

# our responsibility

ARLA FOODS' CORPORATE SOCIAL RESPONSIBILITY  
REPORT 2007





## contents

ABOUT ARLA FOODS	4
BUSINESS PRINCIPLES	6
OPERATIONAL PRINCIPLES	8
FOOD SAFETY	10
FOOD AND HEALTH	12
Interview: Food and health	14
ENVIRONMENT AND CLIMATE	16
Interview: Environment and climate	18
AGRICULTURE	20
Interview: Agriculture	22
PROCUREMENT	24
WORKPLACE	26
Interview: Workplace	28
MARKET CONDUCT	30
COMMUNITY RELATIONS	32
HUMAN RIGHTS	34

Unless otherwise indicated, this report concerns the Arla Foods Group's activities in 2007. The term home markets refers to Denmark, Sweden and the UK. More information is available at [www.arlafoods.com](http://www.arlafoods.com)

©Arla Foods amba, 2008

*Project coordination:* Arla Foods *Project manager:* Anna Michélsen *Text:* Arla Foods in collaboration with Anna Michélsen *Graphic form:* Waldton *Translations:* Arnesto Translations *Photography:* ©Getty Images (cover, page 2, 6, 8, 10, 16, 24, 30, 34), ©Nordic Photos (page 12, 32), Niels Åge Skovbo (page 14, 18), ©Johnér (page 26), Jonas Ahlstrøm (page 22, 23), Lasse Hejdenberg (page 28). *Printing:* Scanprint, 2008

## taking responsibility means taking a stand

Welcome to a new type of report from Arla Foods. For the first time, we are reporting on the progress we have made on our corporate social responsibility commitments.

Arla Foods' mission is to offer modern consumers milk-based food products that contribute inspiration, confidence and well-being. We understand that today's consumers are not only interested in our products; they also expect our company to demonstrate social, environmental and ethical responsibility. For this reason, we feel that it is appropriate for us to describe how we understand our role and our position on key issues.

Arla Foods is a growing company that is represented in a large number of countries all over the world. Our corporate culture is therefore characterised by an ongoing dialogue on ethical issues. Over the past year our ethical guidelines have been revised to better reflect this dialogue, and were presented in a new form in spring 2008: Our responsibility – Arla Foods' Code of Conduct. This report contains our evaluation of our efforts to live up to the guidelines set out in our Code of Conduct, which can be downloaded from [www.arlafoods.com](http://www.arlafoods.com).

In some areas, we have already made considerable progress; in other areas there is still much room for improvement. As an international company, we have an opportunity to learn from our colleagues in different countries, and we view working in line with our ethical responsibilities as an ongoing process. In this report, we have aimed to be as open as possible about where we stand today and we will continue to work to improve both our reporting and our results. We would therefore be very interested to hear readers' perspectives on the information contained in this report. Please send your comments to [arla@arlafoods.com](mailto:arla@arlafoods.com).

It is our hope that this report will encourage our employees, owners, suppliers, customers and consumers to join us in helping make Arla Foods a more sustainable and responsible company.

Viby, May 2008

*Peder Tuborgh, CEO*

## ARLA FOODS IN BRIEF 2007

### OWNERS

Arla Foods is an agricultural cooperative owned by 8,522 dairy farmers – 4,170 in Denmark and 4,352 in Sweden.

### NUMBER OF EMPLOYEES

Denmark	7,425
Sweden	3,572
UK	3,340
Other countries	2,222
Total	16,559

### TURNOVER

DKK 47.7 billion; approximately 70 per cent on the home markets in Denmark, Sweden and the UK.

### NET RESULTS

DKK 938 million. In addition, Arla Foods paid out DKK 1.2 billion more than expected to its cooperative members in 2007.

### WEIGHED MILK IN MILLIONS OF KILOS

Denmark	3,976
Sweden	1,957
UK	2,053
Other countries	374
Total	8,360

### MANAGEMENT

Chairman: Ove Møberg  
Vice-chairman: Åke Hantoft  
CEO: Peder Tuborgh  
Vice CEO: Povl Krogsgaard and Andreas Lundby

## about Arla Foods

Arla Foods is a global dairy producer and cooperative owned by Danish and Swedish member dairy farmers. Our products are sold under well-known brands in more than 100 countries. We have production facilities in 12 countries and sales offices in 27. Arla Foods is also the world's largest producer of organic dairy products.

### Expansion at home and in growth markets

Arla Foods' home markets, Denmark, Sweden and the UK account for approximately two thirds of sales. In 2007, we acquired full ownership of the UK subsidiary Arla Foods UK and 30 per cent of Finnish Ingman Foods with an option to acquire the remaining 70 per cent of shares during a three-year period. The purchase of these companies was a result of our growth strategy for our home markets.

During the course of the year, we also expanded in large growth markets such as China, Argentina, Russia and Vietnam. The demand for dairy products in these countries is increasing as the standard of living improves.

In Denmark and Sweden, we have continued to work on streamlining production processes, primarily by merging dairies to create larger entities. The number of employees has decreased by approximately eight per cent, primarily due to mergers and the sale of companies.

At the beginning of 2008, we defined our new climate goals: we aim to reduce the Group's emission of greenhouse gases in production, transportation and packaging by 25 per cent by 2020.

### Changing world market for milk

In 2007, for the first time in 15 years, the world experienced a shortage of milk, which altered operating conditions across the entire dairy industry. The large demand for milk resulted in price increases for both customers and milk producers.

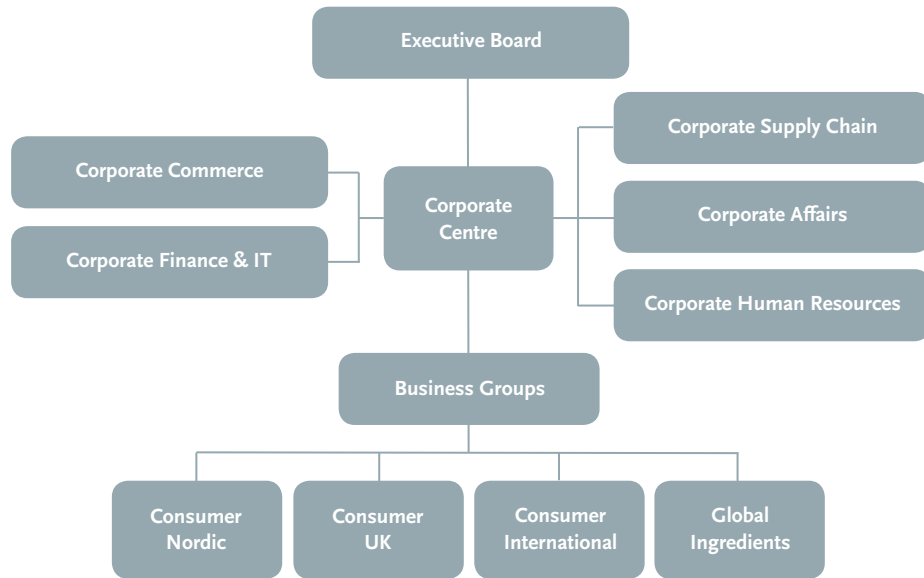
This is why we felt it necessary to take measures to secure the long-term supply of raw milk from our members. In addition, we have improved possibilities for entering into contracts with non-member dairy farmers in Scandinavia. Negotiations with British Arla Foods milk producers about possible part ownership of Arla Foods UK were completed in May 2008. Members of Arla Foods Milk Partnership, through its investment arm, MPL, and Arla Foods amba have formed a joint venture, which will own seven per cent of Arla Foods UK.

The large demand for milk also led to higher prices for milk powder last autumn. By quickly increasing our production of milk powder, we were able to increase our profitability considerably. Our long-term strategy, however, is to focus on highly processed dairy products such as hard cheeses, dessert cheeses, specialised milk powders and cooking products to ensure the Group's profitability in the long term.

### The new Arla Foods

In recent years, members of the cooperative have been critical of the company's management and the organisation's democratic process. This has resulted in a change management project called The New Arla. One of the first results of this modernisation process has been the review of procedures for pricing and purchasing of raw milk.

## ORGANISATION OF THE ARLA FOODS GROUP



### CORPORATE CENTRE

**Corporate Commerce** – responsible for Group marketing and multidisciplinary research and development under the management of Andreas Lundby.

**Corporate Supply Chain** – handles milk supply, contact with owners, technical issues, quality, environment, global procurement and investment under the management of Povl Krogsgaard.

**Corporate Finance & IT** – handles questions relating to finance, IT and law under the management of Jørn Wendel Andersen.

**Corporate Affairs** – comprises communication and Group development under the management of Peder Tuborgh.

**Corporate Human Resources** – handles employee training and organisational development issues for the whole Group under the management of Ola Arvidsson.

### BUSINESS GROUPS

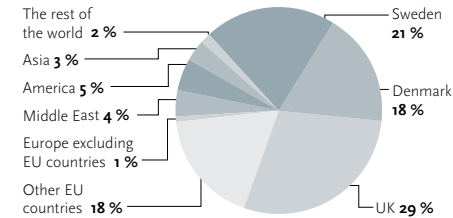
**Consumer Nordic** – fresh products, cheese and butter for the Nordic market under the management of Hans-Åke Hammarström.

**Consumer UK** – fresh products and butter for the UK market under the management of Peter Lauritzen.

**Consumer International** – cheese, butter and spreads for all markets under the management of Tim Ørting Jørgensen.

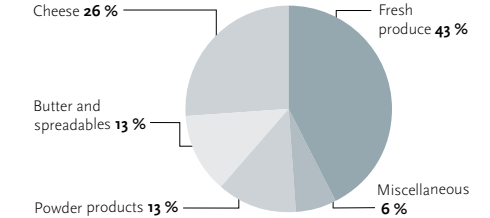
**Global Ingredients** – milk powder and milk based ingredients for all markets under the management of Jais Valeur.

## NET TURNOVER BY MARKET



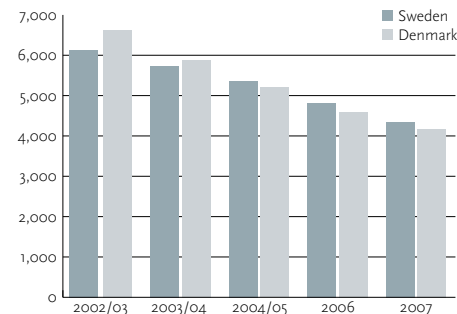
Arla Foods is committed to becoming the market leader in selected markets as well as to increasing market share. In 2007, the company expanded through acquisitions, joint ventures and increased investments in Finland, the UK, China, Russia and Argentina, among others.

## NET TURNOVER BY PRODUCT GROUP



The different product groups include many different brands. Some of them exist in several countries such as Arla Cultura® (yogurt), Arla Buko® (cream cheese), Arla Apetina® (white cheese), Lurpak® (butter) and Millex® (milk powder).

## NUMBER OF MEMBERS DENMARK AND SWEDEN



In 2007, although the number of members decreased by nine per cent, the amount of milk delivered by dairy farmers in Denmark and Sweden decreased by only three per cent, as many farms chose to increase their production.

For more information, see [www.arlafoods.com](http://www.arlafoods.com)

We act credibly and with integrity in all of our operations.

