



2015

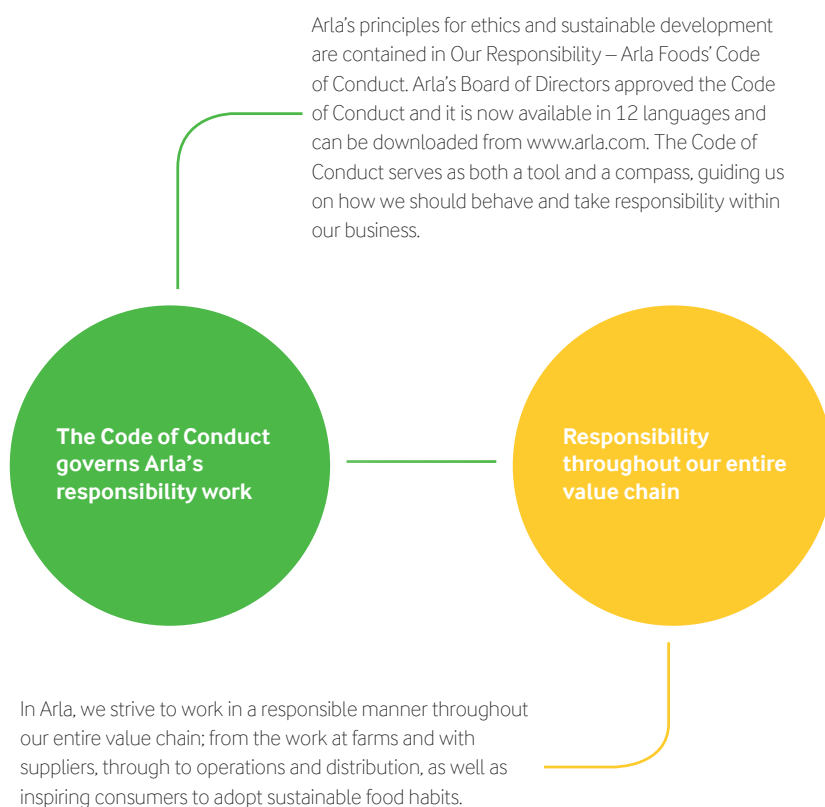
CORPORATE RESPONSIBILITY REPORT

Our Responsibility

We want to grow
and we care about
how we do it



Working responsibly in Arla



We want to grow and we **care about** how we do it. We operate our business in a **sustainable** and **responsible** manner in order to safeguard and develop the company's **reputation** and **profitability**, while caring for people and delivering **growth**.

To ensure internal adherence to Our Responsibility, we have established routines and annual follow-up. The Code of Conduct applies to all employees, and it is the role of our leaders to secure that the responsibility culture is embedded. Areas that need additional focus are prioritised by top management and functional leaders to secure a broad commitment throughout the organisation.

Arla is a global company. Each of our business groups deliver content and material to this annual report. The report describes how we are progressing in our work with responsibility and also gives us the opportunity to readdress, and clarify, the areas on which we need to focus in the future.

Embedding a responsible culture

A holistic approach

Welcome to our 2015 Corporate Responsibility report

The 11 areas that the Code of Conduct describes are chosen to reflect our operations and what we see as Our Responsibility. The areas have been grouped into four themes: Responsible company, Confidence in products, Care for the environment and animal welfare, and Responsible relations.

Responsibility highlights 2015



FOOD SAFETY

95%

of all sites have **recognised GFSI-standard** (Global Food Safety Initiative).



Strong result from **reputation survey** on all core markets.

ACTIONS AGAINST BRIBERY

273 colleagues have taken part in the **face-to-face anti-bribery training**.

WHISTLEBLOWING

Colleagues' **possibility to voice concerns**, the whistleblowing function, has received nine reports, of which seven led to further investigation.



4

due diligence processes for new market performed.



-16%

Arla's total **climate impact** has **decreased** by 16 per cent, compared to the 2005 levels, despite increased production.

OPEN FARMS

400,000

consumer visits to farms in Denmark, Sweden and the UK.



New marque to **emphasise** that Arla is **farmer-owned**.

ENGAGED COLLEAGUES

The **Barometer engagement survey** was distributed to 17,700 colleagues in 28 countries and in 14 different languages. The **response rate** was **89 per cent**.



CODE OF CONDUCT

New Code of Conduct – revised, updated and available in **12 languages**.

No. 1

Arla is the **world's largest producer** of **organic** dairy products.

PROUD OF ARLA

According to the engagement survey **83 per cent** of the respondents are **proud** to work for Arla.

100%

renewable packaging introduced.



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Unless otherwise indicated, the facts and figures in this report cover Arla Foods' fully owned dairy companies in 2015. Some examples from subsidiaries and joint ventures are also included. The report's chapters correspond to the 11 areas of Arla Foods' Code of Conduct, which was first published in the spring of 2008, and updated in 2015. More information is available at www.arla.com.



A **sound** cooperative ...

There is no doubt that this has been a challenging year for Arla farmers. It's when things are toughest that you need to be strong, and I think Arla has shown its strength during these turbulent times. The cooperative is the firm foundation we farmers need. No matter how much milk we choose to produce, Arla will always ensure that it's collected and that the profits from it are shared equally between us.

The financial hardship affecting many Arla farms has caused Arla great concern and attracted the attention of the outside world. Within Arla, a series of measures have been taken to raise the milk price over the long-term, and discussions between the Board of Directors, other elected representatives in the cooperative and the rest of the owners have been intense. The current position of dairy farmers has been a much discussed issue among the general public and decision-makers, which can hopefully lead to both structural improvements and beneficial changes in consumer behaviour.

The situation in general has put the cooperative to the test, but at the same time, it has also demonstrated its strength. With our large pool of milk, efficient supply chain, strong brands and global presence, we are well equipped to meet both future challenges and opportunities. With a

growing world population, and generally higher living standards, the demand for healthy dairy products will increase. The Board's priority is, and will always be, to pay our owners the best price possible for their milk.

Closely linked to the cooperative philosophy is our work with long-term responsibility and sustainability. Arla is involved with the entire supply chain, from the dairy farmer all the way to the finished product.

To have a strong quality programme for the work we do on our farms is the foundation – and we have this. I feel proud that Arlagården® has now been introduced in all countries where Arla farmers operate. This not only means a seal of quality that we can benefit from, but also that we are able to use our raw milk as efficiently as possible across markets.

As owners of a significant food-producing company, we must be mindful of the company's responsibility. This is set out in Arla Foods' Code of Conduct, which was updated during the year. What we do and how we conduct ourselves is seen by others. By virtue of our size, more is required from us. We must set an example.

We must also be aware that things can happen in Arla that could be done better. It's important we are open and transparent and address what can

be improved so that we really take responsibility for what we have promised.

In this report, Arla explains openly and honestly about what has gone well during the year and where there is room for improvement. This is important for me to know as an owner, but also for Arla's colleagues and everybody else who is interested in our business.

Although many farms are still finding it tough financially, I have confidence in Arla being a good place for farmers to be. We have a sound business and we're prepared to operate in an ever changing world.

Ösarp, Sweden, February 2016

Åke Hantoft
Chairman



... with great **ambitions**

In 2050, there will be nine billion people on this planet. When you think about it, you can either worry about it – or you can start acting. As a significant food producer, Arla intends to play an active role in addressing the global challenges this will present and in fulfilling the United Nation's Sustainable Development Goals that were presented in 2015. I believe that they resonate well with what we have set out to achieve in Arla.

Our main focus is on providing products that contribute to nutrition, health and food security while producing these in a responsible manner that addresses social and environmental impact.

A core element in our new strategy Good Growth 2020, which was presented in December 2015, is that we will develop our position as the global dairy company that provides 'natural goodness'. For us, it's a given that we do all this in a fair and transparent way.

To guide our innovation and category development, we will draw upon the health strategy that we launched last year. This focuses not only on product development, but also on inspiring good food habits and developing partnerships with scientists and influencers. There is still a lot more to understand about milk's role in fighting global challenges such as

lifestyle diseases and malnutrition – and we aim to gain and promote this knowledge.

Despite an increase in production, we have been able to continuously reduce our impact on the environment. Arla's dairy products can therefore form an important part of a sustainable diet, as defined by the Food and Agriculture Organisation of the United Nations (FAO).

Our farmer owners are among the best in the world when it comes to reducing greenhouse gas emissions per kilo of milk and, through our Sustainable Dairy Farming strategy, we will support them to further improve their environmental performance. A key element for more efficient milk production is actually to ensure good conditions for the cows, as happy and healthy cows produce more milk of higher quality.

Our supply chain plays an equally important role in reducing our impact on the environment through strong management practices and the use of new technology. During 2015, we have also increased our use of renewable energy sources.

None of this would be possible without Arla's dedicated colleagues. Our 2015 Barometer survey clearly shows that we have great work satisfaction, a strong positive culture and strong leadership. Engaged colleagues who are ready

for change are crucial to keeping our ambitions stretched and our business dynamic.

Eight years ago, Arla signed up to the United Nations' Global Compact – an important initiative to promote ethical business practice. This means we are committed to adapting our corporate culture and our strategies to the 10 basic principles of the Global Compact. To underline this, we have further developed our Code of Conduct, among other reasons, to reflect a more global Arla with operations in new markets. We have adopted a new policy on human rights to strengthen and clarify what is written on this subject in the Code of Conduct.

One of our commitments is also to communicate these principles to our stakeholders and the surrounding world. This report is part of that work. It is also part of Arla's Annual Report for 2015, which can be downloaded from arla.com.

I invite you to follow our development as a leading and responsible farmer-owned dairy company and let us know where you think we can improve.

Aarhus, Denmark, February 2016

Peder Tuborgh
CEO

About Arla

Arla Foods is a global dairy company and a cooperative owned by dairy farmers in seven countries: Denmark, Sweden, UK, Germany, Belgium, Luxembourg and the Netherlands. Our products are sold under well-known brands in more than 100 countries. We have operations in 38 countries and production facilities in 16 of these. Arla is the world's fifth largest dairy company, based on milk intake, and the world's largest producer of organic dairy products.

Tough year for dairy businesses

High milk prices during 2013/2014 led to an increase in supply. Coupled with the Russian embargo and a sudden fall in import by China, prices plummeted in late 2014 and remained low throughout 2015. The abolition of the European quota system in April 2015 increased supplies of milk in Northern Europe, making the imbalance between supply and demand even worse.

Falling prices on the world market have affected both Arla's revenue and the price we are able to pay our owners for their milk. Arla's net revenue in 2015 amounted to EUR 10.3 billion, which is

a decline of 3.3 per cent over the previous year. In order to maintain the company's profitability and a long-term competitive payment, a number of cost-cutting and efficiency programmes have been initiated.

The milk price for the full year, the so-called Arla performance price, amounted to EUR 0.337. The low price paid to farmers has led to a difficult financial situation on many farms. Discontent among farmers has been considerable and the situation has attracted the attention of both consumers and the media.

Focus on the cooperative

To underline the fact that Arla is farmer-owned and to explain to consumers how the cooperative business model works, we have initiated a 'farmer-owned' campaign.

Arlagården® – throughout Arla

Arla continues its focus on high quality milk and sustainable milk production. The quality programme, Arlagården®, has now been launched in all owner countries.

Expansion in Africa, Asia and Australia

In line with Strategy 2017, we continue our expansion outside our European markets. During 2015, regional business units have been established in Lagos, Nigeria, and Kuala Lumpur, Malaysia. Through joint ventures, we have established strategic partnerships in Nigeria, Senegal, Egypt and Australia. The joint venture partners were all subject to Arla's partnership selection model, which means they were screened and evaluated against predetermined financial, legal and corporate social responsibility criteria.

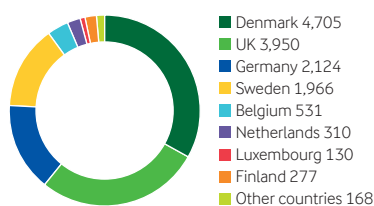
ARLA'S MISSION

To secure the highest value for our farmers' milk while creating opportunities for their growth.

ARLA'S VISION

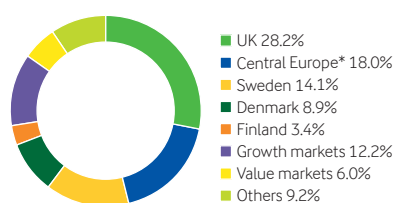
Creating the future of dairy to bring health and inspiration to the world, naturally.

RAW MILK INTAKE, MILLION KILOS



Arla's total raw milk intake amounted to 14,191 million kilos, an increase of six per cent. Owners' milk represents 88 per cent of total raw milk intake.

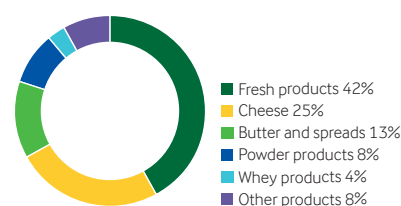
REVENUE BY MARKET



Arla's total revenue has decreased by 3.3 per cent since 2014.

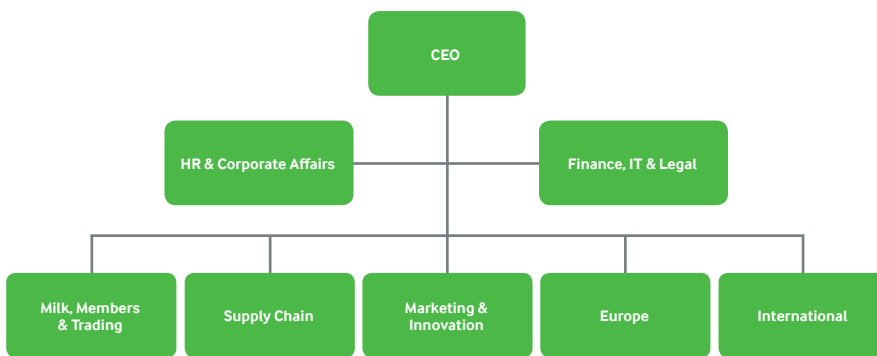
*Central Europe includes the markets covered by Consumer Central Europe.

REVENUE BY PRODUCT GROUP



The revenue by product categories were similar to 2014.

NEW ORGANISATION TO DELIVER STRATEGY 2020



In February 2016, Arla communicated a change to the structure of the organisation in order to best execute its new strategy – Good Growth 2020. For more information see arla.com. For information about the organisation during 2015, the period covered by this report, please see page 63.

MANAGEMENT

Chairman: Åke Hantoft **Vice Chairman:** Jan Toft Nørgaard **CEO:** Peder Tuborgh **Vice CEO:** Povl Krogsgaard

OWNER DEMOCRACY



The chart shows the number of members/owners on December 31, 2015. All elections and polls are held according to the 'one member, one vote' principle. The Board of Representatives is Arla's top decision-making body.

