,380
-581	-612	Joint costs including administration	2/3	-2,137	-2,066
53	83	Other operating income		181	115
-39	-98	Other operating expenses		-317	-280
827	**881**	**Operating profit**		**1,505**	**1,193**
242	26	Results in subsidiaries	8	-	-
-4	-3	Results in associates	8	-57	-29
0	0	Divestment of enterprises		39	404
-16	-70	Net financial items	4	-573	-423
1,049	**834**	**Profit from ordinary activities before tax**		**914**	**1,145**
-30	-33	Corporation tax	5	-113	-126
1,019	**801**	**Profit for the year**		**801**	**1,019**
-	-	Minority interest share of results in subsidiaries	9	0	0
1,019	**801**	**Arla Foods amba's share of results for the year**		**801**	**1,019**
		Proposed profit appropriation:			
586	369	Supplementary payments to Arla Foods' members		369	586
		Transferred to capital account:			
123	123	Reconsolidation acc. to the articles of association		123	123
-52	101	Other transfers		101	-52
71	224	Total		224	71
124	0	Distributable account		0	124
-	185	Supply based members certificates		185	-
238	23	Net revaluation acc. to the equity method		-	-
-	-	Other reserves		23	238
1,019	**801**	**Total**		**801**	**1,019**

Balance sheet

Assets

Parent company: Balance sheet at 30.09.04	Parent company: Balance sheet at 30.09.05	DKK million	Note	Group: Balance sheet at 30.09.05	Group: Balance sheet at 30.09.04
		Fixed assets			
		Intangible fixed assets	6		
0	0	Licences and trademarks, etc.		153	44
-	-	Group goodwill		1,949	1,980
585	700	Development projects		736	606
585	**700**	**Total**		**2,838**	**2,630**
		Tangible fixed assets	7		
1,645	1,610	Land and buildings		4,690	4,378
2,016	1,943	Plant and machinery		4,575	5,011
104	66	Fixtures and fittings, tools and equipment		406	448
261	477	Assets in course of construction		1,208	1,226
4,026	**4,096**	**Total**		**10,879**	**11,063**
		Investments	8		
1,711	1,248	Investments in subsidiaries		-	-
3,338	2,569	Subordinate loans to subsidiaries		-	-
28	24	Investments in associates		308	195
689	710	Other securities and investments		876	873
5,766	**4,551**	**Total**		**1,184**	**1,068**
10,377	**9,347**	**Total fixed assets**		**14,901**	**14,761**
		Current assets			
		Stocks			
477	542	Raw materials and consumables		903	704
702	723	Work in progress		799	732
214	227	Finished goods and goods for resale		1,893	2,035
1,393	**1,492**	**Total**		**3,595**	**3,471**
		Receivables			
1,164	1,019	Trade receivables		4,497	4,714
1,288	2,658	Amounts owed by group enterprises		-	-
139	48	Amounts owed by associates		120	126
223	80	Other receivables		713	957
-	-	Deferred tax asset	11	738	680
1	0	Prepayments		62	87
2,815	**3,805**	**Total**		**6,130**	**6,564**
0	**0**	**Securities**		**614**	**374**
541	**121**	**Cash at bank and in hand**		**1,142**	**873**
4,749	**5,418**	**Total current assets**		**11,481**	**11,282**
15,126	**14,765**	Total assets		**26,382**	**26,043**