*From: Our responsibility – Arla Foods' Code of Conduct*



## business principles

Arla Foods is an international business as well as an agricultural cooperative owned by Danish and Swedish farmers. We comply with local legislation in all countries in which we work at all levels of the organisation. We also adhere closely to our Code of Conduct. As a major industry player with activities in many countries, we feel that it is important to set a good example of responsible business conduct.

- **UPDATED GUIDELINES.** Our responsibility – the ethical guidelines laid out in Arla Foods' Corporate Social Responsibility Code of Conduct form the foundation for responsible business conduct. A new version of the document was published in spring 2008.
- **FOCUS ON COMPETITION LAW.** As part of our endeavours, we have developed a programme to help our employees to comply with competition law in the countries in which we do business.
- **WE PARTICIPATE IN GLOBAL COMPACT.** In January 2008, Arla Foods joined the UN Global Compact, the world's largest global corporate citizenship initiative. Arla Foods' vision of responsible business practice complies with the fundamental principles outlined in Global Compact.

### **Our responsibility – Arla Foods’ Code of Conduct**

An ongoing dialogue has existed for many years in Arla Foods about the meaning of responsible business conduct. In 2005, the company complied its first set of formal ethical guidelines for the Group. In 2007, the company established a committee for Corporate Social Responsibility (CSR) which reviewed the guidelines and presented them in a new format – Arla Foods’ Code of Conduct. The aim of the Code of Conduct is to clarify the Group’s position on ethical, social and environmental issues. Several of the policies in Arla Foods’ Code of Conduct have been made more stringent and procurement has been added as a new area. The document can be downloaded from [www.arlafoods.com](http://www.arlafoods.com).

Arla Foods intends to continue to monitor progress against its Code of Conduct and further develop this.

### **Member of Global Compact**

Arla Foods is a member of Global Compact – the UN initiative for ethical business conduct. Our Code of Conduct is in harmony with the ten basic principles of Global Compact. As a participant in Global Compact, we incorporate the initiative and its principles in our strategy and company culture – and communicate this commitment to our employees, owners, suppliers, partners, customers and society as a whole.

As a member of Global Compact, we must also monitor progress and report on how we meet the obligations to which we have committed. This document, the first group-wide report, is a result of this work. We are slightly further ahead in terms of reporting our CSR work in the UK and Sweden where national reporting has already taken place for several years.

### **Programme for fair competition**

Arla Foods has a separate programme – Competition Compliance Programme – to ensure that we comply with national competition laws in all the countries in which we operate. The basic premise of the programme is to ensure that Arla Foods does not abuse its position as a dominant player (in terms of market share) in certain markets. The programme also emphasises the importance of respectful communication with customers and business partners.

### **FAIR COMPETITION**

Our programme for fair competition comprises both detailed guidelines and training seminars for different groups within the company. Issues covered by the programme include:

- Ensuring Arla Foods does not abuse its dominant position.
- Ensuring Arla Foods does not enter into restrictive trade agreements.
- Discounts.
- Marketing contributions.

### **STANDARDISED REPORTING**

Arla Foods Group’s financial reporting complies with the Danish Financial Statements Act. As a result of the progressive standardisation of financial reporting rules in Europe, the regulations in the different European countries now reflect one another. In connection with the acquisition of all shares in Arla Foods UK plc, the market’s insight into the company has been reduced.

### **ZERO TOLERANCE FOR BRIBES**

Employees of Arla Foods may never, directly or indirectly, receive or offer bribes or other improper payments for the benefit of our business operations and/or for financial gain. This has been expressed very clearly in both our Code of Conduct and in the company’s ethical guidelines for procurement and external supplier relations. When entering new markets, we sometimes experience problems with corruption, but take a strong position against this.

### **OUR POSITION IN OUR HOME MARKETS**


As a consequence of our growth strategy in the home markets, we have an ongoing dialogue with national competition authorities in order to ensure that our position in the market does not lead to abuse. The dialogue we have with the authorities concerns both the procurement of raw milk and the sale of our products.

At the end of 2007, the Danish competition authorities began investigating the reasons for the increased prices for food products that took place during that year. In order to clarify causes, the authorities have launched an investigation that covers all links in the food production chain, which means that they are gathering a large amount of information from many different companies, including Arla Foods.

Arla Foods has explained to the competition authorities that these price increases are largely a result of the rapidly increasing global demand for milk and the resulting considerable global price increases for raw milk. The result of this investigation has not yet been published.

### **PROCESS REFERRED TO THE REGIONAL COURT**

Arla Foods was ordered to pay DKK 38 million plus interest in May 2006 to Fermigel AB, by a local Swedish court, for allegedly using a manufacturing process, which was a trade secret, for boilable, low fat crème fraîche. The ruling was appealed, as Arla is confident that the process was already in the public domain. A regional Swedish court is expected to consider the case between Arla Foods and Fermigel in the autumn of 2008.



We manage our business in a good cooperative spirit that promotes the financial interests of our owners.

*From: Our responsibility – Arla Foods' Code of Conduct*

## operational principles

Arla Foods is a democratically managed producer cooperative that aims to create value for its cooperative members – Danish and Swedish dairy farmers. All cooperative members have an opportunity to influence significant decisions. Cooperative members elect representatives to the company's governing body. Arla Foods' management is responsible for making decisions about the company's general strategies and for ensuring that the company is managed with the cooperative members' best interests in mind.

- **MODERNISATION OF THE GROUP.** In 2007, the Board of Directors and the Board of Representatives, adopted a number of measures to help Arla Foods adapt to challenging new conditions on the world market, securing reliable supplies of raw milk as well as ensuring the long-term profitability of the company.
- **LACK OF CONFIDENCE AMONGST MEMBERS.** Although the results of this year's survey are no worse than those of last year, the study does reveal some dissatisfaction among cooperative members. The finance, management and democracy categories received the lowest scores, while day-to-day management, quality issues and communication received the highest ratings.
- **HIGH MILK PRICE FOR COOPERATIVE MEMBERS.** As a result of the shortage of milk on the world market, the price paid to Arla Foods' dairy farmers increased by approximately 40 per cent during the year.



### Arla Foods has its owners' best interests in mind

Arla Foods strives to promote its cooperative members' long-term financial interests and to build markets for the raw milk supplied by cooperative members. The worldwide shortage of milk that arose in 2007 resulted in rapid and steep increases in the price of raw milk. As a consequence, many of our cooperative members withdrew from the cooperative in order to take advantage of the higher prices offered by German milk powder manufacturers among others. This highlighted the cooperative's need for change and was an impetus for the radical modernisation process subsequently launched by the Board of Directors called The New Arla. This programme involves changes in a number of areas, including:

*Logistics supplement.* A logistics supplement has been introduced for producers who supply large amounts of milk which is intended to stimulate increased production and reflect the actual cost of milk collection.

*The Arla price structure and more frequent price adjustments.* To increase transparency, Arla Foods has decided to communicate the maximum payment – called 'Arla quotation' (Arlanoteringen) which includes supplementary payments and consolidation – that members can receive for their milk as well as to adjust the price of milk more quickly to follow changes in the market.

*Democracy.* The Board of Directors has proposed that the future of the districts and the district councils is assessed by a working group consisting of elected cooperative members.

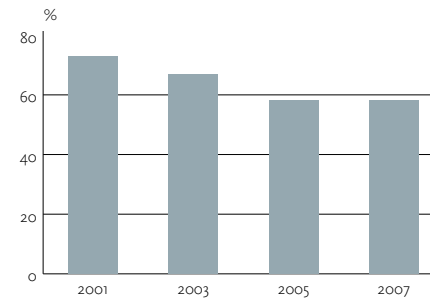
*Individual contracts.* As of 2008, Arla Foods has introduced more options for entering into contracts with dairy farmers in Scandinavia who are not cooperative members. The motivation for this change is to ensure that Arla dairies always function at full capacity and that we are able to supply the market with the products consumers demand.

Additional proposals for change are being considered, for example, the terms and conditions of membership. We are currently evaluating these proposals to ensure they do not contravene any competition legislation or regulations for cooperative associations.

### Closer association with UK farmers

Negotiations with MPL, Arla Foods Milk Partnership's investment arm, about the possibility of members of the partnership becoming part owners of Arla Foods UK were completed in May 2008. The joint venture will further strengthen the relationship between Arla Foods amba farmers and AFMP farmers (MPL members) and will give UK farmers more insight into their processor's business.

### MEMBERS SURVEY



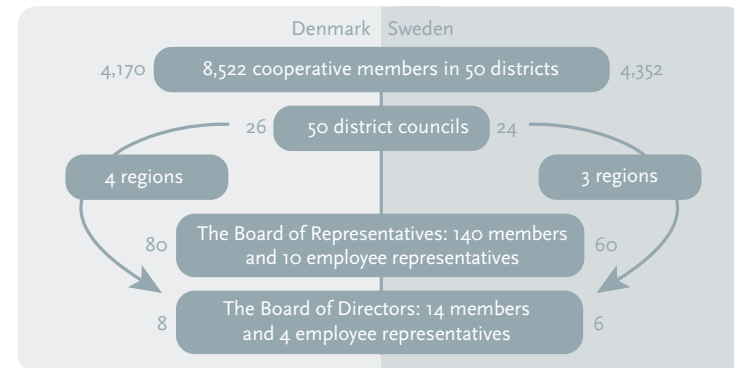
Since 2001, Arla Foods has performed a bi-annual survey of its cooperative members' view of the company. The diagram shows how satisfied cooperative members are. A high figure indicates a high level of satisfaction. While the negative trend has now been reversed, member satisfaction remains low. We are working to improve this, but it will take time. In the 2007 survey, 26 per cent of members chose to respond.

### MEMBERS INFLUENCE THE COMPANY

Cooperative members can influence company decisions by getting actively involved in meetings or elected representatives. Cooperative members can also deliver motions to the district meetings, and following a debate, the districts can choose to deliver proposals on to the Board of Representatives. In 2007, nine motions were processed at the meeting of the Board of Representatives in May.

Cooperative members receive information about Arla Foods' activities on an ongoing basis via newsletters and our website as well as by SMS text messaging, if they wish to. Another way of gaining insight into the company is to participate in the seminars held for cooperative members. In 2007, approximately 1,000 cooperative members participated in owner seminars run by members of the Board of Representatives.

### MEMBER AND OWNER DEMOCRACY



The Board of Representatives is Arla Foods' top decision-making body and consists of 140 elected dairy farmers. Each year, local district meetings are held at which farmers elect representatives to district councils and the Board of Representatives. Arla

Foods' Board of Directors is elected by the regions and the Board of Representatives. The democratic principles of the cooperative structure ensure that members can influence the company in accordance with a 'one member, one voice' principle.

We meet consumer demand for safe dairy products.

*From: Our responsibility – Arla Foods' Code of Conduct*



## food safety

In all our markets, almost everyone consumes a dairy product on a daily basis. It is Arla Foods' responsibility that eating and drinking our products doesn't cause illness or injury. We therefore work systematically to ensure that we produce safe and high quality food products throughout the supply chain – from the raw material to the packaged product. If something does go wrong, despite our best efforts, we have a system in place for tracing ingredients and products enabling us to take immediate action.

- **CERTIFICATION OF QUALITY WORK.** We will endeavour to ensure all our dairies are certified in accordance with ISO 22000. Certification provides a formal confirmation that we comply not only with our own requirements for food safety, but those defined by EU regulations and national authorities.
- **OUR CONTROL SYSTEMS.** Quality and food safety are our key priorities. Despite our best efforts, very rarely, some products that have not met our high quality standards have left our sites, resulting in them being immediately recalled or withdrawn.
- **INCREASED FOCUS ON FOOD SAFETY.** During the year, we strengthened the company's quality control functions. We are experiencing an increased interest among customers for more information and audits.

