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Our  
Responsibility

CORPORATE RESPONSIBILITY REPORT



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Arla creates value for stakeholders and society.

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We maintain high animal welfare and reduce climate and environmental impact all the way from cow to consumer.

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We contribute to the communities in which we operate. For us this means engaging in relationships with people.

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Arla supports the ten basic principles of the UN's Global Compact and the UN's Sustainable Development Goals.

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Unless otherwise indicated, the facts and figures in this report cover Arla Foods' fully owned dairy companies in 2016. Some examples from subsidiaries and joint ventures are also included. The report's themes cover the 11 areas of Arla Foods' Code of Conduct, latest update in 2015. More information is available at [arla.com](http://arla.com).

### Climate impact

Since 2005, Arla's total climate impact has decreased by 12.4 per cent, despite increased production.



### Colleagues engagement

The Barometer engagement survey was distributed to 17,500 colleagues in 38 countries and in 15 different languages. This year's response rate was 89 per cent.

### Milk price

During the first half of 2016, the milk price Arla was able to pay to its owners continued to be very low, which led to a continuous difficult financial situation on many farms. The second half of 2016, the milk price to farmers was increased four times and the outlook was more positive.



### Ownership

To emphasise that Arla is farmer-owned, the marque is now on all Arla® branded products.

### Open farms

460,000

In Denmark, Sweden, the UK and Germany, consumers can visit Arla farms to learn more about dairy production and to enjoy Open Farm and Cows out to pasture events. In total, more than 460,000 consumers visited farms at these events.

### Organic products

No 1

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

### Human rights

Arla's human rights assessment has been conducted in five countries in Africa and Asia.

### Food safety

98%

98% of our production volume is manufactured at sites with GFSI (Global Food Safety Initiative) certification or similar.

### Nutrition Criteria

93%

93% of Arla® branded products fulfill our Nutrition Criteria.

### New organisation

A major reorganisation has been implemented to support Arla's strategy – Good Growth 2020 – and to meet market demands.





## Farmer owners

Arla is a cooperative which collects all farmer owners' milk with a commitment to add value to it.

- Cooperative democracy
- Arlagården® – common quality programme
- Owners take strategic decisions
- Secure home for all our farmers' milk
- Resourceful farmers
- Animal welfare
- Sustainable Dairy Farming
- Organic production



## Impact on society

Wherever we interact with stakeholders, we promote development and good citizenship.

- Transparent business
- Job creation in both rural/urban areas
- Economic growth
- Collaboration/partnerships
- Responsible sourcing
- Market behaviour
- Control of the entire value chain
- Support resource efficiency and recycling



## People and production

Engaged colleagues ensure innovative and healthy products, and develop the business. Large milk volumes enable scalability and efficient production.

- Engaged and skilled colleagues
- 100+ years of dairy expertise
- Decreased climate impact
- Increased use of renewable energy, packaging materials and fuel
- Focus on workplace health and safety
- Knowledge sharing
- Culture and leadership
- Innovation



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**.



## Customers and consumers

In Arla we use our knowledge and dedication to meet the need of our consumers around the world for healthy and natural products.

- Strong brands
- Global market positions
- Food safety
- Healthy and nutritious products
- Inspiring good food habits
- Natural and tasty products
- Transparent information
- Open farms



## Åke Hantoft Chairman

**2016 is a year that will be remembered for a long time; for its dramatic increase in raw milk production, subsequently challenged market situation and low farm gate prices in the first half of the year. And for a second half with both European and overseas milk production dropping, allowing rapid improvements in farm gate prices. It was a challenging year for our business, but Arla focused on its here-and-now operations without losing the long-term perspective.**

Quality in Arla begins at the farm and our common quality programme is the foundation for our continuous work with milk quality, animal welfare and sustainable production, which adds value to Arla's products. While the programme increases our ability to compete globally, we also use it as a tool for raising competence levels in countries in which we conduct our operations.

Throughout the year, we continued to be in close dialogue with our consumers, and we have experienced an increasing interest in animal welfare and sustainable dairy production. We welcome this and many farmer owners have opened their farms for various events.

To strengthen and align Arla's democratic setup across countries, our elected representatives and farmer owners engaged in developing a new, joint structure for our member democracy. Our wish is to strengthen the dialogue and communication between members

and elected representatives – from local member districts to the Board of Representatives and to the Board of Directors, and also between elected members and Arla's management.

Within the framework of the Owner Strategy process, the Board of Directors was, in autumn 2016, authorised to further investigate if it is possible to offer all Arla farmer owners direct membership of Arla Foods amba across national borders. If we succeed in on-boarding all owners as direct members, this will be a true milestone in the history of our transnational cooperative.

Another initiative to strengthen our cooperative is the new training programme 'Arla Next', designed to give non-elected farmers a flavour of what it takes to be an elected representative. So far Arla Next has been a great success.

I'm proud that we have been able to develop ourselves, both as a business and as a cooperative, in such a challenging environment as we have experienced in 2016. It proves that Arla is a living cooperative, developing from within, through discussions with farmer owners and elected representatives. To me this means that we in Arla are committed to constantly developing – not only to face the future, but to take part in creating the future of dairy.

Please take some time to read this report, which clearly demonstrates the commitment from Arla Foods to act, develop and commit to the future in a cooperative and responsible way.

Ösarp, Sweden, March 2017

Åke Hantoft  
Chairman

## Peder Tuborgh CEO

**Being part of the dairy sector, which serves more than seven billion consumers and provides livelihoods for approximately one billion people around the world, makes me very proud. Dairy products are key to nutrition and health, and sustainable dairy production plays an important role in the achievement of several of the UN's Sustainable Development Goals.**

Over the last year, Arla has inspired more consumers globally to develop good food habits while promoting the strong nutritional profile of dairy and dairy-based ingredients. We have made good progress on our green ambitions and strengthened our responsible behaviour across our activities.