Equity, minority interests and liabilities

Parent company Balance sheet at 30.09.04	Parent company Balance sheet at 30.09.05	DKK million	Note	Group Balance sheet at 30.09.05	Group Balance sheet at 30.09.04
		Equity			
6,041	6,596	Capital account		6,596	6,041
368	275	Reserve fund A		275	368
124	0	Distributable account		0	124
-	185	Supply based members certificates		185	-
500	500	Reserve fund B		500	500
366	0	Net revaluation acc. to the equity method		-	-
-38	-75	Hedging instruments		-87	-6
-	-	Other reserves		12	334
7,361	**7,481**	**Total equity**		**7,481**	**7,361**
-	**-**	**Minority interests**	**9**	**14**	**13**
167	**129**	**Subordinate loan capital, Arla ek. f.**	**10**	**129**	**167**
7,528	**7,610**	**Total capital base**		**7,624**	**7,541**
		Provisions			
14	14	Deferred tax	11	313	231
0	0	Pension commitments	12	3,063	3,079
160	79	Other provisions	13	293	581
174	**93**	**Total provisions**		**3,669**	**3,891**
		Liabilities			
		Long-term liabilities	14		
1,000	1,000	Subordinate bond loan		1,000	1,000
1,867	1,856	Mortgage credit institutions		2,861	2,544
1,630	891	Banks etc.		3,323	3,166
4,497	**3,747**	**Total**		**7,184**	**6,710**
		Short-term liabilities			
12	289	Short-term portion of long-term liabilities		291	15
57	7	Banks		966	1,281
586	369	Supplementary payments		369	586
1,505	1,663	Trade payables		3,618	3,706
23	118	Amounts owed to group enterprises		-	-
7	0	Amounts owed to associates		25	71
24	31	Corporation tax		92	118
713	838	Other payables		2,544	2,124
0	0	Deferred income		0	0
2,927	**3,315**	**Total**		**7,905**	**7,901**
7,424	**7,062**	**Total liabilities**		**15,089**	**14,611**
15,126	**14,765**	Total equity, minority interests and liabilities		**26,382**	**26,043**
		Contingent liabilities, gurantees etc.	15		
		Related parties	16		

Equity statement

Group

DKK million	Balance at 01.10.04	Profit of the year	Other adjustments	Payment of the year	Balance at 30.09.05
Capital account	6,041	224	331	0	6,596
Reserve fund A	368	0	0	-93	275
Distributable account	124	0	0	-124	0
Supply based members certificates	-	185	0	0	185
Reserve fund B	500	0	0	0	500
Hedging instruments	-6	0	-81	0	-87
Other reserves	334	23	-345	0	12
Total	**7,361**	**432**	**-95**	**-217**	**7,481**

Parent company

DKK million	Balance at 01.10.04	Profit of the year	Other adjustments	Payment of the year	Balance at 30.09.05
Capital account	6,041	224	331	0	6,596
Reserve fund A	368	0	0	-93	275
Distributable account	124	0	0	-124	0
Supply based members certificates	-	185	0	0	185
Reserve fund B	500	0	0	0	500
Net revaluation acc. to the equity method	366	23	-389	0	0
Hedging instruments	-38	0	-37	0	-75
Total	**7,361**	**432**	**-95**	**-217**	**7,481**

Cash flow statement

	Group	
DKK million	2004/05	2003/04
Cash flows from operating activities		
Profit for the year	801	1,019
Depreciation and other operating items without cash impact	1,882	2,140
Shares of results in investments	57	29
Changes in provisions	-228	-70
Changes in stocks	-124	334
Changes in receivables	434	292
Changes in trade payables and other payables	-610	-1,759
Corporation tax paid	-96	-138
Cash flows from operating activities	**2,116**	**1,847**
Cash flows from investing activities		
Investment in intangible assets, net	-503	-195
Investment in tangible assets, net	-1,363	-2,730
Other investments, net	-176	149
Cash flows from investing activities	**-2,042**	**-2,776**
Cash flows from financing activities		
Changes in amounts owed to credit institutions etc.	435	-35
Cash flows from financing activities	**435**	**-35**
Changes in cash funds and securities	**509**	**-964**
Cash funds and securities at 1 October 2004	1,247	2,211
Cash funds and securities at 30 September 2005	**1,756**	**1,247**

Notes

1 Turnover

DKK million	Group 2004/05	Group 2003/04
Dairy activities	44,479	45,139
Other activities	1,872	2,124
Total turnover	**46,351**	**47,263**

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

2 Costs

Parent company 2003/04	Parent company 2004/05	DKK million	Group 2004/05	Group 2003/04
		Staff costs:		
		By function		
-1,989	-1,962	Production	-3,827	-4,239
-172	-184	Sales and distribution	-2,409	-2,289
-306	-338	Joint costs incl. administration	-991	-994
-2,467	**-2,484**	**Total**	**-7,227**	**-7,522**
		By type		
-2,302	-2,313	Wages and salaries	-6,073	-6,334
-152	-158	Pensions	-529	-522
-13	-13	Other social security costs	-625	-666
-2,467	**-2,484**	**Total**	**-7,227**	**-7,522**
6,715	**6,274**	**Average number of employees**	**20,076**	**20,855**