### Food safety in focus

Food safety is currently one of Arla Foods' top priority research areas, and during the year, the Group focused increasingly on food safety. Specific management positions have been created at both corporate centre level as well as in the British arm of the company. Employee training in this area has also increased.

As a minimum, training is intended to ensure compliance with our own and government requirements concerning product safety. The greater challenge, however, is to anticipate the risk of dangers that we have not dealt with previously. We use hazard analysis to develop methods to ensure food safety. By participating actively in industry associations and collaborating with authorities, other food companies and researchers, we endeavour to always stay one step ahead.

### Safe products have top priority

During the year, Arla Foods continued its food safety work with implementation of the new international standard for food safety, ISO 22000. All our dairies in Denmark and Sweden have already been audited in accordance with the standard, and the same applies to plants in the Dairy Fruit and Rynkeby Foods subsidiaries. All production plants in the Group have systematic and documented food safety routines, and our goal is for all European dairies and most international cheese dairies and powder factories to obtain ISO 22000 certification no later than 2009. Our UK dairies are currently certified by the BRC (see definitions). Many of our other European dairies are BRC or IFS certified.

### Focus on allergens

An important part of our work with food safety involves the control of allergens. The EU directive regarding allergens is subject to frequent revision and we continually update our Group-wide database of risks and require our suppliers to guarantee that no allergens contaminate our products.

### Recall routines

Arla Foods has routines to safeguard food quality and to follow up on any complaints from consumers. Product quality is monitored in the production process. If an error does occur, it is normally detected by the quality controls we have in place. We have clear routines for how a recall from shops or consumers must be handled, should one occur.

### DEFINITIONS

**ISO 9001** – International standard for quality control.

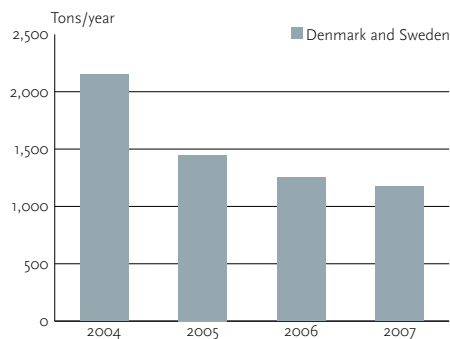
**ISO 22000** – International standard for food safety.

**BRC** – The British Retail Consortium has a food technical standard used to evaluate food producers.

**IFS** – International Food Standard, a quality standard from German/French retailers.

**HACCP** – Hazard Analysis and Critical Control Point, a risk analysis methodology.

### DISCARDED MILK WITH ANTIBIOTICS



Unwell animals are sometimes treated with antibiotics. During the period the cow is being treated with medicine and for a period afterwards, the milk is discarded and cannot be delivered to the dairy until it is free from drug residue. To ensure that no antibiotics remain in the milk, checks are carried out at various stages. If the milk shows traces of antibiotics when checked it is discarded.

In recent years, we have worked to reduce the amount of defective milk that reaches the dairies. We regularly review our quality procedures but, despite our thorough security measures, antibiotic residue was, on one occasion in Sweden in 2007, not detected and the milk was used in production. The products were immediately stopped and discarded and the incident resulted in a systematic review of both our methods of analysis and the routines at all our dairies in Sweden and Denmark.

### TRACEABILITY INCREASES SAFETY

In the event of a recall occurring, we have traceability procedures that we are continuously working to refine. Today, we can trace raw materials and products produced in our home markets both to the dairy farmer and other suppliers and forwards to the retailer along the entire supply chain.

### PROTECTING CONSUMERS

Ensuring our products are of the highest possible standard is key priority for us, which is why we immediately recall any products that may pose a health risk. We also withdraw products already purchased by our customers if we discover that the product does not comply with our quality requirements after delivery. We take no chances which is why we withdraw products even if the defect does not pose a health risk, for example, wrong consistency or leaking packaging.

	2005	2006	2007
Recalls	1	4	7

The seven recalls that took place in 2007 in Denmark and Sweden had the following causes:

- Suspected or confirmed lack of hygiene/sterility (four cases).
- Wrong packaging – sweetened product in sugar-free packaging.
- Risk of contamination with antibiotics.
- Risk of contamination by detergent.

Incidents like these always activate a thorough analysis and action programme so that the error we have made is corrected and the quality deficiency is not repeated.

### ARLA FOODS RISK DATABASE

Arla Foods maintains a company-wide risk database for microorganisms, chemical substances, allergens and foreign substances that can affect our products and ingredients. The database is updated on an ongoing basis when new hazards are identified and currently contains approximately 160 risks.

We meet consumer demands for healthy products and nutritional information about products.

*From: Our responsibility – Arla Foods' Code of Conduct*

## food and health

Arla Foods uses natural ingredients to develop safe, reliable milk-based food products that contribute inspiration and well-being to consumers' lives. We inform our consumers about the contents of our wide range of products so they can choose those that best suit their tastes and fulfil their needs. Our ambition is to inspire consumers to take an increased interest in the relationship between food and health through our products and the information we provide. Through research, we contribute to increased knowledge about the role of dairy products in a balanced diet.

- **RESEARCH ON WELLBEING.** Arla Foods' new research strategy, presented in 2007, aims, among other things, to investigate the relationship between dairy products and health as well as consumer perceptions of this relationship.
- **INCREASED INTEREST IN HEALTH PRODUCTS.** There is growing interest in food products with special positive effects on health. We believe the explanation lies both in growing trend towards healthy eating and the increased occurrence of welfare issues.
- **CONSIDERABLE INTEREST IN ORGANIC PRODUCTS.** The consumption of organic products in our home markets is increasing. Arla Foods is the world's largest supplier of organic dairy products.

### Health trends impact on supply

We want to inspire consumers and inform them about what our products contain so they make choices that suit their needs and situation. Welfare issues like obesity have caused an increased demand for low-fat products, and we have adapted to this trend by developing products with a low fat content. New research findings also indicate a correlation between calcium and weight, which may lead to a new perception of the importance of dairy products for health.

The current debate about added sugar has led us to reduce the sugar content in several products. The sugar from dairy products however represents a small proportion of total sugar consumption and unsweetened, natural products represent the main proportion of our sales volume. The main dilemma is that many consumers have become accustomed to a sweet taste. One way of dealing with this issue is to progressively reduce the sugar content, where possible in our products, which is an ongoing project. We also offer products with other sweeteners, such as sucralose. However, artificial sweeteners are themselves subject to debate and Arla Foods always follows the recommendations of relevant authorities. See the text box about the salt reductions we have made.

### Research on health products

By developing products that provide added value from a health point of view, we can improve the quality of life of many consumers. In some markets, we offer products with a reduced lactose content, calcium and vitamin D enriched low-fat milk and fruit juice with added iron.

The Cultura range comprises three healthy strains of bacteria that are good for the digestion and appear to have a positive effect on the immune system. A newly completed study that has been reported in the British Journal of Nutrition also reveals that one of these strains (*Lactobacillus casei* FIG) has a positive effect on the body's ability to break down fat. We will continue our research on this and other products with positive health effects.

### Increased consumption of organic products

In just a few years we have become a world leader in organic dairy products and in Denmark and Sweden organic alternatives are now available within all product groups. Nutritionally, there is little difference between organic and conventional products but many consumers perceive organic products as having a healthier profile.

### RESEARCH AREAS

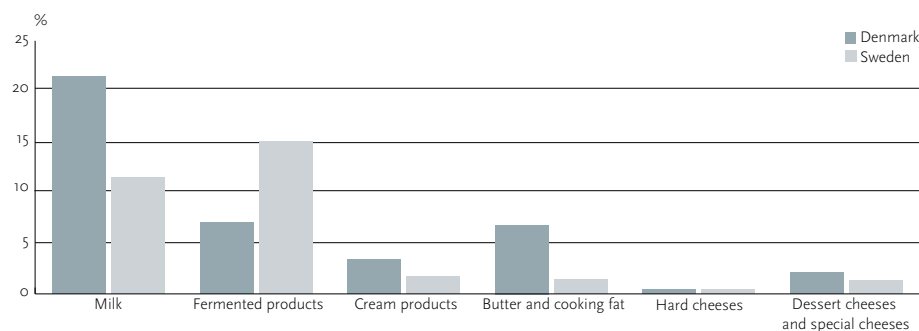
The following six areas are part of Arla Foods' research strategy:

- Milk composition.
- Taste and functionality.
- Food safety.
- Consumer preferences.
- Process development and control.
- Well-being.

### CALCIUM AFFECTS WEIGHT

New research into the health issues of excess weight and obesity has demonstrated that calcium can have considerable impact on weight. In several studies, individuals with a diet rich in calcium lost more weight than the other subjects in the control group. It was later shown that calcium-rich dairy products have an even greater effect than other sources of calcium. Arla Foods continues to support research in this important area. Read more about research projects in the Community Relations section.

### POPULAR ORGANIC PRODUCTS



The diagram shows the organic products' share of Arla Foods' total sales volume per product category in Denmark and in Sweden. In Denmark, organic milk accounts for slightly more than 20 per cent of the total sales volume within the

### LESS SALT IN BUTTER

The amount of salt in food products has an impact on health, especially on high blood pressure. In the UK and Sweden, the authorities have asked the food industry to help to reduce the amount of salt. We are currently working on reducing the amount of salt added to soups and sauces and have already succeeded in reducing the amount of salt in butter. The latter is not easy to achieve however, as salt is important both for taste and the shelf life of the product.

### COOPERATION WITH HEALTH EXPERTS

In our home markets, we have an ongoing dialogue with health experts, health advisors and authorities about questions relating to health and nutrition. This cooperation involves research projects and discussions about new health discoveries.

milk product category. In Sweden, the corresponding share is about 11 per cent. Compared with our total production, the milk and fermented product categories, for example yogurt, account for the largest volume.



**“We are a company with expert knowledge about nutrition, so it's our responsibility to share our knowledge with the world.”**

Lillie Li Ekhard, Marketing Director, Arla Foods Global Ingredients, Milk Powder Business Unit

**ARLA FOODS HAS** production facilities in 12 countries. The encounters with different cultures and legal codes constantly challenges the company's ability to maintain consistently high product quality. Arla Foods' presence in developing countries presents a special challenge in terms of both production and sales. Lillie Li Ekhard, who is an MBA with a medical background, has in-depth understanding of nutrition and food safety. Lillie has hands-on experience following the launch of Arla Foods' joint venture in China and currently holds the position of Global Marketing Director for milk powder. In this interview Lillie describes some of the dilemmas associated with working in markets at different stages of economic and technological development.

**What effect does Arla Foods establishing a company in a developing country like China have on business partners and society?**

When we take part in building a factory in China, we contribute positively to the local society by increasing the level of knowledge. Regardless of where we are on the planet, our products must meet the same high standards that apply to all Arla Foods' products.

Countries like China are just beginning to focus on topics like food safety. We nevertheless have to make sure that we not only comply with local legislation but that we also establish fixed procedures and requirements to ensure that, for example, water quality is of the same high standard required by all Arla Foods production sites. It can take time to explain to local authorities and our local business partners why we have such high standards. They need to understand that it is necessary to ensure the quality of all ingredients used in the production process if we want the best results. For this reason, all suppliers throughout the supply chain have to live up to our high quality standards.

