

our responsibility

ARLA FOODS' CORPORATE SOCIAL RESPONSIBILITY

REPORT 2009





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Unless otherwise indicated, the facts and figures in this report cover Arla Foods' fully owned dairy companies in 2009. In some instances examples from fully owned subsidiaries and joint venture dairy companies are also included.

The structure of the report follows *Arla Foods' Corporate Social Responsibility Code of Conduct*, which was published in spring 2008.

More information is available at www.arla.com

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follow up – an important part of our responsibility

THE ITEM AT THE VERY TOP of my agenda reads: Arla must be run in a responsible and sustainable way. This is crucial for the success of the company in the long term. It is also important for our consumers and for the society of which we are a part. We welcome the opportunity to share with you how well we have lived up to our Code of Conduct and it is a pleasure to present this report for the third successive year. I believe that we have made good progress but, of course, there is still room for improvement – we must practise what we preach.

We support the UN Global Compact

Two years ago Arla joined the United Nations' Global Compact, a global initiative to promote ethical business practices. As a member, we are committed to aligning the 10 basic principles of the Global Compact to our operations and strategies, and to communicate them to our colleagues, owners, suppliers, partners and the world around us. This is both an engaging and comprehensive task and this CSR report has a significant part to play.

Great progress during the year

During the last year we have continued to share the principles behind the Code of Conduct with more of our colleagues and clarified what the Code means to them in terms of their individual responsibilities. We will continue to do this during the coming years.

Every day, Arla's employees are making progress in the area of sustainability. During the past year, developments include advances in food safety, procurement and the environment. The number of work accidents has also decreased. Furthermore I am

very pleased that we have introduced a new policy concerning the origin of the palm oil we purchase, and that we have put further measures in place to disassociate ourselves from bribes and facilitation payments. Responsibility for the management of CSR issues at a senior level has also been developed and clarified.

Sustainable follow-up

In order to ensure that we are making progress towards our sustainability targets, we regularly measure our progress. During the year we will continue to prioritise on-going improvements to the work environment in order to reduce the number of workplace accidents. We will also continue our efforts to reduce our environmental and climate impact and will further develop procurement practices and conduct more supplier inspections.

Thank you for your interest in the work that is taking place throughout Arla to enable us to develop into an even more responsible company.



Viby, March 2010

Peder Tuborgh, CEO

ARLA IN BRIEF 2009

OWNERS

Arla Foods is an agricultural cooperative owned by 7,625 dairy farmers – 3,838 in Denmark and 3,787 in Sweden.

NUMBER OF EMPLOYEES

Denmark	7,563
Sweden	3,213
UK	2,928
Finland	469
Poland	383
Netherlands	303
Germany	67
Other countries	1,305
Total	16,231

TURNOVER

DKK 46.2 billion; approximately 70 per cent in Denmark, Sweden, the UK and Finland.

NET RESULTS

DKK 971 million.

RAW MILK IN MILLIONS OF KILOS

Denmark	4,253
Sweden	1,895
UK	1,970
Finland	280
Netherlands (8 months)	145
Other countries	117
Total	8,660

MANAGEMENT

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

about arla

Arla Foods is a global dairy group and cooperative owned by Danish and Swedish dairy farmers. Our products are sold under well-known brands in more than 100 countries. We have production facilities in 13 countries and sales offices in another 20. Arla is also the world's largest supplier of organic dairy products.

Global pressure on the price of milk, our raw material

Our overarching objective is to pay our owners the best possible price for the raw material they provide – milk. Towards the end of 2008 the price we paid to milk suppliers in Denmark and Sweden was the highest on record. In 2009, however, the price of milk fell considerably.

Arla was under considerable pressure in 2009, due to the combined effects of the recession, fluctuations in foreign exchange rates and a rapid surge in the supply of milk on the global market. In response we chose to prioritise actions that would allow us to maintain the highest possible milk price for our farmers and introduced a comprehensive package of cost reduction measures throughout the company. These measures included making jobs redundant, reducing marketing and maintenance budgets, and postponing certain planned activities to a later date.

We have continued to work with our growth strategy that was launched during autumn 2008. However, due to the global economic recession, we do not expect to achieve our turnover target of DKK 75 billion until 2015.

Major investments on key markets

We have chosen to concentrate our efforts and our investments in the markets in which we see the greatest potential for future growth. We have prioritised investments that can generate the

greatest possible growth and those that will reduce costs in the long term. In addition to expanding the facilities at our dairy in Stourton in the UK, we have made large investments in Finland, Denmark and Argentina. Our programme of investments will continue in 2010 and is expected to deliver significant revenue and cost savings in production.

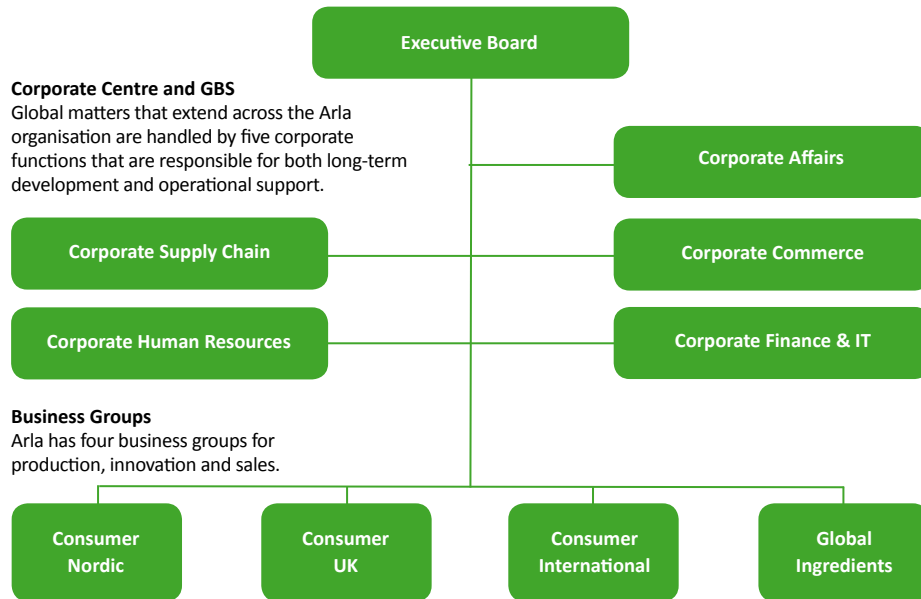
We are constantly reviewing the company's activities in order to ensure that we work as efficiently as possible, whilst also maintaining profitability. During 2009 we took the opportunity to generate operational efficiencies by, for example, moving production from older dairies to more modern facilities, and rationalising the processing of selected products.

Positive developments in our home markets

Arla's strategy is to maintain market leadership in Denmark and Sweden, and achieve market leadership in the UK while retaining the company's number two position in Finland and gaining number three positions in Germany and Poland. With the acquisition of the Dutch Nijkerk dairy in 2009, the Netherlands has now been designated an additional core market. The acquisition is an important step towards Arla becoming the leading producer of dairy products for consumers in northern Europe and the UK.

Despite the global recession, sales have increased in Europe during 2009.

ORGANISATION OF THE ARLA GROUP



Corporate Centre and GBS
Global matters that extend across the Arla organisation are handled by five corporate functions that are responsible for both long-term development and operational support.

Business Groups
Arla has four business groups for production, innovation and sales.

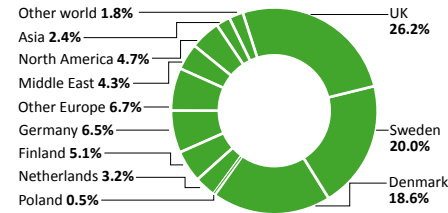
CORPORATE CENTRE AND GLOBAL BUSINESS SERVICES

- Corporate Affairs** – comprises communication and group development under the management of Peder Tuborgh.
- Corporate Supply Chain** – handles milk supply, contact with owners, technical issues, quality, environment, global procurement and investment under the management of Povl Krogsgaard.
- Corporate Commerce** – responsible for group marketing and multi-disciplinary research and development under the management of Andreas Lundby.
- Corporate Human Resources** – handles employee and organisational development issues for the whole group under the management of Ola Arvidsson.
- Corporate Finance & IT** – handles finance, IT and law under the management of Frederik Lotz.

BUSINESS GROUPS

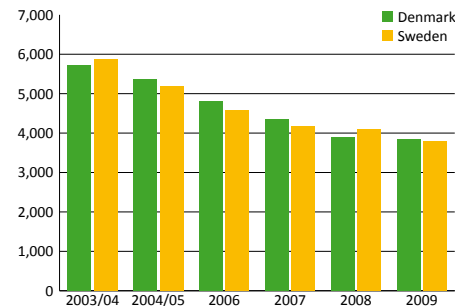
- Consumer Nordic** – fresh products, cheese, butter and spreads for the Nordic market under the management of Hans-Åke Hammarström.
- Consumer UK** – fresh products, cheese, butter and spreads for the UK market under the management of Peter Lauritzen.
- Consumer International** – cheese, butter and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



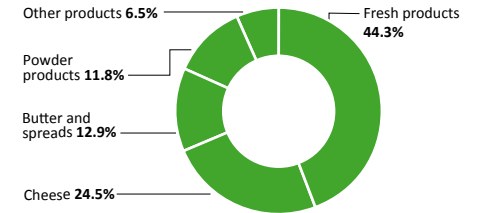
Arla's strategy is to be market leader and to grow within selected markets in which we are already successful. Despite the economic recession Arla's sales in Europe increased in 2009.

NUMBER OF MEMBERS IN DENMARK AND SWEDEN



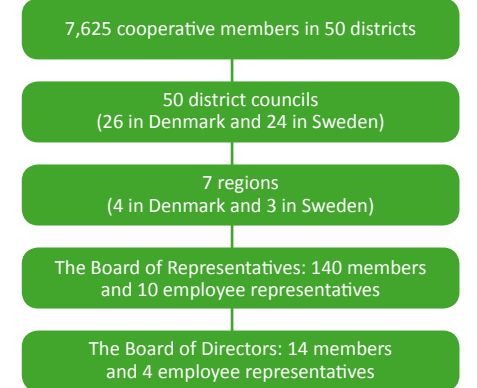
During 2009, the number of cooperative members has fallen by five per cent. While the volume of milk from producers in Denmark has increased, volume from Swedish producers has fallen.

NET TURNOVER BY PRODUCT GROUP




As part of our new marketing strategy, we have chosen to prioritise three global brands: Arla®, Lurpak® and Castello®. Our intention is to create fewer and stronger brands.

MEMBER AND OWNER DEMOCRACY



The Board of Representatives is Arla's top decision-making body. Arla's Board of Directors is elected by the regions and the Board of Representatives. All elections and polls are held according to the 'one member, one vote' principle.

For more information about Arla, see www.arla.com



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

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

business principles

Arla is an international business as well as an agricultural cooperative owned by Danish and Swedish farmers. We comply with local legislation in all the countries in which we work and we are also committed to the principles contained within our Code of Conduct. This enables us to act credibly and with integrity and which set a good example of responsible business conduct.

GOVERNANCE STRUCTURE. Roles and responsibilities for the management of CSR issues have been developed and the monitoring process has been updated.

COMPETITION LAW COMPLIANCE. The programme has been revised and the training of colleagues who have relationships with customers has continued.

BRIBERY AND FACILITATION MONEY. Under no circumstances is bribery acceptable. To support the elimination of facilitation payments we have developed a global policy which will be introduced throughout the business in 2010.

Competition Law compliance

In 2009 Arla updated its Competition Law Compliance Programme in order to maintain continued focus on compliance. The programme has been supported by training seminars to ensure that managers and colleagues who have to deal with competition law are fully informed of the legal requirements and to assist them to comply with those rules.

As well as giving high priority to compliance with current competition law we also place emphasis on the way in which Arla interacts and communicates with customers and other business partners. We ensure that we comply not only with the principles in the group's Competition Law Compliance Programme but also with the principles set out in our Code of Conduct.

Investigations conducted by the Swedish Competition Authority

In April 2009, the Swedish Competition Authority conducted an unannounced inspection of Arla's offices in Sweden and Denmark, following a complaint from a third party. The investigation concerns Arla's agreements with Swedish retailers. Arla regards the matter with the utmost seriousness and is committed to cooperating fully with the Swedish Competition Authority in all respects of its investigation. Given the broad scope of the investigation we anticipate that it will continue for a long period of time.