NET REVENUE

10.3

EUR 10.3 billion (EUR 10.6 billion in 2014) of which 73 per cent comes from our markets in UK, Germany, Sweden, Denmark, Finland and the Netherlands. Profit for the year was EUR 295 million (EUR 314 million in 2014).

NUMBER OF COLLEAGUES

19,025

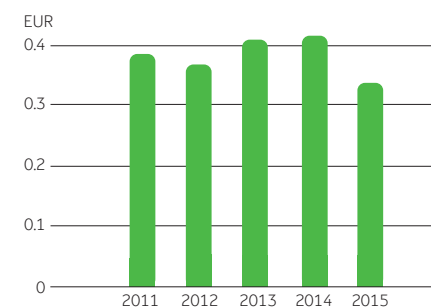
Arla has 19,025 colleagues in 38 countries on all continents. The number of colleagues has decreased by one per cent since last year.

NUMBER OF OWNERS

12,650

Arla is a cooperative owned by 12,650 dairy farmers in Sweden, Denmark, UK, Germany, Belgium, Luxembourg and the Netherlands.

MILK PRICE, AVERAGE PER KILO







Responsible company

In Arla, it is a given that profitability and ethical business practices go hand in hand. But it is not something that simply happens. It takes commitment, collaboration and integrity.

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

Responsibility comes from knowing **right from wrong**

- Revised Code of Conduct
- Increased scope for whistleblowing
- Anti-bribery agenda

Arla is a global business as well as a dairy farmer-owned organisation with owners in Denmark, Sweden, UK, Germany, Belgium, Luxembourg and the Netherlands. We comply with local legislation in all the countries in which we operate and we are committed to the principles contained within our Code of Conduct. This enables us to act credibly and with integrity, and sets a good example of responsible business conduct.

Arla supports Global Compact

In early 2008, Arla joined Global Compact, the United Nations' initiative to promote ethical business practices. As a participant, we are committed to aligning our corporate culture and strategies to the 10 basic principles of the Global Compact, and communicating this to our stakeholders and the world around us. This report describes the progress Arla has made and where we see opportunities for improvement. See also page 64.

We also support the UN Sustainable Development Goals launched in 2015. Read more about this on page 15.

CSR committee focus in 2015

At the CSR Committee's ordinary meetings in 2015 discussions and actions have been based on the findings from the 2014 Responsibility report as well as issues concerning responsibility that have been highlighted by the media, in social media or by NGOs. Furthermore, the CSR Committee has acted as the steering group for the revision of Arla's Code of Conduct, Our Responsibility. It has also overseen the development of a new Human Rights Policy and Due Diligence process, see page 54, which aims to align Arla with UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises. Arla's governance model in relation to corporate responsibility has also been on the agenda. The creation of a cross organisational and cross functional Arla Responsibility Community has been initiated.

Revised and updated Code of Conduct

First published in 2008, Arla's Code of Conduct has been updated to reflect the company of today, our expectations of ourselves and those of the world around us. The language in the Code has been strengthened and sharpened, and our commitments have been clarified. As

WHISTLEBLOWING

Nine

Since its inception in 2012, Arla has received 26 reports from its whistleblowing function. Reports have come from most parts of the organisation and include areas like auditing, accounting, theft, entertainment, and health

and safety. Half of the reports have been classified as inappropriate behaviour towards an individual, which means that we cannot register and process these due to legal reasons. Instead, the reporter is informed of which person to contact within the HR organisation.

In 2015, the whistleblowing function received nine reports of which seven led to further investigation. Depending on the outcome of the investigation, appropriate measures have been taken.

a consequence of the expansion of the Code's scope, we are now including all companies that are owned and/or controlled by Arla in the whistleblower function.

The Code is now available in 12 languages. To support the implementation, e-learning has been revised and a number of communication tools made available for managers and colleagues. We acknowledge the need to develop the understanding of Our Responsibility in all parts of the organisation.

Action against bribery

Following the updated anti-bribery directive in 2014, Arla has appointed a global anti-bribery compliance officer and spent significant time implementing the directive and the associated new processes. One new element is the internal register in which all material gifts and hospitality offered both to and by Arla are recorded. It is mandatory for colleagues to complete and gives Arla an enhanced overview of relevant activity.

Fraud attempts prevented

As a large and well-known company, Arla is exposed to fraud attempts. However, when

subjected to challenge, our internal processes and awareness campaigns have proved to be robust.

During 2015, fraudsters have, on several occasions, attempted to impersonate Arla or one of our colleagues to try to conduct fraud against our business partners or third parties. We have also seen attempts to misuse our corporate identity, logos and letterheads, for example, to render services, obtain prepayments or enter into loan arrangements. All attempts have been reported to the relevant police authorities.

Cost culture focus

During an internal assessment of costs in Arla Sweden, an unacceptable spending pattern has been found in a few isolated cases in specific areas of the organisation, mainly related to customer entertainment. Measures have been taken to rectify this including the implementation of new policies, as well as a review of control systems and processes.

Non-compliance sanctions

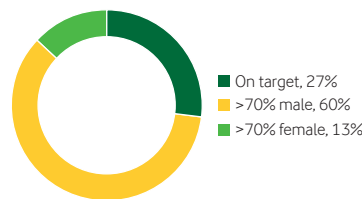
We have had no sanctions of non-compliance with laws and regulations.

ANTI-BRIBERY TRAINING

273

Face-to-face anti-bribery training has been taking place across the business and Arla's commitment to anti-bribery is included in the induction programme. 273 colleagues have taken part in the training and approximately 600 more have been identified as requiring the training.

TEAM GENDER BALANCE



Our 2020 target is maximum 70 per cent of team members to be of the same gender. 27 per cent of teams with more than five members met the target at the end of 2015. Information about diversity in Boards and top management is available in the financial annual report. See also page 54.





Arla's ambitions complement the UN's new sustainability goals

THE GOALS ARE AN INCENTIVE FOR ARLA TO DEVELOP FURTHER AND TO TAKE AN EVEN CLEARER STANCE, SAYS ARLA'S SUSTAINABILITY EXPERT.

In September 2015, the United Nations published its new Sustainable Development Goals. They take a broad perspective and are relevant for all countries, rich as well as poor. For these goals to become reality, all countries, businesses and organisations should embrace whatever change is necessary. For Arla, the journey has already begun.

The new sustainability goals replace the previous Millennium Goals, which largely focused on tackling poverty. Health, peace and equality are now included alongside original areas including poverty, education and climate. The aim is to create long-term resilient communities. Another new element is the expectation that not only are countries and governments invited, but companies and organisations are also expected to cooperate and participate across borders.

"A comparison of the UN's sustainability goals with Arla's sustainability work shows that we are already working in line with more than half of the 17 goals," says Kjell Lundén Pettersson, sustainability and responsibility expert in Arla.

The fact that Arla produces healthy and nutritious food for people around the world and does so in a sustainable way, are clear examples. Kjell Lundén Pettersson also believes that Arla's environmental strategy and commitment to sustainable milk production, which is fundamentally about reducing resource consumption, are fully in line with the sustainability goals. So is the company's responsible sourcing of cocoa and soy, for example, and its conscious efforts to continuously improve the working environment, to combat corruption and clearly standing up for human rights worldwide.

"It's interesting for us to see that we can make a difference through the sustainability work we're already doing. The UN's sustainability goals encourage us to challenge ourselves further and take an even clearer stance on these issues. Our basic philosophy is that sustainability work is part of our contribution to society."

Kjell Lundén Pettersson also sees new opportunities for the dairy industry to achieve common goals through cooperation. At the global climate summit, COP21, in Paris in December 2015, the industry showcased what it is doing and how it is supporting sustainability targets. He also believes that the broad approach of the goals means that more people will feel that they can contribute.

"Everyone cannot be everywhere, but everyone can do something, which will hopefully increase the involvement of the private sector."

In conjunction with the UN's targets, Arla's CEO, Peder Tuborgh, along with the heads of several other leading global companies, signed an open letter published in the Financial Times international edition. As well as showing support for the sustainability goals, it aimed to urge the United Nations to work with the private sector to achieve the greatest possible change.

"At Arla, we already have a clear sustainability agenda. I believe that linking our agenda to the new UN goals can contribute to a better understanding of why this is important, and why we do what we do. Hopefully it will also inspire others so that our impact will be even greater in the long term." ■



Kjell Lundén Pettersson, Ph.D., Senior Manager Corporate Responsibility at Arla.

► Read more at sustainabledevelopment.un.org

We manage our business in a responsible and cooperative way that promotes the financial interests of our owners.

Low milk price, a tough challenge

- Focus on low milk price
- Common settlement model
- Owner engagement

Arla's objective is to create value for its owners. Through the democratically governed farmer cooperative, all owners have an opportunity to influence significant decisions. Owners elect representatives to the company's governing bodies. 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 owners' best interests in mind.

Pressure of a low milk price

Arla's aim is to maximise the price paid to its owners for their milk so they can continue to develop their farms. However, in 2015, our farmers faced a low milk price, putting severe pressure on farm finances. The main reasons for the low price have been the global rise in milk production in combination with the Russian import ban and decreased Chinese imports.

Arla has addressed these challenges with cost savings, efficiency programmes and by transferring as much milk as possible from low profit industry products to higher value and branded positions. Furthermore, top management

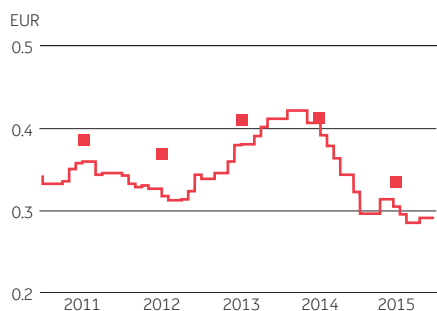
has met politicians and banks among others in our owner countries in order to explain the difficult situation for dairy farmers, with the purpose to mitigate conditions for farmers.

Common settlement model

Arla has merged with other dairy companies over the years. Our settlement model for milk across countries has not been fully aligned. On 1 January 2016, Arla took a major step towards a common settlement model in all owner countries, which after a transition period will provide all farmer owners with equal payment for equal milk. Arla's milk price will be based primarily on the content of fat and protein, and payment will be made on a monthly basis. The model aims to be fair, easy to understand, and is designed to support Arla's strategy because owners will produce milk that will deliver the best performance price.

The testing strategy and the deductions for antibiotics have been aligned in all owner countries since January 2015. However, some national legislative demands make complete alignment impossible. Our aim is to have aligned settlement models for all quality parameters in force in 2017.

MILK PRICE DEVELOPMENT



The Arla performance price (payment to the members plus retainment) for 2015 was 33.7 eurocents/kg milk, which is a 19 per cent decrease since 2014.

The graph shows the on-account price, and the dots the average performance price. The performance price is shown once a year, at the time of the Board of Representatives meeting in February, when profits are distributed.



Strong demand for organic milk

Demand for organic milk is strong in both European and export markets. Arla's goal is to increase organic raw milk intake by 25–30 per cent. During the year, we have recruited organic farms, or conventional farms ready to convert to organic production, covering about half of this goal. However, competition for organic milk on the European market is tough and several organic farmers in Denmark and Sweden chose to leave Arla and sell their milk to dairies that have offered a higher price. This postpones the fulfilment of our goal, but does not change our plan to grow our organic business. During 2015, we increased the additional payment for organic milk several times.

Member influence

Every second year, Arla's owners elect members to the Board of Representatives (Arla's supreme decision-making body) and Board of Directors. 2015 was an election year, and all representatives and directors are appointed for a term of two years.

Newly elected members of the Board of Representatives are invited to participate in an induction and mentoring programme, Arla Kick In, which covers the role of elected representatives, knowledge about the company and meetings with members from the seven owner countries. The purpose of the programme is to enable the representatives to build a good network and a strong understanding of Arla. Furthermore, we have launched an activity, Arla Seminar, for Arla owners to increase their knowledge of their company. Additionally, we launched a new project aimed at increasing farmers' insight and interest in becoming the next generation of elected representatives in Arla.

New democratic structure in the UK

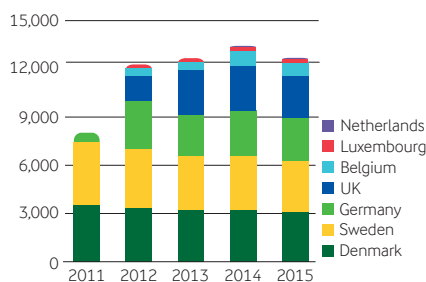
Following decisions during autumn 2015, the British members in AMCo (Arla Milk Cooperative) and AML (Arla Milk Link) merged and, on January 1, 2016, became the UK Arla Farmers' Cooperative Limited. This fulfils the commitment to create one corporate member of Arla in the UK.

SEMINARS FOR OWNERS

12%

The goal set by the National Councils is that 25 per cent of the owners, within all our owner countries, have participated in at least one Arla Seminar meeting in 2015–2016. During 2015, 12 per cent of the owners participated.

OWNERS IN ARLA





Low farm profitability – an acid test for the cooperative

ARLA'S CHAIRMAN GIVES HIS VIEWS ON THE DIFFICULT SITUATION FACING BOTH DAIRY FARMERS AND ARLA AS A COOPERATIVE.

In 2015, the milk price was cut four times and raised twice. On an annual basis this is equivalent to prices five years ago. At the same time, costs for farmers have continued to rise. A challenging financial situation on many farms has caused concern and raised questions about the cooperative's ability to tackle the complex situation.

Arla's Chairman, Åke Hantoft, describes 2015 as an incredibly tough period.

"Nobody is unaffected by this, myself included, neither as member of the Board of Directors nor as an individual dairy farmer," says Åke Hantoft. "For farmers, periods of low profitability always prompt reflection and discussion at both professional and personal levels."

In order to ensure a long-term competitive milk price, Arla has implemented extensive cost saving measures and efficiency programmes. Additionally, Arla focuses on transferring milk volumes from the sale of milk powder on the global market to more profitable product areas. Each litre of milk should give as high a return as possible. In addition, Arla's management has had meetings with politicians and banks in owner markets to explain the farmers' difficult position and try to improve their circumstances.

The critical situation has triggered a need for more communication, and the number of member meetings has increased. Board members and other elected representatives have met many owners who have expressed their dissatisfaction. The owners' difficult situation has also been discussed in many other forums and in the media. During the autumn, Åke Hantoft saw that the turbulence started to transform into a shared understanding of the situation and that the sense of solidarity between farmers grew.

"We're battling on. This is the signal that I'm getting from many owners. We know it's tough, but we must get through this and Arla is our common company that will take us through this crisis."

One of the year's biggest challenges was when the principle of equal payment for milk for all owners – irrespective of country – was questioned by customers, the media, politicians and industry bodies. This led to an extraordinary board meeting in September when the Board unanimously confirmed that the same milk price for everyone is one of Arla's fundamental principles and that nothing should be changed. The Board decided, however, on the possibility of lowering the year-end profit target for 2015 in order to protect the on-account milk price in the remaining months of 2015.