2016 was a year with unusual world market volatility, but we made good progress towards our Good Growth 2020 strategy. To further accelerate our strategy, we restructured our organisation. This affected many of our colleagues, but the organisation showed resilience and I was happy to learn that the result of our employee survey, Barometer, still showed our colleagues are highly engaged.

As we increase the scale of our international operations, we acknowledge the impact we have on societies. Our Code of Conduct guides our behaviour and ensures responsible business practises, and I am very pleased to see how we have developed our processes to involve local stakeholders and share knowledge when we enter into new markets.

Having worked with sustainability and development for more than a decade, we naturally support all the United Nations' Sustainable Development Goals. In Arla, we focus primarily on the three goals on which we have the biggest impact. These are 'Zero hunger', 'Decent work and economic growth' and 'Responsible consumption and production'. The opening of our new innovation centre at the beginning of the year, will boost our innovation efforts with new facilities and new ways of working. This will enable us to deliver on the needs of tomorrow's consumers, who are seeking safe, tasty, healthy and sustainable dairy products. Furthermore, our research partnerships address some of the major health issues, such as; obesity, type-2 diabetes, and the development of infants and children.

Nine years ago, Arla signed up to the United Nations' Global Compact, which is an important initiative to promote ethical business practice. This means we are committed to adapting the way we conduct our activities to the 10 basic principles of the Global Compact, and to communicating these principles to our stakeholders and the surrounding world. This report is part of that work, just as it is part of Arla's Annual Report 2016, which can be downloaded from [arla.com](http://arla.com).

I invite you to read through this report to learn about how we drive our activities and make progress towards our goals, as a leading and responsible farmer-owned dairy company. I welcome your feedback on where you think we can improve our behaviour, actions and impact.

Aarhus, Denmark, March 2017

Peder Tuborgh  
CEO

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.

**Tough year for dairy businesses**

The severe pressure on the global dairy market continued in 2016. The first half was characterised by oversupply of milk and historically low milk prices. This affected the price we were able to pay our farmer owners for their milk. As a response, Arla's raw milk intake decreased by 300 million kilos compared to 2015, and the milk price for the full year, the Arla performance price, decreased to 30.9 eurocent/kg milk.

2016 showed once again the volatility of the global milk market, and became the year where the supply fluctuations in Europe impacted the demand and supply balance causing a rapid shift in market prices. In the second half of 2016 prices recovered sharply due to a shift to raw material shortage driven by a significant reduction in farm milk production caused by two years of low milk prices, and the

outlook is now more positive, as the farm gate price increased four times in the second half of 2016.

**Actions to maintain profitability**

Arla's net revenue in 2016 amounted to EUR 9.6 billion, which is a decline of 6.8 per cent over the previous year. To maintain the company's profitability and a long-term competitive payment to our farmer owners, we are continuing with our cost-cutting and efficiency programmes, for example the introduction of LEAN ways of working at dairies. In addition, the juice company, Rynkeby Foods, was sold in order for Arla to focus on its core business.

The UK is Arla's largest market and following the country's decision to leave the European Union, Arla is focusing on minimising the negative effect this may have and maintaining free trade.

**Strengthened owner organisation**

Work with a new owner strategy began in 2016. Arla has approximately 12,000 farmer owners in seven countries, and the ambition is to strengthen owner democracy through, as one example, a more aligned democratic structure allowing more touch points between management and elected representatives.

**Engaged customers and consumers**

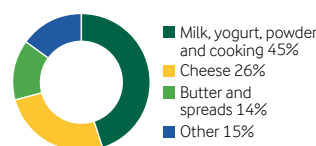
Customers and consumers are increasingly interested in understanding the position we take on issues such as sustainability, animal welfare and health. We welcome this and have strengthened our communication on these subjects. ■

**Revenue by segment**



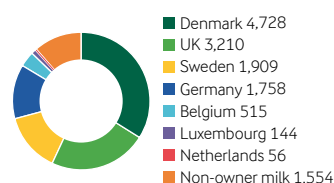
Arla's total revenue has decreased by 6.8 per cent since 2015. For further information, see Arla's annual report.

**Revenue by product group**



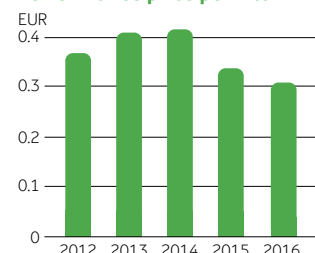
The revenue by product category was similar to 2015.

**Raw milk intake, million kilos**



Arla's total milk intake amounted to 13,874 million kilos, a decrease of two per cent. Owners' milk represents 89 per cent of total milk intake.

**Performance price per kilo**



**Arla's mission**

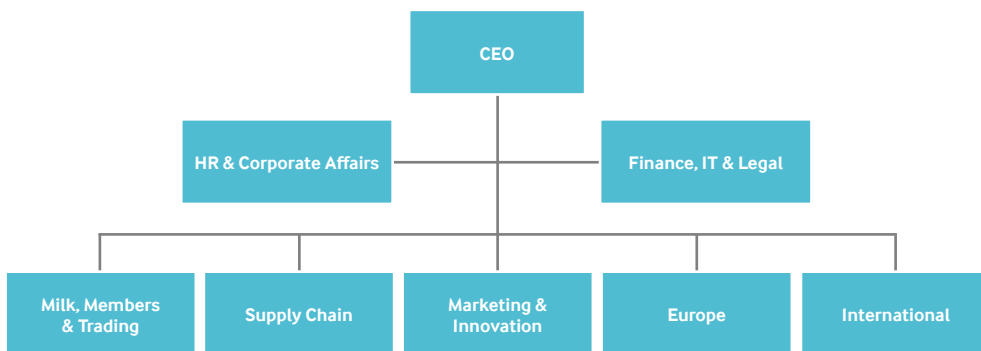
To secure the highest value for our farmers' milk while creating opportunities for their growth.