Bribery and facilitation payments

As a global company Arla is active in many markets and exposed to many different cultures. In some of these markets the use of facilitation payments is widespread. We strongly believe that the use of facilitation payments should be eliminated, but at the same time acknowledge the challenges that Arla colleagues face in their attempts to eliminate these payments. For this reason, in 2009, Arla adopted a policy regarding facilitation payments which is being implemented worldwide throughout the group. The policy will give Arla the necessary information, through reporting requirements and managerial review, to take active steps to eliminate all such payments. The wording of the policy is included to the right of this page.

CSR governance

Governance of our CSR work has increased throughout the year. Roles and responsibilities for the management of corporate social responsibility issues have been developed as well as a robust process for monitoring and reporting issues annually within the company.

GLOBAL COMPACT

For the last two years Arla has been a member of the UN initiative Global Compact and since 2008/2009 has participated in the organisation's Nordic Network.

In May 2009 Arla signed up to Caring for Climate, a voluntary and complementary action platform for Global Compact participants, which seeks to demonstrate leadership around the issue of climate change. It provides a framework for business leaders to develop practical solutions and help shape public policy as well as public attitudes.

DANISH COMPETITION ANALYSIS

In June 2009 the Danish Competition Authorities published a report on the development in food prices in the period August 2007 to March 2009. In this report they concluded that the Danish dairy sector in particular is the cause of the retail price increases and that the retail prices for dairy products had not declined to the same extent as the payment to farmers. However, the competition authorities have also noted that, since the publication of the report in June 2009, the price of dairy products has declined appreciably.

In December 2009 the Danish Competition Authorities issued a press release stating that a new investigation will be conducted, focusing on the retail business in respect of dairy products. The investigation will include both manufacturers and retailers and will focus on the competition environment in the retail business. It is expected that a report will be published by the end of 2010.

FACILITATION PAYMENTS POLICY

Arla does not accept bribery, including facilitation payments. Arla works to eliminate the use of facilitation payments worldwide, and in this context has set up the following procedure for eliminating all facilitation payments. In the event that facilitation payments cannot be eliminated immediately, it must be ensured that their use is limited to small payments to low-level officials for routine services to which Arla Foods is entitled. Furthermore, facilitation payments may only be made if allowed under local law, after proper managerial review, and

provided such payments are properly recorded. The use of facilitation payments should be reviewed periodically and appropriate actions taken with the objective of eliminating them entirely as soon as possible.

REFUSAL TO USE FACILITATION PAYMENTS

In 2007, Arla Foods amba and Artis Distribution LLC established Arla Foods Artis LLC, a joint venture company in Russia. This is a new market for Arla and from the outset it was made clear that bribery is neither accepted nor offered when doing business. Accordingly, Arla Foods Artis LLC has adopted the approach not to provide any Russian authorities with gifts or facilitation payments to speed up processes or receive permissions, and the joint venture company systematically declines any such requests.

The Russian government has recently increased its focus on the subject of bribery in Russian society. These initiatives are welcomed by Arla Foods Artis LLC and, undoubtedly, have reduced the number of bribery requests.

WHISTLEBLOWING

Arla introduced a whistleblowing policy in the UK 10 years ago. To date, no incident has been escalated to the UK legal department under the policy. Arla is considering implementing a whistleblowing policy throughout the business.

STANDARDISED FINANCIAL REPORTING

Arla has subsidiaries in 21 countries and co-owns associated companies in 11. To ensure that we are consistent and transparent in our financial reporting, all key subsidiaries in the group are audited by one international firm of auditors. All companies are required to comply with each individual country's statutory provisions when preparing annual reports. All accounts are approved by auditors and give a true and fair view of the company's accounts.

Arla's annual report is prepared in accordance with the Danish Financial Statements Act which differs slightly from International Accounting Standards.

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 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. The Board of Directors 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.

RECESSION PUTTING PRESSURE ON ARLA. The global recession has put considerable pressure on Arla in 2009. We implemented a global cost reduction programme in order to avoid further reductions in the price we pay our owners for their milk.

OWNER EXTRANET IMPROVES COMMUNICATION. The new extranet for our owners includes a wealth of information and makes it possible to increase dialogue between the owners in Denmark and Sweden.

FEWER MEMBERS. The number of owners in Denmark and Sweden reduced by five per cent over the year, which is in line with the general trend in Nordic milk production.

The photo to the left is from a meeting of the Board of Representatives.

Arla focuses on its milk price for its owners

In 2008 the Board of Directors agreed a comprehensive change in strategy. However, due to the financial situation in 2009, we have implemented a cost reduction programme and the timescale for completing some of the changes has been extended, for example, investments in new core markets and marketing activities. Furthermore, the company's turnover target of DKK 75 billion has been extended to 2015. The decision about future financing is also taking longer than expected to be progressed, but will be addressed in 2010. Arla's main priority has been the defence of the price paid to our owners for their milk, although the price has been reduced during the year.

Nervousness within the financial market resulted in the Swedish krona and the British pound weakening against the Danish krone, which in turn reduced the company's income. The weak state of Swedish krona also meant that Arla had to create a new calculation model for the milk price paid to farmers in order to compensate for the imbalance between the Swedish and Danish currencies. The new currency calculation model allows Arla to respond to currency fluctuations more quickly.

New Arla improves communication with the owners

'New Arla', the modernisation process for the cooperative, which began in 2008 has resulted in clearer rules for withdrawal from and re-entry into the cooperative. Improving communication with the owners, was another priority.

Following requests from our owners, the format of the 'Arla Quotation' was also revised and it now contains more detailed reporting of each component that affects the milk price. The objective of the 'Arla Quotation' is to provide a fair reflection of the milk price that can be achieved and make it easier to compare Arla's price with that of other dairy companies.

Increased cooperation with other milk suppliers

Arla Foods Milk Partnership (AFMP) is an organisation made up of 1,400 UK farmers who supply all of their milk to Arla UK. The setting up of a joint venture with Arla, through its investment arm, has resulted in AFMP members becoming part-owners of Arla Foods UK plc. AFMP has working groups whose role is to improve information to AFMP members, improve milk forecasts to aid milk balancing, and respond to environmental legislation and targets.

After Arla Ingman, in Finland, became a wholly-owned subsidiary, Arla has produced proposals for how to increase collaboration with Finnish milk producers. Relevant stakeholders will consider this proposal in 2010.

OWNER AND SUPPLIER FACTS

	2007	2008	2009
Owners in Denmark and Sweden	8,522	7,996	7,625
- based in Denmark	4,170	3,906	3,838
- based in Sweden	4,352	4,090	3,787
Members of AFMP	1,491	1,404	1,400
Suppliers in Finland,	1,226	1,100	1,113
- of which are contracted	317	301	283
Motions to the Board of Representatives meeting	9	8	14
Participants in owner seminars	684	900	927
Appeals for the appeals group in Denmark and Sweden	77	66	41

FEWER MEMBERS, BUT MORE MILK

At the end of 2009 the number of members amounted to 7,625, which is a decrease of five per cent compared with the previous year. The reason for this reduction is mainly due to farmers ceasing production, which is in line with ongoing structural changes throughout the industry. However, the total volume of milk received by Arla has increased by about five per cent, as farmers, mostly in Denmark, are choosing to expand their activities. In Sweden, we are seeing decreasing volumes.

In 2009, 19 members left the cooperative for other dairy associations, while 73 milk producers from other dairy companies applied to join. 19 suppliers in Sweden exercised their right to supply up to 50 per cent of their milk to other dairy companies.

When the UK cooperative, Dairy Farmers of Britain, collapsed in June 2009, a number of farmers were given a temporary contract and have now been offered full membership of AFMP.

MEMBER INFLUENCE THROUGH MOTIONS

In May 2009, 14 motions were discussed at the meeting of the Board of Representatives; which was almost twice as many as the previous year, see table. These motions mainly dealt with issues linked to milk payments, including the 'Arla Quotation', currency adjustments, logistics supplements and seasonal payments. Other issues included the calculation of member-dependent costs, as well as the local profiling of the member organisation. These proposals

will continue to be considered when the issues are addressed.

Owners also gain insight into the company through participation in seminars, which are held on their behalf. During 2009, more than 900 owners attended these seminars, see table.

COMMITTEE PREPARES OWNER ISSUES

An owner committee has been established to enable the Board to work more effectively. The committee comprises two Danish and two Swedish Board members. The group administers and prepares all owner-related issues prior to Board meetings. This ensures that issues are given sufficient consideration.

SERVICE FOR THE OWNERS

There is now one service centre in Denmark and one in Sweden that our owners can contact if they have any issues both in their capacity as an owner and as a milk supplier.

Arla's owner purchasing scheme allows them to purchase diesel, electricity and protective clothing, as well as chemicals and hygiene products for milk production at a reduced cost due to Arla exercising its purchasing strength. Arla in the UK has also negotiated discounts for essential supplies for members of AFMP. In Finland, milk suppliers can buy products such as chemicals, hygiene products and fertilisers through Arla Ingman.

“Arla must function as one single company”



Michael Andersson



Bjørn Jepsen

Michael Andersson from Sweden, and Bjørn Jepsen from Denmark, are members of the same cooperative but are based in different countries. Both agree that Arla will face major challenges in the coming years. They believe that the better the Danish and Swedish farmers understand one another and each other’s cultures, the better the cooperative will operate as one, characterised by a good cooperative spirit.

? What can members do to make sure that Arla is still a healthy company in 20 years’ time?

B.J: I think that Arla has already risen to the challenge by, for example, taking steps to cut costs. I think this was very sensible. First and foremost, because it forced us to take a step back, review the entire business and take the opportunity to take out costs. It’s also an excellent signal to members because it demonstrates that everything in the company is being taken care of well. It’s what we have to do on our own farms too. It is important, however, that we are conscious of the fact that there are some costs we cannot continue to cut, for example, marketing. We are fully aware that Arla had no option than to undertake the substantial cost-cutting exercise.

M.A: I completely agree with everything Bjørn says. In Sweden we compare ourselves with local Swedish dairies and they have fared well over the last few years because their focus has been local. Like many here in Sweden, I believe that Strategy 2013 represents a step in the right direction. We are putting Arla on the right track towards being a strong company in 20 years’ time.

B.J: The good thing about Strategy 2013 is that it is growth-oriented. It focuses on the way ahead. I also think that we should be vigilant of new markets and seek to find new partners. If there

are companies out there that want to merge with us in other markets, it wouldn’t be a bad idea.

M.A: As a member, I consider Arla to be my eyes and ears of the market. It is important to me that things are going well at Arla but, of course, my top priority has to be my own business. I see my membership of Arla in a long-term perspective. However, there are increasing numbers of members in Sweden who view Arla only as a purchaser of milk and we will see more frequent switches from one dairy company to another. This short-term perspective is creating the dilemma of whether members invest in Arla or in their own business and to what level.

? What is the effect of more milk being produced in Denmark currently?

M.A: At present, Swedish members are saying that excess milk in Denmark is not good for anyone, neither for the members nor for the company. There is a big debate going on about whether to limit the quantity of milk in Denmark in order to get a better price. I personally have no qualms about the way Arla works but we cannot deny this is a great deal of tension amongst the members. But our aim is that Arla must function as one single company.

B.J: In Denmark, we tend to think that if we limit the quantity of milk produced, we risk not being able to produce the right quantity of products. This would also mean that there is a risk that other companies may gain our market share. Regarding Danish and Swedish member cooperation, I agree wholeheartedly with Michael. We must move closer to one another and feel that we own this company together.

? What difference does it make that Arla also receives milk from milk producers outside Denmark and Sweden?

B.J: I can't see any problem with having foreign suppliers. We are already working with British milk producers, for example.

M.A: As long as we are talking supply and not about new ownership of the company, it doesn't worry me either. But we don't want farmers from countries other than Denmark and Sweden involved in the parent company.

? Why not?

B.J: I really don't think we can cope with more cultural tensions within the company. I think it would be difficult to cooperate if more nationalities were part of the parent company. The cultural differences would be too great. The model we have in the UK is good because the company is independent.

M.A: I agree with Bjørn. But we don't have a crystal ball so if one day in the future, this becomes a reality, then we'll have to take it from there.

? What challenges are facing Arla in terms of competition with companies that are not cooperatively owned?

B.J: The challenge for a company like ours is either we, as members, invest money ourselves or we go out and find someone who will. And external investment comes at a price. It costs power and influence. It is difficult to find investors who are willing just to give us the money, without gaining influence in return. Where the Danish members are concerned, we are definitely not ready to hand over any of our influence.

M.A: This matter is complex because many Swedes feel that they have already surrendered power and influence. We are facing the challenge of getting the Arla feeling back again so that we can put our hearts and souls into the cooperative company. Until that day comes, I don't think we should relinquish any power at all.