One lesson from this period, says Åke Hantoft, is that the Board of Directors and Arla must increase their dialogue with national industry organisations. If they are to help improve legislation and other conditions for farmers Arla needs to increase their understanding of how the company operates: that Arla follows its mission and strategy to create the best possible conditions for its owners in the long term.

With owners in seven countries, the board has yet another challenge – different items top the agenda in different owner countries at different times.

"The Board of Directors is always focused on Arla delivering as good a performance as possible – so the company can pay a good price for the milk. But our responsibility is also to communicate with our owners in a constructive way. I'm convinced that through dialogue and through making sure that we share basic common values we will create the conditions for Arla to continue to be a farmer-owned and long-term profitable business." ■



Åke Hantoft has been the Chairman of Arla since 2011. He runs the farm Ösarp together with his wife Anna-Carin.

We have open and honest relationships with all of our stakeholders.

Competing on global markets **with strong brands**

- Responsible expansion in new markets
- Consumers support dairy farmers
- Strong reputation in all core markets

We must constantly evolve within an increasingly competitive, fast-moving and dynamic global market. It is essential that consumers trust us. By acting responsibly, communicating openly and maintaining an ongoing dialogue with customers, consumers and other stakeholders, we can create the right conditions for trust.

Growth of brands to strengthen our position

Arla is now the world's fifth largest dairy company in terms of volume of processed milk. In our new strategy – Good Growth 2020 – we state that we will focus on growing our global brands – Arla®, Castello®, and Lurpak® – to further strengthen our position.

As well as our existing markets, we are focusing on a number of countries with good economic development prospects, which are not self-sufficient in dairy. This presents us with the opportunity to bridge the gap between demand and local supply with imported Arla products, while still leaving room for locally supplied dairy products. Before entering a new market an evaluation is made from several business and ethical perspectives. Read more in the case study on page 59.

When establishing a presence in new markets and in emerging economies, we follow a tried and tested strategy to ensure that our business principles and Code of Conduct are adhered to. We begin by setting up a partnership with a carefully selected local partner with whom we can mutually develop. We let the business grow gradually as we learn more about the local market.

Handling the milk crisis

In the autumn of 2015, dairy farmers all over Europe protested against the declining milk prices citing that these were unsustainable for them to run a profitable dairy business. The intense media coverage provoked debate in a number of markets, and consumers got involved via social media in support of the farmers.

In addition to our internal cost saving measurements, the milk price crisis has prompted several stakeholders to launch initiatives to show support for dairy farmers. As well as individual consumers, these include governments, local communities, customers and retailers. The engagement is, of course, very positive. We were however challenged when

FARMER-OWNED MARQUE



We have launched a number of initiatives to be clear to consumers that Arla is farmer-owned, and that profits go back to Arla's farmers. The marque is, or will soon be, on Arla® branded products in all countries.

HIGH RANKING OF ARLA BRAND

12th

According to a report from the global brand consultancy Brand Finance®, the Arla brand has increased in value and is now ranked as the 12th most valuable food brand in the world. Compared to all global brands in all sectors, Arla is number 364 (last year 444).



some retailers asked that the extra consumer payment be distributed only to farmers in their own country. This presented us with a dilemma. Arla was in the extraordinary situation of having to tell its customers that Arla could not pay the extra money only to farmers in local markets. This is because Arla is a cooperative that pays all its owners the same price for their milk. A breach of this principle would be a breach of both our cooperative philosophy and our mission. Read more in the case study on page 19.

Regional products versus production efficiency

Increasingly consumers are demanding foods that they know are produced in a specific location, region or country. To meet this demand, we are increasing the number of locally and regionally produced Arla branded milk, butter, cheese and creams that we offer. At the same time, it is important for us to coordinate production across borders in order to build our global brands and achieve production efficiencies. The Arlagården® quality programme helps us to ensure that the standard of raw milk is the same wherever it is produced.

Strong reputation in core markets

For a number of years we have been conducting annual surveys to monitor consumers' opinions of Arla. The survey now covers Denmark, Sweden, Finland, Germany and the UK (since 2014). For the first time, Arla's reputation is ranked as strong in all participating markets. Increased scores in Finland and Denmark were particular highlights this year. See diagram below.

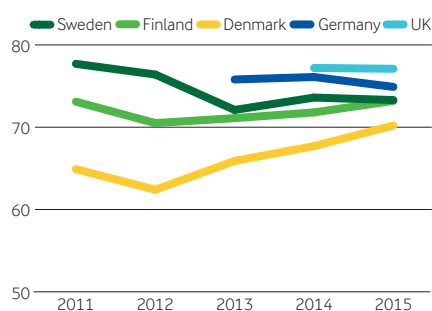
Governance and Citizenship have increased in importance as main drivers of reputation. Consumers appear to agree on Arla's quality of products in the majority of markets, and are starting to prioritise other qualities as reputation drivers. In Denmark, where we receive the lowest scores, although considered as strong, some members of the public do not perceive us as being sufficiently transparent and fair. In Germany and the UK, Arla is less well known, allowing us to build the brand.

Active consumer dialogue

Millions of people buy and eat our products every day, and appreciate the cooking inspiration and recipes we offer. In the case of complaints and comments, these are answered by our



CONSUMER VIEWS OF ARLA



The diagram shows the overall score on a scale of 0–100, with 100 being the highest and above 70 considered strong, awarded to Arla by consumers in a survey conducted by Reputation Institute in spring 2015.

The survey asks consumers, familiar with Arla, what they think about our company in seven areas: Product/ Services, Innovation, Workplace, Governance, Citizenship, Leadership and Performance.

For the first time, Arla's reputation is ranked as strong across all markets surveyed. Increased scores in Finland and Denmark were particular highlights this year.





consumer relations service. In Northern Europe, our consumer relations services received more than 150,000 enquiries in 2015. Furthermore, consumers increasingly want to share their views in our social media channels on topics like animal welfare, packaging, the origin of milk, additives, sustainability, for example.

Year on year, our consumers become more and more active in digital channels. We want to engage with them in these channels and consider this dialogue as an opportunity to learn not only more about consumer needs, which can drive growth and innovation, but also to spread information about our position on subjects and way of working.

Focus on customer relations

We produce both branded and own label products for the retail and foodservice sectors as well as products for the food industry. Distribution and service levels are important parts of our offering, and good relations and dialogues with customers are crucial. We adapt to our different markets and react to each market separately. Depending on customer expectations and our performance, we receive both praise

and criticism. Customers have presented us with awards and acknowledged our work in Denmark, the Netherlands, Sweden and the UK, of which we are proud. However, we have also received complaints, for example, about delivery performance in some markets. To address complaints, we initiate action programmes as we are committed to continually improving our performance.

Arla signs up for fair business practices

A supply chain initiative was launched by seven EU level trade associations to increase fairness in commerce and the relations between supplier and customer. During 2015, Arla signed up to the Principles of Good Practice, together with 178 other companies across the EU. The principles ensure that disputes can be addressed in a fair and transparent way and provide a good framework for doing business.

SOCIAL MEDIA

64M

Our websites in our core markets receive many visitors. For example, arla.dk, arla.se and arla.fi together have 64 million visits annually. Our German Facebook page had over 27 million visits in 2015 and Puck Arabia Facebook has 525,000 followers.

STRONG MARKET POSITION

No. 1

In Denmark, Sweden and the UK we are the largest dairy company, in Finland and the Netherlands the second, and in Germany within the top three. In these countries we produce both Arla® branded and retailers' own label products, as well as ingredients for the food industry.



4 QUESTIONS FOR A PROFESSOR OF MANAGEMENT



Majken Schultz, Ph.D., is Professor of Management at Copenhagen Business School and International Research Fellow at the Centre for Corporate Reputation at Oxford University. She specialises in Organisational Identity and Corporate Branding.

When a company has a very large market share, what is typically its biggest risk in terms of corporate responsibility?

I think the biggest risk is falling asleep, because you are big and comfortable. The risk is that you don't push and develop your categories and you don't see pushing the boundaries on behalf of the whole industry as an opportunity. You also have to beware of becoming arrogant and taking advantage of smaller players.

What can big companies gain from acting responsibly in a market?

By acting responsibly you earn a loyalty and esteem from your stakeholders that can make a difference particularly in times of trouble and market disruptions. Being responsible is not easy. In Arla's case the company has farmers, consumers and a lot of other people who need to get on board, and that's not something you achieve overnight. It's a continuous learning process for all the stakeholders involved in the company.

Arla has a leading position in most of its core markets. How do you think Arla is handling this?

If you look at the recent reputation studies in Denmark, Sweden, Finland, Germany and the UK, Arla's reputation has either improved or remained the same in the last five years. That's quite an accomplishment. Arla has primarily achieved this based on excellent products and services, but could still improve the transparency around governance structure and citizenship, making it even clearer how the company positively

contributes to society. Although Arla is improving and is doing well, the company still misses a compelling narrative. The discussions last year, during which some retailers wanted to give money to the farmers because of the low milk prices, highlighted that there's a lot of confusion about where the money would go. That lack of transparency and understanding of the European cooperative is important to address. The 'farmer-owned' campaign is a very wise step, but time will show if it is enough.

Are there other areas in which Arla, in your eyes, needs to do better?

I think Arla has overcome its aversion about being a big player. Arla has developed a lot. To me, it's very interesting how the company is able to leverage its cooperative past much more, because it is truly distinctive and difficult to copy. Arla is unique both in its heritage and in the fact that the milk is still produced by individual farmers. With consumers wishing to know more about animal welfare and ethical standards in farming, this is a huge asset that still needs to be leveraged. Arla needs to make this a part of a bigger responsible agenda and expand the story of 'farmer-owned' into how this ensures better and safer products and also how I can contribute as a consumer.

We expect our suppliers to support us in our commitment to abide by our Code of Conduct.

Sustainable sourcing at each stage

- Expectations of suppliers
- Responsible sourcing
- Holistic approach

We source 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 support us to meet our aim of procuring goods and services in a responsible manner.

Statement sharpened in new Code of Conduct

In our updated and revised Code of Conduct, the text about procurement and supplier relations has been clarified and sharpened to reflect our demands on suppliers and what they can expect of us. As well as basic quality and food safety requirements, we clarify expectations in relation to environmental, social and human rights aspects. Furthermore, we have increased our focus on how we collaborate with suppliers and highlight engagement in multi-stakeholder initiatives. Also included is sourcing of sustainable and responsible agricultural and forestry-based products. Following the revision of our Code of Conduct, the code of conduct for suppliers has been updated.

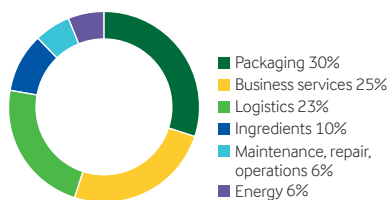
More preferred suppliers

The global procurement department has overall responsibility for procurement in Arla, the exception being the purchase of milk. Our globally managed external spend represented around 75 per cent of our total spend in 2015, compared to 72 per cent in the previous year.

Arla now has approximately 1,130 preferred suppliers (1,050 in 2014) that are approved by the global procurement department. Signed contracts govern the relationship between Arla and these suppliers and they are Arla's first choice suppliers. Ensuring the compliance of purchases from preferred suppliers is a key focus area across Arla, the aim being to reduce risk and complexity as well as the release of capital and decreasing costs. A new purchase-to-pay system and process was introduced during 2015, supporting this ambition.

We continue to work towards our target of 100 per cent of all preferred suppliers having signed our code of conduct for suppliers. The code has been updated several times and we have raised the requirements for which version of the code that is accepted. The process is not finalised, and

GLOBAL CONTRACTS



The diagram shows the external spend handled by Arla's global procurement department, divided across product and service categories. Our 10 largest suppliers account for 17 per cent (15 per cent in 2014) of our total external spend.

In 2015, the following companies were our five largest suppliers in order of size of spend: Elopak (packaging materials and machinery), PCL Transport (distribution), Carat (media), Moran Logistics (distribution) and SIG Combibloc (packaging materials and machinery).

currently 50 per cent of suppliers, in relations to spend, have signed the latest version of the code.

Holistic approach

We continuously strive to engage with suppliers who can support us in our efforts to source responsibly as well as reduce costs. Our Total Cost of Ownership (TCO) process helps us to identify cost saving opportunities for the entire life cycle of the products and services we purchase. The aim is to achieve a greater degree of transparency, as well as improved purchasing terms with suppliers.

TCO provides a holistic perspective that includes considerations in relation to environmental sustainability, ethics and social responsibility when selecting a supplier. For example, the process has been used for the new 'green' liquid cartons launched in Denmark and Sweden, read more on page 39, the light weight plastic bottles in the UK and the continued standardisation of corrugated packaging materials which reduces material usage. Another example is the decision to install two new warehouses in Germany in order to reduce greenhouse gas emissions and increase logistics efficiencies.

Supplier audits across the world

We carry out a number of audits every year, during which we visit suppliers and inspect relevant areas. In 2015, we conducted approximately 35 audits globally (40 audits in 2014), focusing on food fraud, origin of raw materials, allergens and traceability.

As Arla is expanding globally, we have established a quality and responsibility function in our Asia procurement office. This function will ensure all Asian suppliers are closely monitored, audited and reassessed if necessary.

Same demands on subcontractors

In Sweden, we identified areas of concern regarding transport operations performed by subcontractors to our preferred suppliers of logistics services. Our main concern was the working conditions for the drivers and their lack of familiarity with Arla procedures. As soon as these issues were highlighted, our procurement team initiated a dialogue with the preferred suppliers. We are committed to ensuring that our preferred suppliers and their subcontractors adhere to Arla's requirements as well as the laws of the countries in which they operate, when delivering to us.

RESPONSIBLE SOURCING

100%

All cocoa used by Arla and Cocio for branded products is UTZ certified. All soy used at Arla farms is covered with RTRS certificates or ProTerra certified, see page 45. Arla's statements on cocoa, palm oil and soy are available at arla.com.

SUSTAINABLE PALM OIL

RSPO

90 per cent of palm oil purchased during 2015 has been segregated and certified according to RSPO (Round table for Sustainable Palm Oil) criteria. Plans to fulfill additional demands, e.g. traceability and protection of peat land, are requested from our suppliers.







Confidence in products

Supplying safe products is our top priority. And we strive to do even more – we aim to make it possible for consumers to make their own informed and healthy choices of products based on clear information and knowledge.

We ensure our products are safe, no matter where they are manufactured.

Safe products are our **top priority**

- Improved manufacturing standards
- Milk quality is key
- Globalisation leads to new challenges

As a responsible food manufacturer we are dedicated to ensuring that eating and drinking our products does not cause illness or injury. We make every effort to ensure that our processes are safe, and that high quality standards are maintained, and continuously improved, throughout our 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.