**Arla's vision**

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



### New organisation to deliver Strategy 2020

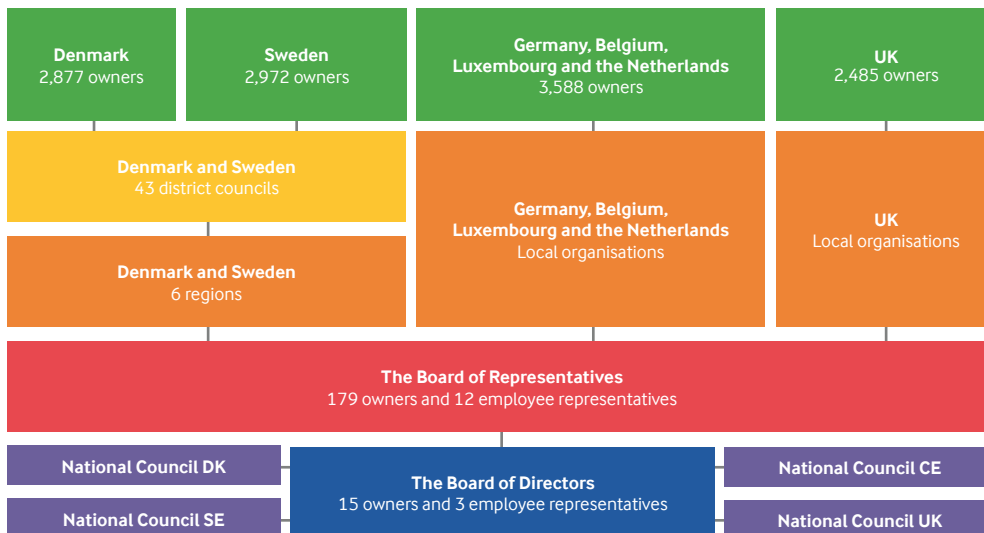


In spring 2016, Arla changed its overall organisational structure in order to best execute its new strategy – Good Growth 2020. Changes were made in the management team and approximately 500 positions were made redundant as a result of the reorganisation. For more information, see arla.com.

### Management

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

### Owner democracy



The chart shows the number of owners/members on December 31, 2016. 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

# 9.6

Our net revenue in 2016 was EUR 9.6 billion, compared to EUR 10.3 billion in 2015, while the profit for the year was EUR 356 million, compared to EUR 295 million in 2015.

### Number of owners

# 11,922

Arla is a cooperative owned by 11,922 dairy farmers in Sweden, Denmark, UK, Germany, Belgium, Luxembourg, and the Netherlands. The number of owners has decreased by 5.8 per cent since last year.

### Number of colleagues

# 18,765

Arla has 18,765 colleagues in 38 countries on all continents. The number of colleagues has decreased by 1.4 per cent since last year.

### Worldwide operations

# 38

Arla has operations in 38 countries and production facilities in 17 of these. Arla is the world's fourth largest dairy company, based on milk intake, and the world's largest producer of organic dairy products.

RESPONSIBLE COMPANY



Arla is a farmer-owned global business. For us, it is a given that profitability and responsible business practices go hand in hand, whether buying or selling. It takes commitment, collaboration, and integrity.

### Working responsibly in Arla

Arla's principles for responsibility and sustainable development are contained in Our Responsibility – Arla Foods' Code of Conduct. Arla's Board of Directors approved the Code of Conduct and it is available in 12 languages and can be downloaded from arla.com. The Code of Conduct serves as both a compass and a tool, guiding us on how we should behave and take responsibility within our business. To operationalise our Code of Conduct, we have policies and codes of practice.

During the year, we further developed our cross-organisational Arla Responsibility Community, to ensure engagement throughout the business. In this forum, goals and targets are developed and cross-organisational initiatives and activities are initiated as well as followed up. The Executive Management Team is responsible for setting direction, approving the annual business plan, and responding to dilemmas.

### Arla supports Global Compact

In early 2008, Arla joined Global Compact, the United Nations' initiative to promote responsible business practices. We also support the UN Sustainable Development Goals launched in 2015. Our primary focus is on goals number 2, 8 and 12, as these are the goals on which we can have the biggest impact. See page 32.

### Whistleblowing function

Since its inception in 2012, Arla has received 52 reports from its whistleblowing function. Reports have come from most parts of the organisation and include areas such as auditing, accounting, theft, bribery, entertainment and health and safety. In 2016, the whistleblowing function received 25 reports of which 15 led to further investigation. Depending on the outcome of the investigation, appropriate measures have been taken. Ten reports could not be handled in the whistleblower system due to legal reasons. Instead, the reporter is informed of which person to contact within the HR organisation.

### Focus on competition law

Arla is now the world's fourth largest dairy company in terms of volume of milk processed. We must constantly evolve within an increasingly competitive, fast-moving and dynamic global market. By acting responsibly, communicating openly and maintaining an ongoing dialogue

with all stakeholders, we can create the right conditions for trust.

In 2016, Arla's Executive Management Team reinforced its position on competition law compliance. As part of our competition law compliance programme, we train all relevant colleagues regularly. The purpose of this mandatory training is to ensure that colleagues are fully informed of the requirements of the competition laws and to assist them in complying with those rules and our Competition law compliance policy. Furthermore, a pilot compliance training programme for organisations in new markets was launched in Nigeria, and is being run cross-functionally by the Risk & Compliance, Legal and Corporate Responsibility functions.