B.J: Ah, but we shouldn't forget that there are advantages too. One of them being that profit made is profit earned for the farmer. It's not a limited company where shareholders get the lot.

M.A: And don't forget: there will always be a core group of farmers who own the company which means that we will always have control of the value chain. The advantage here is that the decisions we make work in the long term too. Any ordinary company just purchases what it needs to sell, while our raw material is always collected, in times of both booms and crises. It is important that we are aware of long-term market developments. It's our biggest advantage, I think.

? How transparent is Arla?

M.A: I believe I know everything I need to know to do my job. I am the link between Arla management and the members. I am aware that many people believe that Arla is too big and too distant. They feel that they are disengaged. This is a problem we have to solve. You can send out volumes of information but if people don't take it in, you're not really getting anywhere.

B.J: There are also a lot of Danish farmers who think the board is too distant. We get lots of information, of a very high quality, but you have to read it. Generally, I feel we get good information and that the company is transparent.

M.A: One thing we experienced following the merger of Arla and MD Foods was that openness with the agricultural press disappeared. I think that this is part of the reason for our image problem. Effective communication requires us to be more proactive.

Despite the issues we are facing, we must not lose sight of the fact that we are, after all, a very proficient company.

BJØRN JEPSEN, DENMARK

Bjørn Jepsen runs Søndergaard farm south of Herning in Jutland in Denmark. He has 130 cows and 145 hectares of land on which he grows maize, grass and wheat. Bjørn has been a member of the Board of Representatives for eight years and chairman of the District council for five.

MICHAEL ANDERSSON, SWEDEN

Michael Andersson runs Skaftekulla Kaptensgården farm south of Vimmerby in Sweden with 100 cows, 110 hectares of arable land and 25 hectares of pasture. In addition, the farm has 115 hectares of forest. Michael has been a member of the Board of Representatives since the merger in 2000 and has been the chairman of the South Region in Sweden for two years. Michael is also one of the Arla farmers in the current Swedish advertising campaign 'I am Arla'.

STRATEGY 2013

The strategy for 2013 (later changed to Strategy 2015), mentioned in the interview, involves the following initiatives:

- **Growth target.** The goal is to achieve DKK 75 billion in turnover in five years, which corresponds to a 50 per cent increase.
- **Expanded core markets.** In Arla's new core markets, Germany and Poland, we intend to be among the top three dairy companies.
- **Three global brands.** We will focus on the Arla®, Lurpak® and Castello® brands.
- **Doubled budget for product development.** Product development will focus on natural ingredients, health, taste and organic.
- **Whey proteins.** Arla aims to double sales of powdered whey proteins and become the global leader.
- **Reduced greenhouse gas emissions.** Arla intends to achieve a 25 per cent reduction in the group's greenhouse gas emissions from transport, production and packaging by 2020 from a 2005 baseline.

We meet consumer demand for safe dairy products.

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

food safety

As a responsible food manufacturer we have an obligation to ensure that eating and drinking our products does not cause illness or injury. We make every effort to make sure that our processes are safe and that high quality standards are maintained throughout the entire supply chain, from the raw material to the finished product. In the event of an issue we have full traceability of our raw materials, ingredients and end products enabling us to take immediate action.

REFINED ANALYSIS METHODS. We have enhanced our internal microbiological analyses by expanding the capabilities of two of our laboratories to carry out new and more complex analyses of our products.

INCREASED DEMANDS FROM OUR CUSTOMERS. Our customers have increased their focus on our food safety procedures and the number of announced and unannounced audits has increased, resulting in us further refining our risk assessments.

ALLERGENS IN FOCUS. Based on risk evaluations, enhanced measures are taken to avoid the risk of allergens from early product development through the entire production chain.

Risk analyses getting better all the time

Arla has well-developed procedures and safety mechanisms to guarantee the quality of our products. We are, however, continuing to develop our risk analyses and several improvements were made during 2009. The two special developed laboratories in Denmark allow us to validate our risk analyses and we are now in an even better position to work in a preventative way and take quick action when necessary. We have also chosen to use a reliable DNA-based analysis method to further increase safety in relation to bacteria such as listeria and salmonella.

To complement our traditional analyses, we have started to use 'predictive microbiology' which allows us to assess microbiological durability in a more precise way. The method enables us to predict microbiological activity and adapt production accordingly to minimise the amount of unwanted microorganisms. The method has been successful when carrying out the risk analysis for our new lactose-free milk in Sweden. A project has now been started in order to find best practice for production of other products.

There are also risks in the packaging process, which is why we are working with suppliers of packaging equipment and setting requirements for the risk evaluations they need to carry out. In 2010 a large amount of milk packaging equipment in Sweden will be replaced and, as we cannot accept any disruptions to deliveries, an increased emphasis has been placed on thorough risk analyses.

Allergen control

Risk evaluations are carried out for raw materials and ingredients and we place special focus on allergens. Our database for allergens is continually being updated. For example, this year buckwheat was added, a plant to which many people in Japan are sensitive.

When new products are being developed, the innovation and marketing departments work together to avoid unnecessary ingredients that contain allergens. We also place a high priority on the declaration of the content of all ingredients from suppliers.

At our Stourton dairy in the UK, which will begin production of cottage cheese during 2010, we are taking action to minimise the risk of ingredients containing allergens, for example, egg, fish and mustard. This includes applying new handling procedures and the creation of a dedicated room which allows us to keep ingredients separate from one another to control allergens.

Based on a risk assessment of juice and fruit drink production at our Rynkeby site in Denmark we have implemented a nut-free policy throughout the production site.

PRODUCT RECALLS

If we have to recall a product from consumers or withdraw a product that has been delivered to our customers, we have procedures in place to ensure that we can act immediately.

Year	2005	2006	2007	2008	2009
Recalls	1	4	7	2	4

In 2009, recalls were made in Denmark and Sweden on four separate occasions because of:

- risk of contamination by detergent
- incorrect product consistency
- ingredient contaminated with genetically modified components
- risk of fermentation in product.

TRACEABILITY

We can trace our raw materials and ingredients throughout our production chain. Our customers are placing even higher demands on us to be able to quickly trace ingredients back to our suppliers and we are gradually refining our systems. The new milk packaging machines that will be installed in Sweden in 2010 will, for example, contain an additional time code that will further enhance traceability.

ISO CERTIFICATION FOR FOOD SAFETY

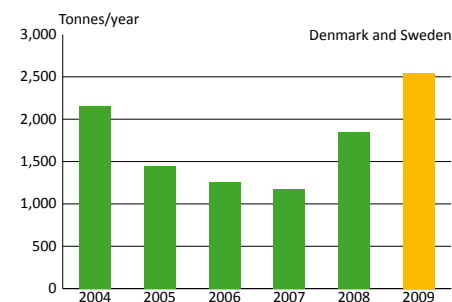
Total number of plants	66
ISO 22000 certified	51
Planned certification 2010	4
Remaining certifications	11

Our target is for all our production sites to be certified in accordance with the ISO 22000 food safety standard. Prior to 2009, 50 of our sites had achieved certification and a further site gained this last year. There was a delay in the certification audits due to the cost reduction programme introduced by the company in 2009. The sites that remain to be certified after 2010 meet national standards for food safety.

MELAMINE CRISIS IN CHINA 2008

Following the melamine crisis in China in 2008, when melamine was discovered in milk products, we have reflected even more deeply on the challenges of food safety. One of the biggest challenges we face is the identification of risks from dangers that we do not yet know about. Fraud and criminality cannot be predicted, but we have learnt never to hesitate to ask questions even if they are uncomfortable for suppliers.

DISCARDED MILK WITH ANTIBIOTICS



Unwell animals are sometime treated with antibiotics. Milk from the cow is discarded during the period of treatment and for a period of time afterwards. To ensure that no antibiotics remain in the milk we carry out checks and any milk containing antibiotics is discarded. Unfortunately, the amount of discarded milk increased in 2009. Milk was discarded on 32 occasions in 2009 compared to 27 in 2008.

In an effort to prevent milk from being discarded we have increased the number of controls in place at farm level. Now, if milk from a farm tests positive for antibiotics, for the following 12 weeks, each delivery from that farm will be tested. In addition to being fined for supplying milk containing antibiotics the farmer must also pay the cost of the tests. These measures, combined with an increased focus on advisory services, should improve the management of medical treatment and the milking of treated animals.



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

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

food and health

Arla is committed to meeting consumer demand for healthy products and supplying reliable nutritional information. We inform our consumers about the ingredients in our wide range of products so they can choose those that best suit their tastes and fulfil their needs. Through research, we aim to increase our understanding of the role of dairy products in a balanced diet.

FOCUS ON RESEARCH. Arla contributes to a large number of nutrition and health research projects, both internally and in partnership with universities and other food companies.

BETTER NUTRITIONAL INFORMATION. We are continuing our work to make it easier for consumers to make healthy choices. In 2009, a symbol was introduced to highlight healthy products to consumers in Denmark. The symbol, which is already used in Sweden, is displayed on several Arla products in both countries.

DIALOGUE WITH EXPERTS. We aim to continually increase our knowledge about the importance of diet on health. Colleagues from Arla are involved in a number of different industry organisations and collaboration projects with authorities.

New findings on milk fat

The fat content of dairy products is an issue often linked to conditions such as obesity and atherosclerosis. However, research into this area in recent years shows a more balanced view of milk fat's effect on health.

During 2009 Arla's Centre of Excellence on Nutrition and Health collated the current research results into a report, which will help us to give consumers well-balanced information on milk fat. Arla also participates in Global Dairy Platform, an international organisation in which several of the world's largest dairy companies work together to spread knowledge of milk and the importance of dairy products as part of a healthy diet.

In the UK, Arla is involved in several government working groups to increase consumer understanding of saturated fat and a new milk containing one per cent fat was launched in 2009 to offer consumers a low fat milk alternative.

Contents changed in products

Arla's promise to consumers – Closer to Nature™ – communicates that milk is a natural ingredient and that we are working to reduce the number of additives in our products. During the year we started to replace a number of ingredients with a more natural alternative. One example is flavoured fermented milk in Sweden, in which we are now using only natural flavourings and natural starch.

The sweetener sucralose was used in some of our low calorie fruit yogurts, but was criticised because it does not break down in nature. Sucralose has now been replaced with aspartame.

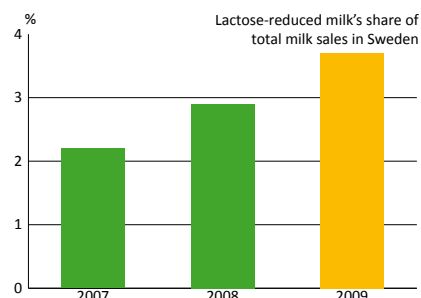
We are also continuing our work to reduce the amount of salt in our products, which has been given particular focus in Denmark and the UK. In the UK, Arla has met UK salt reduction targets two years ahead of the government's requirement. Arla is also working with the authorities through industry organisations on an EU-based programme for salt reduction.

If our cheeses in Denmark are to continue to display the 'keyhole' healthy product symbol, their salt content has to be reduced before 2011. We are working on this, while taking into consideration other important factors, including shelf life and taste. It is possible to follow our salt reduction progress on our Danish website.

Research on mental wellbeing

Arla's Centre of Excellence for Nutrition and Health in Stockholm has begun a research project with Leeds University in the UK. This project aims to increase our knowledge of the impact of milk on mental wellbeing, mood and functionality of the brain.

INCREASE OF LACTOSE-REDUCED PRODUCTS



Arla is committed to making dairy products available to everyone, including those with an intolerance to lactose. We offer products with a reduced lactose content, including milk, cream, yogurt and cheese, in several markets. Interest in these products is steadily increasing. In Sweden, we have been selling lactose-reduced milk for the longest period of time and this is where we sell the highest volumes.

KEYHOLE SYMBOL HELPS CONSUMERS

The keyhole symbol has been used in Sweden to highlight healthy products for more than 20 years and is endorsed by the government. Foods that display the keyhole symbol contain for example less sugar, fat or salt than other similar foods. The symbol therefore helps consumers choose the healthiest products.

In 2009 the keyhole symbol was also introduced in Denmark and Arla played an active role in communicating its introduction to consumers by displaying the symbol on 21 products and providing information about it on our milk packages. Arla has 45 products displaying the keyhole symbol in Sweden.

POLICY ON BREAST MILK SUBSTITUTE

Arla's policy on marketing breast milk substitute is based on the World Health Organisation's (WHO) code. During 2009 we implemented this policy in the Dominican Republic and our two new markets for breast milk substitute – Vietnam and Panama.