China is an emerging market, so it is still slightly behind with its agricultural technology and the quality of its agricultural products. We use our expertise to improve quality, which also benefits local farmers. We have, for example, collaborated with the Agricultural Council of Denmark and local authorities to implement a programme to improve the quality of the local milk. The starting level of knowledge, education and resources amongst the milk producers is quite low, so we've still got a long way to go.

**What do you consider Arla Foods' role to be in developing countries?**

We are a company with expert knowledge about nutrition, so it's our job to live up to this responsibility by sharing our knowledge about nutrition in order to improve people's health. It is also up to us to develop the most nutritionally correct products at a price that makes them affordable for more people.

**How is Arla Foods' knowledge about nutrition reflected in the products on the market?**

To take one example, we launched Milex® on the Vietnamese market in the autumn. This product is a milk powder that we have developed to meet the specific nutritional needs of Vietnamese children. We've added probiotic bacteria, a live bacteria culture like acidophilus. The live bacteria work together with the friendly bacteria already present in the digestive system to fight bad bacteria. This strengthens both digestion and the resistance to illness.

We interviewed Vietnamese mothers to find out what is important to them and linked their answers up with our own knowledge as well as research findings from recognised universities. In that way, we were able to develop a product that is adapted to children in different age groups.

In that part of the world, food safety is a hot topic, as some consumers have experienced that the quality of food they have bought and eaten was so poor that it made them ill. We are up against a degree of natural scepticism.

**What issues do you have to consider when marketing products in the third world?**

Our objective is to inspire consumers and increase their safety and well-being, and we adapt our marketing campaigns to these goals. We go to great lengths to share our knowledge about the effect of our products on nutrition and health. We wish to present this information openly in our marketing and

leave it to the consumer to make an informed choice. Our knowledge is based on in-depth studies carried out at universities and in our own laboratories, and it has the potential to benefit many people.

We operate in countries where not everybody's nutritional needs are met, and we know that children in particular benefit from drinking milk. It encourages their growth and strengthens their bones, to mention just two benefits. Children are vulnerable consumers, however, so we go to great lengths in our marketing campaigns to communicate with their parents in an ethically correct manner. In addition to complying with local legislation, we work with a very strict set of rules internally to ensure that all employees abide by the framework and understand the spirit that should guide our activities on the market. We base our marketing on a corporate culture, not just a narrow marketing strategy.

In terms of infant formulas, we obviously abide by the WHO codex as a minimum. We write on the product packaging that, in our opinion, it is best for the child to be breastfed, if at all possible. We also advise mothers to consult their doctor about the best way to use infant formula if they are unable to breastfeed their children.

**Does Arla Foods collaborate with aid organisations?**

Yes, we do, because we operate in markets where people are disadvantaged. In general, we try to support projects that focus on nutrition and education. We have supported schools and education projects in the Dominican Republic. In Algeria, we have collaborated with a local non-profit nutritional organisation, FOREM, which we have supported with products. We also help in connection with natural disasters and we have collaborated with local aid organisations in Bangladesh several times.



We continually improve our environmental performance by applying sound and sustainable principles – from cow to consumer.

*From: Our responsibility – Arla Foods' Code of Conduct*



## environment and climate

The production of food and the transportation of products invariably affect the environment by discharging substances into the air, the fields and the water. It is therefore Arla Foods' ambition to minimise the negative environmental effect of its production and distribution. By continually reducing the environmental impact of processes throughout the entire supply chain, we are working to contribute to sustainable development.

- **NEW CLIMATE GOALS.** In the spring of 2008, Arla Foods presented new climate targets which focus on the need to reduce the emission of greenhouse gases.
- **REDUCED CONSUMPTION OF ENERGY AND WATER.** In the past year, our dairies reduced their consumption of energy and water without experiencing reduced production volume. Thanks to new technical solutions, some waste products can be reused in the production of biogas.
- **REDUCED TRANSPORT EMISSIONS.** In the past year, a number of different measures have resulted in reduced fuel consumption and carbon dioxide and nitrogen monoxide emissions from transportation in Denmark and in Sweden.



### Focus on reduced climatic impact

Arla Foods' new climate target is to reduce the direct and indirect emission of gases impacting on the climate by 25 per cent by 2020 (compared with the 2005 level). The new target, which we already are working towards, focuses primarily on the transportation, production and packaging sectors. The climate targets are part of our general environmental strategy and help us meet international and national climate targets.

### A structured environmental effort

Certifying dairies according to environmental standards is one way to make sure that our environmental work is carried out in a structured manner. Of our 61 dairies, 27 currently have certified environmental management systems in accordance with ISO 14001 and a further 20 dairies will be certified in 2008. The plants with the highest energy consumption have certified energy management systems. In addition, all dairies have individual environmental targets and action plans which take account of local conditions.

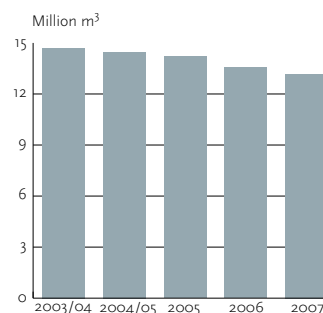
### Reduced material consumption

We endeavour to reduce the consumption of material in our packaging and increase the amount of material that can be recycled. In the UK, we have made considerable progress through changes in packaging design and material reduction. Other developments have however, to some degree undermined our progress, consumers for example have shown a preference for smaller package sizes and resealable packaging. In all our markets where packaging can be recycled it carries instructions about waste sorting although regulations differ from country to country.

### Environmental licence

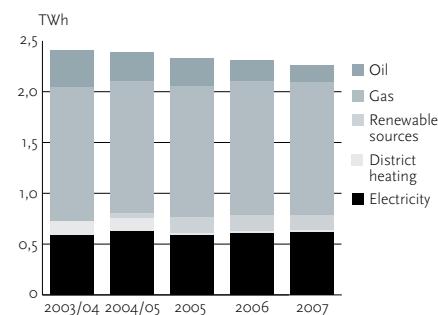
In order to operate, our dairies have to comply with the requirements of an environmental licence. Last year, some of our dairies were unable to meet all the details listed within these requirements. Most of these discrepancies relate to smaller deviations in the pH of the waste water. Occasionally we undertake additional cleaning of our dairy equipment and, as well as accidental spillage of milk into the drains, we have, in a few cases, exceeded the maximum permissible amount of waste discharged in a 24 hours period. None of these incidents however, were so serious that they led to legal action by the authorities but we have adopted measures to reduce the risk of similar incidents in the future. A new sewage treatment plant has even been constructed in Nr. Vium in Denmark for shared use by three of our plants.

### TOTAL WATER CONSUMPTION



While the dairies require a lot of water for washing and cleaning purposes, we strive to reuse the water in different ways, for example, for heating. In the UK, water consumption was reduced by eight per cent in the past year and consumption is now 20 per cent lower than it was four years ago.

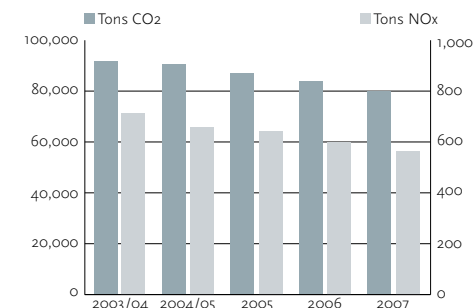
### TOTAL ENERGY CONSUMPTION



Despite unchanged production volumes, energy consumption at our dairies has decreased in the past year. We are striving to reduce our energy consumption even further and to increase the proportion of renewable energy sources we use. By 2010, our goal is to reduce our total energy and water consumption by five per cent (compared with 2005 usage).

### EMISSIONS FROM TRANSPORTATION

#### DENMARK AND SWEDEN



Arla Foods is a major transporter and we know that emissions from transportation have a considerable impact on the climate. The closing down of some of our dairies in the home markets in recent years has led to an increase in transport distances. This has led to increased consumption of diesel, even though the concentration of production has resulted in overall environmental advantages. We have nevertheless adopted a number of measures and succeeded in reducing the emissions of carbon dioxide and nitrogen monoxide.

### REDUCED EMISSIONS FROM TRANSPORTATION

We are continuing to adopt new measures to limit emissions by for example:

- Investing in new vehicles with modern engines.
- Running fully loaded trucks along carefully planned routes.
- Training our drivers in fuel-efficient driving and equipping the vehicles with GPS.
- Reducing the speed our vehicles travel.
- Using fuel derived from renewable sources.



## “By reducing our environmental impact, we’re actually making ourselves more efficient.”

George Plemper, head of work environment, Arla Foods UK

**ALONG WITH HIS** colleagues in Denmark and Sweden, George Plemper is constantly on the lookout for technological and common sense solutions, within the supply chain from farm to fork, that can help ease the strain that Arla Foods puts on the environment. In his experience, conducting business in an environmentally friendly way makes good business sense too, as environmental and economic efficiencies go hand in hand. Arla Foods UK can demonstrate significant reductions with regard to its environmental impact and continues to work closely with suppliers and retailers to find collaborative solutions for reducing the carbon footprint and environmental impact further.

**Is it fair to say that because major retail customers are raising environmental awareness you have to follow suit? Who is driving this development?**

Arla Foods has always been involved and concerned about the environment and we see the current focus on climate change as an extension of our existing environmental programme. Responding to consumer concerns, the major retailers are emphasising the need for improved environmental performance. But, because we’ve always been involved with the environment, and always achieved good environmental performance, we were able to meet their requirements too.

**Does Arla Foods UK benefit from working with the retailers?**

It is a win-win situation. We take the time to understand the issues that are facing our customers, but equally it gives us an opportunity to let our customers know the issues that face us and we can often work with them to help resolve these issues across the supply chain, so it’s a mutual cooperation.

**Does the fact that Arla Foods UK substantially cut its emissions since 2004 indicate that it had its focus elsewhere prior to 2004?**

Arla Foods has been reporting its environmental performance for many years and we are able to show significant improvements before 2004. However, the merger of Arla Foods and Express Dairies in 2004 offered a unique opportunity to consolidate and rationalise the business and benefit the environment. We have invested in new technologies in order to reduce some of our environmental emissions and shut down obsolete plants.

Improved environmental performance makes good business sense too, because generally the costs associated with production are directly related to waste. The greater our wastage – the greater our energy and material use. By reducing our environmental impact, we’re actually making ourselves more efficient. That, in itself, is worthwhile.

### Why does Arla Foods UK supply milk in plastic bottles in the UK? Is that environmentally sound?

It would be easy to dismiss plastic bottles as being environmentally unfriendly, simply because they are made from virgin plastic derived from fossil fuels, but this is overly simplistic. To get a clear picture of the environmental impact of plastic bottles compared to other packaging materials such as paper cartons and glass bottles, we need to look at the whole supply chain. We must consider resource use, operational efficiency, production waste, transportation and end of life disposal. We must also take into account market needs and consumer demands.

Not so long ago, all milk in the UK was packaged in glass bottles. We know that glass bottles can be re-used so we would be forgiven for thinking that glass must be the most environmentally sustainable form of packaging. But, if you look at the overall environmental impacts of using glass bottles you will find that glass has a higher environmental impact across the whole of the supply chain than other forms of packaging.