### Anti-bribery actions and training

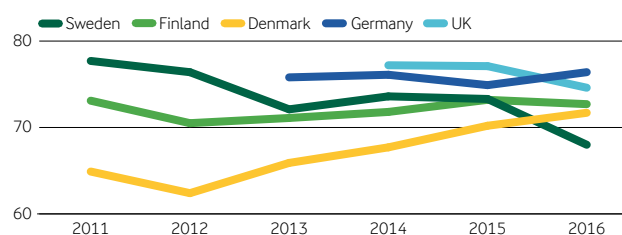
We have continued to strengthen our commitment to anti-bribery. Our training materials on anti-bribery have been updated and a further 77 (last year 273) colleagues took part in face-to-

face training. Arla's anti-bribery policy and procedures have also been included in a compulsory e-learning programme for white collar colleagues. Additionally, Arla's code of conduct for suppliers has been updated to include specific reference to anti-bribery compliance.

### Fraud attempts prevented

During the year, Arla has been exposed to fraud including malicious impersonation of Arla colleagues. In total, we have handled 18 fraud cases this year and have only incurred a minor loss, mainly due to internal time spent on investigations. Thanks to internal communication campaigns during the year, we have increased colleagues' awareness of cyber-crimes. As a consequence, we have experienced increased internal flagging of suspicious activity enabling us to be more proactive and timely in neutralising cyber-crime attacks. When challenged, our internal processes and awareness campaigns have proved to be robust.

### Strong reputation in core markets



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 2016.

### Behaviour e-learning

87%

87 per cent of white collar colleagues in core countries have completed a ONE behaviour e-learning activity, which focuses on topics ranging from fostering organisational commitment to the importance of our policies.

### **Democracy in the farmer-owned cooperative**

Arla's objective is to create value for its farmer 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. Information about the development of the company and the dairy market generally is communicated to farmer owners and elected representatives in newsletters, via websites and during meetings.

**Arla Next.** To establish a strong pool of future farmer representatives

a training programme, Arla Next, has been launched. Arla Next is for non-elected Arla farmers in all owner countries. A total of 60 farmers have joined the programme. The subject areas consist primarily of communication, negotiating, debating and listening techniques as well as insight into and increasing knowledge about Arla, particularly in relation to democracy, markets and finance.

**Arla Seminars.** Elected representatives organise these meetings for new and established owners. The seminars create opportunities for owners to meet to discuss current topics in small

groups locally. In 2015 - 2016, 18 per cent of owners participated in at least one Arla Seminar meeting, the goal is 25 per cent.

**Mentoring programme.** During the year, our mentoring programme for newly elected members of the Board of Representatives has seen 37 mentor pairings across countries.

**New owner strategy.** During 2016, elected representatives have worked with a new owner strategy with the aim to ensure a well-functioning and transparent democratic structure, with a common agenda for meetings in the different owner countries.

The work continues and proposed initiatives will be discussed among owners and elected representatives.

### **Impact of the low milk price**

Arla's aim is to maximise the price paid to its farmer owners for their milk. However, the milk price continued to be low in 2016, putting further pressure on farm finances. Arla's total milk intake during 2016 was two per cent lower than 2015. The low world milk price led to a global decrease in milk production, which in turn strengthened the market.

By the second half of 2016, Arla was able to raise the price paid to its farmer owners four times, although



from a low level. The tough situation for farmers has been a concern for consumers in all owner countries, leading to a public debate about farmers' conditions and Arla's responsibility.

**Common settlement model**

Arla has merged with several dairy companies, with different settlement models, over the years. As of 1 January, 2017 the payment for milk quality was aligned for all Arla's farmer owners. However, due to market requirements or national legislation there are still a few differences within the payment model.

The settlement model rewards good milk quality. The price is primarily based on the amount of protein and fat in milk. This way all farmer owners are treated in the same way in one common system.

**Sustainable sourcing**

We source goods and services across the world. Our ambition is for all suppliers to follow our code of conduct for suppliers, which governs ethical, social and

environmental responsibilities. The procurement department has overall responsibility for procurement in Arla, the exception being the purchase of milk. Our globally managed external spend represented around 77 per cent of the total spend in 2016, compared to 75 per cent in the previous year.

Preferred suppliers are Arla's first choice suppliers selected by the procurement department, and for selected categories approved by supplier assurance. Written purchase agreements control the commercial and legal terms.

Arla now has approximately 1,375 preferred suppliers (1,130 in 2015). Currently 76 per cent (50 per cent in 2015) have signed an updated version of the code of conduct for suppliers.

A new purchasing policy was introduced at the end of 2016 to further align all purchases made in Arla regardless of where in the organisation the purchase is made. The aim is to guide Arla colleagues

through the process of purchasing in a correct manner as well as protecting Arla against activities that potentially can negatively impact our operations or reputation. The policy will be supplemented by guides and communication during the coming year.

**Supplier audits across the world**

Every year, we carry out audits based on risk evaluation, during which we visit suppliers and inspect relevant areas. In 2016, we conducted approximately 64 audits globally (35 audits in 2015), focusing on food fraud management, allergen management, laundry, packaging, traceability, agents and as new area this year, contract manufacturing.

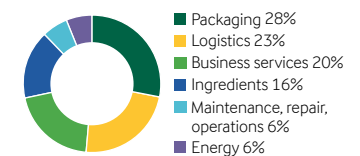
About 70 supplier lead auditors have been trained to ensure the application of our auditing standards, identify areas on which to focus as well as share the tools and processes that should be used to ensure good auditing and reporting standards, using the same tools and processes. ■

**Active consumer dialogue**

**105,000**

In Northern Europe, our consumer relations services received more than 105,000 enquiries in 2016. Our digital sites had 80 million visits with interaction.