All colleagues selling and marketing our breast-milk substitute, both locally and centrally, have received training in this policy. They have also signed a contract confirming that they will adhere to this policy in their work. We are carrying out an ongoing, internal dialogue to ensure that this policy is adhered to.

Arla's joint venture in China, Mengniu Arla, sells breast-milk substitute in China and follows WHO's code for marketing breastmilk substitute.

DEVELOPING HEALTHIER SNACKS

In a visionary project with researchers from Århus University in Denmark, we investigated the possibility of developing healthy, milk-based snacks for teenagers, as an alternative to crisps and sweets.

SUPPORT FOR RESEARCH

Arla supports several research projects which are important to our present and future business. Some projects are described in other paragraphs on this page. Here is a summary of our current research:

- **Basic research on nutritional content.** We are focusing mainly on milk proteins, excess weight and obesity, as well as special diets for undernourished people.
- **Product-related research.** We are working with healthy products for children, and studying the health effects of probiotics and products enriched with vitamin D, for example.
- **Research on communication and health.** Looking at how health messages can be conveyed through brands and packaging, without misleading consumers.

MILK POWDER FOR NEW CONSUMERS

Arla has launched a new milk powder packed in individual portions in Nigeria. The milk fat in this milk powder has been replaced with palm oil, which is less expensive and means more consumers can afford to buy a nutritional product. Read more about palm oil in the chapter on Procurement on page 23.



environment and climate

Food production and transportation of products invariably affect the environment by discharging substances into the air, ground and water. Our ambition is therefore to minimise this discharge and continually reduce the environmental impact in the entire supply chain in order to contribute to sustainable development.

HISTORIC CLIMATE AGREEMENT. The world's seven leading dairy organisations signed an agreement to reduce greenhouse gas emissions. Arla played an active role in writing this agreement and is now contributing to the creation of a collective industry standard for calculating the climate impact of dairy products.

MAJOR ENERGY SAVINGS. Producing milk powder requires a lot of energy. During the year we carried out major energy-saving investments at our milk powder plants.

OPTIMISED TRANSPORT. We are continually applying new working methods and technologies to minimise the distances our vehicles travel and reduce fuel consumption.

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

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

Focus on reduced climate impact

Arla's climate target is to reduce direct and indirect emissions of greenhouse gases by 25 per cent in production, transport and packaging from the 2005 level by 2020. During 2009 we have taken several steps towards this target and have increased our knowledge of how best to achieve our goal.

A climate agreement was signed at the World Dairy Summit in Berlin in September, uniting the world's dairy industries in their ambition to reduce greenhouse gas emissions. This industry cooperation spanned country borders and also sent an important signal to the UN's climate meeting held in Copenhagen in December 2009.

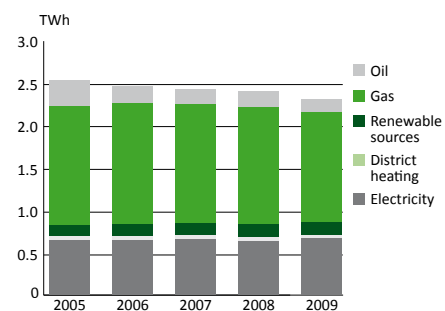
Having developed an internal model that measures greenhouse gas emissions throughout our supply chain, the next step will be the development of a system for calculating the climate impact of individual products, also known as a 'carbon footprint'. We are financing an ongoing PhD research study which is investigating how to decrease the environmental impact of farms, as more than 80 per cent of our total supply chain emissions come from farms and cows. We are also taking part in a research project with a Danish university, industry organisations and technical companies to monitor emissions at farms, dairies and from the transportation of raw milk. The aim of this project is to identify opportunities to make milk production more climate friendly. Read more about the environmental impact of farms in the Agriculture chapter on page 20 and in the interview on the following page.

Better packaging in the UK

We endeavour to reduce the amount of material in our packaging and increase the amount of material that can be recycled. One dilemma that we are facing is the fact that consumers prefer packaging to have a screw cap. In Sweden we are updating our most common type of packaging to offer a screw cap option to give consumers more packaging choices. This will however increase the environmental impact of this packaging in terms of increased emissions of greenhouse gases.

Our most significant packaging advance in this area has been in the UK, where our plastic milk bottles and caps now contain five per cent less plastic compared to 2006, without their functionality being compromised. The majority of bottles in the UK also now contain 10 per cent recycled plastic. When more recycled plastic is available in the UK, we will be able to increase the amount of recycled plastic in our bottles to 30 per cent.

TOTAL ENERGY CONSUMPTION OF DAIRIES



During 2009 a number of energy-saving measures were carried out, for example at the Hoco, Akafa, Visby and Arinco milk powder plants, which reduced energy consumption at these plants. The total energy consumption has decreased by nine per cent since 2005.

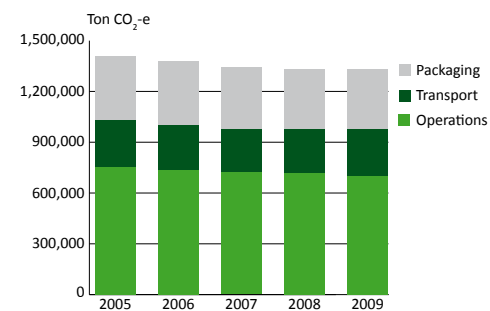
CARBON OFFSETTING YOGGI YALLA!®

In 2009 we launched Yoggi Yalla!® our first carbon-offsetting dairy product in Sweden. Carbon offsetting is being carried out in partnership with the certification body, Plan Vivo, by planting trees in Mozambique. One litre of Yoggi Yalla!® corresponds to around 1.1 kg of CO₂ equivalents. We have calculated we need to offset approximately 7,000 tonnes of carbon dioxide per year, which corresponds to the equivalent amount of production emissions. We are therefore, together with Plan Vivo, in the process of planting 350,000 trees which will have the additional benefit of facilitating local food production.

NEW ENVIRONMENTAL PERMIT

Our dairy in Linköping in Sweden was granted a new environmental permit in 2009, which is better suited to its activities. This follows the dairy receiving a fine of SEK 50,000 last year after it violated environmental conditions in 2006. This related to the discharge of process waste water, which should have been discharged in equal amounts throughout the day however, on low production days, the dairy experienced difficulties abiding by these conditions.

TOTAL CARBON FOOTPRINT



Arla's Carbon Footprint, a calculation based on the emissions from our dairies, transport and packaging, is calculated to be 1.32 million tonnes of CO₂ equivalents for 2009, compared with 1.40 million tonnes for 2005. The model we use to calculate our climate impact is based on the Greenhouse Gas Protocol and PAS 2050 international standards.

OPTIMISED TRANSPORT

We are working to minimise the number of miles we travel and reduce fuel consumption. In Denmark and Sweden emissions of carbon dioxide from transport increased by 1.7 per cent compared with the previous year. During 2009 the volume of collected milk increased in Denmark as well as the volume transferred to Swedish dairies.

We are continuing to apply and trial different ways to limit emissions from our transport operations. Examples include:

- At several depots in Sweden and Denmark we changed our procedures for loading vehicles and increased the amount of product transported per vehicle. At Vejle export centre in Denmark this resulted in a decrease in diesel consumption of nine per cent.
- In the UK we are now using a bio-diesel blend across the whole transport fleet, which is already used in Sweden and being tested in Denmark.
- Drivers in all our core markets are being trained in energy-efficient driving techniques, and on-board computers with GPS systems are being introduced as a tool to optimise transport efficiency.



“We need to be fully engaged”

Having a robust set of environmental targets doesn't just make ethical sense, it makes good business sense. Evelyn Moriarty, technical director at Arla Foods UK, is in no doubt. A strong set of environment credentials will soon be a pre-requisite to doing business and everyone must take responsibility if Arla is to make a real difference.

? What is your background?

Before joining Arla, I worked for a few companies including the Irish Dairy Board, Northern Foods and most recently at Unilever where I was head of technical and development for Food Service UK. With a background in food science most of my focus at that point was on innovation and technical. In the latter years of this role though I was increasingly exposed to discussions on the environment.

? You've been with the business just over 12 months, what has been your biggest learning?

My biggest learning has been how important and complex the area of environment and climate change has become. The legislation itself and voluntary agreements are complex. They are also continually evolving reflecting both the continual advances in scientific data and the ongoing political debate. Against this background you also have to take into account customer strategies and consumer emotions.

I've also learnt the need to simplify the discussions on the environment. If you make it too complex people can't make direct links to their potential contribution.

? What has been your focus during the last 12 months?

My biggest focus was to pull together a team to review all the work that was taking place. This was important to ensure that we were working on the right areas given the complexity of this subject. It was great to find that Arla has already reached some of its environmental targets.

Setting up a single reporting system was also a focus. As was pulling together a cross-functional steering group that has now created the umbrella strategy for 2012 but is already looking ahead to 2020. We now have a long-term perspective. I believe this is crucial to the business so have set up subgroups to look at specific areas that we know will impact on us. These are also areas in which we need to be a leading influencer, for example, our retail customers' strategies, support for farmers, packaging initiatives, waste reduction and opportunities within distribution.

A key piece of work, which is ongoing, has been to agree a mechanism to measure the impact of all this work in the form of greenhouse gas emissions. This is the global common language of climate change. Now we can begin to measure ourselves against others and across the Arla group worldwide.

Evelyn Moriarty

? What are your current focus areas?

In the UK we have set ourselves carbon reduction objectives to achieve by 2012, 2015 and by 2020 and are working on accompanying action plans. We are also looking at what emerging legislation will drive us over the next 10 years and what voluntary agreements exist. We need to be fully engaged in these discussions. Another big area, which we need to use to our advantage, is technology. We have recently announced that we are building the world's largest dairy in the UK. This is a fantastic opportunity to incorporate cutting edge environmental technology and best practise and we are currently working on the blue print.

? What are Arla's biggest challenges in the UK?

There are several challenges facing us. We really need to understand how important the environment is to our customers and consumers. It is vital that we bear their expectations in mind when making our decisions.

There is then the complexity of this area. How do we get sufficient understanding across the business? Individuals need knowledge, which is why we have facilitated training in environmental matters.

As we are aiming to reduce our carbon impact right throughout our supply chain, from farm to fork, the biggest challenge we face is not having responsibility for one of the biggest source of emissions, those generated at farm level. Farms contribute 80 per cent of our total supply chain emissions but we can't just focus on the 20 per cent in our direct control. In the UK we have taken proactive steps to support our farmers including appointing an agricultural manager with specific environmental responsibilities.

? In your opinion, why is it so important for companies to take the environment so seriously?

I think businesses have a major role to play in protecting the environment, especially ones which operate on a global scale such as Arla. If a company wants to succeed going forward I don't believe it will have any other choice than to adopt a low carbon footprint. The environment has to be inherent in everything we do and every decision we take.

Taking responsibility for our environmental impact does not have to be a drain on our resources. On the contrary, it presents many opportunities to make savings. We can increase efficiencies, reduce wastage and become more self-reliant. It doesn't just make ethical sense, it makes good business sense.

Of course, another big influence is our customers, who are working with the environment at a far more strategic level than previously. They expect to work collaboratively with their suppliers. I can see that soon the strength of a supplier's environment commitments will be a pre-requisite to doing business.

? Do you have any personal ambitions?

Following the Copenhagen climate debate, I was disappointed that the expectations of those working with the environment were not met. The outcome puts less pressure on businesses to deliver for the moment. That isn't to say that we will be taking our environmental commitments any less seriously, quite the opposite.

The environment is inherent to everything we do but it is something we take very much for granted. The consequences of the actions we take today may not be felt until the future but it is my ambition that everyone starts taking responsibility for their part in protecting the environment. It is not a problem we can, either as a business or personally, afford to ignore.

ENVIRONMENTAL IMPROVEMENTS IN ARLA UK

	Reduction 2005–2009
Greenhouse gas emissions	16 per cent
Water consumption	5 per cent
Energy consumed	10 per cent
Diesel oil consumed	6 per cent

Furthermore, Arla UK now uses a bio diesel blend across the whole UK transport fleet and has reduced packaging weight by more than 1,000 tonnes since 2007.