Raising the bar for manufacturing standards

We want to continuously improve our manufacturing standards, no matter where our products are made. Most sites have already made the transition to GFSI (Global Food Safety Initiative) recognised food safety standards and the remaining sites will transfer to the standards in 2016. We are now in the process of setting the same requirements for our subcontractors, joint ventures and for relevant suppliers of, for example, ingredients and packaging.

By working with a select number of certification bodies that cover all Arla sites, the external auditors will know us better and be able to

challenge us even further. Audits are used to measure our performance and therefore initiate more value driven improvement, performance and alignment across the business.

The importance of standardised routines and knowledge sharing is crucial during times of significant change. One example is when we transformed a closed cheese dairy in Falkenberg, Sweden, into a modern cottage cheese site in a short space of time. Thanks to tried and tested processes and engaged colleagues, production quickly reached full capacity and all food safety certifications were achieved.

Focus on milk quality

We are continuously taking measures to avoid contamination of milk and dairy products, both on farms and at our sites. For example, we cooperate with national authorities and stakeholders to develop our screenings for foreign substances in milk, for example, heavy metals and pesticides. We combine continued testing for important and well known substances based on new knowledge about potential problematic constituents.

PRODUCT RECALLS

	2011	2012	2013	2014	2015
Recalls	4	6	7	6	7

If we have to recall a product from consumers or stop a product that has been delivered to a retailer or another customer, we have procedures in place to ensure that we can act immediately. Despite our efforts relating to quality and food safety routines, we have recalled products on seven occasions during the year, as the products did not meet required standards.

One recall was due to a failure in the management of allergens (an oat labelling issue) and one was due to lactose being present in a lacto-free product. Two recalls were due to the potential presence of Listeria in imported cheese. Product quality deficiencies caused the remaining three recalls. All four food safety related recalls involved minor volumes, each affecting only one market in the Scandinavian region.

Incidents like these always activate a thorough analysis of the causes and initiate actions so that the error we have made is corrected and the quality irregularity is not repeated.



New testing procedures from farm to dairy regarding antibiotics have been decided. During 2015, in most countries, we have stepped-up milk testing routines on farm and the new procedures will be fully implemented in 2017. All tankers will be tested for antibiotics before unloading milk at the dairy. If tankers are carrying milk containing antibiotics, it is discarded at the dairy and the farm supplying the contaminated milk is identified. During each milk collection at Arla farms, a milk sample is taken and five times a month a random sample is analysed for antibiotics. If the test shows traces of antibiotics, the farmer will have to pay a fine. He or she may also get support to uncover the causes and advice to improve routines at the farm. Read more about antibiotics below.

All Arla's farmers also fulfil strict criteria on the use and storage of chemicals and cleaning agents. These are described and controlled through our quality programme Arlagården®.

New requirements for new markets

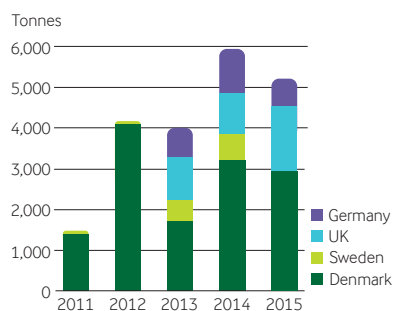
When we enter new markets outside the EU, food safety needs to be thoroughly considered and evaluated, for example, when products require longer shelf life, and/or the distribution

network is different. To handle new requirements, we continuously focus on internal and external dialogue to ensure a common understanding as well as research and innovation initiatives.

Increasing food safety knowledge among subcontractors that produce our branded products is another important task. As we become a more global company, and the number of subcontractors rises, so does the need for global standardisation of subcontractors. A global subcontracting manager has been employed with the task to drive standardisation and ensure any decision to subcontract is approved and signed off.

We now have one global ingredient specification procedure which allows Arla to more rapidly respond if there is a suspicion that ingredients don't meet our quality standards or even in cases of suspected food fraud. The new procedure will also help us to strengthen the governance around introducing new ingredients, especially in the light of the innovation agenda.

ANTIBIOTIC MANAGEMENT



The diagram shows the volume of discarded milk at our dairies in Denmark and Sweden, and since 2013 also including the UK and Germany.

Arla takes seriously the management of the treatment of ill cows and the presence of antibiotics in raw milk. When sick animals are treated with antibiotics, milk from the cow is discarded at the farm during the period of treatment and for a period of time afterwards.

In 2015, the volume of discarded milk has decreased by approximately 12 per cent. The most significant reduction has taken place in Sweden where no milk has been discarded at all. In Germany and Denmark a decrease is also seen, whereas there has been an increase in discarded milk in the UK.

In total 5,215 tonnes of milk were discarded during 2015, which corresponds to 0.037 per cent of the total milk intake in Arla.

We make products based on nutritious milk and natural ingredients available to consumers around the globe to enhance the quality of people's lives.

We make it easier to live a **healthy life**

- Health strategy roll-out
- Inspiring good food habits
- New centre for nutrition and health

We are committed to meeting consumer demand for healthy products and reliable nutritional information. We inform our consumers about the contents of all our 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.

Health strategy implementation

Following the launch of our global health strategy in 2014, several projects have been initiated linked to consumers, for example, improved nutrition profile of everyday dairy products, products fulfilling specific requirements, inspiring good food habits and spreading knowledge about the goodness of milk.

By creating criteria for nutrient content we aim to improve the nutrition profile of our products. The recently introduced Arla® brand Nutrition Criteria includes clear guidelines for the nutrient content of all products under the Arla® brand and it also includes the nutritional claims that can be used in conjunction with the products. Initially,

the criteria will be used when developing new products, but ultimately for existing products within the brand. The criteria will guide us in developing dairy products that contribute to a healthy diet with high nutritional content and limited sugar, salt and saturated fat.

Another example is the established team of Arla health coaches in Sweden who communicate with consumers through different channels. In blogs on the website vardagspuls.se, and via the daily TV show 'Vardagspuls' sponsored by Arla, the coaches inspire consumers to eat more healthily and to understand the link between physical activity and a balanced diet. Presence on health websites and on arla.se are other ways the coaches reach consumers. Our health coaches are four registered dietitians with expertise in healthy everyday food, weight management, food and physical performance as well as gastric and gut health and food intolerances.

In Denmark, Arla takes part in the health project 'Mit Gode Liv' that aims to improve male health conditions while at work, in cooperation with the Danish Heart Association and the Danish Lung Association. Arla Denmark also joined the

NUMBER OF LACTOSE-FREE PRODUCTS

	2011	2012	2013	2014	2015
Finland	30	37	46	68	93
Sweden	32	32	35	43	43
UK	11	11	13	12	15
Denmark	3	3	8	11	15
Germany	2	5	5	5	6
Netherlands	-	-	4	4	4

To give people who have difficulty digesting products containing lactose the opportunity to consume nutritious dairy products, we provide lactose-free products. In addition, most yellow cheeses are practically lactose-free.

private/public initiative Danish Meal Partnership in 2015. The aim of the partnership is to improve health equality through healthy foods and meals.

Development of healthier products

A lot of new and healthier products, in different categories, have been developed during the year. For example, we have reduced salt content in cheeses and reduced added sugar in milk drinks and yogurts. In the UK, we have launched chocolate and strawberry milk drinks in small serving sizes and with less sugar. The idea is that this would lead to a smaller energy intake and mean there is more room for other important nutrients in the diet. Lactose-free products are increasingly requested in, for example, Germany, and products with high protein content, such as skyr and quark, are now sold in all of Northern Europe.

Faster path from research to product

It is important for Arla that we carry out continuous research into nutrition. We want to have as much knowledge as possible about the link between the nutrition our products provide and people's health. We contribute to international research by being an active member

of organisations like ILSI (International Life Science Institute), a worldwide foundation that seeks to improve the wellbeing of the general public through the advancement of science. Arla Foods Ingredients is a member of GAIN Nordic Partnership, which is a Nordic unit of the Global Alliance for Improved Nutrition with the mission to reduce malnutrition within populations at risk.

In spring 2015, Arla Foods Dairy Health and Nutrition Excellence Centre opened for business in cooperation with Aarhus University and University of Copenhagen in Denmark. The centre is a research lab and a hub for dairy health and nutrition, well connected to the international research network. Our aim is that the centre will enable fast and efficient translation of research into competence building and prototyping of future healthy products and solutions. Additionally, the centre will provide knowledge sharing, training and education for all partners including 25 post graduates and 15 Postdoctoral researchers.

Furthermore, we have joined a Clinical Research Working Group, initiated by representatives of leading nutrition companies. The objective is to



HEALTHY LIFESTYLE

INSPIRE

Many of our activities focus on inspiring young people to take part in physical activity. One project, in collaboration with the Swedish Olympic Committee, presents milk as 'Nature's own sports drink'. For more examples, see next page.

ARLA FOUNDATION

1,550

Arla Foundation's Food Camps for young Danes have this year been attended by 1,550 school children 13–14 years old, learning about food, cooking, raw materials and nature through various indoor and outdoor activities.





reach a common international view on standards for nutritional research supported by the industry, and a correct and fair appreciation of the scientific value and credibility of such research.

Dietary guidelines with sustainability perspective

Sustainable diets have been publically debated and the consumption of dairy products has been increasingly challenged from an environmental point of view. We think it is important to stress that milk and milk products are naturally nutrient dense foods that also contribute with significant amounts of vitamins, minerals and macronutrients (protein, carbohydrate and fat) to an individual's daily dietary requirements. Similarly, milk has many health benefits that are acknowledged by food agencies all over the world which is why they include dairy products in dietary recommendations.

New dietary guidelines combining nutrition/health and environmental sustainability have been issued by the National Food Agency in Sweden, including advice on consumption of dairy products. In our opinion it is both important and positive that the agency has chosen to include both perspectives in their guidelines.

Map of nutrition and health status

Our global nutrition team has created a map of the current nutrition and health status of different regions in the world, for the general population. This is updated regularly and is an internal tool that directs new product development through its overview of potential consumer needs globally.

EXAMPLES OF LOCAL EVENTS

- **Canada.** Colleagues participate in a beach volley tournament, combining a sports event with a charity for sick children.
- **Denmark.** We sponsor the Team Rynkeby running event for children (Skoleløbet), collecting funds for Children's Cancer Foundation.
- **UK.** We have supported the Milk Race cycling event and distributed 12,000 product samples.
- **Netherlands.** We take part in campaigns to inspire consumers to start exercising, and for children to live a healthy lifestyle by contributing to sport and play materials for schools.
- **Nigeria and Ivory Coast.** We sponsor health checks by doctors and nurses who advise consumers on healthy products and a healthy lifestyle.
- **Sweden.** Through various sports events, we have met and provided approximately 800,000 consumers with milk, communicating the connection between milk and health.
- **UK.** A representative of Arla's sustainability team was invited to an All-Party Parliamentary Group in House of Parliament in London to talk about the role of dairy in a healthy and balanced diet.



5 QUESTIONS FOR A PROFESSOR OF FOODS FOR HEALTH



Bruce German is Professor and Director of Foods for Health Institute at UC Davis in California, and a leader in dairy research. He is well-connected in the global dairy industry, and a member of the Arla Foods Executive Scientific Advisory Committee.

In its health strategy, Arla sets out to 'make it easier for consumers to live a healthy life' by utilising the various nutrients in milk and inspiring good food habits. Do you think Arla is doing enough to achieve this ambition?

Arla is, in many ways, leading the dairy industry in vision and action by attempting to provide consumers with a greater range of products and an interesting portfolio of services to support a healthier lifestyle. I am particularly impressed with the company's recipe-based internet presence that both educates and informs consumers. However, Arla could do more considering the nutritional value of milk and the existing problems with health.

Can a company that also produces butter, cream and rich cheeses credibly pursue a health agenda as Arla does?

You should only be afraid to sell butter if you believe the prevailing, but frankly illogical, idea that there are such things as good foods and bad foods. Health is the result of the entire diet and any one food is just a single step in that daily journey. There is no single food or beverage product that, when consumed in excess, is not toxic, including water. All of the dairy products that were mentioned in the question are able to provide unique health benefits.

Are there important differences in consumers' health focus in different parts of the world, and how do you think Arla is able to handle and adjust to such differences?

There are important health differences within a single family! You don't need to go to Asia to realise that diet and health are marvellously diverse. Until Arla realises that it is in the business of delivering health and not milk, the company will not be able to handle and adjust to such differences.

Do you see a problem with dairy companies introducing milk and dairy products in countries where dairy has not been a traditional part of people's dietary habits?

Is there a problem with Apple introducing computers and phones in countries where computers and phones have not traditionally been part of people's daily habits? If you don't feel that you have products and services that improve people's lives step aside and let someone in who does.

When it comes to helping consumers live healthier lives, what can Arla do even better?

In my opinion, Arla owes it to its legacy of dairy farmer-owners to use the tools of modern science to understand why milk is so remarkably positive when it comes to health. The company should advertise that they are doing it, and they should start the process of moving the food industry from its current 'crazily' branded, product-centric food marketplace to a health-driven, complete diet, consumer-centric health enterprise.



Is milk healthy?

ARLA COUNTERS CRITICISM OF DAIRY'S HEALTHY PROPERTIES WITH SCIENTIFIC FACTS.

In recent years, new dietary trends have become a hot topic. Milk and dairy products have been in the spotlight too, the pros and cons of which have been discussed by researchers as well as in consumer forums. So, what stand does Arla take in the milk debate?

"We truly believe that dairy is an important part of a healthy diet," says Anne Louise Mørkbak, head of Arla's Global Nutrition team. "Globally, dietary recommendations are that milk and dairy are consumed as part of a healthy diet, not just during childhood, but throughout life."

The recommendations she refers to are based on continuous reviews of nutrition science. According to these, dairy contributes significantly to an individual's calcium and protein requirements, as well as a wide range of vitamins and minerals.

"There is actually more to it. Science also shows that milk and dairy can have a positive effect on malnutrition, obesity and western lifestyle diseases. We are collaborating with scientists to investigate this further."

Yet, there are claims that milk fat should be avoided, that milk is only for children and that there are alternatives that are nutritionally equal to cows' milk. These are just a few examples. How does Arla respond to these critical opinions?

"We want to contribute to the discussion in an objective and science-based manner. We address criticism with facts, and we are continuously reviewing new scientific research. For example, we know that there are no vegetable-based beverages that are nutritionally equal to cows' milk. They are often equal in energy but the content of protein differs and the natural amount of vitamins and minerals is lower. We are

convinced of milk's high nutritional density, but we are not just looking for the pros, but also for the cons – we want a realistic picture. If there are negative effects, we want to learn more about them."

To avoid nutritional information seeming biased, Arla has chosen to work with multi-stakeholder initiatives like Global Dairy Platform, dairy organisations and with independent scientists who communicate their work through scientific papers. Anne Louise Mørkbak stresses that the studies are defined by the scientists and that Arla does not, and should not, regulate what is published. She believes that the findings – positive and negative – will increase general knowledge about milk and health.