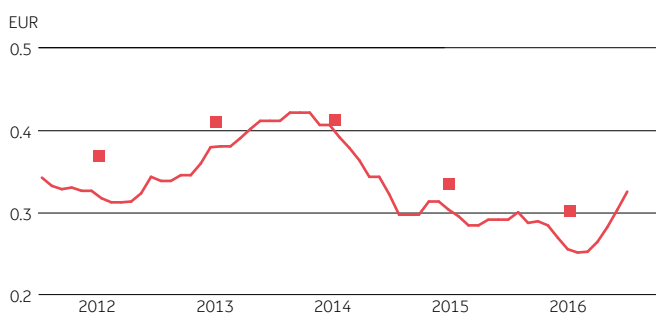
**Global contracts**



The diagram shows the external spend handled by Arla's procurement department, divided across product and service categories. Our 10 largest suppliers account for 21 per cent (17 per cent in 2015) of our total external spend.

In 2016, the following companies were our five largest suppliers in order of size of spend: Tetra Pak (packaging materials and machinery), Elopak (packaging materials and machinery), Dentsu Aegis London (media), PCL Transport (distribution) and Superfos (packaging materials).

**Milk price development**



The Arla performance price (payment to the farmer owners plus retainment) for 2016 was 30.9 eurocent/kg milk, which is an eight per cent decrease since 2015.

The graph shows the prepaid 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/March, when profits are distributed.

**Responsible sourcing**

100 per cent of palm oil purchased during 2016 has been segregated and certified according to RSPO (Round table for Sustainable Palm Oil) criteria. In 2016, we received the WWF's acknowledgement in its Palm oil score card in which Arla was ranked one of the companies 'Leading the way'.

All cocoa used by Arla® and Cocio® for branded products is UTZ certified.

All soy used at Arla farms are either organic, ProTerra-certified, RTRS-certified (Round Table Responsible Soy) or covered by RTRS-certificates.

HEALTH AND NUTRITION



Supplying safe products is our top priority. Furthermore, we want to provide products that match consumers' nutritional needs and, at the same time, inspire better food habits. We do this by providing a variety of nutritious products as well as recipes and transparent information.

### Health strategy makes a difference

We want to help people eat healthily to get the most out of their lives. We do this by meeting consumer demand for healthy and natural products and by providing transparent, reliable nutritional information as well as recipes. Our health strategy, which we launched in 2014, focuses on helping consumers live a healthier life by, for example, promoting a healthy diet and inspiring good eating habits. Another part of this strategy has been the development of healthier products.

### Arla guideline for nutrients in products

A natural extension of our health strategy is Arla® Nutrition Criteria, which we have recently introduced. Milk naturally contains many inherently beneficial nutrients. The principle of our criteria is to ensure the goodness of dairy in our products meaning that we ensure a minimum content of protein and natural dairy calcium and limit the amount of fat, added sugar and salt.

Our goal is that only Arla® branded products fulfilling the criteria will carry a health or nutrition claim. By doing this, we help consumers to choose and consume dairy products in a way that makes it easier for them to follow a healthy, natural and balanced diet.

The nutrition criteria were introduced at the beginning of the year. We have, however, been reducing the amount of sugar and

salt in our products for many years, which is why a large proportion of our products are already in line with the criteria. But we have ambitions and have set targets to increase the share of products across all our categories that meet the criteria.

Action plans for the different product groups have been developed and the work with product composition has been initialised. Special attention is being paid to sugar content in fruit yogurts, protein and fat balance in cheese spreads and salt content in some cheeses. One example where the reformulation has begun is the Yoggi Yalla® products, a drinking yogurt, and flavoured milk in Sweden, in which the amount of added sugar has been reduced by 40 per cent during 2016. The reformulation of products often presents the challenge of improving or at least keeping the good taste and it can also have an impact on affordability and shelf-life.

### Natural products without additives

The naturalness of our products has been our focus for many years. We continue to develop products without artificial additives, for example a new cream cheese, which we have successfully launched in several markets. We have various initiatives to communicate naturalness to our consumers in response to their increased interest in this area. For example, we have begun communicating to consumers that our Lurpak® butter is made without artificial additives.

### Focus on research

Through research, we aim to increase our understanding of the role that dairy products play in a balanced and sustainable diet. We also want to have as much knowledge as possible about the link between the nutritional value of our products and consumers' health. We contribute to international research by being an active member of global networks and organisations, such as Global Dairy Platform and the International Dairy Federation.

In 2015, Arla initiated a public-private partnership in nutrition research – Arla Food for Health – in cooperation with Copenhagen and Aarhus universities. We want to enable fast and efficient translation of research into competence building and prototyping of future healthy products and solutions. The ongoing research projects are focused on cutting-edge scientific knowledge about the health benefits of dairy or dairy based ingredients.

Examples of research questions addressed by Arla Food for Health:

- What components of dairy can support infant brain development to bridge the gap between infant milk formula and breast milk?
- Can a diet high in protein/high in dairy and reduced in carbohydrate be beneficial for people with type-2 diabetes?
- Which milk ingredients can protect new born and premature babies against inflammation of the intestine?
- How can the effects of dairy protein on energy metabolism help weight management?

### Arla participates in EAT

EAT is a global initiative linking food, health and sustainability across science, business and politics. All participants share the common understanding that it is essential to collectively address these issues to ultimately be able to feed nine billion people in a healthy way within the planetary boundaries. Arla has partnered with EAT as it aligns with our sustainability

### Products fulfilling the Arla® Nutrition Criteria



93 per cent of Arla® branded products in the categories milk, yogurt and everyday cheeses comply with the Arla® brand Nutrition Criteria. The criteria secure great dairy nutrients without too much added sugar, salt or calories to the health of Arla's consumers.



### Food security and improved nutrition

We have taken further steps to ensure that we contribute to the second UN Sustainable Development Goal, 'End hunger, achieve food security and improved nutrition and promote sustainable agriculture'.



ambitions and with the focus of our health strategy. EAT emphasises that providing the growing population with a nutritious diet within safe environmental limits is one of the greatest global challenges of today.