ARLA UK FOCUS IN 2010

- Developing a detailed environmental plan for the new dairy in the UK.
- Reducing greenhouse gas emissions on packaging by 10 per cent between 2010 and 2012 by light weighting and incorporating 10 per cent recycled HDPE plastic into our polybottles.
- Ongoing work with Dairy UK and DairyCo to find a common method of calculating carbon footprint.
- Focus on reducing energy consumption by five per cent at all sites.
- Continued focus on the UK government's Milk Roadmap, which will ensure sustainable milk production throughout the supply chain.
- Engagement with the Courtauld commitment, a voluntary agreement which aims to reduce the greenhouse gas emissions and wider environmental impact of the grocery retail sector.
- Investigation into totally green packaging through the use of plastic from sugar cane.
- Ongoing support for farmers to measure greenhouse gas emissions generated on farm.



agriculture

We want to ensure that farms which supply milk to Arla operate in a way that shows respect for milk quality, animal welfare and the environment. Our milk suppliers must therefore adhere to our high standards when it comes to milk production, animal health and feed quality. Our milk suppliers in Denmark, Sweden, the UK and Finland are audited to ensure that they adhere to quality assurance programmes. We also ensure compliance with national regulations for milk quality in the other countries in which we purchase milk.

FOCUS ON HIGH STANDARDS OF MILK QUALITY. In Denmark and Sweden we have increased the number of tests we conduct to maintain high milk quality standards. We are also involved in several projects that aim to ensure milk quality during milking and the handling of milk on farm.

IMPROVED ENVIRONMENTAL WORK. In the UK Arla farmers are making good progress when it comes to implementing measures to limit the environmental impact of their farms.

ORGANIC FARMS. During the year we reached our recruiting target for organic milk in Denmark. In Sweden, we continue to recruit organic farms, and at the beginning of 2010 we expect organic volumes to increase as more farms complete their conversion to organic production.

We support sustainable agriculture.

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

More tests to ensure high standard of milk quality

Approximately 10,000 farms supply milk to Arla in Denmark, Sweden, the UK and Finland, which accounts for about 97 per cent of the group's total volume. In these and other markets we also buy milk from other local suppliers who meet our quality standards.

In 2009 we have begun updating the 'Arlagården' quality programme, that is used in Denmark and Sweden, on a continual basis so that it is easier to work with and better adapted to the market and changes in conditions. Milk producers in Denmark and Sweden are responsible for ensuring that the milk they supply meets the requirements of Arlagården. During 2009 the Board of Directors implemented several changes to the company's milk quality requirements, the aim being to further encourage milk producers to take action to minimise the risk of lapses in quality. During 2009 samples from every farm's milk collection has been analysed and farmers receive the test results within two days so that they can immediately take action to resolve any quality issues. Results from the analyses allow us to develop initiatives which provide advice and information about quality issues for farmers.

The UK, Finland and the Netherlands have quality programmes similar to Arlagården.

Farmers are getting closer to consumers – and vice versa

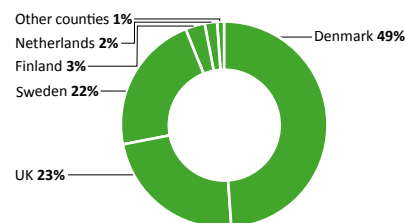
During the year we carried out a number of activities to strengthen the link and the mutual understanding between our farmers in Denmark and Sweden and consumers. This includes inviting consumers to farms so they can experience life on farm first hand. In Sweden we also arrange for farmers to meet consumers at our retail customers' stores and we have launched a farmer blog on the Arla website following the success of the two farmer blogs on the Danish site which have been running for several years.

AFMP farms focus on the environment

Arla is working with universities and colleges to identify ways to reduce the environmental impact of farms. A survey of AFMP farmers in the UK revealed that they are leading the way in terms of meeting the targets set by the UK government's department for environment, food and rural affairs. In the UK we also work with our major customers on environmental projects at farm level and support our farmers to reduce their greenhouse gas emissions.

In the UK the results from audits against the Assured Dairy Farms Scheme quality programme show that Arla's farmers are more compliant than the national average. The most common deviations were due to insufficient documentation regarding the purchase, use and storage of medicine and buildings not being sufficiently maintained.

ARLA'S MILK INTAKE



The total amount of milk increased by five per cent during the year. In Denmark, the volume increased due to existing farms expanding and new members joining. In Sweden, volumes decreased as members ceased production. In the UK, despite a decrease in the number of AFMP members, volumes were greater than in 2008 because yields per farm increased.

RECRUITING ORGANIC FARMS

Arla is the world's largest supplier of organic dairy products and our broad range of organic products has increased consumers' interest in organic food over the years. In Denmark we reached our target for recruiting organic farms and can now supply both the Danish market and the export market with organic milk. In Sweden, we are continuing to recruit organic farms. To support farmers to convert to organic production we pay a supplement during part of the transition period.

AVERAGE NUMBER OF COWS PER FARM

	2007	2008	2009
Denmark	111	126	141
Sweden	51	55	58
UK	109	112	114
Finland	21	22	24

Source: National industry organisations.

The number of cows per farm is a calculated average which includes all milk producers in each country.

NEW TECHNOLOGY GUARANTEES GOOD MILK QUALITY

Over the last few years, in Denmark and Sweden we have been working with suppliers of technical equipment for milking, cooling and storing milk on farms. This year we developed guidelines for using compressed air to transfer milk from the milking equipment to the milk tank, as well as new technical specifications for how milk tanks should be designed and equipped.


In 2009 we also carried out targeted support visits as part of a quality project for farms that had reported high levels of heat-resistant (thermoduric) bacteria in their milk. In 2009, 65 visits were carried out in Denmark and 30 in Sweden. Action plans for any deficiencies that could have led to the presence of bacteria were developed and followed up by a support team. The documentation from these visits shows that improvements to washing procedures and systems can, in most cases, reduce the incidence of these bacteria. The results from the visits will also be used in our dialogue with equipment suppliers to identify improvements to design, service and maintenance procedures that will guarantee good quality milk.

ISSUES DURING AUDITS

The most common issues during audits of the Arlagården quality programme in 2007–2009 in Denmark and Sweden were due to deviations concerning the following:

- written procedures for milking and the separation of milk that will not be delivered to the dairy
- marking treated animals
- correct pharmaceutical records for the herd
- the maintenance and hygiene of the milk storage room.

As well as our standard audits, additional audits are carried out on farms that must adhere to certain standards with stricter demands, for example, in Sweden where grazing is compulsory, on organic farms and on farms which supply milk for the Laerkevang® brand in Denmark.



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 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 them to help us meet our aim of procuring goods and services in a sustainable way.

GLOBAL PROCUREMENT PRACTICES. During the year we continued to work on harmonising and improving group-wide procurement practices.

HIGHER NUMBER OF AUDITS. In 2009 we carried out a total of 69 audits. We also expanded the scope of our audits to include some suppliers that are not directly product-related.

SPECIAL AUDIT FOR COCOA. In 2009 we conducted an audit of our cocoa suppliers on the Ivory Coast. Read more about this in the interview on page 24.

Contracted suppliers

In 2008 our definition of a supplier was one from whom we purchased goods and services at an annual cost of DKK 10,000. In 2009 we revised this definition to include those suppliers from whom we make annual purchases of DKK 100,000 or more. This allows us to focus our resources on the activities that have the most impact and create the most value for Arla. Based on this new definition we work with around 4,200 suppliers throughout the world.

During 2009 we continued to standardise our processes as part of our endeavour to improve and create common procurement practices for the organisation; however, we still have a lot of work to do in this area.

Inspecting suppliers

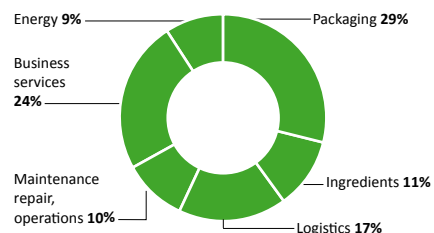
The purchases made by our Global Procurement department represent around 59 per cent of our total spend. In 2009 we started developing a system that we will use to evaluate new suppliers and, from 2010, this system will be used to evaluate all suppliers handled centrally.

Having suppliers sign Arla's code of conduct for suppliers is the first stage in our evaluation process (see illustration). In 2009 we revised this code, clarifying some areas that were previously difficult to interpret. Furthermore, our procedures for implementation and follow up have been improved during 2009 and spend covered by code of conduct for suppliers has increased globally.

The next stage of our procurement process focuses on suppliers which are considered to be particularly important. They complete our Supplier Evaluation Questionnaire which we started revising in 2009 to make it more extensive and more clearly linked to our code of conduct for suppliers. Suppliers are also inspected from a risk perspective and risk evaluations are carried out in the areas of the environment, health and safety, quality, ethics and human rights. In 2010 we will trial an internationally recognised tool for assessing ethics and human rights, which will make it easier to assess country-specific risks.

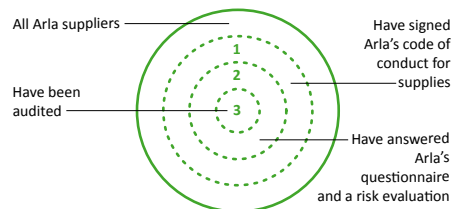
We also carry out a number of detailed audits every year, in which we visit suppliers and carry out a thorough inspection. In 2009 we carried out 69 audits globally. These audits also include those initiated by our business units, which was not the case in last year's report. We prioritise product-related audits, including ingredients and packaging materials. However, several service providers were inspected this year, including laundry suppliers and employment agencies.

GLOBAL CONTRACTS



The diagram shows the external spend handled by Arla's Global Procurement department distributed across different product and service categories. Our 10 largest suppliers account for 21 per cent (the same as in 2008) of our total external spend. In 2009, the following companies were our five largest suppliers in order of size: Tetra Pak (packaging materials and processing and packaging machinery), Elopak (packaging materials and machinery), IBM (IT services), Statoil Gazelle (gas and oil) and Carat (media).

ILLUSTRATION OF SUPPLIER HANDLING



All suppliers handled by the Global Procurement department are reviewed in accordance with Arla's process for evaluating suppliers. In 2010 the new global tools for the evaluation of suppliers will take a broader approach to health, safety, ethics and human rights, for example.

INSPECTION OF FRUIT PURCHASES

Our subsidiaries Rynkeby Foods and Dairy Fruit purchase fruit from around the world. In 2009 Dairy Fruit carried out 40 supplier visits and one audit. Although we conducted 20 less visits in 2009

compared to 2008, we are confident that quality has not been compromised in any way and that the high standards we demand continue to be adhered to. Rynkeby Foods trades primarily with suppliers that are members of SGF (Sure Global Fair), which has its own certification body and therefore conducts audits on behalf of Rynkeby Foods.

HOLISTIC APPROACH TO PURCHASING

When carrying out procurement globally we strive to ensure a partnership between our purchasers, suppliers and end users. One example is the procurement of cleaning products for dairies, where aspects such as efficiency, environmental impact, work environment are all given equal consideration during our assessment. Cleaning products may also affect product quality and our work processes, which means that training, test periods and evaluation are also included in procurement process.

FOLLOWING UP AUDITS

If a supplier does not meet our requirements, we will end our partnership or create an action plan which sets out any necessary essential areas which must be addressed. There have been examples of partnerships that have ended but suppliers have subsequently addressed the issues using their action plans. We think that this is one of the positive benefits of auditing and we are happy to resume partnerships with suppliers so long as they meet all our requirements.

ARLA'S DECISION ON PALM OIL

The use of palm oil has been strongly criticised because it can contribute to the destruction of the rainforests and endangered habitats. Arla only purchases palm oil from companies that are members of the Roundtable on Sustainable Palm Oil (RSPO) which has produced guidelines for the certification of sustainable palm oil.

In 2009 Arla decided that all products in our European core markets will use only certified palm oil by the end of 2012 at the latest and that the target date for all other markets is the end of 2015.



Grane Maaløe

“We believe that we can improve conditions for cocoa farmers”

Cocoa is a taste that is appreciated by many – especially when it is produced under good conditions. West African cocoa plantations are still the subject of scrutiny due to their social and environmental challenges. Arla believes that certifying cocoa production will ensure better conditions for farmers. Therefore, Arla’s goal is that all of its cocoa is certified. Grane Maaløe is responsible for purchasing cocoa for Arla and its subsidiary Cocio.

? How does Arla buy cocoa on the Ivory Coast?

We buy cocoa from a supplier who processes the beans into powder and provides Arla with the majority of our cocoa requirements. The cocoa Arla buys is traded in one of two ways: either direct from farmer cooperatives or through middle men. Farmers who have organised themselves into cooperatives gain many of the advantages of large-scale production. Similarly there are fewer links in the supply chain so the farmers get a better price for their produce. The quality of their cocoa is also significantly higher than that of other suppliers.