One obstacle that is cited in relation to Arla growing its business in markets like Africa and Asia, is that more than half of these populations are said to have problems eating products high in lactose. Anne Louise Mørkbak explains that scientific research shows that most people can eat and digest some dairy with lactose, especially if consumed during a meal and over the course of a day. To give consumers a choice and the opportunity to avoid lactose, if they wish, in many markets Arla offers lactose free products. Anne Louise Mørkbak also points out that most hard cheeses are naturally lactose free and yogurt is better tolerated by lactose intolerant consumers. In fact, the cultures in yogurt ease lactose digestion in the gut.

In the majority of markets in which Arla's dairy products have been introduced recently, they are regarded as quality foods with high nutritional value. Something that seems to be somewhat neglected in the debate in other parts of the world according to Anne Louise Mørkbak.



Anne Louise Mørkbak, Ph.D. in Biology/Biochemistry, Director Global Nutrition in ASIC, Arla Strategic Innovation Center, supporting all categories and all markets in the area of nutrition.

"In my opinion, we have forgotten to talk about the goodness of milk, at least in Northern Europe. We have lost a generation – many of today's children and young adults don't know the benefits of dairy. It's a shame. We have a really nutritious raw material, and the best starting point to make healthy products." ■





Care for the environment and animal welfare

As a dairy company, we have a natural interest in good environmental and dairy farming practices. We work to continuously reduce our negative environmental impact, and maintain high animal welfare standards.

We continually improve our environmental performance by applying sound and sustainable principles throughout our entire value chain.

We continue to **reduce** our **climate impact**

- Increase in renewable energy
- Challenge to improve transport emissions
- Launch of 100 per cent renewable cartons

Food production, packaging and transportation of products invariably affect the environment by emitting substances into the air, the fields and the water. Therefore, our ambition is to minimise such emissions and continually reduce our environmental impact within the entire supply chain in order to contribute to sustainable development.

Environmental strategy 2020

Arla's environmental strategy is the guiding principle for all environmental and climate work within the company. The strategy states that we will reduce greenhouse gas emissions by 25 per cent within operations, packaging and transport, compared to the 2005 level. Since 2005, Arla's total climate impact has decreased by 16 per cent, despite increased production. See diagram below.

Energy and water use

Our environmental strategy also includes efficiency targets of three per cent annual reduction in water and energy consumption up to 2020. By then, half of the energy we consume must originate from renewable energy

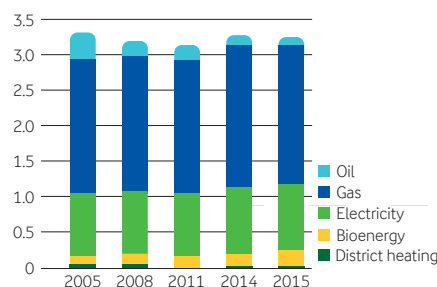
sources. During the autumn, Bislev dairy in Denmark switched to biogas. It is in the plan that by summer 2016 Arinco and Rødkærbro dairies in Denmark will also make the shift, which will reduce greenhouse gas emissions by approximately 39,000 tonnes. By 2018, five more dairies in Denmark will switch.

Furthermore, shifts to renewable energy, together with energy efficiency improvements, have been made at Jönköping and Sundsvall dairies in Sweden. During 2015, the total energy consumption in Arla has increased. See diagram below.

Our repackaging site in Ivory Coast, which opened in 2014, is powered by solar panels, which account for approximately 75 per cent of the site's energy consumption. At our repackaging site in Bangladesh, solar panels with a battery bank will be installed during 2016 to provide power back up due to the site experiencing many power interruptions each day.

We are also working systematically to reduce water consumption. Our total water consumption shows a three per cent decrease during 2015,

ENERGY CONSUMPTION, TWh



The diagram includes all Arla facilities at the end of 2015. Previous years' data has been updated. During 2015, energy consumption increased by approximately 0.3 per cent. This is an effect of a 1.0 per cent increase in production and an increased share of powder production.

Since 2014, the share of renewable energy has increased by 1.4 per cent to 19.1 per cent.



despite increased production. At Aylesbury dairy in the UK, we harvest and use rainwater and recycle clean waste water by passing it through state-of-the-art filtration systems. At our Llandyrnog site, also in the UK, we have installed heat recovery systems that can store and reuse hot water, which also save energy. Furthermore, Danmark Protein in Denmark has saved up to 22 per cent water per kg of product by recycling water from whey powder production. We are currently looking into the possibility of rolling out similar initiatives to other sites.

Transport improvements

Optimising transportation and minimising fuel consumption continue to be areas where we can improve. In Sweden, a switch from fossil to biofuels has been ongoing since 2013, and during the last year was facilitated by tax incentives. Different fuel initiatives have reduced greenhouse gas emissions by 65–90 per cent per truck, depending on what biofuel that is used and compared to fossil fuel. The most common biofuels are RME (Rapeseed Methyl Ester) and HVO (Hydrated Vegetable Oil). In Sweden, it is expected that by 2016, in total, we will use 85–90 per cent biofuel.

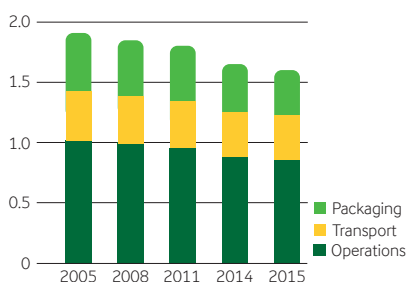
Switching to biofuels is a bigger challenge in many other countries, for example in Denmark, due to lack of economic incentives. Without alternative fuels, reaching our greenhouse gas emission targets in these countries will be very difficult.

During the transportation of raw milk from farm to dairies, there have been several initiatives to increase the size of the tankers so that more milk can be transported by the same vehicle. The combination trailers introduced in 2012 in the UK, which are equipped to carry both raw milk and finished dairy products, have achieved significant savings and are continually being improved. Moreover, a general reduction of the weight of trailers has made it possible to carry more milk.

Renewable packaging

We strive to increase the use of renewable raw materials in our packaging. As a result of partnerships with two of our largest suppliers in Denmark and Sweden, we have introduced the first milk cartons where both the carton and the plastic in the caps, fittings and coating is made from renewable raw materials. From one supplier

CLIMATE IMPACT, MILLION TONNES OF CO₂-e



Arla's goal is to reduce greenhouse gas emissions from operations, transportation and packaging by 25 per cent by 2020, compared to the 2005 levels. Since 2005, Arla's

total climate impact has decreased by 16 per cent, despite increased production.

The new dairy in Aylesbury, in the UK officially opened in 2014, has pushed the boundaries to reduce greenhouse gas emissions as far as possible. The learnings we have gained are currently being implemented at other sites.

In 2016, further focus will be placed on reaching the 2020 goals. The greatest challenges to achieving the climate goal lie within transportation.

For initiatives to reduce climate impact on farm, please see page 44.



the material is sugar cane-based, from the other it is based on second generation renewable raw materials. The change is estimated to reduce greenhouse gas emissions from the milk cartons by approximately 20 per cent.

Reduced food waste

Another goal within our environmental strategy is the ambition to reduce food waste from production. At Stourton dairy in the UK, we previously sent liquid waste to anaerobic digestion plants. We are now able to send the surplus to animal feed instead, about 1,000 tonnes per year.

We also strive to offer smarter packaging to help consumers reduce food waste. Our aim is to maintain the product's natural goodness and taste for as long as possible. The newly introduced milk with extended shelf life in the Netherlands is also expected to reduce food waste. On the other hand, producing milk with longer shelf life requires more water and energy, which does create a dilemma. In Denmark, we participate in a project with a retailer with the purpose of identifying food waste through the value chain.

International collaborations

Arla supports different international organisations with the aim to promote a sustainable global dairy industry. Through Global Dairy Platform (GDP) we collaborate with colleagues around the world to further improve the sustainability of our industry and to communicate our efforts. Arla has also endorsed the Dairy Sustainability Framework, which is the Global Dairy Agenda for Action programme, which aligns and connects sustainability initiatives to demonstrate leadership and progress globally. In addition, we actively contributed in an EU review with the objective of describing the best available techniques for the dairy industry regarding energy and water usage. This helps us influence the use of future standards and receive information at an early stage.

ZERO WASTE TO LANDFILL

60%

Approximately 60 per cent of our production sites have achieved zero waste to landfill status. One of our environmental goals is to achieve zero waste to landfill for all our sites by 2020.

TOTAL ENVIRONMENTAL IMPACT

NCA

Arla has started a project to map the total environmental impact from cow to consumer, using a method called Natural Capital Accounting (NCA). The method will be used as a complementary tool to help visualise environmental impacts in financial terms. Read more on page 43.



4 QUESTIONS FOR A SENIOR ADVISOR AT WWF



Lena Tham, Senior Advisor at WWF Sweden, has been Arla's main contact person in WWF for several years. She coordinates issues, activities and questions from WWF towards Arla and from Arla into the WWF global network.

In what areas can a company like Arla make the biggest contribution to a better environment and climate?

Biodiversity, as well as healthy and well-functioning ecosystems, are the foundation for life on earth. Cows have a unique capacity to transform grass into valuable protein, particularly on land not suitable for crops. That is why protecting and enhancing ecosystems throughout the entire supply chain, including feed production, is an area where Arla can really help make a difference. Arla can, of course, also make an important contribution when it comes to reducing greenhouse gas emissions – both from the animals but also from feed production. Another important area is to continue to reduce waste in the entire supply chain.

Compared to other food industries, what unique environmental challenges do you consider to be the most urgent when it comes to the global dairy industry?

The Food & Agriculture Organisation of the United Nations (FAO) predicts that global dairy production will have increased by 60 per cent by 2050, and I think most of us recognise that land available for this is limited. Therefore, the dairy industry needs to improve management of pasture lands, develop local protein feed crops and also reduce and recycle waste, including manure, in the entire supply chain.

The use of soy in cow feed is an area that Arla is attempting to move in a more sustainable direction. How would you evaluate Arla's efforts so far?

Arla is definitely a front-runner when it comes to purchasing responsibly produced soy. Arla's decision, in 2014, to take the big step of asking for 100 per cent responsibly produced soy for its global operations was very important. It came at a very critical moment and started to build demand for certified soy according to the RTRS standard and in some countries, ProTerra.

Palm oil being sourced by global food companies is another controversial topic due to the impact it can have on deforestation, for example. What do you think of Arla's decision to only purchase palm oil that is certified and segregated? Does it make a difference?

Yes it does. In WWF we do not believe in boycott. We think it's very important that all purchasers of palm oil ask for more sustainably produced palm oil, because the problem is not the palm oil itself but where and how it's produced. To ask for segregated palm oil is a very important step towards increased transparency in the supply chain. However, Arla also needs to continue to work on its other commitments to avoid deforestation, peat land and social conflicts. We think that the RSPO Next programme, which is currently being developed, could be one tool that Arla could consider using. We would also like to encourage the company to continue to support the Palm Oil Innovation Group (POIG) which is a platform for innovators in the palm oil industry.

RTRS – Round Table on Responsible Soy Association
RSPO – Round Table for Sustainable Palm Oil
ProTerra – a standard for responsibly produced soy



Counting the environmental cost of production

FOR THE FIRST TIME, ARLA PUTS A FINANCIAL FIGURE ON ITS ENVIRONMENTAL IMPACT.

From cow to consumer, Arla's production has an impact on the environment. It is something the business is conscious of and takes very seriously. Producing products sustainably is a top priority. To further increase its ability to do so Arla has, for the first time, calculated the cost of its impact on the environment.

With a grant from Denmark's environmental protection agency Arla has made its environmental profit and loss calculation or natural capital account as it's also called.

Natural capital is the world's natural resources, for example, forests, rivers, atmosphere, land, wildlife, oceans and other natural assets. By having a monetary value assigned to each of these Jan D Johannesen, head of environmental sustainability and his team have been able to calculate the economic cost of Arla consuming these resources and also the impact of the pollution the company generates.

The amount of information required to do the calculations was extensive and required a thorough investigation of Arla's environmental impact throughout the supply chain, over a period of 12 months. It took in data from all countries, all business groups and also Arla's subsidiaries and included everything from raw milk production to energy and water usage, all the way to final consumption of products and even business travel.

The calculations themselves are based on, for example, the financial consequences of greenhouse gas emissions, loss of natural resources, loss of ecosystem services such as carbon storage in forests and climate change. In addition, areas such as the cost of the healthcare required due to air pollution are also calculated.

"For many years we have conducted lifecycle assessments to understand our impact but these have primarily focused on greenhouse gas emissions. When the opportunity presented itself to look beyond these, we jumped at the chance and now we have a clearer understanding of our impact in lots of other areas, from biodiversity to water supply," explains Jan D Johannesen.

"It is a really important step for us because, for the first time, we have full visibility of the true environmental cost of production. There weren't any major surprises in terms of where the calculations revealed we have most impact, in fact, they have reinforced that we're on the right course and given us the mandate to push ourselves even harder in the areas on which we are already focusing.

"One of the major benefits of having this new knowledge is that it will help us to prioritise where to concentrate our environmental efforts in the future. Similarly, the results will allow us to take into consideration the economic cost of natural resources and pollution impacts during our decision making ensuring that we use our owners' money in the right way, focusing on the right things."

What is particularly important to Jan D Johannesen is that by making an environmental profit and loss calculation, Arla is sending a very strong message to all its stakeholders: "We are the first food company in the world to conduct such an extensive study and by doing so are clearly demonstrating that we are passionate about the environment and that we take responsibility for our entire supply chain." ■

► The results of the project will be presented in a report being published in 2016.



Jan D Johannesen, Director Sustainability, Health and Safety in Global Quality, Environment, Health and Safety in Arla.

We support sustainable dairy farming.

Towards increasingly sustainable dairy farming

- Focus on animal welfare
- Arlagården® launched in the UK
- Positive development for organic milk

We want to ensure that farms supplying milk to Arla operate in a way that shows respect for the milk, the animals and the environment. Therefore, our owners, and other suppliers, must adhere to our high standards for dairy farm management, animal welfare and feed, and to our collective goal to reduce greenhouse gas emissions.

Sustainable dairy farming strategy

Arla's strategy for sustainable dairy farming 2020 was signed off in 2014 and implementation is ongoing. The work at farm level completes Arla's sustainability commitment throughout our value chain. We are aiming for the same goals within the different focus areas, but have to take into account the local context of our seven owner countries. Some examples:

Animals. We aim to continuously promote animal welfare. Supporting this aim, more than 500 UK farms have participated in a series of workshops covering themes like breeding, responsible use of antibiotics and reducing mastitis. Each workshop takes place on a farm allowing for good discussions between farmers, advisors and vets. Read more on page 47.

Supporting the aim for the responsible use of antibiotics, a number of educational activities have taken place including an informative poster to all Swedish farmers, educating Swedish milk quality advisors and meetings with more than 100 Danish vets. Furthermore, we have introduced an online tool allowing individual farmers and their vet to agree the best routines. We have also arranged farmer meetings in Germany.