#### **Inspiring good food habits**

Within our markets we engage in many different activities to inspire good food habits. Examples:

**Denmark.** Our independent body, Arla Foundation, arranges Food Camps for young Danes, 13 - 14 years old. At the camps, the school children learn about food, cooking, raw materials and nature through various indoor and outdoor activities.

**UK.** In collaboration with UK chefs and bloggers, different events and digital activities encouraged people to embrace better breakfast habits.

**Sweden.** Arla's Swedish website is one of the top three in the country for food inspiration. In cooperation with Sweden's leading e-commerce grocery retailer, Arla offers food boxes with recipes, that are delivered direct to consumers.

**Netherlands.** A campaign to support good breakfast habits in collaboration with other breakfast brands and a retailer.

**Nigeria.** A roadshow to encourage a healthy lifestyle, including information about good eating habits and health checks focusing on body mass index.

#### **Demand for protein fortified products**

Our consumers show an increased interest in healthy products, including snacks. In addition, protein fortified products are



becoming more of a focus for healthy, active consumers, as well as for those trying to manage their weight. To meet consumer demand in Europe, we have launched a series of new products fortified with protein, including spoonable and drinkable yogurt and milk products available in different flavours, served in portion size packs.

#### Food safety is crucial

As a responsible dairy company, we are dedicated to ensuring that eating and drinking our products does not cause illness. We make every effort to ensure that our processes are safe. Our high quality standards are maintained and continuously improved and cover the full value chain, from the raw material to the finished products and distribution. We have full traceability of our raw materials, ingredients and end products.

#### Ensuring high quality and food safety standards

As Arla becomes an increasingly global company, the number of subcontractors we work with rises. As a consequence, we have enforced our organisation to ensure that subcontractors follow the same high quality and food safety standards as Arla sites.

When working with partners in joint ventures, our joint ambition is to share knowledge that ensures products are produced to the highest food safety standards. Areas of knowledge we share include training and providing standards for critical control points, traceability

#### 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. An agreement with partners has been made to open a second camp during 2019.

#### Dialogue on health challenges

As a first step to create new solutions to Danish health challenges, Arla arranged a conference on the need for increased collaboration and partnerships. About a hundred representatives from Danish companies, organisations, patient organisations, government agencies and research institutions participated.

#### Health concept

'Vardagspuls' is a digital health concept owned by Arla Sweden and operated as an independent editorial office. The concept is based around a website which provides inspiration and tips for both healthy eating and living.



#### Number of lactose free products

	2012	2013	2014	2015	2016
Finland	37	46	68	93	118
Sweden	32	35	43	43	63
UK	11	13	12	15	17
Denmark	3	8	11	15	21
Germany	5	5	5	6	4
Netherlands	-	4	4	4	5

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.





and documentation. For example, when our Senegal site opened this year, knowledge was transferred by trained operators from our site in Nigeria.

We also increasingly engage in food safety activities outside our core markets. In China, for example, we have directly, and also through interest organisations, been engaged in the development of the revision of the Chinese Food Safety Law.

Our global ingredient specification procedure allows us to rapidly respond if there is any suspicion

that ingredients don't meet our quality standards or even in cases of suspected food fraud. The procedure also helps us to strengthen the governance around introducing new ingredients, especially in light of our innovation agenda. Please see page 18 for an example.

#### **Competence development**

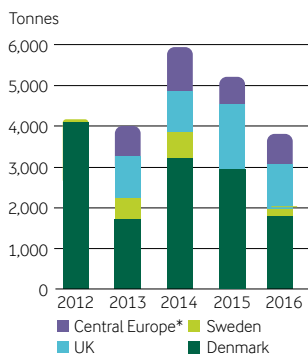
Food safety training and knowledge sharing is high on our agenda. All new colleagues at sites have a mandatory introduction to quality, environment, health and safety to secure knowledge as well as

awareness from the very beginning. Functions at all levels are trained to keep relevant competences at a high level. A few examples from 2016 include training in halal for a global network of specialists from production sites, frequent function group meetings sharing learnings across sites as well as global training for all lead auditors performing supplier audits.

Furthermore, Arla is represented in different official collaborations with authorities, certification bodies and other networks to support the continuous development of

systems and standards. We also share learnings across our sites including the outcomes of audits by customers, third parties and authorities. ■

## Antibiotic management



\* Germany, Luxembourg, the Netherlands and Belgium.

The diagram shows the volume of discarded milk at our dairies in our own countries.

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.

As an extra precaution, all milk is tested before taken into use at the dairy. If it contains antibiotic residues it is discarded.

In 2016, the volume of discarded milk at our dairies has decreased by approximately 27 per cent. Major reductions have been made in Denmark and the UK. In total, 3,822 tonnes of milk were discarded during 2016, which corresponds to 0.03 per cent of the total milk in Arla.

## Tasty and healthy

**Developing tasty and healthy products is part of Arla's responsibility.**

During the year, Arla UK launched a fat-free skimmed-milk with extra protein called Arla® B.O.B. combining health and taste. The new product has a taste and texture as good as semi-skimmed milk, and thanks to an innovative filtering process, Arla® B.O.B. lasts longer in the fridge.

The new milk type is the result of three years' development. It answers calls from organisations such as Public Health England to encourage people to consider drinking low fat milk. It is also a response to research conducted for Arla in which 49 per cent of semi-skimmed buyers say that they would buy skimmed milk, but don't like the texture. ■



## Product recalls

	2012	2013	2014	2015	2016
Recalls	6	7	6	7	6

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 strict quality and food safety routines, we have recalled products on six occasions during the year, as the products did not meet required standards.