The alternative for farmers is to sell their beans to a middle man who buys and collects them on his bicycle before selling them to a man collecting in a vehicle who, finally, sells the beans to a trading station, from where our supplier purchases some of its cocoa requirements. This method is not optimal as there is no way of controlling or auditing the supply chain. The farmer risks being cheated as the middle men never know the current price for cocoa and therefore give the farmer the lowest possible price.

? Under what conditions do the cocoa farmers work?

The Ivory Coast is both a rich and a very poor country. The country produces 40 per cent of the world’s cocoa but wealth is very unevenly distributed and poverty is widespread in the cocoa districts. The infrastructure is poor and many of the roads are dirt tracks. The state provides very little educational support especially in rural areas. Education has to be paid for. Poverty among the farming population and the lack of education means they are at greater risk of being exploited.

Within Arla we are well aware of these difficult social conditions and the risks associated with cocoa production. The workforce is often badly treated and there is a risk of child labour. Therefore it is very important that we act with integrity and we believe that we can improve conditions for cocoa farmers.

Our social responsibility commitments lay the foundation for how we buy cocoa and these important basic principles are contained within our code of conduct for suppliers. This code is signed by our suppliers and this forms their commitment to both following it themselves and ensuring that their suppliers do too. In the code, for example, we make it clear that, under no circumstances, will we tolerate child labour.

? What steps has Arla taken?

On the Ivory Coast, we selected our major supplier of cocoa based on the programme it has in place for the development, support and improvement of social conditions for the cocoa farmers. It is important to us that our supplier is actively working to improve life in the villages.

Having seen the conditions of our supplier and cocoa farmers with my own eyes, when I visited the cocoa districts in the Ivory Coast in spring 2009, this has increased our knowledge and now we can drive development more effectively.

We are working to improve the conditions for cocoa farmers in several ways. One of the demands we have placed on our supplier is that the percentage of cocoa purchased from the farmer-owned cooperatives increases to 100 per cent in the very near future, from 40 per cent in 2009. The issue we face is that current demand for cocoa from cooperatives is much greater than supply, because there are not enough cooperatives.

? In addition to price and improved conditions, are there any other benefits to being a member of a cocoa cooperative?

Our supplier provides financial support to cooperatives to assist them in the purchase of trucks and other equipment that in turn improves the working conditions of the farmers and the quality of cocoa they produce.

In collaboration with a national farm organization, Anadera, our supplier supports members to access a number of mobile farm schools in the cocoa belt. About 10,000 farmers receive training each year in these schools in subjects such as how to improve both the quality and quantity of cocoa beans, as well as in health and safety on the farm. In addition, they learn about social issues such as HIV/AIDS and child labor. Even though the training is targeted at adults, children benefit because their parents see the value of education.

? Is Arla doing anything else?

Through our supplier, we support an initiative that offers UTZ certification to farmers and cooperatives. Using its experience in certification of coffee production UTZ has created a programme for socially and environmentally responsible cocoa production. Currently, however, less than one per cent of cocoa farmers are certified under UTZ's requirements.

Our subsidiary Cocio also supports an orphanage in the Soubre area for children who have been orphaned. Together with our main supplier of cocoa, Cocio has committed to finance the construction of toilets and showers and the purchase of beds, food and schooling for the children.

Arla has also been in an ongoing dialogue with several human rights organisations about the course of action we should take. Their basic viewpoint is that companies should maintain their presence and take responsibility in areas which have human rights issues because responsible companies can actively contribute to improving conditions. We are aware of the problems that exist and will do whatever we can to ensure that conditions improve.

? Can Arla do more?

We have a clear target that all the cocoa we buy must come from UTZ-certified cooperatives. Unfortunately, we can not achieve this target today because supply is still limited, but certification is increasing. In agreement with our main supplier, as soon as possible, a greater percentage of the cocoa delivered to Cocio and Arla will be from UTZ-certified production. We estimate that one third of the cocoa we buy will be certified within two years and our aim is for all the cocoa we purchase to be certified by 2013.

Of course price is an important factor, but our guidelines for the purchase of cocoa are very clear. We are willing to pay more for cocoa, but we need to be sure that this money is used to improve conditions in the cocoa districts.

COCOA PRODUCTION AND PURCHASE

Most of the world's cocoa is produced in West Africa. In addition to its main supplier, Arla works with other suppliers which provide less than 10 per cent of Arla's cocoa.

ARLA'S CHOCOLATE MILK DRINKS

Arla produces around 45,000 tonnes of chocolate milk drinks. The bulk of this production takes place at our subsidiary Cocio in Esbjerg, Denmark, and at our Esbjerg dairy. Our products are marketed under the brands such as Matilde, Cocio and Pucko.

COCOA CERTIFICATION

UTZ is one organisation which provides certification for cocoa production. UTZ's rules and guidelines are divided into three main areas:

- **Production of cocoa** in which the training of farmers, efficiency, traceability and safety are important elements.
- **Social criteria** in which the protection of workers' rights, no forced or child labor, freedom of association and access to medical care for farmers and families are included.
- **Environmental criteria** where water and energy efficiency, environmental impact, treatment of waste-water and minimisation of resource consumption are key components.

MILESTONES FOR UTZ

October 2007. UTZ's programme for cocoa certification is launched.

June 2009. UTZ's rules and guidelines for certification are presented in a Code of Conduct.

August 2009. The first two cooperatives in the Ivory Coast are certified.

November 2009. The first batch of UTZ-certified cocoa beans arrive in Europe.

December 2009. Three more producers are certified, in the Ivory Coast, Ghana and Costa Rica.

For more information see www.utzcertified.org

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

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

workplace

Arla has 16,200 employees in 32 countries all over the world. We strive to continually improve our work environment and organisation. We also work to strengthen our corporate culture, Our Character, which describes what Arla is and what we stand for in our efforts to achieve joint targets, irrespective of our colleagues' history or cultural background. If all colleagues enjoy good working conditions and are committed to their work, together we can do the best job possible.

TRAINING FOR DAIRY TECHNICIANS. Arla is responsible for the development of a two-year training programme for dairy technicians in Sweden and this year the first students passed their exams. In the UK, a similar programme, EDEN, began in autumn 2009.

SAFE WORKPLACE. We have been working hard to meet our group target to reduce the number of work accidents.

COST REDUCTION PROGRAMME. The effect of the cost reduction programme, which launched in April 2009, resulted in redundancies and a significant reduction in workplace development expenditure. Despite these cost savings, development continued through creative use of internal resources and expertise.

Work environment in focus

In 2009 the accident rate at our workplaces decreased by 16 per cent compared with the previous year. This is a result of increased management focus. We are continuing to invest in increasing safety at work and preventing accidents. This work is being carried out at many different levels, from clarifying roles and developing more systematic working methods to carrying out prevention analyses and making practical improvements.

Popular workplace and potential employer

Arla aims to be an employer of choice that attracts and retains talented colleagues. Under our internal banner 'ONE', we bring together our strategy, mission, vision, corporate culture and colleague competencies to ensure that everyone understands how their contribution links to our strategy.

During 2009 we also worked to strengthen our employer brand for future, potential colleagues. This includes the 'Be a Force of Nature' concept that describes what it is like to work at Arla. Other ways we attract potential colleagues is through our investment in our graduate programme and various support mechanisms for students. Especially in Finland, but also in Sweden and the UK, we are working with other dairy companies to attract young people to the industry.

In Sweden we have been nominated for the Employer Branding Company of the Year award for our long-term work and our clear corporate profile. In a survey conducted among Swedish students that asked which companies they would most highly rate as an employer, our rating increased from 72 in 2008 to 24 in 2009. In Denmark our rating improved from 20 to 13.

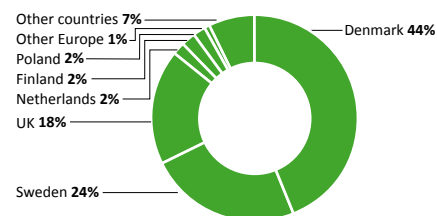
Training for current and future colleagues

We are currently reviewing the company's need for a range of colleague competencies. One example is our two-year Swedish training programme for dairy technicians, which we initiated. Arla was also one of the main companies behind a similar programme in the UK. EDEN launched in the autumn and is the first foundation degree of its kind in the UK, see page 29. In Denmark, the dairy industry has been working together on training for many years.

During the year we improved our internal training in many areas. Furthermore we have improved our induction programme for new colleagues.

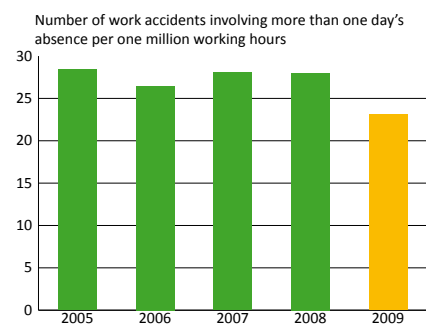
In both Denmark and Finland we are working to increase the general level of knowledge in languages and mathematics for colleagues who do not have any formal education.

EMPLOYEES IN ARLA



The total number of colleagues is relatively unchanged compared to last year. Following the acquisition of Nijkerk dairy in the Netherlands the number of colleagues in the group increased by approximately 300. However, as a result of the cost reduction programme, 22 colleagues at Borup dairy in Denmark were made redundant and 350 colleagues from offices around the world including 122 from our head office in Denmark. When Arla took over Hirtshals dairy in Denmark 38 positions were made redundant.

WORKPLACE ACCIDENTS



With active preventive measures we have succeeded in decreasing the number of workplace accidents. Focus areas have been leaders' and colleagues' roles, responsibilities and behaviour. In the Consumer International business group the decrease has been as much as 30 per cent. The explanation to this is that employees and managers at all levels have focused on safety aspects and violations of safety rules, through a closer and more consistent follow up, than before.

Other actions have included inspiring colleagues to make proposals for safety improvements and making managers aware of their responsibility as role models. Another practical example is the notice board in the canteen in Hollandtown, USA, that shows the number of accident-free days.

INTEGRATING NEW ACTIVITIES

When carrying out restructuring work and acquiring new business interests, it is essential that we are able to quickly integrate corporate cultures and ways of working. During the setting up of our new financial service centre in Gdansk in Poland, colleagues received training in our corporate culture 'Our Character' as well as courses in English. These colleagues also had intensive training periods in Denmark, Sweden and the UK which contributed to the effective creation of a fully integrated finance function. The acquisition of the Dutch dairy Nijkerk also presents similar challenges, as working procedures and cultures will have to be integrated.

ABSENCE DUE TO ILLNESS

We take a systematic approach to reducing absence due to illness. For example, this way of working, at the Alexander unit in Götene, Sweden, saw absence due to illness decrease by a third compared to the previous year's level.

MANY SMALL STEPS TOWARDS IMPROVEMENT

Examples of training courses carried out in 2009:

- Driver training
- Workshop for laboratory colleagues
- Packaging training
- Warehouse and logistics training
- Management training
- Our Character
- Lean production.

AWARDS FOR GOOD WORK ENVIRONMENT

Our dairy in Sibbo, Finland, was awarded the Finnish food industry's prize for best workplace safety in the drink and dairy category.



“I wanted training that would lead to a job”

The dairy industry is one with long traditions but also one that has undergone rapid technological development. In order to ensure that Arla can access a highly-skilled workforce in the future, an Arla initiative in Sweden has supported the development of a new two-year training course, at the end of which participants are qualified dairy technologists. The training builds on the Danish dairy training programme and is the result of close cooperation between Arla and training and dairy industry experts in Denmark and Sweden. No similar training programme has been available in Sweden since the 1960s. Britt-Marie Andersson is a second-year student and is currently on a practical workplacement at Jönköping dairy.

? What made you want to become a dairy technologist?

Becoming a dairy technologist was not always my ambition. I was on an automation control training course and food technology was one of the study areas, so I already knew that I wanted to work as a technologist with some kind of automation. Then I heard about Arla’s technologist training programme. I have a sixth-form college education, so I had the qualifications and basic competencies that were required.

? At the time, did you have any idea what the role of a dairy technologist entailed?

No, not exactly. Not many people do know what a dairy technologist does for a living, at least none of my friends did. I have now explained every single part of food production processes at a dairy to them.

A dairy technologist is most often employed as an operator at a dairy, for example, pasteurising the milk that is delivered to the site. However, at the dairy in Jönköping where I am now working, a dairy technologist is responsible for the entire product flow from the milk arriving at the dairy to the product entering the filling hall.

? Was it important to you to have vocational training?

Yes, I wanted training that would lead to a job. All of the students who first completed the course are now in employment.