Simplistically, we could argue that because paper is a renewable resource then the supply of milk in paper cartons must be better from an environmental point of view. However, in the UK there are no readily available facilities to recycle composite carton materials. Both plastic and carton packaging have benefits and disadvantages, so it's fair to say that the jury is still out.

### What has Arla Foods in the UK done in the meantime, to reduce the material intensity of its packaging?

This is a very exciting area and our procurement team is making significant savings. The challenge we are faced with is to reduce the weight of the bottle whilst maintaining packaging functionality. It's important to realise that the amount of material contained in a plastic bottle is very small, a six pint plastic milk bottle weighs approximately 70 g. If you pick it up it's incredibly thin, just like an eggshell. The team

has reduced the amount of plastic that goes into a bottle significantly.

Savings have helped to reduce excess packaging in Arla Foods UK by 550 tonnes since 2006. The team is working on new forms of packaging design that will help reduce the material intensity further.

### What is in the pipeline?

In the short to medium term the use of food grade recycled plastic in our HDPE bottles provides an opportunity to reduce our carbon footprint further, we are also investigating the use of other packaging materials with a lower environmental impact.

### Why does Arla Foods care about the environment?

This is an important question. We should never forget, however, that caring for the environment makes good business sense. Within the business people are doing an awful lot for the environment. Every day they help save water, energy and recycle as much as they can. I've asked them the same question, and the answer I get without hesitation is "For my grandchildren". Nothing more needs to be said.

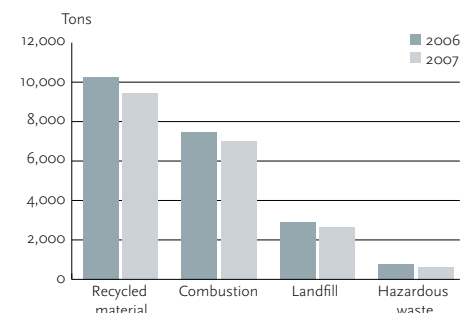
### What is your best piece of environmental advice for the consumer?

Reduce waste. That is wasted materials and wasted energy, wasted effort and, perhaps most important of all, wasted time.

#### Extract from Arla Foods' Global Packaging Policy

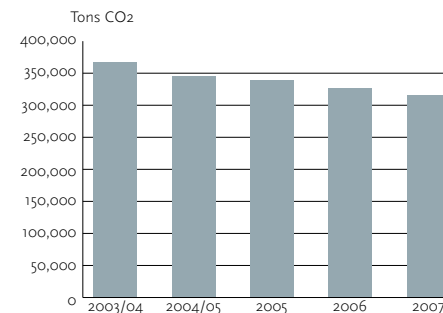
We continuously strive to reduce the impact on the environment from packaging. If possible we use renewable resources and recyclable materials. We minimise the weight of packaging material. We continuously try to decrease our total consumption of packaging material. We evaluate new packaging for lowest possible environmental impact and high transport effectiveness. We support consumers to recycle packaging.

### TOTAL WASTE



Arla Foods' goal is to reduce the total amount of waste generated by our dairies and to increase the amount of material recycled. However, different countries have different systems for waste handling. In all our plants, regardless of their location, we handle, sort and dispose of waste in accordance with local regulations and practices. In Sweden, where the laws prohibit the use of landfills for organic materials, the amount of waste has been reduced quite dramatically.

### TOTAL EMISSIONS FROM DAIRIES



Carbon dioxide emissions from our dairies have decreased steadily over the past five years. This has been achieved by saving energy, streamlining production and increasing the use of renewable energy sources.

We support sustainable agriculture.

*From: Our responsibility – Arla Foods' Code of Conduct*



## agriculture

Healthy, well-fed cows produce high-quality milk. For this reason, our milk suppliers must adhere to our high standards when it comes to milk production, animal welfare and feed quality. And we audit our milk suppliers in Denmark, Sweden and the UK closely to ensure that they live up to our quality programmes. Monitoring how Arla Foods farms are run is our guarantee that our producers' methods are based on due respect for the environment, animal welfare and high product quality. We also ensure that the specific guidelines for milk quality are followed in the other EU countries where we are active.

- **QUALITY CONTROL ON FARM.** Because our suppliers follow quality programmes such as Arlagården, or the Assured Dairy Farm Scheme in the UK, we are able to guarantee that our products are based on milk of the highest quality.
- **INCREASING CONSUMER DEMAND FOR ORGANIC MILK.** Arla Foods is the world's largest supplier of organic dairy products, and demand is continuing to grow. We work to encourage more farmers to convert to organic milk production.
- **LOCALLY PRODUCED MILK POPULAR.** A trend in our home markets is to link a certain number of farms more closely to a particular retailer, or to market milk from farms in a certain area under a regional milk brand.

### **Milk from Arla Foods' farms**

Today about 10,000 farms supply milk to Arla Foods in Denmark, Sweden and the UK, equivalent to approximately 90 per cent of the total milk volume – 8.4 billion kilos milk. As in other markets, we also purchase milk from other local suppliers who adhere to our quality standards.

### **Quality programme for work on the farm**

Together with the Danish and Swedish cooperative members who supply milk to the company, we have developed the Arlagården quality programme, which sets out guidelines for work on the farms. The quality programme has become increasingly significant when it comes to our contact with our customers, who demand detailed information on how we produce our milk.

Arlagården was introduced in Denmark and Sweden in 2003. The programme was revised over the course of 2006 to reflect the lessons of the first few years, changed EU legislation, the demands of our customers and the market in general. All Arla Foods farms have had at least one audit since 2003. A new system of regular audits started in September 2006 in Sweden, and in December 2007 in Denmark. All farms must receive an audit by December 2009. Farms receive audits every third year, or even more frequently if necessary.

All milk producers supplying Arla in the UK follow the Assured Dairy Farm Scheme, a quality programme which resembles Arlagården. About 80 per cent of Arla Foods' milk in the UK is supplied by members of Arla Foods Milk Partnership, a group of 1,500 farmers who are contracted to supply every litre of milk from their farms to Arla Foods UK. Some members of Arla Foods Milk Partnership supply milk for specific retailers, for which they receive a higher price.

### **Recruitment of organic farmers**

In Denmark and Sweden, organic milk accounts for seven per cent of total milk production. Our goal is to increase the percentage of organic milk production in Denmark and Sweden to 11 per cent by 2011, which will involve doubling Swedish organic milk production and an increase of almost 30 per cent in Denmark. To reach this goal, we are encouraging our milk suppliers to convert to organic production. Consumer interest in organic produce is also on the rise in Great Britain. Read more about organic production on the next page.

### **THE ARLAGÅRDEN QUALITY PROGRAMME**

The four cornerstones of the Arlagården quality programme are:

- The composition of the milk.
- Food safety.
- Animal welfare.
- Respect for the environment.

Arlagården contains legal requirements and industry policies as well as Arla Foods' own requirements and recommendations on feed and water, animals, farms, environment, milk composition and milk transport.

The areas most often singled out for critical comment after audits include incomplete written documentation and inadequate hygiene in milking rooms and milking equipment.

### **FOOT AND MOUTH DISEASE IN GREAT BRITAIN**

When the first case of foot mouth disease broke in the UK last year, Arla Foods, in conjunction with the rest of the UK dairy industry, immediately implemented nationwide biosecurity plans. The preventive measures taken were in excess of those required by government regulations and provided reassurance to our supplying farmers.

### **ORGANIC FARMS**

Organic farmers use neither chemical pesticides or chemical fertilisers, and their animals are fed only organic feed. Organic production of animal feed requires more land, which can prevent some farms from converting to organic milk production.

### **HIGH QUALITY INCREASES FARMERS' PROFITS**

The individual milk producer is responsible for ensuring that their milk lives up to the quality standards outlined in quality programmes such as Arlagården. However, in terms of our responsibility to customers and consumers, we have to ensure that all milk used in the company's products lives up to Arla Foods' standards. For this reason samples are taken when the milk is collected by the milk tanker. The price of a farmer's milk depends on quality. This system, coupled with advice and guidance on production from Arla, contributes significantly to ensuring high quality milk.

### **GOLD MEDAL FROM THE KING'S OWN HAND**

At the beginning of the year, 30 of Arla Foods' Swedish milk producers received the Swedish Dairy Association's gold medal from the king of Sweden to reward their professionalism and responsibility in working to keep a high milk quality. The gold medal is awarded after 23 years of delivering first-class milk.

### **AVERAGE NUMBER OF COWS PER FARM**

Denmark	102
Sweden	51
UK	100

### **LOCALLY PRODUCED MILK**

In several distinct regions in Arla Foods' home markets, the milk produced on a number of farms is collected and processed separately before being delivered directly to customers, which makes it possible to trace the milk from the farm to the retailer. Some examples are "Himmerlandsmælk" and "Marksmælk" in Denmark and "Västkostmjölk" and "Gotlandsmjölk" in Sweden.



## “As farmers, we must do what the industry has been doing for a long time: we must compete on know-how.”

Dairy farmers Malene and Henning Jensen, in the process of converting to organic farming, Vonge Vestergård, Central Jutland, Denmark

**MALENE AND HENNING** Jensen have made the decision to go organic. They are now half way through the conversion process, which takes two years, and requires an investment of DKK 1 million. When they bought their farm nine years ago, they weren't actually planning to keep the 48 dairy cows that came with the farm but before they sold the cows, Henning fell in love with the independent dairy farmer lifestyle, so instead they built a larger barn and added cows to the herd. The family has always prioritised healthy food and has used fertiliser and crop sprays as little as possible. So, when they were given the option of leasing additional land nine years after becoming self-employed, which made organic farming a real possibility, they accepted. Henning is responsible for running the farm with 130 Jersey cows and 151 hectares of land. Malene is a primary school teacher.

### **Why did you choose to convert to organic farming?**

*Henning:* We got the opportunity to lease 100 hectares, and you don't say no to a chance like that in this business. We considered different scenarios together with the bank, the financial consultant and the organic farming consultant. We saw that our earnings would be the same, whether we converted

to organic farming or doubled the herd and our debt. And, of course, we want to do our bit for the planet. Money also plays a role, of course – you can't get far on good intentions alone. Things need to add up financially too.

*Malene:* Chemicals aren't good for anybody. If it's possible to farm without crop sprays, you should do so.

*Henning:* For me, it's also a professional challenge. It's important to harrow and plough the right way in spring to make sure we will have proper pasture for the cows. Once the fields have been sown in spring, all you can really do until you harvest is water the fields.

You can make up for bad preparation by spraying to kill the weeds, but that's not an option with organic farming.

### **How has the choice of organic farming affected your family life?**

*Henning:* It hasn't changed that much for us. Our family life has always had high priority and we try to make things work, more or less, as if I had an ordinary job. We hire people to milk the cows so I can participate in the children's school events, handball matches and gymnastics.

Organic farming is a solution that works well with our family life and not the other way round. For us, it was a better

option to switch to organic farming rather than expand our farm. This way, we avoid becoming too big, and we avoid being in a difficult position if we can't find people to help.

*Malene:* It's not the children's choice that we are self-employed. We don't want them to think that dad was the guy who drove past on a tractor and who popped in now and then to have a meal with us.

#### **Will your cows be happier now?**

*Henning:* I certainly hope not. I think I took good care of them when we farmed conventionally too.

*Malene:* Now they are out on pasture a greater part of the year. That's one big plus.