Salaries and remuneration incl. pensions for the Group include the parent company's Management Board of DKK 23 million (2003/004: DKK 10 million). 2004/05 includes the total amount for remuneration and fully funded pension payments to a resigned director. Fees to the parent company's Supervisory Board and Board of Representative represented DKK 14 million (2003/2004: DKK 11 million).

Parent company 2003/04	Parent company 2004/05	DKK million	Group 2004/05	Group 2003/04
		Depreciation:		
		By function		
-629	-649	Production	-1,304	-1,332
-32	-9	Sales and distribution	-297	-348
-104	-131	Joint costs incl. administration	-285	-289
32	10	Profit/loss on sale of intangible and tangible fixed assets	74	52
-733	**-779**	**Total**	**-1,812**	**-1,917**

3 Fee to the auditors appointed by the Board of Representatives

Parent company 2003/04	Parent company 2004/05	DKK million	Group 2004/05	Group 2003/04
		Audit fee		
-4	-4	KPMG C. Jespersen	-11	-11
-2	-3	PricewaterhouseCoopers	-7	-7
-	-	Others	-5	-4
		Other services		
-7	-27	KPMG C. Jespersen	-28	-10
-1	-10	PricewaterhouseCoopers	-10	-2
0	0	Others	-2	-5
-14	**-44**	**Total**	**-63**	**-39**

4 Net financial items

Parent company 2003/04	Parent company 2004/05	DKK million	Group 2004/05	Group 2003/04
		Expenses		
-15	-18	Interest expense to group enterprises	-	-
-260	-262	Other financing charges	-601	-549
-275	**-280**	**Total**	**-601**	**-549**
		Income		
189	191	Interest income from group enterprises	-	-
70	19	Other financing income	28	126
259	**210**	**Total**	**28**	**126**
-16	**-70**	**Net financial items**	**-573**	**-423**

5 Corporation tax

Parent company 2003/04	Parent company 2004/05	DKK million	Group 2004/05	Group 2003/04
-32	-41	Tax on taxable income for the year	-100	-116
0	0	Adjustment of deferred tax	-35	-9
2	8	Correction of tax from previous years	22	-1
-30	**-33**	**Total**	**-113**	**-126**

6 Intangible fixed assets

Group

DKK million	Licences and trademarks	Group-goodwill	Product development projects	IT-development project
Cost at 01.10.2004	82	2,331	75	651
Exchange rate adjustments	9	9	0	0
Additions during the year	122	116	35	241
Disposals during the year	0	-54	0	0
Cost at 30.09.2005	**213**	**2,402**	**110**	**892**
Amortisation and impairment 01.10.2004	-38	-351	-25	-95
Exchange rate adjustment	-4	0	0	0
Amortisation and impairment for the year	-19	-144	-31	-115
Amortisation and impairment, disposed assets	1	42	0	0
Amortisation and impairment 30.09.2005	**-60**	**-453**	**-56**	**-210**
Carrying amount at 30.09.2005	**153**	**1,949**	**54**	**682**

Parent company

DKK million	Product development projects	IT-development project
Cost at 01.10.2004	44	651
Additions during the year	25	214
Disposals during the year	0	0
Cost at 30.09.2005	**69**	**865**
Amortisation and impairment 01.10.2004	-15	-95
Amortisation and impairment for the year	-19	-105
Amortisation and impairment, disposed assets	0	0
Amortisation and impairment 30.09.2005	**-34**	**-200**
Carrying amount at 30.09.2005	**35**	**665**