One recall was due to the mislabeling of a crème fraîche product and the remaining were caused by product quality deficiencies. All recalls involved minor volumes, each affecting only one market in Scandinavia and the Netherlands.

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.

## Food safety

# 98%

98 per cent of our production volume is manufactured at sites with GFSI (Global Food Safety Initiative) certification or similar.

# Innovation meets marketing in Arla's journey to create the future of dairy

**Arla has set itself the challenge of helping to solve one of the world's biggest issues – malnutrition. Its vision: 'Creating the future of dairy to bring health and inspiration to the world, naturally', and an ambitious health strategy clearly set the direction Arla is taking.**

Scientists claim that globally one of three people is malnourished. This nutritional challenge spans from obesity and excess weight to undernourishment.

"It's an enormous number," says Sven Thormählen, Senior Vice President for R&D at Arla. "Even worse, there are 42 million children under five years old who are overweight while, at the same time, there are 93 million who are underweight."

Sven explains that, to him, 'the future of dairy' means Arla will make products that are relevant to consumers today and in the future, and that Arla must make sure that its products contribute to health worldwide.

In Arla, innovation is used to develop products to meet these challenges. For example, by fractionating milk, Arla can create proteins at an affordable price, that have good nutritional value, which are intended for developing markets.

"Today we know more about the composition of the milk than we did 10 years ago. Milk is not only rich in calcium, protein, and vitamins, but it's also a highly functional food."

Through partnerships with academia Arla has found that some proteins in milk work as transport proteins, designed to bring other nutrients into the body. This means, for example, that vitamins A and D are absorbed more quickly if they are taken with milk. This

is especially important early and late in life, and this is an example of knowledge that Arla wants to share with consumers.

"We want to create consumer value and, to do so, we also need to understand our consumers' dilemmas. For example, many consumers like to eat dairy in the morning, but feel they need more to keep them full. This is why one of our current projects is focusing on combining the best from grains and seeds with yogurt. From consumer insight research, we have also found that consumers want products that are nutritious and healthy at the same time, without compromising taste and texture."

At Arla, the competences of research and innovation are combined with marketing. This helps the company in supporting the UN's Sustainability Development Goal to reduce poor nutrition and related diseases.

"We want to be the company that brings solutions to these challenges," Sven concludes. ■



## Handling a food safety alert

**A food safety alert regarding nuts in ingredients requires full traceability in the supply chain to ensure consumers' safety.**

When an international food safety alert provided information regarding a possible contamination of paprika and cumin powders, Arla immediately initiated an investigation. The alert concerned nuts, which can cause serious reactions if consumed by people who are allergic to them.

All of Arla's suppliers of the two spices were asked to guarantee that they were not in any way related to this contamination case. They were asked to produce a complete supply chain map, all the way back to where the spices were grown, including providing details of all the certifications of any party involved.

Based on this information and subsequent analysis Arla could verify that its production sites had not received contaminated spices. Due to full traceability in the supply chain – both back to suppliers and forwards to all customers buying the products that contained the spices – Arla could demonstrate that its products were unaffected. Furthermore, Arla proactively shared the information with customers and other manufacturers. ■

# What will healthy food look like in 30 years?



**Professor emeritus Wim Saris is an expert in human nutrition. Looking 30 - 40 years ahead, he claims that one of the major global challenges is producing enough healthy, and at the same time, sustainable food to feed the world.**

## **With nine billion people to feed on the planet, what actions do we need to take?**

When we talk about feeding the world and nutritional science, we also need to talk about sustainability. We must take actions to slow down global warming, to avoid creating areas where it is impossible to live, and we also need to take action to ensure sufficient food supply. We need dairy products, for example, specifically for population groups like infants, youngsters, as well as for the elderly. And the producers of dairy, both farmers and the dairy industry, have to become carbon neutral.

We also need to change the mindset of people. Sustainable products are not always the same as healthy products. Sugar, for instance, is a very sustainable product, one of the best, but it is not

healthy as a staple food. We need to educate people what is sustainable and still healthy. This is the joint responsibility of the food industry together with governments and NGOs.

Another issue on the table for the future is food waste. We throw away far too much food. And not only in the Western world. In the developing world, a lot of food is wasted, mostly due to inadequate harvesting and storage possibilities. So we also need to include food waste when we talk about sustainability.

## **Which nutrients have the most important role to play in feeding the world?**

Producing sufficient amounts of fat and carbohydrates isn't a problem. The question is: Can we produce enough high quality protein? When it comes to high quality sources, dairy protein is one of them. But we need to consider mixing it with other lower quality, but more sustainable, vegetable proteins to create similar nutritious products. The knowledge to do this already exists within companies like Arla.

## **What more can Arla do?**

Overall, dairy is healthy, but the nutritional quality of some products can be improved by, for example, reducing sugar and fat content. The whole food industry needs to look at reducing portion sizes so we don't eat more than we need. This is a global challenge. There is already more obesity in the developing world than in the West.

Arla should keep thinking about supporting healthy living in the developing world as well. Here you need to consider that affordability is just as important as healthy products rich in nutrients.

I think that companies like Arla have a responsibility for developing and educating dairy farmers in developing countries. With the knowledge available in Arla, you have the ability to support African countries, for example, to set up small dairy farms for local production of dairy products, and to educate people there. The need for dairy products will increase in the coming years, especially in those areas, so it is important to make a difference now so enough nutritious products will be produced in the long term.



**Wim Saris, MD and PhD, is Professor emeritus of Human Nutrition at the Department of Human Biology at Maastricht University in the Netherlands. His major research interests in the past 35 years were in energy metabolism and substrate utilisation under different conditions, such as athletic performance, obesity, type-2 diabetes and cancer, with an emphasis on the development of functional nutritional solutions.**

## **What do you think is Arla's biggest challenge?**

To show the world that you can produce dairy proteins and healthy dairy products in general in a sustainable way to feed the world. In that way, Arla can contribute to facing and beating the global food challenge. ■

SUSTAINABLE DAIRY PRODUCTION



We have a natural interest in high animal welfare standards, milk quality and state-of-the-art dairy production. We strive for the best environmental practices, and work to continuously reduce our environmental impact, all the way from the farm to the consumer.