*Henning:* And the pasture is quite different without sprays – it contains cow parsley, chicory and other plants. There may not be as much nutrition in it for the cows but it makes them want to eat more.

#### **What changes have you had to make to convert to organic farming?**

*Malene:* All Henning did last summer was dig to prepare for the irrigation system that will keep the fields green for pasture.

*Henning:* We also tidied up everywhere before the authorities were going to audit us for the first time. You can't have chemicals lying around so we checked in all nooks and crannies whether anything was left by the previous owners. We also made some changes to the shed where we keep our young animals.

#### **Do you find any of the organic requirements a bit strange?**

*Henning:* No, not really. We obviously have to document that everything we do complies with regulations. If a haulage contractor unloads the wrong seed in my yard or a neighbour's spray drifts into my field without me noticing it, I lose my

organic farming subsidy without it being me at fault. We have to be aware of many things. When I see all the mole hills in the field, I think back to how easy it was when we could use poison and didn't have to set 40 traps. But that's not an option any more.

*Malene:* If consumers pay for us to farm without using poison, we just can't do it. There can't be any grey areas.

#### **Is organic farming a solution for all farmers?**


*Henning:* No, but all farmers ought to consider it, because Danish farmers cannot compete with the size of, for instance, Polish or Brazilian farms that have much more land at their disposal. As farmers, we must do what the industry has been doing for a long time: we must compete on know-how. We need to look ahead, and going organic is a way of doing just that. I believe organic farming can take us quite far.

*Malene:* However, we can't feed the entire population on Earth if we all go organic; it requires too much land because crop yields are smaller. But all the research in organic farming can benefit everybody. If we discover crops that can grow without sprays, for instance, everybody can use them.

#### **Will you still be organic farmers in ten years?**

*Henning:* We certainly hope so but we also need to adapt to market conditions and general economic trends in society. When we began nine years ago, Denmark had 20,000 milk producers. Today, there are 4,000 and the forecast is that we need to reduce that number to 2,500. We are confident, but not to the extent that we can say for sure that we won't be the ones that have to close. However, we think that organic farming is a good way of dealing with the challenge instead of simply getting bigger and bigger.





We challenge and encourage our suppliers to support us in our commitment to abide by our Code of Conduct.

*From: Our responsibility – Arla Foods' Code of Conduct*

## procurement

Arla Foods sources goods and services across the world. Our ambition is for our suppliers to meet our code of conduct for suppliers, which governs ethical, social and environmental responsibilities. We encourage our suppliers to further improve the quality of our products and reduce their environmental impact in partnership with us.

- **AGREEMENT ON THE CODE OF CONDUCT FOR SUPPLIERS.** All key suppliers in the home markets of Denmark, Sweden and the United Kingdom have signed up to our code of conduct for suppliers. In doing so, they commit to a good working environment, respect for human rights, environmental awareness and product quality.
- **ETHICAL GUIDELINES FOR PROCUREMENT.** We have a set of ethical guidelines for all employees with external supplier relationships. These guidelines cover areas such as conflicts of interest, ethics, confidentiality and gifts.
- **GOOD RELATIONSHIPS MEAN GOOD SUPPLIERS.** Good supplier relationships provide a good framework for our supplies of goods and services. In day-to-day operations, local employees have close contact with suppliers which contributes to a trustworthy and responsible relationship.



### Standardisation of procurement

In 2007, Arla Foods did business with more than 16,500 suppliers in our home markets. Close to 60 per cent of the external spend in these countries is handled by Arla Foods' global procurement department. Where possible and relevant we ensure that our supplier contracts have global coverage and apply to our business units outside our home markets.

Contracts entered into by the global procurement department comply with a controlled and standardised process involving careful evaluation of and checks on suppliers. In the case of local contracts, the formal process is somewhat different. Local business units are responsible for the daily operation of the contracts and for following-up the performance of suppliers. Irrespective of whether the contract is central or local, we strive to ensure that our suppliers are willing to share our commitment to socially responsible conduct.

To ensure that the entire Arla Foods group works on the basis of common procurement procedures, we have begun a process to ensure that more parts of the organisation work from identical contract models and standardised documents for supplier evaluation, requirements, procedures, for example.

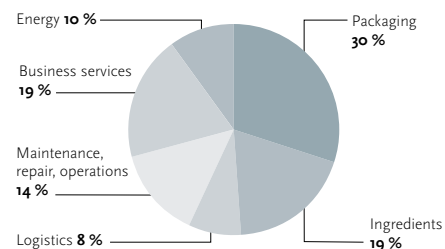
### Different products and services require different controlling systems

Our suppliers are evaluated on an ongoing basis, and each year we select a range of suppliers to audit. The selection is based on their importance to Arla Foods, our products and the environment. Our primary focus is suppliers whose products are a part of, or are in direct contact with, our finished products such as ingredients, packaging materials, cleaning agents, and production and transport equipment. In 2007, for instance, 10 of the 100 largest ingredients suppliers were audited. Some proved fully compliant while others revealed some non-compliance, which has been followed up. All audits result in a detailed auditing report and, if necessary, an action plan.

### Increasing global supplier market

It is a complex and difficult task to ensure that our suppliers, in more than 80 countries, comply with our code of conduct for suppliers. Consequently, we have adjusted the way the global procurement department works to maximise the benefits of Arla Foods' global presence through exploiting local knowledge about the local supplier markets. We continually adapt to the increasing mergers and globalisation processes in our supplier market as this opens new opportunities to supply Arla Foods worldwide.

### GLOBAL CONTRACTS IN HOME MARKETS



The diagram shows the cost distribution of our global contracts across different types of products and services for our three home markets. More than 600 suppliers provide packaging materials and ingredients which account for almost half the costs.

### TOP 10

The ten largest suppliers account for 17 per cent of our total external spend. In 2007, the following companies were our largest suppliers in order of size:

- Tetra Pak – Packaging materials, processing and packaging machinery.
- IBM – IT services.
- Nampak – Packaging materials.
- Promens – Packaging materials.
- Carat – Media.
- Elopak – Packaging materials and machinery.
- Statoil – Natural gas and diesel.
- SCA – Packaging materials and machinery.
- Logoplaste – Packaging materials.
- Energi Danmark – Energy.

### MILK SOURCING

For more information about milk sourcing see our farming section.

### NEW TANKERS AND DISTRIBUTION VEHICLES

Arla Foods has signed a contract with the Swedish truck manufacturer, Scania, for close to 200 new vehicles for Denmark, Sweden and the United Kingdom. This type of major co-ordinated purchase enables us to make specific requests. The new vehicles, for instance, have been equipped with technology that reduces emissions.

### FRUIT PURCHASE

Our subsidiaries, Rynkeby Foods and Dairy Fruit, which buy fruit and fruit concentrate from several countries, operate on the basis of well developed procedures for evaluating and checking suppliers. Raw materials used in fruit juices and fruit products are mainly sourced from suppliers approved by SGF (Sure Global Fair), the control body for juice producers, and IRMA (International Raw Material Assurance) which supervise fruit producers. During regular audits raw materials, working conditions, labeling and traceability are checked. During 2007, Dairy Fruits' own buyers carried out 55 supplier audits in accordance with a detailed auditing form.

### DIALOGUE WITH POTENTIAL SUPPLIERS

None of our suppliers were discontinued as a result of audits although potential suppliers were deselected for failing to meet our requirements. We cooperate with potential suppliers so that, following improvements to quality, the environment or the working environment they can be approved as suppliers.

### PURCHASING FOR THE HOME MARKETS

- **2 per cent** of Arla Foods' suppliers account for 80 per cent of the costs.
- **5 per cent** of Arla Foods' suppliers account for 90 per cent of the costs.
- **99 per cent** of Arla Foods' costs are apportioned across 11,000 different suppliers. The remaining 5,000 suppliers (approx) are responsible for less than one per cent of Arla Foods' costs.

We have competent and committed employees, and provide safe and healthy working conditions.

*From: Our responsibility – Arla Foods' Code of Conduct*



## workplace

Arla Foods has approximately 16,500 employees in 27 countries. It is essential for the company's success that our employees thrive and that they find their work fulfilling. It is our goal to ensure all employees have good working conditions and that their tasks and responsibilities are motivating. We therefore constantly strive to improve the Arla work environment; our goal is for our employees to greet each new working day with enthusiasm and energy.

- **ONGOING STAFF REDUCTIONS.** During the course of the year, the number of employees was reduced by almost eight per cent, mainly due to the sale of companies, streamlining of production and restructuring of sales departments in Denmark and Sweden.
- **FOCUS ON REDUCING ABSENCE DUE TO ILLNESS.** We constantly strive to reduce the amount of absence due to illness, a focus area covered in the company's business plan. In the past year, absence due to illness decreased in Sweden but increased slightly in Denmark and the UK.
- **MORE EMPLOYEE SURVEYS.** The latest survey confirmed that the many changes we have carried out have improved our employees' perception of their workplace.

### Streamlining of production

The restructuring of production in Sweden and Denmark continued according to plan, resulting in a reduction of the workforce. In Sweden, Örebro dairy was closed and we have already succeeded in finding 73 of the affected 187 employees new jobs in the Group. The cheese factory in Aars in Denmark was also closed, affecting 70 employees.

The rising price of milk powder resulted in a reorganisation of production, and several cheese factories in Denmark and Sweden reduced their production resulting in 75 redundancies. Transfer of juice production from Alingsås to our subsidiary Rynkeby Foods in Denmark has commenced and will affect approximately 120 Swedish employees.

With each production rationalisation process, a support group is appointed to help the employees find new work within or outside the Group or receive training.

### Positive results in employee survey

In 2007, our 'Barometer' survey was completed by a larger number of employees and in many more languages than before. For the first time, Arla Foods UK also took part. The response rate was 90 per cent and in every area the responses were more positive than in previous years. There are some clear trends, it is evident that a larger number of employees are positive about their workplace and their managers compared with previous surveys, and employees have a clearer understanding of what Arla Foods' mission is and where responsibility lies.

Another important result is that fewer employees experience negative stress and we will continue our efforts to reduce stress in the workplace even further. In the future, increased knowledge-sharing within the organisation will be another focus area.

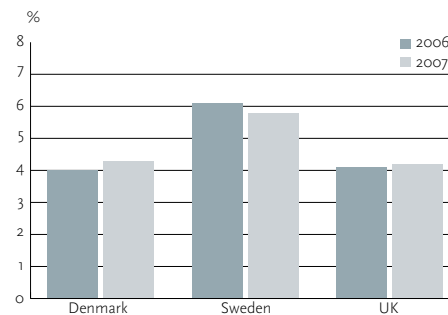
### Creating a culture of safety

Within the framework of our systematic focus on the work environment, we have several ongoing projects intended to reduce the number of accidents at work. After a reduction in the number of accidents in 2006, there was a slight increase in 2007. While we previously focused primarily on the physical work environment, we now intend to concentrate on creating a positive 'safety culture' through an increased focus on behaviour. Cultural change takes time and we cannot expect to see the immediate impact of these initiatives on the accident statistics.

### OUR LEADERSHIP AND OUR CHARACTER

During the year we launched a management programme with a focus on visionary and clear leadership within a global perspective. We have also introduced a programme to strengthen and implement the shared company culture – 'Our Character' – Please see the section on human rights.