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 01.10.2004	5,223	8,467	1,191	1,226
Exchange rate adjustments	-13	-51	-6	-16
Additions during the year	535	491	366	1,107
Transferred during the year	288	821	0	-1,109
Disposals for the year	-384	-902	-208	0
Cost at 30.09.2005	**5,649**	**8,826**	**1,343**	**1,208**
Depreciation and impairment 01.10.2004	-845	-3,456	-743	0
Exchange rate adjustments	14	24	4	0
Depreciation and impairment for the year	-223	-1,001	-353	0
Depreciation and impairment, disposed assets	95	182	155	0
Depreciation and impairment 30.09.2005	**-959**	**-4,251**	**-937**	**0**
Carrying amount at 30.09.2005	**4,690**	**4,575**	**406**	**1,208**
Assets held under finance lease	**0**	**130**	**10**	**0**

The official annual valuation of Danish land and buildings with a carrying amount of DKK 2,002 million is assessed at DKK 1,961 million.

Parent company

DKK million	Land and buildings	Plant and machinery	Fixtures and fittings, tools, etc.	Assets in course of construction
Cost at 01.10.2004	2,131	3,778	197	261
Additions during the year	121	300	10	350
Transferred during the year	6	128	0	-134
Disposals for the year	-41	-80	-51	0
Cost at 30.09.2005	**2,217**	**4,126**	**156**	**477**
Depreciation and impairment 01.10.2004	-486	-1,762	-93	0
Depreciation and impairment for the year	-144	-495	-26	0
Depreciation and impairment, disposed assets	23	74	29	0
Depreciation and impairment 30.09.2005	**-607**	**-2,183**	**-90**	**0**
Carrying amount at 30.09.2005	**1,610**	**1,943**	**66**	**477**
Assets held under finance lease	**0**	**31**	**14**	**0**

The official annual valuation of land and buildings is assessed at DKK 1,541 million.

8 Investments

Group

DKK million	Investments in associates	Other securities and investments
Cost at 01.10.2004	250	821
Additions during the year	142	36
Disposals during the year	-22	-50
Cost at 30.09.2005	**370**	**807**
Adjustments at 01.10.2004	-55	52
Results for the year	-57	17
Exchange rate adjustments	0	-3
Other adjustments	50	3
Adjustments at 30.09.2005	**-62**	**69**
Carrying amount at 30.09.2005	**308**	**876**
Of which goodwill at 30.09.2005	**16**	

Parent company

DKK million	Investments in subsidiaries	Subordinate loans to subsidiaries	Investments in associates	Other securities and investments
Cost at 01.10.2004	1,346	3,338	39	632
Additions during the year	16	148	0	14
Disposals during the year	-3	-907	0	-25
Cost at 30.09.2005	**1,359**	**2,579**	**39**	**621**
Adjustments at 01.10.2004	365	0	-11	57
Distribution/dividends	-377	0	0	0
Results for the year	43	0	4	31
Amortisation of goodwill for the year	-23	0	-7	0
Changes in intra-group profit on stocks	6	0	0	0
Exchange rate adjustments	-22	-10	-1	-3
Other adjustments	-103	0	0	4
Adjustments at 30.09.2005	**-111**	**-10**	**-15**	**89**
Carrying amount at 30.09.2005	**1,248**	**2,569**	**24**	**710**
Goodwill at 30.09.2005	**135**		**16**	

9 Minority interests

DKK million	Group 01.10.04 30.09.05	Group 01.10.03 30.09.04
Minority interests beginning of year	13	44
Share of results for the year	0	0
Changes in ownership shares, withdrawn minority interests etc.	1	-31
Minority interests, year-end	**14**	**13**

10 Subordinate loan capital, Arla ek.f.

Parent company 01.10.03 30.09.04	Parent company 01.10.04 30.09.05	DKK million	Group 01.10.04 30.09.05	Group 01.10.03 30.09.04
200	167	Subordinate loan capital, beginning of year	167	200
-2	-5	Exchange rate adjustments	-5	-2
-31	-33	Repayments during the year	-33	-31
167	**129**	**Subordinate loan capital, year-end**	**129**	**167**

11 Deferred tax

Parent company 01.10.03 30.09.04	Parent company 01.10.04 30.09.05	DKK million	Group 01.10.04 30.09.05	Group 01.10.03 30.09.04
22	14	Deferred tax, beginning of year	-449	-444
0	0	Exchange rate adjustments	-11	-14
-8	0	Other changes in deferred tax	35	9
14	**14**	**Deferred tax, year-end**	**-425**	**-449**

Deferred tax in the Group consists of a liability of DKK 313 million (DKK 231 million at 30 September 2004) and a deferred tax asset of DKK 738 million (DKK 680 million at 30 September 2004). The change for the year of DKK 35 million (2003/2004: DKK 9 million) represents an increase of DKK 87 million (a reduction of DKK 113 million in 2003/2004) regarding the liability and an increase of DKK 52 million (a reduction of DKK 122 million in 2003/2004) regarding deferred tax assets.