Climate. The goal is to reduce greenhouse gas emissions at farm level by 30 per cent per kilo of milk, from 1990 to 2020. To support this goal, more than 600 farmers in the UK, Denmark, Sweden and Germany performed a carbon assessment in 2015. The assessment provides the farmer with estimates for the amount of greenhouse gasses emitted from their farm in one year, based on individual farm data. With the estimates, the farmer can compare data with other farms and get recommendations for improvements. The first estimation of progress shows an 18 per cent decrease in greenhouse gas emissions in the period 1990–2012.

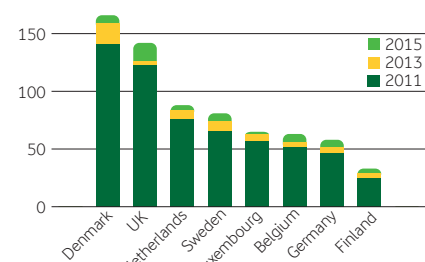
Resources. We aim to reduce waste and the amount of resources we use. In Denmark, we

SUSTAINABLE DAIRY FARMING PROCESS

	Carbon assessments	Energy assessments	Farm workshops
UK 2010–14	1,103	–	265
UK 2015	309	–	123
Sweden 2013–14	400	150	40
Sweden 2015	130	170	–
Denmark 2013–14	636	–	39
Denmark 2015	200	9	–
Germany 2014	4	–	–
Total	2,782	329	467

The table shows the number of activities carried out in line with the sustainable dairy farming strategy.

NUMBER OF COWS PER FARM



The number of cows per farm is an average which includes all dairy farmers in each country. Source: National trade associations.

have developed and tested an evaluation of electricity spend at the farm, and will introduce this further during 2016. Analysis shows a potential reduction of close to 30 per cent in farm electricity spend.

Nature. We have continued our engagement in responsible sourcing. All soy used at Arla farms is covered with RTRS (Round Table on Responsible Soy) certificates or ProTerra certified. In Germany, we are participating in the Sustainable Protein Dialogue aimed at increasing the share of locally produced feed protein and the amount of legumes in the crop rotation. In Denmark, we participate in a research project investigating how to extract proteins from green biomass and thereby provide alternative protein sources.

Customer acknowledgement

Arla's work with sustainable dairy farming was recently acknowledged by Unilever's approval of Arla as a supplier of sustainably produced dairy products in core production countries.

Arlagården® launched in the UK

In October 2015, our quality assurance programme Arlagården®, which focuses on milk quality, food safety, animal welfare and

environment was launched in the UK. Already in operation in Denmark, Sweden, Germany, Belgium, Luxembourg and the Netherlands, the programme now ensures all Arla farmers are assessed to the same standards. Our UK farmer owners will also continue to adhere to the Red Tractor Farm Assurance Dairy Scheme, since it is the UK industry standard. To avoid duplication, both schemes will be assessed at the same time, every 18 months. By the end of the year more than 600 UK farms were assessed.

Arlagården® protects and enhances Arla's reputation for supplying quality milk. In addition, it increases our ability to compete globally as all owner milk has been produced to the same standards.

Organic milk recruitment

Arla is the world's largest supplier of organic dairy products. The market for organic dairy products is developing positively and we are now recruiting organic dairy farmers in Central Europe, Sweden and Denmark to fulfill increasing market demand. When recruiting new organic farmers we evaluate how the collection of the milk can be as efficient as possible to reduce costs and use of resources. Read more on page 17.

FARM AUDITS

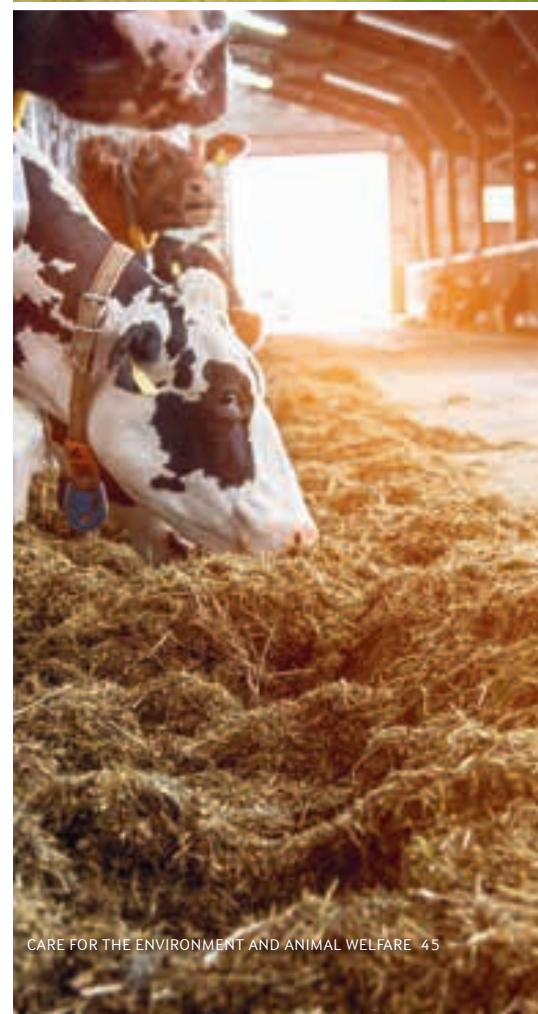
71%

In 2014, Arlagården® was launched in Germany, Belgium, Luxembourg and the Netherlands. By the end of 2015, 71 per cent of our owners' farms in these countries had been audited by an independent auditor. All Arla farms are audited a minimum of once in every three year period.

RESPONSIBLE SOURCING OF SOY

100%

All soy used at Arla farms is covered with RTRS certificates or ProTerra certified. There is a reduction in purchased certificates, which is due to a slight decrease in the use of soy at farms and to national soy coalitions now covering volumes in some countries.





Healthy cows are happy cows

ANIMAL WELFARE AND SUSTAINABLE FARMING GO HAND IN HAND. IN THE UK, ARLA SUPPORTS FARMERS WITH BESPOKE ON-FARM WORKSHOPS.

Five years ago, Arla blazed a trail in the UK dairy industry when it unveiled a programme of over 250 on-farm workshops for its supplying dairy farmers. Building on the success of the initiative, its reach and scope was extended in 2014 in line with Arla's global sustainable dairy farming strategy. The workshops are designed to support Arla farmers to protect the environment and be as efficient as possible. This means managing a herd of healthy cows that produce to their full potential. Topics to date have included lowering culling losses, reducing lameness, improving fertility and reducing mastitis.

"The welfare of dairy cows has long been the subject of scrutiny in the UK," explains Vicky Porteus, who is responsible for this area in Arla UK. "What is interesting and integral to our strategy is that efficient farms, with high levels of animal welfare and herd health, generally have a lower carbon footprint and operate as sustainable businesses. So, proactively working with our farmers to achieve the highest standards of animal welfare is not only good for the environment, it is also financially beneficial for farmers."

Recently the business group ramped up its programme of on-farm workshops in-line with the implementation of Arlagården®, Arla's global quality programme. In order that it can run, and be assessed, side by side with Red Tractor Assurance, the UK's main farm and quality food assurance scheme, 16 additional standards have been introduced to UK farmer-owners. The most significant relates to animal welfare, specifically the use of antibiotics and medicines.

"Arlagården® requires farmers to only use antibiotics for curing or alleviating diseases rather than for preventive purposes. It places emphasis on ensuring farmers work closely with their vet

to ensure that antibiotics are used as little as possible, but as much as necessary."

Making sure that farmers understand and are comfortable with this new requirement has been a primary concern. That is why veterinary professionals have been consulted and, in September, a series of eight workshops was organised specifically for vets.

In conjunction with these seminars, 60 vet-led on-farm workshops commenced for Arla farmers. A key focus has been on the farm management measures that can be taken to minimise the risk of infection among cows in the run up to calving, particularly mastitis, and therefore reduce the requirement for antibiotics. The workshops are very interactive with farmers working in small groups to identify potential risk areas and discuss management strategies to address these.

"To date, every single farmer who has attended a workshop, and completed an evaluation form, said that they would recommend the workshop to others," says Vicky Porteus.

Farmer owner, Tim Dale, praises Arla's approach: "I have hosted one of the workshops at my farm. The professional, detailed and yet informal nature of the workshop has put me at ease and given me the confidence that, with the support of my vet, I can put an antibiotic plan in place on my farm.

"As a farmer-owner, I consider myself fortunate that through Arlagården®, the programme of on-farm workshops and with the support of Arla's UK agricultural team, we can continue to strive for the highest standards of animal welfare."

Globally, animal welfare is in the spotlight at Arla. A statement on Arla's position will be signed off in 2016. It centres around a common belief among Arla owners: "Good animal welfare is key to the success of our business." ■



Vicky Porteus, Senior Manager Quality Assurance and Sustainability, Consumer UK Milk and Member Service.



Tim Dale, Little Shrawardine Farm, in Shropshire, UK.





Responsible relations

We have relationships with people, organisations, and communities in many countries. No matter what the relationship is, we are committed to maintaining mutual respect and understanding.

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

Together for a **more global** company

- High colleague engagement and team agility
- Focus on workplace safety
- Cutbacks in training

Arla has 19,000 colleagues of 90 nationalities in 38 countries throughout the world. We strive to continually improve our work environment and organisation. We also work to strengthen our culture by encouraging people to take the lead in their function, sense new opportunities through collaboration and create better solutions for the future. If all colleagues enjoy good working conditions, and are committed to their work, together we can do the best job possible.

Our engagement survey – Barometer

The annual engagement survey, Barometer, was conducted in October and sent to 17,700 colleagues in 28 countries and in 14 different languages. The response rate was 89 per cent.

The results were available at the beginning of December and the analysis of the results had just begun when this report was written. Arla outperforms the top 10 per cent of its benchmark group. Furthermore, we can see improvements in almost all areas; the score for agility is particularly high. Colleague engagement has continued to increase year-on-year. While

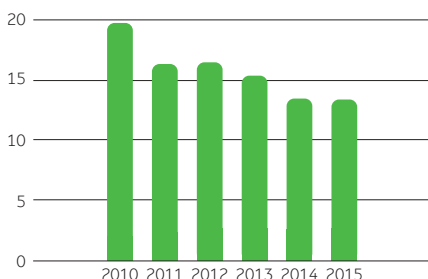
the overall results look very good, there is a variation in the underlying results this year. All leaders will therefore need to dive into their report and give special attention to results within prioritised focus areas; sufficient, open and honest communication, unacceptable behaviour, simplification of processes and minimising bureaucracy, and, as always, their own leadership.

Work safety and wellbeing

We want our colleagues to be healthy and engaged at work and have a working environment that is free from accidents and work-related illnesses. We are constantly working to reduce accidents and illnesses related to physical and psychological risks. In 2015, several sites in Denmark, Sweden and the UK focused on behaviour-based safety. Due to the root cause of nine out of 10 accidents being related to human behaviour, this method focuses on increasing colleague engagement in safe working practices.

To further improve safety and information given to colleagues in high-risk areas, working on international assignments or while travelling, a head of security position has been established with the task to develop and execute proactive

WORKPLACE ACCIDENTS



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

The total number of accidents has decreased year by year, since 2007, but the total number for 2015 was at the same level as 2014. The result varies from site to site, country to country. Overall, the British organisation continues to show an impressive development, with a decrease of 66 per cent in accident frequency from 2010 to 2015.

Engagement and focus from colleagues and leaders, and a wide spectrum of initiatives as Behaviour Based Safety is the driver behind the positive development.

Our target for work environment is 100 per cent engagement, 100 per cent wellbeing, 0 accidents and 0 harassment.



security strategies that promote and enhance colleagues' security, safeguard Arla's assets and appropriately respond to security related incidents.

Several sites have run projects which inspire colleagues to live a healthy lifestyle and engage in physical activities. One example is Rynkeby Foods where half of the site, about 100 colleagues, participated in the company's cycling scheme, Team Rynkeby, from Ringe in Denmark to Paris, France. In Germany, we have introduced health checks and in Danish distribution centres we have offered tailor-made health programmes.

Our Nigerian site now has higher safety standards and better facilities than previously.

Continued training despite cutbacks

Due to significant cost savings during the year, all face-to-face training events have been stopped, except compliance training like anti-bribery, job certifications and occupational health and safety training. E-learning is however available for all colleagues and covers many areas. On the job training has continued as well as induction and graduate programmes. Multi-

module programmes within leadership, which have already started, have also continued, for example, Arla Leadership and Talent Acceleration Programme (TAP), which are designed to strengthen our pipeline of globally mobile Arla leaders.

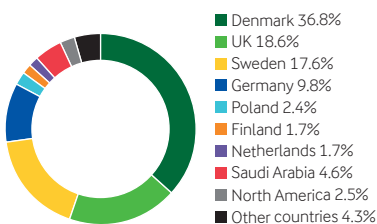
Apprentices and future colleagues

Welcoming apprentices and internships in all parts of our organisation is part of our role in society and a way to secure future knowledgeable colleagues. Special focus is given to dairy technology students. In the UK, we have participated in a project which inspires people to work in the food industry. In total, we have had approximately 450 apprentices in all parts of our supply chain – dairy, laboratory, mechanics, automation and storage handling.

European labour relations

European Works Council (EWC) is our labour relations forum, with members from Denmark, Sweden, UK, Germany, Finland, the Netherlands and Poland. All Arla colleagues can provide input to the agenda. Read more about our colleague collaboration on page 53.

COLLEAGUES PER COUNTRY



The average number of full time employees (FTEs) in Arla was 19,025. The diagram shows the distribution per country at year-end 2015. In our Global Graduate Future 15 and Supply Chain programmes we have 19 nationalities among the current 33 graduates.

SAFE WORKPLACE

ZERO

In 2015, our colleagues in Rødskær (Denmark), Kalmar and Östersund (Sweden) could all celebrate more than two years (730 consecutive days) without lost time due to work-related injuries. Our colleagues and sites in Canada and in Arinco, Lillebælt and Cocio (Denmark), Skövde (Sweden), Malpas and Llandymog (UK), are all celebrating more than one year (365 days).



Close European cooperation between the trade unions and Arla

CONSENSUS CHARACTERISES THE DIALOGUE BETWEEN ARLA'S TRADE UNION REPRESENTATIVES AND THE GROUP MANAGEMENT TEAM.

The European Works Council is Arla's forum for trade union dialogue at European level. Twice a year, colleague representatives from Denmark, Sweden, UK, Germany, Finland, the Netherlands and Poland meet the Group management team for a briefing and the possibility of consultation regarding cross-border issues. This enables them to influence decisions ahead of them being taken.

"We have a good and engaged dialogue," says Lars Kaae, who heads up Arla's Global Employee Cooperation. "Of course we have our differences, but both sides have a positive attitude. We are not 'fighting', we try to find solutions that enable Arla to become a better workplace for everyone."