### ABSENCE DUE TO ILLNESS

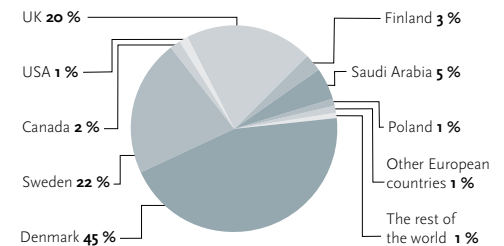


The total figure for absence due to illness remained largely unchanged in the past year. In many locations we reduced absence due to illness, for example at Rynkeby Foods in Denmark, where absence due to illness decreased from 4.3 per cent to 3.7 per cent over the year, in part due to a special care programme. Employees who have been, or are often sick have been given help to gain more control over their lifestyle and their health. The statistics for Sweden also include long-term illness.

### TRAINING PROGRAMME FOR THE FUTURE

Arla Foods needs skilled dairy workers both now and in the future. We are committed to the ongoing training of our employees and, in our home markets we also support advanced education for future production workers.

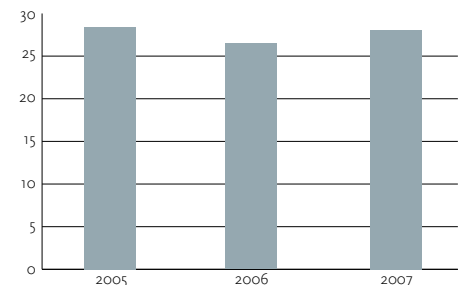
### EMPLOYEES BY COUNTRY



The majority of our employees are located in Denmark, Sweden and the UK, but a number of different nationalities are represented in each country. At the Stockholm dairy, for instance, our employees come from more than 30 different countries.

### WORK ACCIDENTS IN TOTAL

Number of work accidents involving more than one day's absence per one million working hours



The accident frequency is about average for the dairy industry and our goal is to be among the leading industrial companies with a persistently low accident frequency. All our plants in the UK are certified in accordance with the international health and safety standard OHSAS 18001.



**“Every time you invest one krona in work environment, you get three back, and at the end of the day, work environment covers everything.”**

Edip Ergül, principal safety representative, Linköping dairy, Sweden

**IN HIS ROLE,** Edip Ergül coordinates and handles issues that involve several departments in addition to his work in production. Edip also participates in work environment committee meetings that take place every three months. Edip has been one of the main forces behind the development of the course ‘Better Work Environment’ for which he also acts as an instructor. In addition, he is the regional safety representative for the food industry.

**As the principal safety representative how can you influence the work environment?**

I work very closely with management and our cooperation has developed over time. Before, the company would build something then I would come afterwards and point out errors and shortcomings in the work environment. It is much more logical that you take the work environment into consideration from the beginning of a construction project. Our collaboration works well and many of my suggestions for improvements have been accepted. It works well because we respect each other and management knows that I only make serious suggestions, which usually concern laws and regulations.

I was able to get management to accept that the distance between machines in the new building extension should not be

less than 1.5 metres, which is the amount of space an operator needs to work most effectively. One process control room had been designed without daylight and you can not sit in front of a screen for several consecutive hours without daylight, so that was changed.

I would still like to see more direct communication between the local safety representatives and management. Everything doesn't necessarily need to go through me. Everyone have the same right to influence the work environment.

**Do you find that there is a conflict of interest between work environment and finance?**

To put it broadly, management looks at finances and I look at the work environment, but the management also knows that it is worth investing in a good work environment. I often say that every time you invest one krona in work environment, you get three back, and at the end of the day, work environment covers everything. The company avoids paying for installations that have to be changed later. If employees feel that their work environment suggestions are being heard, productivity increases. When the work flow functions well, managers don't have to spend their time solving problems and can concentrate on other things. It also means that employees don't get injured

or call in sick so the dairy doesn't have to pay for temporary staff or deal with the loss of expertise when they replace skilled workers with temporary staff. A healthy work environment benefits everybody in the long term.

#### **What kind of work environment problems do you currently have at Linköping dairy?**

We tackle work environment issues actively and, in general, I think things are going well. We have some issues that we struggle with, of course. We can find practical solutions for the physical problems such as heavy lifts or work in a cold storage warehouse but we also have the psycho-social work environment where people feel stressed and insecure because of changes. We are in the middle of a process where we need to reduce the number of employees while increasing production at the same time, and this causes stress. Employees are insecure about their work and uncertain about their future.

In Linköping, we have long-term illness that I think is largely due to psycho-social problems and a result of the streamlining of production and restructuring processes. These cases are difficult to solve but we have to support people back to work.

#### **Are the psycho-social problems luxury problems?**

No, society has changed. If you go back 30–40 years, people worked more but they weren't off sick as often as they are now. In today's society people are more stressed. You constantly worry about your job and whether you're going to keep it. It's about feeling secure in your everyday life. Personally, I also think that we get more stressed in an IT society because computers and mobile phones mean we are accessible around the clock. But more than anything, it is probably stressful for managers who have lot of responsibility. They have to be available around the clock. The requirement for a good work environment applies to managers as well, and if they're not feeling well, it affects employees.

#### **How does the 'Better Work Environment' course work?**

Everybody with this area of responsibility in Linköping has participated but I think that everybody, right through to top management at Arla Foods, ought to find the time to take the course. Managers should be trained to understand what their responsibility for work environment issues involves.

I am very happy with the way things work locally but I think that work environment issues should be part of the decisions made in the different business areas. Many decisions made centrally have a huge impact on local work environments. Global procurement, for instance, purchases computers, trucks and so on. I would very much like to see closer collaboration about work environment in this context. I would also like to see a central safety committee where all work environment issues are discussed.

#### **If it was completely up to you, what would you change?**

I think that Arla Foods has become so big that the wellbeing of the individual is easily forgotten, among all the other issues we have to deal with. The competition has become very tough and top management has to focus globally and make decisions that we have to implement locally. Today, managers often spend a lot of time in meetings and sometimes they discover too late if someone needs help. If the managers spent more time on the 'shop floor', they would discover sooner if something was wrong. Managers shouldn't be stressed – it rubs off on the workers. Employees also have a responsibility for their work environment. They can't just arrive at work and expect everything on a plate. They also have a role to play to ensure a good work environment. Management and employees must work together to create a good work environment, both physically and mentally.

#### **IMPROVED WORK ENVIRONMENT PROJECT**

The Arla Foods Group has a number of ongoing projects to improve the work environment. Here are some examples:

- Reduce the number of work accidents through changed behaviour.
- Increase knowledge about, and awareness of, stress.
- Reduce the number of heavy lifts.
- Create a common basis for ergonomic assessments.
- Improve the integration of employees of foreign origin.
- Encourage employees to take part in physical activities and provide dietary advice and inspirational courses about health and lifestyle issues.

#### **\* Better Work Environment**

BAM – "Bättre Arbetsmiljö" is a five-day work environment course for safety representatives and managers responsible for work environment issues. The course include Swedish work environment laws, regulations and agreements as well as the internal policies at Arla Foods.

We have good, honest relationships with all of our stakeholders.

*From: Our responsibility – Arla Foods' Code of Conduct*



## market conduct

It is essential that the consumers trust Arla Foods if we are to sell our products. By acting responsibly, communicating openly and maintaining an ongoing dialogue with customers and consumers, we create the right conditions for trust. In the markets where we are a dominant player, we have an increased responsibility not to abuse our position.

- **RAPIDLY CHANGING MARKET.** Competition between dairy companies in our home market remains strong. The worldwide shortage of raw milk has resulted in price increases for customers and consumers.
- **CLOSE CONTACT WITH CONSUMERS.** We are proud of the close dialogue we have with our consumers. Without this contact we would have no way of knowing whether we are living up to their expectations.
- **GOOD CUSTOMER RELATIONS.** We score very highly in customer satisfaction surveys in the UK and above average in Denmark and Sweden.

### Huge changes on the dairy market

The past year has been characterised by huge changes in the international dairy market. Drought in Australia, floods in South America and many other factors contributed to a shortage of raw milk and dairy products around the world resulting in immediate price increases. This in turn saw the EU cancel the export subsidy for butter and cheese in June. Price increases were generally met with understanding by customers and consumers.

Competition in our home markets remains tough, especially between national dairies, other international food companies and discount chains. As a large, and in some cases, dominant player in our home markets, we make extra efforts to act respectfully. We also encourage dialogue and collaboration with competitors and other industry players. We collaborate, for instance, with other dairy companies in Denmark to offer Danish consumers cheese made from unpasteurised milk.

The demand for dairy products is increasing rapidly in growth markets like Poland, Russia, Argentina and Asia and our strategy is to continue growing in these markets as well as in our home markets.

### Customers' own trademarks on Arla Foods' products

To meet the demands of many retail customers, production of dairy products under customers' own trademarks, so-called own label, has increased. In the Nordic countries, the increase started from a low level; in other countries from a much higher level. In the UK, for instance, we supply approximately 44 per cent of the milk purchased by the seven largest retailers under their own trademarks.

### Different image in different markets

In Denmark and Sweden, we measure consumer perception of Arla Foods on an ongoing basis. In Sweden, we are one of the companies that the consumers find most trustworthy. In Denmark, our image has improved since 2005 when we received low scores, mainly due to our dominant position. In 2007, we continued our long-term work to improve the company's reputation on the Danish market. This work will remain one of our main challenges in the coming years.

### DIALOGUE WITH CONSUMERS

In the home markets, Arla Foods has a well-developed system for handling contact with consumers, the so-called Arla Forum. Enquiries are handled by phone, e-mail and letter. The number of enquiries received via e-mail has increased, and over the past year we therefore developed a web service in Sweden that has, to date, handled approximately 1,000 enquiries per month. Other examples of consumer contact include our Danish blogs and online seminars where company representatives have an opportunity to listen and take part in an open dialogue with consumers about current topics.

### ARLA FORUM - IN THE SERVICE OF CONSUMERS

	Number of enquiries 2007
Denmark	30,000
Sweden	30,000
UK	12,000

The above table shows the number of enquiries answered by Arla Forum in 2007. On weekdays, questions to Arla Forum are answered within 24 hours. Examples of common enquiries:

- Opinions about packaging.
- Complaints about unsatisfactory quality.
- Opinions about product launches.
- Requests for new products.

### WEBSITES WITH MANY VISITORS

Providing inspiration for cooking and the love of good food is also a form of dialogue with consumers. Each year, we create thousands of recipes and publish cookbooks to provide cookery inspiration. In Denmark and Sweden, our websites have over 15 million visitors each year, making them the most visited recipe collections on the Internet in the Nordic countries.

### CUSTOMERS' OPINIONS ARE IMPORTANT

We regularly survey our large retail customers in our home markets to find out what they think about us as a supplier of dairy products. We get our best score overall in the UK, where Arla Foods, in 2007, ranked number two. Arla Foods UK has ranked among the top three in the past three years and has also received many awards including Food Manufacturer magazine's Food Company of the Year award 2007.

In Sweden, Arla Foods ranked as number four of 14 dairy suppliers and is generally considered slightly above average for the dairy industry. According to the latest survey, customer satisfaction in 2007 has nevertheless decreased somewhat.

In Denmark, Arla Foods ranked as number five of 22 dairy suppliers in the latest survey, which is disappointing compared with 2004 when we were number one. We receive most criticism in Denmark within the areas of profitability for the customer and reliability of supply.