12 Pensions

DKK million	Group 30.09.05	30.09.04
The provision comprises defined benefit schemes in Sweden and Great Britain and is computed as follows:		
Present value of the pension commitments	8,281	7,166
Non-included actuarial losses, net	93	292
Market value of the assets of the pension schemes	-5,311	-4,379
Total	**3,063**	**3,079**

DKK million	01.10.04 30.09.05	01.10.03 30.09.04
Development in provisions for the year is specified as follows:		
At the beginning of the year	3,079	2,966
Exchange rate adjustments	-5	81
Costs for the year	184	203
Payments for the year	-195	-171
At year-end	**3,063**	**3,079**

The defined benefit schemes in Great Britain are administered by independent funds who invest the amounts paid to cover the commitments. The actuarial present value of the commitments (DKK 7,286 million at 30 September 2005 against DKK 6,416 million at 30 September 2004) less the market value of the assets (DKK 5,311 million at 30 September 2005 against DKK 4,379 million at 30 September 2004) amounts to DKK 1,975 million. Following the use of the corridor method, the actuarial gain of DKK 320 million has not reduced the provision, and the net commitment therefore totalled DKK 2,295 million at 30 September 2005.

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 768 million against DKK 750 million at 30 September 2004. Following the use of the corridor method, the actuarial loss of DKK 227 million has not increased the provision at 30 September 2005.

Pension costs for the year regarding defined benefit schemes total DKK 184 million. These costs are recognised in note 2.

Parent company | **Group**

13 Other provisions

Parent company 01.10.03 30.09.04	Parent company 01.10.04 30.09.05	DKK million	Group 01.10.04 30.09.05	Group 01.10.03 30.09.04
127	160	Other provisions, beginning of year	581	575
60	18	Provided during the year	86	215
-27	-99	Applied during the year	-374	-209
160	**79**	**Other provisions, year-end**	**293**	**581**

Parent company | **Group**

14 Long-term liabilities

Parent company 30.09.04	Parent company 30.09.05	DKK million	Group 30.09.05	Group 30.09.04
		Long-term liabilities falling due after five years after the balance sheet date		
1,000	1,000	Subordinate bond loan	1,000	1,000
1,351	852	Other long-term liabilities	2,575	2,645
2,351	**1,852**	**Total**	**3,575**	**3,645**

15 Contingent liabilities, guarantees, etc.

Parent company 30.09.04	Parent company 30.09.05	DKK million	Group 30.09.05	Group 30.09.04
3,949	4,004	Surety and guarantee obligations	799	1,422
33	64	Operating lease commitments	1,614	1,430
466	360	Obligations relating to agreement on the supply of fixed assets	851	1,189
		To cover exchange risks, the following forward contracts have been entered into:		
130	226	Forward contracts (buying)	1,108	384
4,438	5,875	Forward contracts (selling)	6,612	4,950
1,650	800	Interest swaps	2,768	1,814
		The following assets are deposited as security for debt:		
155	155	Owner's mortgage in real estate	1,147	395
458	495	with a carrying amount of	1,111	1,194
0	0	Securities, carrying amount	0	164

There are a number of share option schemes in the subsidiary Arla Foods UK plc whose values depend on 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 2004/05 (DKK 12 million in 2003/04). The shares that may be acquired by management and employees by using the share option schemes comprise 1.5 % of the total share capital in Arla Foods UK plc. Neither the Executive nor Supervisory Boards 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, see the group chart on pages 54-55.

Members of the Board of Representatives and the Supervisory Board are paid for milk deliveries by Arla Foods amba on equal terms with other members of the company.