I also want to gain work experience and build a network of contacts. This training will not only see me gain a qualification in dairy, I will also develop many practical competencies.

? The training course is a Danish-Swedish cooperative project, at the prestigious Kold College in Odense, Denmark. Do you think there are any differences between the Swedish and the Danish students?

Most of the Danish students have already worked at a dairy, some of them for several years. In Denmark, practical work experience operates under a different system to the Swedish one. This means that, in contrast to the Swedes, Danish students know exactly how they can apply their new skills. That gives them a headstart.

Britt-Marie Andersson

? The training comprises both theoretical and practical elements. What do you think of this combination?

It is great to be able to try out the things that we have learned in theory. We have studied all the basics of dairy production, including microbiology, chemistry and food safety. We have also studied specific products, for example, cheese. We have learned all about cheese, about lactic acid bacteria, hygiene and everything else you need to know to make cheese. There were lectures and group work at the college and training also takes place at some dairies.

Shorter theoretical courses at the dairies are also included in the training and we have tried out the latest technical equipment there too. Process technology is developing very quickly and it is important that we are at the forefront of developments. The training programme runs over two years, of which almost 18 months is dedicated to practical training with tutorials at the dairy, so it is intensive.

Our tutors at Kold College have skills in both areas. They are academics with many years of practical experience. Furthermore, lectures are given by a variety of dairy specialists.

? At the moment you are in a long period of practical training at Jönköping dairy. What do you do?

My role spans across the whole of the dairy value chain and I am involved in each stage of the process, from the milk arriving at the dairy to it leaving the coldstore for delivery to customers. I am there to learn as much as possible from a technical perspective which is why I listen, I learn and I ask questions. No one expects me to know all the answers but they do expect me to ask lots of questions.

When I am a qualified dairy technologist, I will be expected to work independently with most of the process equipment and to make products in accordance with specific specifications. We are also expected to work on improvement projects. We are offered the chance to work on such projects during our training. We have learned a lot about the working environment too.

? How do you see your work as a dairy technologist in the future?

There are many different and exciting opportunities ahead but first I want to work in the dairy industry for a few years. With this qualification, I could look for work in another food industry if I wished. In fact, I could get a job anywhere where food is processed through an enclosed, hygienic pipework system. The skills I have gained working the technical equipment in the dairies could be easily transferred to a brewery, for example.

In the long term, I would like to work at a company specialising in automation in the food industry. That would enable me to make use of both my food-processing competencies and my know-how about the technical aspects of the industry. There are also lots of opportunities for further training too.

? What is the most important thing that you have learned during the training?

I have learned so much! Of course, first and foremost, I have learned how to process dairy products, how things work in reality and I am now acquainted with the working of a dairy. On a social level, I have learned a lot about how different groups of people work together.

Swedish dairy cooperation in training. The number of students that we enrol annually on our dairy technology training programme is directly in line with the needs of the business. In 2009, 11 students began their training. In the next intake, it is expected that other Swedish dairy groups will join Arla in sending students to train at Kold College.

In 2006 Arla initiated another training course in Sweden – Food Production. The industry now cooperates in this training, offering students practical training placements and freely exchanging industrial expertise.

EDEN – NEW DAIRY TECHNOLOGIST TRAINING IN THE UK

In autumn 2009 a new dairy technologist training programme was introduced at Reaseheath College, near Manchester in the UK. Arla in the UK was one of the main companies behind EDEN (European Dairy Education Now). There were 276 applicants for the 11 places allocated to Arla.

Students receive a broad-based dairy education, covering the production processes involved in making milk, cheese and butter. They will also study the environment, waste, project management and financial control. The training includes both theory and practical activities.

The EDEN training programme meets the needs of the UK dairy industry as well as European standards, which means that it is comparable to similar training programmes in other countries.


PRACTICAL TRAINING AT ARLA

Offering practical training to students is an important part of our business. Arla offers practical training posts for students on dairy-related training courses. During 2009, we have welcomed the following numbers of students in practical training posts:

Denmark	240
Sweden	13
UK	11
Finland	4

Furthermore, particularly in Denmark, Arla offers practical training posts to dairy engineers, process technicians, power and control technicians, laboratory technicians and administrative colleagues.

Our graduate programme 'Future 15' is for young academics who could become future leaders in Arla. In 2009, six candidates joined the programme. There were 13 the previous year.



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

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

market conduct

It is essential that consumers trust us 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. At the same time we must constantly adapt to the increasingly competitive, fast moving and international market. In the markets in which we are a major player, we have the added responsibility of not abusing our position.

COMPETITION IN SWEDEN. Arla tops many Swedish surveys when rated in terms of popularity and brand awareness, but this positive image has seen a slight decline. We have faced a tough time in the media debate surrounding our nationwide agreements with the major Swedish supermarket chains.

ARLA LISTENS TO CONSUMERS. During 2009 we improved the collation and monitoring of the many viewpoints that our consumers share with us through our contact with them.

GROWTH TARGET EXTENDED. The date for achieving our growth target, which was presented along with the comprehensive change in strategy in 2008, has been extended by two years due to the current recession. However, our brand strategy, focusing on three leading brands, and the roll out of Closer to Nature™ is being progressed as planned.

Tough competition in the dairy market

Competition in the international and national dairy markets increased during the year. Major retail customers and members of international buying groups instigated intensive head-to-head competition between the dairy companies in order to achieve price reductions. The fluctuation of prices on the world-market, as well as the European market, continued during the year resulting in further demands for price cuts. The recession similarly affected global demand for dairy products which in turn lead to a decrease in world market prices. The recession also affected consumers' preference and choice of different products leading to increased demand for retailer own label products.

In order to meet some customers' demands for lower prices, while maintaining the ability to pay our farmers a sufficient price for their milk, we have continued to rationalise our production and have increased our cost cutting efforts. The need for continued cost reductions will most likely be a key driver for consolidation among dairy companies in the years to come, especially in markets where milk production is declining.

In Sweden, our collaboration with other dairy companies for distribution ended in 2008. In its place, we launched our own national distribution system which enabled us to enter into national agreements with major supermarket chains. These agreements have resulted in a strong reaction in the media and among other players in the industry. The Swedish Competition Authority is currently investigating whether we have acted in accordance with relevant competition rules when entering into these agreements. We are taking this investigation very seriously and are actively assisting the Swedish Competition Authority by providing relevant information.

Customers' perception of Arla

We regularly survey our large retail customers in our core markets and talk to both central and store-based colleagues to find out how they rate us as a supplier of dairy products. Due to cost reductions, fewer surveys have been conducted this year, however dialogue with our customers continues to be very important to us.

In Sweden and Denmark we only surveyed store-based colleagues during the year and both countries have received slightly better scores than the last survey. In Sweden, Arla was ranked as the best or second best supplier in six of eight areas. In Finland and Germany, no surveys took place. Our Global Ingredients whey protein customers awarded us a score of 85 per cent for customer loyalty compared to 75 per cent when the last survey took place in 2007.

IMPLEMENTATION OF NEW STRATEGY

Following Strategy 2013 (later changed to Strategy 2015) we have begun to rationalise the number of brands within Arla. For example, in Russia, the transfer of all blue cheese to Castello, resulted in a greater market share despite a declining market. As part of our efforts to increase sales and production of whey protein, we also opened an application centre for whey protein in Denmark, where our customers can work in partnership with us to develop and test new products.

CLOSER TO NATURE™ STEP BY STEP

Our promise to consumers – Closer to Nature™ – means among other things that for Arla branded products we will review ingredients to see if we can eliminate some ingredients or possibly switch to a more natural alternative. Many of our products need no change, others will be changed and our innovation centres are looking at these. The first products, which have already been changed in Sweden, to only include natural flavourings, were all nine of our flavoured soured milks.

Our new liquid cooking fat Arla Kærgården® Steg & Bag, available in Denmark, is an example of how we are striving to use more natural ingredients and additives. This product contains butteroil and rapeseed oil but includes no hardened fats and therefore no industrially-produced trans fatty acids. It is also free from preservatives and artificial emulsifiers.

In the UK we started a piece of work to replace all artificial colourings with natural ones.

CONSUMERS' PERCEPTION OF ARLA

In Denmark, Sweden and Finland we measure consumer perception of Arla annually. In Denmark, consumers' perception of Arla has improved during the year. To become even more favourable in the eyes of consumers we should be even more open in our communication and the way we do business.

In Sweden, consumers' perception of Arla fell slightly from a relatively high level. But other surveys reveal that Arla has improved its position as a company that gives food inspiration. The perception of Arla Ingman in Finland also decreased slightly.

The import of raw milk from Sweden to Finland has reinforced the perception of Arla Ingman as a Swedish company, whereas Finnish consumers would like Arla Ingman to have a more domestic focus. Around three per cent of our liquid milk in Finland is imported from Sweden.

	2006	2007	2008	2009
Arla in Denmark	49.9	52.2	57.6	58.6
Arla in Sweden	79.5	75.6	75.5	74.3
Arla in Finland	–	–	73.0	71.7

The table shows the total score from 0 to 100, which consumers gave Arla compared with many other companies, in a survey carried out by the Reputation Institute.

ARLA FORUM

Number of enquiries	2007	2008	2009
Denmark	30,000	23,000	22,000
Sweden	30,000	30,000	26,000
Sweden (web assistant)	–	50,000	46,000
UK	12,000	16,000	26,000
Finland	16,000	14,000	13,000
China	–	–	5,000
Vietnam	–	1,000	1,000
USA		Around 250	per year

Arla Forum answers questions from consumers via phone, email and letter. The most common subjects are:

- opinions about packaging
- requests for new products
- questions about additives in products
- questions about recipes
- complaints and quality problems.

In the UK, in particular, the number of questions about animal welfare and the carbon footprint of products increased during the year.

A free telephone service was launched in Vietnam during 2008, following the introduction of this service in China in 2007.

Arla Forum in Denmark began a blog about consumer experiences to develop our dialogue with consumers further.



community relations

We accept extensive responsibility within the framework of our core business. In addition, we endeavour to involve ourselves in wider social issues which are relevant to our business activities. We want to contribute to the development of society and do so by building long-term relationships with people, businesses and organisations.

ARLA BENEFITS SOCIETY. We create jobs and economic growth in the communities in which we have operations. This is our most important contribution to the development of society.

SUPPORTING A HEALTHY LIFESTYLE. We support activities that promote sport and exercise among children and young people. It is also in our interest to spread information about the link between diet and health.

LONG-TERM AID PROJECTS. During the year, we extended our Children for Life aid project and continued our work with the SANAD charity in Saudi Arabia. Our colleagues also take part in a number of charitable projects.

We maintain good, respectful and constructive community relations.

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

Local projects extended

In 2008, Arla began its Children for Life long-term aid project in the Dominican Republic in collaboration with our local partner and SOS Children's Villages. Last year we extended these activities to Vietnam, applying the same principles. The primary purpose of these projects is to help children achieve a better future by providing food and supporting education. We hope to begin a similar project in Bangladesh in the very near future.

In the third world, for example in Nigeria and Bangladesh, our long-term activities are contributing indirectly to improved economic and social welfare in the small communities local to our operations.

Supporting a healthier lifestyle

Research shows that children and young people who are taught good eating and exercise habits in their early years benefit from these disciplines for the rest of their lives. Arla has instigated several different activities aimed at encouraging young people to lead a healthy lifestyle. In Denmark we have, for example, organised summer activities for children in school years seven to nine, focusing on a healthy diet and sport. Similarly, we offered milk at UK scout camps and supported projects that aims to encourage school children to walk to school. The Swedish Arla Golden Cow competition includes the category 'The school which best inspires healthy, creative and positive eating' is a further way of highlighting the importance of good food for children and young people.

Arla offers knowledge

There are many ways in which we work to increase consumers' knowledge of natural ingredients and the link between people, animals and nature. Using the reverse of milk cartons to spread knowledge has had a major impact in Sweden and topics have included the work carried out by farmers and information about farms and the environment. In 2009 we used our cartons to promote the World Wide Fund for Nature's, WWF's, Earth Hour initiative during which lights were turned off for an hour for the benefit of the environment. This collaboration led to us receiving the Swedish Design Prize for combining packaging design with a commitment to protecting the environment.

Arla also shares knowledge about farms and the work of farmers in Denmark and Sweden by inviting the public to join us at our cooperative members' farms when the cows are turned out to pasture in the spring. In 2009 we had 75,000 visitors in Denmark and 68,000 in Sweden. In Sweden, we also offer an extensive programme for school children to visit the farms to learn about cows and the everyday lives of farmers.