Mikael Larsson is Sweden's union representative on the Select Committee working group, whose task is to prepare the two meetings held each year, and to maintain a regular dialogue with senior management in the meantime. Besides Sweden, the working group comprises representatives from Denmark and the UK, based on the number of colleagues Arla has in different countries. The Select Committee meets several times a year and Mikael Larsson points out the benefits of the dialogue with the company.

"The unions and the company share the same objectives," says Mikael Larsson. "We want Arla to perform as well as possible, for colleagues to be proud of their company and for our owners to make money. We have the same agenda, although we and the management team do not always share the same views on how to get there."

The subjects discussed at the European Works Council include the consequences of acquisitions and mergers, the results of engagement surveys, the relocation of production and the working environment. Many subjects are then taken up



Mikael Larsson (left) is Chairman of Swedish Food Workers Union Arla and Lars Kaae is Senior Director of Global Employee Cooperation in Arla.

at national level, for example, what a decision means for an individual dairy.

Workplace collaboration outside Europe is currently handled in the country concerned, but in discussions about Arla's expansion into Africa and the Middle East, for example, union representatives underline the company's responsibility for colleagues throughout the world.

The European Works Council began more than 15 years ago. Lars Kaae and Mikael Larsson agree that cooperation has gradually improved. A few years ago, the meetings mainly consisted of senior management reporting on their plans and presenting their opinions. Now there is more collaboration. During the autumn, for example, the Select Committee met to discuss the content and intent of the Workplace and Human Rights section in Arla's revised Code of Conduct.

"Everyone can read these impressive words," says Lars Kaae, "but we agreed to sit together and discuss what they mean and what impact the words have on workplaces in different countries."

Both parties welcome the transition from pure information to working together in this way. At the same time, Mikael Larsson looks forward to even closer cooperation.

"Of course it's good if dialogue can begin even earlier, and union representatives become involved at an even earlier stage, but I think we should give credit to, and be proud of, the agreement and the cooperation we have between the unions and management," he concludes. ■

We respect and support internationally recognised human rights.

Further steps to ensure **respect** for **human rights**

- Stronger focus on human rights
- Zero tolerance for harassment
- New areas for action

We have operations in many countries and our products are sold throughout the world. We also do business in countries that do not fully protect human rights or do not yet live up to them. Regardless of where we are located, we maintain a firm conviction that the human rights of every individual should be respected and upheld.

Holistic view on human rights

Wherever we operate in the world, we want to act as a role model. In Arla's Code of Conduct, Our Responsibility, we acknowledge internationally recognised guidelines. Arla is a participant of UN Global Compact and we adhere to the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

In our revised Code of Conduct, we also clearly express our responsibility towards our colleagues in relation to traditional human rights areas such as a safe and healthy workplace, labour practices, working hours, freedom to form and join organisations of own choice, dialogue and collaboration, child labour and forced labour. Respecting human rights also means providing

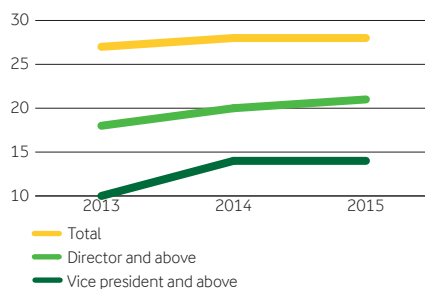
a workplace without harassment, embracing diversity as well as nourishing equality and non-discrimination.

Developed Human Rights Policy

To support and put into practice the content in Our Responsibility, Arla's Code of Conduct, we have policies and strategies. In June 2015, we published a new Human Rights Policy, which covers both our actions in the global marketplace and locally at all our workplaces. Through the policy we commit ourselves to meeting international human rights principles in all our operations and in all companies that are owned and/or controlled by Arla.

The policy specifies that we have an opportunity to positively impact the people and societies in which we operate, as a producer of healthy food, but also by contributing to social, environmental and economic development. We also specify that we are committed to respecting human rights in all business areas and processes. Furthermore, we will work proactively and continuously to identify, prevent and mitigate potential negative human rights impacts we may cause or to which our business activities may contribute.

SHARE OF FEMALE COLLEAGUES



There are significantly fewer women than men among our top managers. Out of 77 senior vice presidents and vice presidents 16 per cent are female, same percentage as last year, which is far from the 28 per cent among all colleagues, or the 42 per cent among white collar.

The development is slow, but goes in the right direction. This is seen at 'director level and above' where we have achieved 21 per cent female representation, out of 377 individuals, which means that we have already reached the 2017 target of 20 per cent. For information about diversity at Board level, see the financial report.



We expect all our colleagues and business contacts to inform us if they believe Arla related business activities go against our human rights policy. If we find that some of our business activities have an adverse impact on human rights principles we will change our processes.

Human rights assessments

As a result of our strengthened commitment to human rights both in our Code of Conduct and in the new policy, we have conducted human rights assessments and due diligence processes in Nigeria and Senegal. Read more on page 59.

Results from engagement survey

In Arla's annual engagement survey, Barometer, a new category reflecting Diversity and Inclusion was introduced last year. A number of questions concerned colleagues' perception of how they are treated at work.

The result show a positive development, but there is still room for improvement, for example, when it comes to the perception of equal opportunities regardless of gender, age, ethnicity and nationality. This year, there was a small decline in the percentage of colleagues

who have experienced unacceptable behaviour. However, we still need to take strong action to continue to reduce this number. We are committed to ensuring a workplace in which all colleagues treat each other with openness, dignity and respect. We do not tolerate any kind of harassment and discrimination, and to succeed, we need to engage everybody.

Changed passport practice in Saudi Arabia

Arla's subsidiary in Saudi Arabia, Danya Foods, has changed its practice regarding the storing of passports of foreign colleagues. It has been the normal procedure of many companies operating in the region to store passports during a person's employment. Arla has now changed this formality and hands back passports to colleagues after compulsory registration.

The old procedure has been criticised in Swedish and Danish media, and we acknowledge that the change has taken too long. Ten years ago, the Swedish human rights organisation Swedwatch observed the migrant workers' situation, and this year initiated a review. We have openly supported them with all information requested and explained the situation as transparently



ENGAGEMENT SURVEY

15%

15 per cent of respondents in our engagement survey, Barometer, report that they have experienced unacceptable behaviour that has affected them.

RECRUITMENT FROM LOCAL COMMUNITY

60%

Our joint venture company in Nigeria ensures that at least 60 per cent of the site's colleagues are recruited from the local community. This provides employment opportunities and competence development as well as a means of livelihood for local families.



as possible. Swedwatch’s report had not been published when this report was written.

Dialogue with West African farmers

Arla’s increased involvement in West Africa has concerned the local dairy industry. To mitigate this concern, Arla met a number of West African dairy farmers and dairy managers together with the development organisation CARE Denmark, the West African network organisation of a large number of small scale dairy producers, Biilital Maroobe, and the Danish trade organisation Danish Agriculture and Food Council, at a roundtable meeting held in Copenhagen.

The roundtable aimed to find a solution as to how global dairy companies can increase their milk exports to West Africa without negatively affecting local milk production. The meeting concluded by all parties signing a joint declaration, ‘The Milky Way to Development’, which forms the basis for further cooperation and future roundtable meetings. Arla’s view is that we can contribute at an organisational level as we have a great deal of knowledge about how farmers and dairies should organise themselves and what it takes to ensure the local dairy sector

develops positively. Arla will co-host the next roundtable meeting to be held in Nigeria in 2016. Read more about Arla’s activities in West Africa on page 59.

Modern slavery act

In the UK, new legislation requires companies to disclose what they are doing to prevent modern slavery in their workforces and supply chains. Our existing programmes for managing agency workers and supplier assurance cover modern slavery. However, Arla UK is currently reviewing the best way to formally demonstrate its compliance to this new legislation.

STAKEHOLDER CONSULTATIONS

200

During the human rights assessment in Nigeria and Senegal approximately 200 stakeholder representatives were consulted. Read more on page 59.

DUE DILIGENCE PROCESSES

4

Prior to entering new markets, we perform human rights related due diligence processes. During 2015, four of these processes have taken place, and joint ventures have been started, among other countries, in Nigeria, Senegal and Ivory Coast.



4 QUESTIONS FOR A DIRECTOR FOR HUMAN RIGHTS



Allan Lerberg Jørgensen is Department Director for Human Rights and Development at the Danish Institute for Human Rights, one of the organisations that advised Arla when it conducted two human rights assessments in Nigeria and Senegal.

What mistakes, in terms of human rights, do international companies typically make when they initially enter developing markets?

Multinational companies usually comply with the legal requirements in each country where they do business, but they do not always uphold a global standard in all countries. Human rights are not always upheld by all countries, so it may not be enough to comply with the local laws. You may need to go the extra mile and build global standards into your operating systems. Also, many of the challenges that we see multinational companies having to overcome are due to them either choosing the wrong partners or them not being close enough to these partners to influence them to uphold global standards. Your business partners must agree that the responsibility to respect human rights goes beyond the factory gate.

When it comes to human rights, how would you describe Arla's efforts in the past year?

Our impression is that Arla has responded well to the criticism it received. Arla approached the Institute for Human Rights for advice on how to integrate the guiding principles on business and human rights. The fact that Arla has done this in a quite transparent way – by publishing its policy and the two human rights assessments in Nigeria and Senegal – is a very strong signal that Arla takes this very seriously.

What next steps would you like to see Arla take?

You can, of course, always ask for more. Arla now needs to integrate its experience of the past year into the way it does business globally and when it enters new markets in the future. In particular, in Africa where you could ask if it is sustainable to only import raw materials, or if you can build the capacity to produce and source milk locally? Coca Cola, Pepsi and Nestlé all have extensive local supply chains in the agricultural sector in developing countries, which presents them with challenges but also gives them an opportunity to lift people out of poverty and build better lives.

Human rights in developing markets is one thing, what do you see as some of the biggest human rights challenges for companies in, for example, Europe, and what can Arla do to address those challenges?

That's a good question, because we have challenges in Europe, too, particularly around equal treatment such as the gender balance in the labour force as well as equal pay for equal work, for example. We also have a number of emerging challenges concerning migrant workers, who are often very vulnerable and often not a member of a union. Similarly, they often work in agriculture, which is why it is important for Arla to ensure that its human rights standards are upheld regarding pay and other contractual labour issues.



Arla's human rights processes put to the test

WHAT ARE THE CONSEQUENCES OF ARLA EXPANDING ITS MILK POWDER BUSINESS TO WEST AFRICA? THE COMPANY DECIDED TO DIG DEEP TO FIND OUT.

During the year, Arla has strengthened its commitment to human rights. First, the company developed its Human Rights Policy and assessment processes. Secondly, it tested the processes by performing in-depth human rights assessments in Nigeria and Senegal. The purpose was to identify whether Arla's activities are linked to any adverse impact on human rights. Doing this, the company both built competences and increased its understanding of the complexity of the task.

For several years, the way Arla develops new markets outside the EU has been scrutinized by the Danish NGO ActionAid. In 2014, the organisation filed a complaint to the Danish mediation and complaints handling institution in which it said that the processes Arla had in place were not in line with international human rights standards. Positively challenged by ActionAid, the subsequent dialogues led to an agreement; Arla would develop its processes and perform two in-depth human rights assessments.

"It's important to stress that ActionAid did not claim that we had violated the human rights of anyone," says Irene Quist Mortensen, heading up CSR in Consumer International. "They wanted us to make sure we had done our homework before entering new markets in West Africa."

In August 2015, Arla announced new joint ventures for the import and sale of milk powder in Nigeria and Senegal. During the summer months, Irene Quist Mortensen and her colleague Ivana Tsvetkova, who handles the CSR area for the Middle East and Africa, performed assessments of the potential adverse human rights impacts related to the market effects of Arla's new businesses in the two countries.

Describing themselves as a team combining business anthropology with international law and politics, they used a number of methods to generate data such as: desk-research and literature review, statistical data collection, stakeholder mapping, field studies to local dairy farmers and processing facilities as well as interviews with stakeholders and partners.

"In total, we talked to approximately 100 people in each country who represented the three main stakeholder groups in terms of human rights: local dairy farmers and producers, government bodies and finally NGOs and other experts, in order to get a comprehensive understanding of the situation," explains Ivana Tsvetkova.

Throughout the process, Arla was supported by external experts from NGOs, developing organisations and governments as well as representatives from local farmer and trade organisations. The key findings of the assessments were that Arla seems not to directly cause or contribute negatively to the local dairy farmers' human rights. This is because, initially, Arla will not be directly involved with the local raw milk supply chain, which is more or less rural, where milk is sold the same day as it's milked. Nevertheless, it should not be neglected that Arla's increasing sales of imported milk powder relate to the underdevelopment of the local dairy sectors, when looking in a broader perspective. To mitigate future potential negative impacts, Arla has, and will be, engaged in cooperation projects to support the local dairy industry.

"More than anything, this work has shown us how complex assessments like these are. You have to be very humble and remember that Nigeria and Senegal are fast changing markets. Soon, we may well have another situation," concludes Irene Quist Mortensen. ■



Irene Quist Mortensen, CSR Senior Manager in Consumer International.



Ivana Tsvetkova, CSR Coordinator, Middle East and Africa in Consumer International.

We engage in open, respectful and constructive community relations.

We build relationships on **knowledge** and **engagement**

- Contribution to society
- Global and local engagement
- Knowledge about farm, food and cooking

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

Arla's contribution to society

Arla's value chain – all the way from the dairy farm to the consumer – contributes to society's development in many different ways. In Europe, our owners produce milk and create jobs in the countryside. Our business and our supply chain partners create jobs, economic growth and tax revenues. Alone, and together with peers, we develop learning and training programmes within the dairy sector, and we engage in scientific research. We offer consumers safe and healthy products and we are involved in areas related to our business, such as inspiration for cooking and leading a healthy lifestyle as well as nature and the environment.

In our emerging markets, our role is different as we are a minor player, but in these markets, sales of our products still contribute to more jobs and improved quality of life.

Influencing political and legal development

As a significant player in the food industry, Arla participates in public debate, both locally and globally. We represent dairy farmers, and seek to ensure that scientific research and the regulatory framework benefit the industry as a whole. We are represented in key stakeholder organisations and strive to have an extensive global network. Our ambition is that the stance we take on subjects is fact-based, collaborative, proactive, transparent and honest.

Globally, we are active in network organisations such as Global Dairy Platform, Sustainable Agriculture Initiative and International Dairy Federation and contribute with expertise, research funding and input on global challenges. To create conditions for growth for our farmer-owners, our priorities are to secure access to safe and high quality milk, to secure the role of dairy in a balanced and sustainable diet and to enter growth markets competitively and responsibly.

COOKING INSPIRATION



We have had millions of visits to our popular cooking websites in Denmark, Sweden, Finland, Germany and the Netherlands during 2015. In Lebanon, Dubai and Qatar, we invite consumers to our Lurpak® Baking Studio to develop baking skills and inspire them to do more home baking.