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

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

Arla Foods – Group chart

Subsidiaries, associates and other investments at 30 september 2005

Subsidiaries **Ownership**

- 100% **Arla Foods AB, Sweden**
  - ASM Mjölksocker 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%)*
          - Claymore Dairies Ltd., *Great Britain (75%)*
  - AF A/S, *Denmark (100%)*
    - Arla Foods Finance A/S, *Denmark (100%)*
      - Kingdom Food Products ApS, *Denmark (100%)*
      - Ejendomsanpartsselskabet St. Ravnsbjerg, *Denmark (100%)*
    - Rynkeby Foods A/S, *Denmark (50%. The remaining 50% is held by Kinmaco ApS)*
    - Kinmaco ApS, *Denmark (100%)*
      - Arla Foods Energy A/S, *Denmark (100%)*
    - Arla Insurance Company (Guernsey) Limited, *Guernsey (100%)*
    - Arla Foods Trading A/S, *Denmark (100%)*
  - Arla Foods Distribution A/S, *Denmark (100%)*
    - Denmark Protein A/S, *Denmark (100%)*
    - Delimo A/S, *Denmark (100%)*
      - Delimo AB, *Sweden (100%)*
        - Rosamunda AB, *Sweden (51%)*
          - Kronost AB, *Sweden (100%)*
    - Enigheden A/S, *Denmark (100%)*
  - Medlemsartikler ApS, *Denmark (100%)*
  - Arla Foods Ingredients GmbH, *Germany (100%)*
  - Fidan A/S, *Denmark (100%)*
    - Dairy Fruit A/S, *Denmark (100%)*
    - A/S Crispy Food International, *Denmark (100%)*
    - Ejendomsselskabet Østre Gjesingvej 19 A/S, *Denmark (100%)*
  - Procudan A/S, *Denmark (100%)*
  - Danapak Holding A/S, *Denmark (100%)*
    - Danapak A/S, *Denmark (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 2005 (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 S.A. de C.V., *Mexico (100%)*
	Arla Foods Ingredients Korea Co. Ltd., *South Korea (70%)*
100%	Arla Foods Sp. Z o.o., *Poland*
100%	**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)*
50%	Staplemead Dairy Products Ltd., *Great Britain (owned through Express Ltd.)*
40%	Danapak Flexibles-koncernen, *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 Great Britain
10 Holland
11 Germany
12 Poland
13 France
14 Spain
15 Italy
16 Greece
17 Saudi-Arabia
18 United Arab Emirates
19 Qatar
20 Kuwait
21 Lebanon
22 Bangladesh
23 Malaysia
24 China
25 Korea
26 Japan