### HIGH DEGREE OF KNOWLEDGE

A consumer survey carried out during summer 2007 shows that in Denmark and Sweden, a high percentage of consumers, close to 100 per cent, know Arla Foods. In the UK, approximately 10 per cent of the respondents say they have heard of Arla Foods. This low figure can be largely explained by the fact that in the UK, the company's products are largely sold under the customers' own trademarks and that consumers are more familiar with our branded products particularly Lurpak®, Anchor® and Cravendale®.

### CONSUMER OPINION

	2005	2006	2007
Arla Foods in Denmark	51.1	49.9	52.2
Arla Foods in Sweden	73.9	79.5	75.6

The table shows the total score between 0–100 that consumers gave Arla Foods compared with many other companies in a survey carried out by the Reputation Institute.

We maintain good, respectful and constructive community relations.

*From: Our responsibility – Arla Foods' Code of Conduct*



## community relations

For Arla Foods, being a responsible company means that we act responsibly in all aspects of our operations. In addition, we endeavour to involve ourselves in wider social issues which are relevant to our business activities. In order to contribute to the development of society, we work to build long-term relationships with people, companies and organisations. In the past, our involvement has primarily involved information campaigns and collaboration with research institutes, but we also want to work more closely with the local communities where we operate.

- **KNOWLEDGE OF THE FARM AND THE MILK.** In Denmark and Sweden, we run a number of different projects to increase public knowledge about work on our farms and the importance of healthy food.
- **FUNDS FOR RESEARCH.** In the past year, Arla Foods has contributed financially to different research projects within areas such as nutrition and health.
- **ASSISTANCE TO DISASTER VICTIMS.** We try to offer our assistance when natural disasters and similar events happen in the areas where we have a significant presence. In September we donated milk powder and financial support to flood victims in Bangladesh. Our ambition is to initiate more long-term and structured work on selected aid projects.



### Spreading information about nature and the environment

In our home markets, we conduct campaigns to increase public knowledge about natural ingredients and the relationship between man, animals and nature. When we invited members of the general public to join us when the cows were turned out to pasture in spring, after a long winter in the barn, in both Denmark and Sweden, we were rewarded with record attendance. Autumn markets and ecological theme days have also proved popular.

Denmark has several dairies that are open to the public which provide information about the production process, from raw milk to finished product. Visitors include school children and foreign dairy industry visitors. In Denmark and Sweden we invite school children and pre-school groups to visit our farms. The aim is to give children knowledge about work on our farms and where milk comes from. In 2007, approximately 74,000 children participated in these farm visits.

Another example of increasing public knowledge is supplying information on the back of milk cartons, which in Sweden has been used as a channel of information since 1975 and today is one of the most effective media channels in the country. More than half of the total number of milk cartons are used to inform consumers about topics that encourage, inspire and engage children and young people aged 9–16. In 2007, for example, our milk cartons informed them about life on our farms and the Middle Ages.

### Support for research

It is important to Arla Foods that researchers take an interest in and have an opportunity to carry out research on milk production, milk properties and the health aspects of milk. For that reason, Arla Foods established the Arla Foods Young Scientist Award in 2007 to reward the efforts of young scientists. In Sweden and Denmark we also support research through industry associations, and in Denmark we contribute to a number of research projects in the form of support to PhD theses.

### Stimulating good food culture

One way of spreading information and inspiration about positive eating and good cooking practices and ingredients is to sponsor events such as competitions for chefs and pastry cooks. In particular, we work to strengthen and enrich the Nordic food culture. In Sweden, we also distribute the Golden Cow award every year to reward schools, restaurants and shops that are good role models within the areas of the environment and food culture.

### FUNDED RESEARCH PROJECTS

Arla Foods supports a number of research projects either directly or through industry associations. The following are the main recipients:

- **DANORC** – A study of fatty acids, milk peptides and milk proteins in food and the role they play in the development of different types of obesity.
- **Preservation of health with functional food** – Understanding the biological mechanisms underlying the advantage of probiotics.
- **Company risk assessment** – improving the risk analysis in HACCP.
- **Development of tools** for effective and safe production of Danish cheese from raw milk in conjunction with other Danish dairy companies.
- **Healthy and tasty milk** – Developing new, tastier types of milk by feeding the cows specific types of grass and clover.
- **Milk Protein Consortium** – Separation of milk proteins and documentation of their physiological activity in humans.

### YOUNG RESEARCHERS

We support young researchers' studies of:

- The beneficial effect of milk in the prevention of obesity.
- Prevention of the deterioration of milk quality due to the effect of light.
- Data control models for quality control in the dairy industry.
- Biological mechanisms underlying the effect of probiotic bacteria in the intestine.
- The antibacterial effect of milk.
- The positive effect of milk proteins on the immune system.
- The wound-healing effects of milk proteins.
- Milk proteins as a tool in medical treatment.

### ARLA FOODS YOUNG SCIENTIST AWARD

Arla Foods' newly established researcher award went to Janne Kunchel Lorenzen from the Department of Human Nutrition, Faculty of Life Sciences at Copenhagen University. This young scientist received the award for her research into the relationship between calcium consumption and weight control in humans.

### ACTIVE CHILDREN IN DENMARK

Arla Foods is the main sponsor of the Active Around Denmark campaign that aims to encourage children to be physically active and eat healthily. Last year, more than 40,000 children participated. We also sponsor football camps for children and young people during their summer holidays.

### PARTICIPATION IN NORDIC FOOD EVENTS

- **Nordic Challenge**, international competition among chefs, Denmark.
- **Chef of the year**, Swedish chef of the year competition, Sweden.
- **Pastry chef of the year**, baking competition, Sweden.
- **A taste of art**, food and art festival, Denmark.
- **Kocklandslaget**, team of Sweden's top chefs in international competitions.

### CONTRIBUTIONS TO NON-PROFIT ORGANISATIONS

In some of our markets, for example the UK, USA and Canada, there is a tradition for corporate participation in local charity projects. In 2007, Arla Foods also contributed to several non-profit organisations including:

- **The Backpack Program**, USA, for healthy food and information about nutrition for disadvantaged children in New Jersey.
- **The Cow Parade**, Denmark, art project which donates profits to the Save the Children Fund.
- **Crown Princess Victoria's Foundation**, Sweden, a leisure and recreation initiative for children and young people with chronic illness or disability.
- **Breast Cancer Campaign**, Saudi Arabia, in collaboration with the Ministry of Health.

We respect and support internationally recognised human rights.

*From: Our responsibility – Arla Foods' Code of Conduct*



## human rights

We have production facilities in many countries and our products are sold throughout the world. Through this international presence, we provide not only dairy products but also a corporate culture that upholds internationally recognised human rights. This means that wherever we operate, we represent Arla Foods' firm conviction that the human rights of all people must be respected.

- **WE SUPPORT GLOBAL COMPACT.** As participants in the UN initiative Global Compact, our philosophy of respecting human rights is evident. Two of Global Compact's basic principles relate to respect for human rights.
- **RESPECT FOR DIFFERENT CULTURES.** The rapid global expansion taking place in Arla Foods tests our ability to integrate and respect differences.
- **FOCUS ON HUMAN RIGHTS.** In countries that do not fully recognise human rights, we take special care to inform all our employees about Arla Foods' principles. We also demand that all our business partners respect human rights while at the same time we acknowledge the difficulty of guaranteeing that all their suppliers comply.

### **Humility in the face of cultural differences**

At the beginning of the 1980s, Arla Foods began local production in Saudi Arabia. It was the first Arla Foods dairy in a country with cultural traditions that are quite different from those of the Scandinavian culture in which we are rooted. We have learned respect for different cultures and we encourage diversity in the workplace. When we established a company in Vietnam in 2007, we began by involving all employees in activities that focused on collaboration and respect for the equal worth of all people.

In a number of countries where we are represented, it is particularly challenging to live up to our own Code of Conduct for human rights and the principles of Global Compact. This applies to countries where the international conventions have not been adopted in their entirety. In Saudi Arabia, for instance, women and men are not allowed to work together. As we also wish to offer women work, in 2007 we began planning a packing department where the workplace and all associated facilities will be used exclusively by women. This is one way of giving women the opportunity to work in the company.

### **Different laws in different countries**

We abide by the laws and regulations that apply in the countries where we operate. This can present a serious dilemma, as for instance in Saudi Arabia where, immigrant workers have to hand over their identity documents to their employer, which contradicts our Code of Conduct. We believe that, in the long term, we can contribute to change such situations through our global presence and our clear Code of Conduct.

### **Common platform for the entire company**

A growing, global company must treat all people equally regardless of culture, history and tradition. Our Character forms the basis of our corporate culture and with the key words Lead, Sense, Create, we decided that all managers and employees should have 1,000 days, starting in 2007, to assimilate and begin behaving in accordance with this common platform.

### **ARLA FOODS ON CHILD LABOUR**

Arla Foods does not accept child labour, defined as work conducted by people under 15 years of age, or a higher age if local legislation stipulates a higher age limit and/or longer compulsory schooling.

### **NO CONTRIBUTIONS TO POLITICAL ACTIVITIES**

It is Arla Foods' policy not to contribute to political activities. Only the managing director can make exceptions to this policy. Our employees are, of course, free to support any political party or group. We also respect our employees' right to form and join trade unions and to engage in collective bargaining.

### **NEW LABOUR LAW IN CHINA**

On 1 January 2008, a new labour law took effect in China which, in many respects, improves the conditions of workers. We have reviewed all the contracts to make sure the company abides by the new law. A new feature of the law is that the employer is obliged to inform workers about their rights. Other changes relate to an increase in the number of leave days and increased employment security.

### **IALOGUE WITH AMNESTY INTERNATIONAL**

Arla Foods is a member of the Amnesty Business Forum, which gives us extensive insight into the difficulties a global company can face in human rights issues. The exchange of experience between the companies, and alternative solutions to different problems, are important parts of this collaboration.

### **ARLA FOODS CAUGHT IN A CONFLICT**

In 2005, a conflict arose between some western European newspapers' perception of the freedom of speech and Muslim groups' definition of respect for Islam. This happened when the newspapers published drawings of the Prophet Mohammed, which resulted in an extensive consumer boycott of Danish products in the Middle East in 2006. Arla Foods was among the companies affected by the boycott.

To regain the trust of customers and consumers, Arla Foods adopted a number of measures. One such measure was to publish advertisements in Saudi Arabian newspapers with the message that Arla Foods respects Islam. We were later criticised for this in Denmark by organisations that regarded these advertisements as an expression of a lack of respect for freedom of speech and human rights.

In spring 2008, the original conflict was rekindled and Arla Foods has again faced negative reactions from consumers in the Middle East.

### **SURVEY OF DISCRIMINATION**

In the employee survey that took place in 2007, one question related to offensive discrimination: "In my department, no employees are subject to bullying, harassment or being ignored." 71 per cent of the employees replied that they completely or partially agreed with the statement; 16 per cent said that they did not know and 12 per cent said that they completely or partially disagreed with the statement.

We strive to ensure that no employee is subject to discrimination. Many dairies constantly work to increase employee understanding of what bullying and offensive discrimination involve and to increase respect between colleagues.



Arla Foods amba  
Skanderborgvej 277  
DK-8260 Viby J.  
Phone +45 89 38 10 00

Email [arla@arlafoods.com](mailto:arla@arlafoods.com)  
[www.arlafoods.com](http://www.arlafoods.com)