MILK CARTON COMMUNICATION

40 yrs

The milk cartons are used in Denmark, Sweden, Finland and the Netherlands to provide information and inspiration. Facts about the farmers' work and inspiration for a healthy lifestyle are recurring themes. In Sweden, the milk cartons have been used for this purpose for 40 years.



We want to position Arla as an important player and to strengthen the positive view of Arla among the general public. We actively engage in main industrial organisations in all Northern European countries. Additionally, in Denmark, Sweden and Finland, we participate in public meetings (for example Folkemødet, Almedalsveckan and Suomi Areena) in order to engage in stakeholder networking and dialogue.

We also work closely with NGOs to push common agendas. For example, we are engaged in the project 'Milky way to Development' in West Africa to identify the main obstacles to the development of a sustainable local dairy sector and how we can help remove these. Read more on page 56.

Engagement in local activities

We would welcome involvement in a global initiative that highlights our commitment to society, food, farms and to the environment. To date we have prioritised local activities that engage our colleagues. For example, those that contribute to local charities, good food habits, conservation, sporting activities and a healthy lifestyle. In several countries we are also working

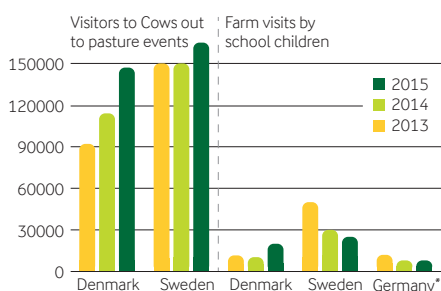
with organisations to ensure that surplus food, which cannot be sold to retailers as it is near the end of its shelf life, is distributed to those in need. Our support for children in the Dominican Republic and Bangladesh, by providing food and supporting education through our Children for Life charity, has also continued. The annual Rynkeby Foods cycling event, Team Rynkeby, engaged 1,750 individuals from all the Nordic countries and raised EUR 6.4 million for the Children's Cancer Foundation. Moreover, our owners donated a container of milk powder to a Syrian refugee camp, and colleagues and dairy visitors donated money to refugee charity collections.

Knowledge of the origin of milk

We wish to provide an insight into the origin of our products and the work that takes place on the farms. We do this by showcasing our owners in external communications and by inviting members of the public and school children to visit our owners' farms. For example, a popular event in Denmark and Sweden takes place in the spring when cows are put out to pasture, see chart below.



ARLA FARM VISITS



* Since 2014, including Luxembourg and since 2015 also the Netherlands.

EXAMPLES OF LOCAL ACTIVITIES

- **Denmark.** 1,550 children have participated in food camps to learn more about cooking.
- **Netherlands.** Activities to support a foundation that preserves landscapes and cultural heritage.
- **Farm visits for schoolchildren.** In Denmark, Sweden, Germany, Luxembourg and the Netherlands. In total, these events were visited by approximately 53,000 children during 2015.
- **Food as charity.** In Canada, Denmark, Finland, the Netherlands and the UK.
- **Open farm days.** In Denmark, Sweden and the UK, consumers can visit Arla farms to learn more about dairy production and to enjoy Cows out to pasture events. In total, more than 400,000 consumers visited farms at these events.



Responsible business

Prioritisation, communication and risks

As Arla is a company with ambitions to constantly improve every part of its business, this includes corporate responsibility and reporting on progress. In achieving our goal of being a truly responsible company, we also have to be aware of the potential responsibility risks that can influence our business.

Materiality study

Arla's operations have grown significantly over recent years, including our farmer owner base, customers, markets and colleagues. As the business develops and grows, so does our ambition to develop our stakeholder interaction. Through our structured Materiality study, we aim to identify material aspects in the views of our main stakeholders, and use this knowledge to better prioritise our activities. We will also use the results to help us improve the scope and focus of our reporting and communication processes. We plan to update the study every third year.

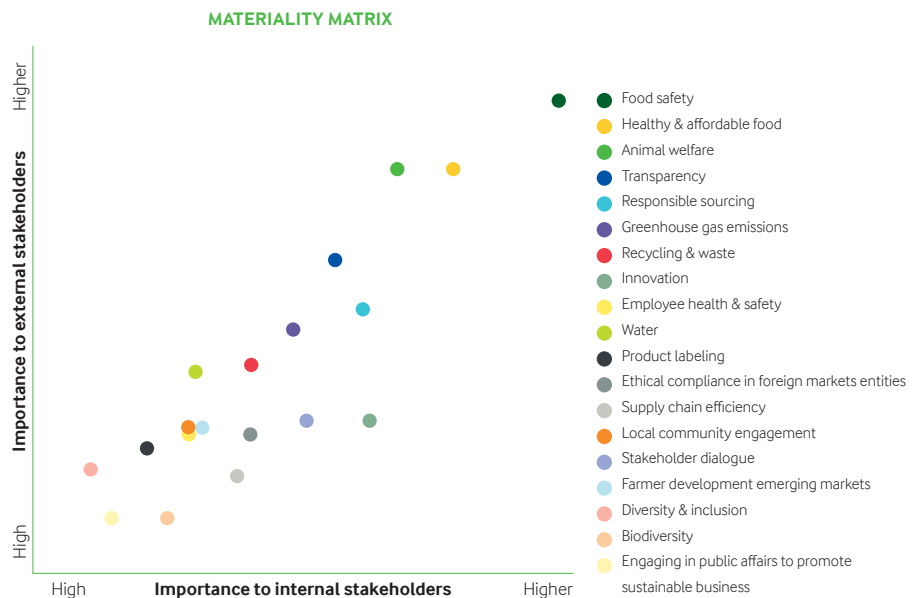
Based on the results from the study in 2014, we have identified food safety, healthy and affordable food and animal welfare as key areas of focus. These are followed by transparency, responsible sourcing and environmental impact aspects. The findings have been incorporated into our decision-making processes when prioritising activities and we use them to guide our communications with stakeholder groups.

In the study, there is a strong correlation between the prioritisations of Arla's top management and the opinions of external stakeholders. This is considered proof that we

should maintain our focus on our core activities – providing safe, healthy and affordable dairy products, while ensuring high standards in milk production and caring for people, animals, nature and society.

All groups of stakeholders ranked food safety, healthy and affordable food and animal welfare within their top five. Yet, there are differences between different stakeholders. For example,

consumers' high ranking of transparency/traceability, owners' prioritization of supply chain efficiency and innovation, customers' of sustainable sourcing as well as an efficient supply chain and NGO's of different environmental impact aspects. Furthermore, the Materiality study serves as a basis when relating to the Global Reporting Initiative (GRI) guidelines. A table showing how Arla corresponds with the guidelines will be available on arla.com.



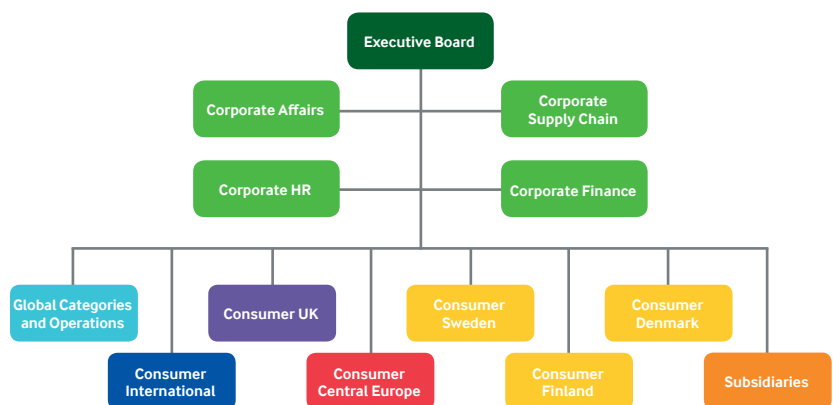
Responsibility risks study

Additionally, we make a responsibility risk analysis with the purpose to clarify which issues or trends affect people's trust in Arla, externally as well as internally, and thereby risk impacting our business in a negative way. The analysis helps us to identify the risks that should be dealt with most urgently and how to mitigate such risks. It also provides us with a better understanding of our responsibility challenges.

Our Responsibility risk analysis suggests the highest overall responsibility risk is the increase in political and socio-economic instability in our markets. However, food fraud and contaminated food brought to market have, by far, the highest potential impact. Furthermore, there are severe responsibility challenges related to our strategy of expanding geographically. Our global operations also involve a broadened spectra and number of suppliers, sub-suppliers and third party suppliers, increasing the risk of our responsibility demands not being fulfilled.

Above all, the highest potential responsibility impact relates to product quality and safety. This is why food safety is one of Arla's top priorities. Among the external and internal stakeholders who were interviewed for the analysis, there is general agreement that Arla does have high product quality and safety standards. There is also broad consensus that mitigation of the majority of responsibility risks requires long-term commitments.

Organisation of the Arla group, Dec. 2015



Corporate Affairs comprises group development and communication under the management of Peder Tuborgh.

Corporate Supply Chain handles contact with owners, global supply chain efficiency, global procurement and investments under the management of Povl Krogsgaard.

Corporate Human Resources handles colleague and organisational development matters for the whole group under the management of Ola Arvidsson.

Corporate Finance & IT handles finance, IT and legal affairs. Frederik Lotz was head of unit until July 2015. From January 2016 under the management of Natalie Knight.

Global Categories & Operations has global responsibility for Arla's three global brands – Arla®, Lurpak® and Castello® – and responsibility for global categories, marketing, innovation, quality and environment. This business area also handles milk planning and logistics, industrial sales, product development and production of butter and spreads and milk powder in Scandinavia, as well as production of cheese in Scandinavia, Germany and outside Europe, under the management of Jais Valeur until October 2015. Thereafter, Povl Krogsgaard (except Global Categories, Marketing and Innovation managed by Hanne Søndergaard reporting to Peder Tuborgh).

Consumer Business Groups are responsible for the production and product development of fresh produce, logistics, marketing and sales of Arla products in their respective markets.

Consumer UK, under the management of Peter Giørtz-Carlson.

Consumer Central Europe, including Germany, the Netherlands, Belgium, Luxembourg, France and Austria, under the management of Tim Ørting Jørgensen.

Consumer Sweden, under the management of Henri de Sauvage, who also represents CDK and CFI in the Executive Management Group. Head of **Consumer Denmark** is Tomas Pietrangeli, and head of **Consumer Finland** is Reijo Kiskola.

Consumer International, including all other markets, under the management of Finn S Hansen.

Subsidiaries wholly owned by Arla: Arla Foods Ingredients, Rynkeby Foods and Cocio.

Arla supports the Global Compact



WE SUPPORT

Early 2008, Arla signed up to the Global Compact, the UN initiative to promote ethical business practices. As a participant, we are committed to observing the Global Compact's 10 fundamental principles. The table shows where the content of this report relates to each of the principles.

Since 2008, Arla has been a member of the Global Compact's Nordic Network. In May 2009, Arla signed up to Caring for Climate, a voluntary and complementary action platform seeking to demonstrate leadership around the issue of climate change. In 2010, Arla's CEO signed a CEO Statement of Support for the Women's Empowerment Principles, an initiative from the Global Compact and UNIFEM (the UN Development Fund for Women).

Read more about the Global Compact and its principles at www.unglobalcompact.org, and more about Arla's Code of Conduct at arla.com.

	Businesses should ...	Arla examples	Page
Human Rights	1. support and respect the protection of internationally proclaimed human rights; and	<ul style="list-style-type: none"> ● Business principles ● Case study ● Market conduct ● Procurement and supplier relations 	12–13 15 20–23
	2. make sure that they are not complicit in human rights abuses.	<ul style="list-style-type: none"> ● Food and health ● Case study ● Dairy farming ● Workplace ● Case study ● Human rights ● Case study ● Society and community relations 	24–25 30–32 35 44–45 50–51 53 54–56 59 60–61
Labour	3. uphold the freedom of association and the effective recognition of the right to collective bargaining;	<ul style="list-style-type: none"> ● Business principles ● Case study ● Market conduct ● Procurement and supplier relations 	12–13 15 20–23
	4. the elimination of all forms of forced and compulsory labour;	<ul style="list-style-type: none"> ● Workplace ● Case study 	50–51 53
	5. the effective abolition of child labour; and	<ul style="list-style-type: none"> ● Human rights ● Case study 	54–56 59
	6. the elimination of discrimination in respect of employment and occupation.	<ul style="list-style-type: none"> ● Society and community relations 	60–61
Environment	7. support a precautionary approach to environmental challenges;	<ul style="list-style-type: none"> ● Case study ● Market conduct ● Procurement and supplier relations 	15 20–23
	8. undertake initiatives to promote greater environmental responsibility; and	<ul style="list-style-type: none"> ● Food and health ● Environment and climate ● Case study ● Dairy farming ● Case study 	24–25 30–32 38–40 43 44–45 47
	9. encourage the development and diffusion of environmentally friendly technologies.	<ul style="list-style-type: none"> ● Society and community relations 	60–61
Anti-corruption	10. work against corruption in all its forms, including extortion and bribery.	<ul style="list-style-type: none"> ● Business principles ● Case study ● Market conduct ● Procurement and supplier relations 	12–13 15 20–23 24–25

Which market is mentioned where?

The table shows where information about a specific Arla market or subsidiary can be found in this report.

	Page	Global	DK	UK	SE	DE	NL	FI	B	LUX	Other
About Arla	8–9	●	●	●	●	●	●	●	●	●	Australia, China, Egypt, Malaysia, Nigeria, Russia, Senegal
Responsible company	Business principles	12–13	●	●	●	●	●		●	●	
	Case study	15	●								
	Operational principles	16–17		●	●	●	●		●	●	
	Case study	19	●	●	●	●	●		●	●	
	Market conduct	20–22	●	●	●	●	●	●			Saudi Arabia
	Procurement and supplier relations	24–25	●	●	●	●	●				Asia, Cocio
Confidence in products	Food safety	28–29	●	●	●	●	●	●			
	Food and health	30–32	●	●	●	●	●	●			Canada, Ivory Coast, Nigeria, Arla Foods Ingredients, Rynkeby Foods
	Case study	35	●								Europe, Africa, Asia, South America
Care for the environment and animal welfare	Environment and climate	38–40	●	●	●	●		●			Bangladesh, Ivory Coast
	Case study	43	●	●							
	Dairy farming	44–45	●	●	●	●	●	●	●	●	
	Case study	47	●	●							
Respectful relations	Workplace	50–51	●	●	●	●	●	●	●		Canada, Nigeria, Poland, Saudi Arabia, North America, Rynkeby Foods
	Case study	53		●	●	●	●	●			Poland, Africa, Middle East
	Human rights	54–56	●	●	●	●					Ivory Coast, Nigeria, Saudi Arabia, Senegal, West Africa
	Case study	59	●								Nigeria, Senegal, West Africa
	Society and community relations	60–61	●	●	●	●	●	●	●		●

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