Arla Foods, Denmark

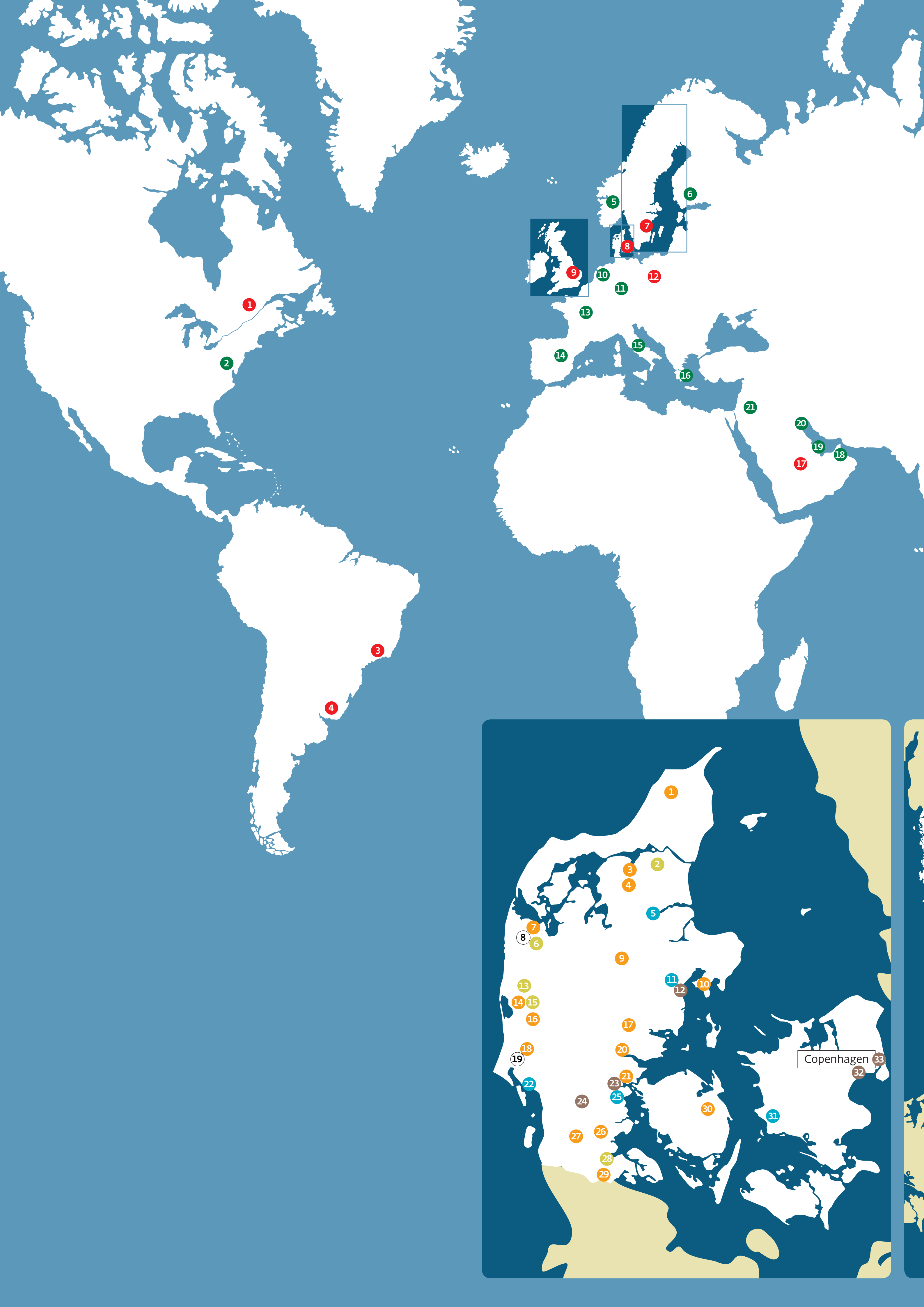
1 Hjørring Dairy
2 Akafa
3 Bislev Dairy
4 Aars Dairy
5 Hobro Dairy Center
6 Hoco
7 Holstebro Cream Cheese
8 Holstebro Dairy
9 Rødkærsbro Dairy
10 Vrinners Cream Cheese
11 Brabrand Dairy
12 Viby, Head Office
13 Arinco
14 Nr. Vium Dairy
15 Denmark Protein
16 Troldhede Dairy
17 Klovborg Dairy
18 Tistrup 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 Center
32 Ishøj Fresh Products Depot
33 Copenhagen Overseas Division