SUPPORT FOR CHARITY WORK

In the UK we have been running a project called Community Challenge since 1998, which has made a significant contribution to the local communities in which we have operations. Colleagues can access Community Challenge funding by raising money for a cause which Arla matches or they can apply for a grant if they volunteer for 10 hours a month or more outside work hours. In 2009, a total of £ 17,800 was divided among 44 different projects (in 2008 the figure was £ 14,900).

In 2009, Arla sponsored a children's hospital in Seattle, USA. In Germany Arla donates food to Tafeln, a soup kitchen run by different charities. We provide high-quality dairy products with a shelf life that is too short to be sold in stores.

Around 300 people participated in the Danish Team Rynkeby cycling event 2009 which enabled Rynkeby Foods to contribute over DKK 3 million to the Danish Children's Cancer Foundation.

WE PROMOTE ACTIVE CHILDREN

Examples of sport activity that Arla has contributed to in 2009:

- **Rugby academies in the UK.** Summer camps and school competitions with 94 schools taking part.
- **Football schools in Denmark.** Many different activities and for all levels, involving 40,000 children and young people.
- **Active children in Denmark.** A project that encourages exercise among children in which over 110,000 enrolled.

LONG-TERM SUPPORT IN SAUDI ARABIA

In Saudi Arabia we are working on a long-term project with the SANAD charity organisation. Since 2008 we have been involved with this project that supports parents of children with cancer. Along with SANAD we are also contributing to the extension of a children's hospital.

LOCAL PROJECTS IN THE UK

Arla's colleagues in Leeds in the UK took part in a number of charity projects during the year, including:

- **Volunteering at a community farm.** An education centre providing free activity holidays for underprivileged children.
- **Road safety training.** School visits taking along a heavy goods vehicle to educate children about road safety.
- **Donating blood.** Our colleagues regularly donate blood and in 2009 they received an award for their ongoing support.

GOLDEN COW AWARDS FOOD INSPIRATION

In Sweden, we award Golden Cow prizes every year to schools, restaurants and shops that role model good environmental work and provide food inspiration. The competition comprises five categories: best environmental work, the school which best inspires healthy, creative and positive eating, best senior caterer, best convenience store and most inspirational food store.

FOOD THAT INSPIRES

One way of spreading information and inspiration about cooking and ingredients is to sponsor events such as competitions for chefs and pastry cooks. For example, we provide financial support to Sweden's teams in international cooking competitions, the Danish international cooking competition, the Nordic Challenge as well as other cooking and barista competitions in Denmark, Sweden and the UK.

COLLEAGUE CONTRIBUTION

Arla has many colleagues who use their experience to help society in many different ways. We encourage colleagues to take part in activities outside of their role at Arla, but which are still linked to our activities. In the UK colleagues have supported creative learning events in schools where their own experiences have contributed to the learning process.

Arla colleagues took part in Århus University's Danish Climate Camp, a two-day innovation workshop which involved several university disciplines to find creative and climate-smart solutions for different product development ideas.

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. We therefore operate in countries that do not yet have fully recognised human rights or that do not yet live up to them. Regardless of the country in which we have operations, we maintain a firm conviction that the human rights of every individual should be respected and upheld.

ACTIONS TO PREVENT BULLYING. We have organised special training sessions in order to improve our work environment.

CONSISTENT REMUNERATION. We have introduced an international tool to allow us to compare salaries by position and by country for leaders and office-based colleagues.

DIALOGUE HELPS US TO MOVE FORWARD. Our Character is an integral part of our corporate culture and allows us to share and respect each others' opinions.



Continuing work to prevent discrimination

Our last colleague survey, carried out in 2008, showed a general improvement in the score we received for the question relating to bullying in the workplace. There were, however, some departments which received a lower score than in 2007 for this question. This prompted colleagues in these departments to work to improve their work environment and interaction among colleagues. We are continuing to work proactively to prevent bullying, harassment or people being ignored and we will measure the effect of our efforts when our next colleague survey is held in 2010.

Focus on human rights

With operations all over the world, we have learned to respect cultural differences. Our intention is for internationally recognised human rights to be observed throughout our organisation, and our experience shows us that we can positively contribute to the societies in which we operate by becoming involved at a local level.

In recent years we have carried out special work in Nigeria and Bangladesh to inform colleagues working at our facilities, as well as at our local suppliers, about our Code of Conduct and we are monitoring that they are observing human rights. We carry out inspections twice a year and all facilities have demonstrated good social responsibility. We will apply the lessons we have learned from this way of working, should we continue our expansion in third world countries.

Arla continues dialogue

Our Character, with its key words 'Lead, Sense, Create', and our Code of Conduct form the basis of Arla's strategy. The personal development meetings that are held annually between colleagues and their leaders play an important role in developing and embedding Our Character. The two-way dialogue directly supports Our Character as colleagues have the opportunity to take the 'Lead' when identifying their personal objectives, the dialogue supports 'Sense' as opinions are shared in a respectful manner and 'Create' is a key theme when identifying what form of development is necessary. In order to create a successful culture and business we always need to balance 'Lead, Sense, Create'.

In 2009 we introduced Our Character in Vietnam in order to promote open dialogue between leaders and colleagues. We are striving to create a culture built on mutual respect in all the countries in which we operate.

FAIR PAY AND REMUNERATION

Throughout the whole of Arla we endeavour to ensure that colleagues' salaries and remuneration are fair and follow the industry standard of each country. For leaders and office-based colleagues, we have introduced an international tool that allows us to compare salaries by country and by position.

We also aim to increase the number of locally employed leaders at sites in our non-core markets, as in Argentina, where the leader of our whey protein factory is from the local area.

AMNESTY BUSINESS FORUM

We participate in the Amnesty Business Forum and, as such, gain extensive insight into the challenges global companies may face in relation to human rights. In 2009 Amnesty Business Forum produced a questionnaire that will make it easier for them to follow the development of member companies and this will form the basis of ongoing dialogue with these companies.

RIGHT TO BE A MEMBER OF A TRADE UNION

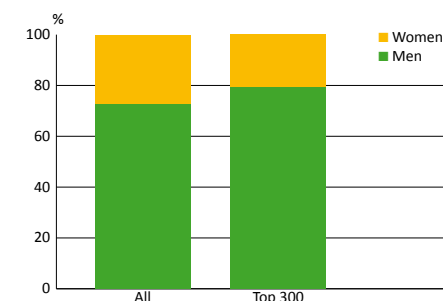
Arla respects the right of colleagues to form and join trade unions and to engage in collective bargaining. In all our core markets we have work councils on which colleagues are represented and cascade the outcomes of the meetings. Work councils exist at all levels in these markets and extend to national level. It is our ambition to establish similar structures in our growth markets as well as in countries where we have a certain number of employees, typically more than 25. We acknowledge that this will be a challenge in countries with little history of involving employees.

MEASURING ABSENCE DUE TO ILLNESS

All Arla colleagues are entitled not to attend work if they are sick, both for their own safety and to prevent the risk of spreading infection among colleagues, without fear of losing their job. In 2009 we introduced a system for measuring absence due to illness in countries outside our core markets; a system that has been in place in our core markets

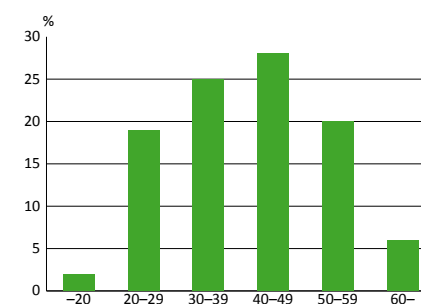
for many years. We have seen major differences between countries and the new system is helping us to investigate why these differences exist.

EMPLOYEES BY GENDER



The number of men and women employed by Arla varies across the organisation, however, there are approximately as many women as men in corporate positions. In December 2009 it was decided that when recruiting for senior positions (Top 300), there should always be at least one male and one female candidate, and that candidates shortlisted for key positions should represent both different countries and genders.

EMPLOYEES BY AGE



Currently the overall age distribution at Arla is satisfactory. Age should not be, and is not, a factor when we recruit people. Arla values the fact that its workforce comprises a balanced mix of ages.

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Statutory report on social responsibility

– ARLA'S WORK WITH CORPORATE SOCIAL RESPONSIBILITY (CSR)

Arla works to ensure that all its activities are carried out in a responsible and sustainable way. Although we have come a long way, there is more we can do. Our work on long-term sustainability is called "Our Responsibility".



Arla Foods' Code of Conduct

Policy for social responsibility

Arla's Code of Conduct for our work on ethical, social and environmental responsibility is set out in our publication *Our responsibility – Arla Foods' Code of Conduct*. This Code of Conduct supports us in our daily work when we need to take a position on certain issues, make decisions or face a dilemma.

Sustainability in practice

How Arla puts its policy for social responsibility into practice

Our objective is to accept extensive responsibility for sustainability within the framework of our core business.

Sustainability is integral to all our activities and at all levels of our organisation. We have already made a lot of progress in some areas, for example in monitoring and limiting our environmental impact, improving purchasing procedures and carrying out action to improve the work environment. We also have very well-developed procedures for food safety and quality programmes that contain rules for work on the farms.

In addition to our core activities, we endeavour to involve ourselves in wider social issues that are relevant to our business activities. For example, we contribute to different research projects into food and health and take part in a number of projects that aim to encourage people to lead a healthy lifestyle.

In 2008, we started an aid project called Children for Life in the Dominican Republic with our local partners and the organisation SOS Children's Villages. It is a long-term project and its main objective is to help the children have a better future by providing food and supporting education. In 2009 the project expanded to Vietnam and we hope to start a similar project in Bangladesh in the near future.

Global Compact and Arla's CSR report

For two years, Arla has been linked to Global Compact, a United Nations initiative to promote ethical business practices. Our Code of Conduct complements the 10 basic principles of Global Compact. As a participant of Global Compact, we undertake to incorporate this initiative and its principles in our strategy and company culture – and to communicate this commitment to our employees, owners, suppliers, partners, customers and our surrounding world.

Our commitment to Global Compact also means that every year we have to report, in an open and honest way, on how we are adhering to our Code of Conduct. This report describes the progress we have made over the year and where we see opportunities for improvement. We have chosen to involve a lot of employees in our reporting work to make sure that our view on sustainability reflects all of the work carried out in Arla.

Since the beginning of 2009, we have been involved in the Global Compact's Nordic network that organises two conferences every year to discuss topical subjects and enables participants to exchange experiences.

In May 2009 we signed the Global Compact's Caring for Climate contract, which is a voluntary agreement for companies that want to actively contribute to action that improves our climate. Caring for Climate allows us to show our commitment to practical environmental improvements and our interest in increasing awareness of the climate issue in society.

Year's results in CSR and future plans

Achieved as a result of the company's work with social responsibility

During the year we involved more employees in the ideas behind our Code of Conduct and set out what this means for individuals. We will continue to do this in the coming years.

Here are examples of the major progress we made in this area in 2009: better risk analyses for food safety; a higher number of supplier inspections; new tools for dialogue with our owners in Denmark and Sweden; continued environmental and climate measures; as well as a reduction in the number of workplace accidents.

We also presented a policy for our position on the use of palm oil as an ingredient and have procedures in place to distance ourselves from all kinds of bribes and improper payments. Responsibility for sustainability issues within top management was also developed and clarified.

In the coming year we will continue to work on our 11 Code of Conduct areas. We are, for example, going to continue our work to improve our work environment to reduce the number of accidents in the workplace. We will also work to gradually reduce our environmental impact and continue to improve our purchasing procedures and carry out more supplier inspections. We are also going to strengthen the dialogue we have with our owners to make sure we can further increase collaboration.

OUR RESPONSIBILITY

Arla Foods' Code of Conduct and the annual CSR report cover the following areas:

- ▶ Business principles
- ▶ Operational principles
- ▶ Food and health
- ▶ Environment and climate
- ▶ Agriculture
- ▶ Procurement
- ▶ Workplace
- ▶ Market conduct
- ▶ Community relations
- ▶ Human rights



GLOBAL COMPACT

The idea behind the UN's Global Compact initiative is to make companies aware of and actively responsible for 10 internationally-recognised principles in four key areas:

- ▶ Human rights
- ▶ Labour law
- ▶ Environment
- ▶ Anti-corruption

These principles are based on the UN Declaration of Human Rights, ILO's fundamental conventions on human rights in working life, the Rio Declaration and the UN's Convention against Corruption. Global Compact was launched in conjunction with the World Economic Forum in Davos in 1999 when the UN Secretary General Kofi Annan urged the corporate world to adopt this initiative.

Read more about Our responsibility at www.arla.com