Arla Foods, Sweden

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

Arla Foods, UK

51 Claymore
52 Newcastle
53 Northallerton
54 Settle
55 Liverpool
56 Leeds/Stourton
57 Manchester
58 Nottingham
59 Ashby
60 Hatfield Peverel
61 Oakthorpe
62 Sheffield Park
63 Surrey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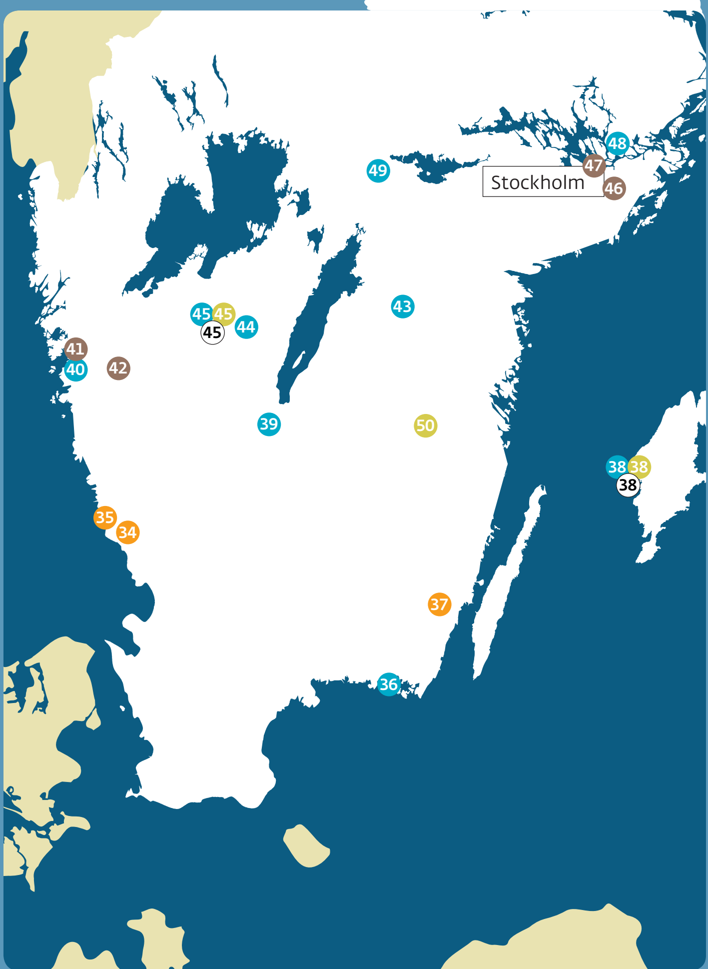
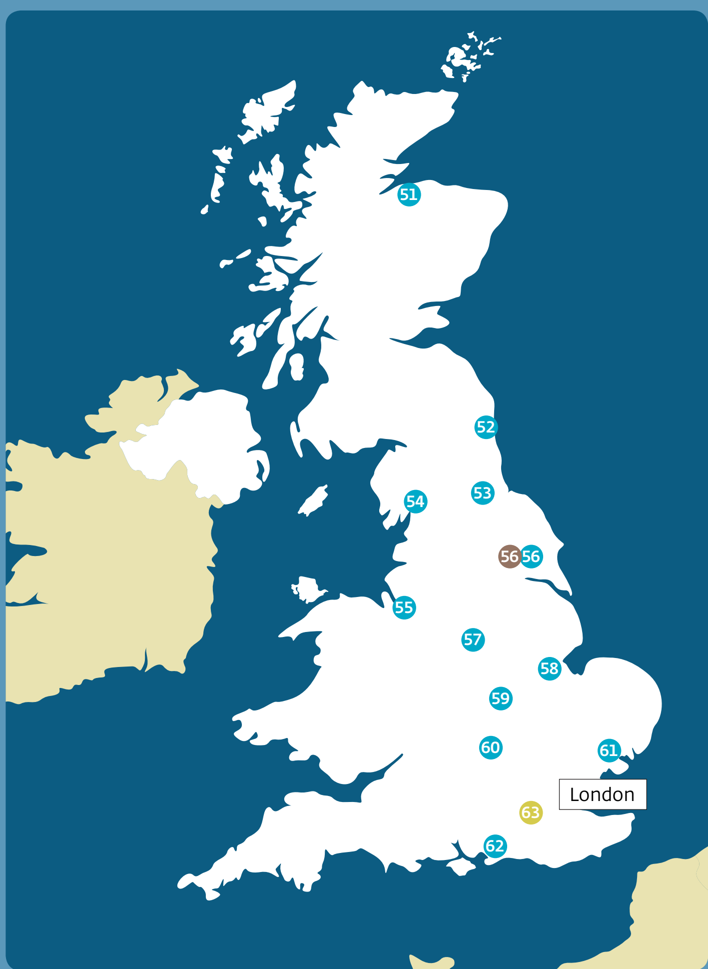
Arla Foods
sales and production 2005

- Sales
- Sales/Production

- Fresh products
- Cheese
- Butter
- Powder products/Ingredients
- Other





Read more about Arla Foods on the internet

www.arla.dk
www.arla.se
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