### Supporting the UN's Sustainable Development Goals

We support the UN's Sustainable Development Goals, and believe that our environmental strategy, our sourcing policies and our sustainable dairy farming strategy, which is developed in cooperation with our farmer owners, all contribute to the goals.

Furthermore, we see the Sustainable Development Goals as an incentive for us to develop further, and set our targets even higher.

**Climate and resources.** We are targeting a reduction in greenhouse gas emissions at farm level by 30 per cent per kilo milk, from 1990 to 2020. We support individual Arla farmers to do so by offering carbon assessments free of charge. The data from the assessment enables the farmer to compare performance with other farms, identify strengths and weaknesses and receive recommendations specific to their farm. We estimate that there has been a 21 per cent decrease in greenhouse gas emissions in the period 1990 - 2014. Analysis of the data shows that there is a close correlation between greenhouse gas emissions and the utilisation of resources such as feed, energy and nitrogen. During 2017, more farmers will be encouraged to perform the assessment.

**Animals.** The health of our farmers' cows and the conditions in which they live are of great importance to us and all stakeholders in our

value chain from farmer owners to consumers. To support our aim, in cooperation with veterinary professionals, we have held workshops at farms covering themes including calf health, responsible use of antibiotics, and improving cow udder health. Experiences from these workshops are very positive. Ensuring animal welfare is always in focus and is also financially beneficial for farmers.

**Nature.** We continuously support and promote biodiversity including the responsible sourcing of feed. Together with researchers, activities to develop and optimise feed rations and the unique potential of cows to utilise forage have been ongoing for many years in our owner countries. At present, Arla is engaged in a Danish research study investigating whether it is possible to extract proteins from grass. The aim is to increase the use of grass proteins in feed for animals,

saving high quality proteins for consumption by humans.

All soy fed to cows at Arla farms is either organic, ProTerra-certified, RTRS-certified or covered by RTRS certificates. Our commitment to responsible soy production has been acknowledged by WWF, which placed Arla as a Frontrunner in their latest soy score card ranking.

In Sweden, we have initiated a project with Research Institutes of Sweden (RISE) to establish a scientific basis defining and recording the value Arla farms create in terms of contributing to important ecosystem services that we all benefit from, for example, pollination, beautiful landscapes, and fertile agricultural soil. The result will be the foundation for prioritising efforts going forward as well as communication to customers, consumers and farmer owners.

### Organic milk

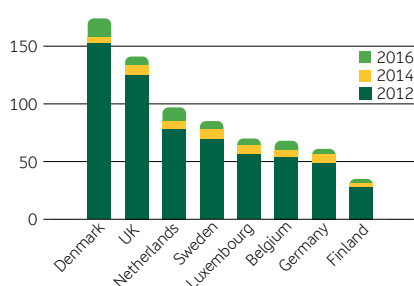
# 270

Arla has recruited more organic farmers in Denmark, Sweden, Germany and Luxembourg. By 2018, our organic milk volume will have grown by 270 million kilos, in line with increased demand.

### Arlagården® assessment at all Arla farms

Our quality assurance programme Arlagården® focuses on milk quality, food safety, animal welfare and the environment. The programme is now in place in the seven countries in which we have farmer owners, and all the farms that have recently introduced Arlagården® have had their first assessment.

### 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.

### Sustainable dairy farming

	Carbon assessments	Energy assessments	Farm workshops
UK 2010 - 15	1,412	–	388
Sweden 2013 - 15	530	320	40
Denmark 2013 - 15	836	9	39
Central Europe* 2013 - 15	4	–	–
Total 2010 - 15	2,782	329	467
UK 2016	320	–	98
Sweden 2016	16	28	15
Denmark 2016	175	13	–
Central Europe* 2016	–	–	–
Total 2010 - 16	3,293	370	580

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

\* Germany, Luxembourg, the Netherlands and Belgium.



### Arlagården® farm audits

# 4,050

All Arla farms are audited according to Arlagården® a minimum of once in every three years' period. In the UK, our farmer owners also adhere to the UK industry standard, the Red Tractor Farm Assurance Dairy Scheme, and are assessed every 18 months to ensure compliance to both standards. In total, 4,050 audits were carried out during the year.

### World Dairy Innovation Award

Arla has been awarded the World Dairy Innovation Award for 'significant progress in promoting the responsible use of antibiotics'. Read more about antibiotic management on page 17.

Arlagården® is our foundation for milk quality and responsible production. It increases our ability to compete globally as all our owner milk is produced to the same standards. Arlagården® has also been used for raising competence levels on animal welfare and good agricultural practices in China, through the China-Denmark Milk Technology Cooperation Centre. The programme is currently being further developed.

### More organic milk

Arla is the world's largest supplier of organic dairy products. Consumer demand for organic dairy products is growing and we have recruited organic farmers in Denmark, Sweden, Germany, and Luxembourg. The transition to organic farming takes 2 - 3 years and we expect to reach our

2018 target volume. A new global organic farmer committee has been organised to share knowledge and experiences. A proposal for a new organic strategy has been presented to the global committee, and the committee will continue its work during 2017. The ambition is a considerable increase in organic milk volumes.

### Milk based on non GM feed

Customer and consumer demands for milk based on non GM (Genetically Modified) cow feed have increased during the year. In Sweden, cows are already fed only non GM feed and, at the request of customers, many farmer owners in the rest of Europe have switched to non GM feed. By the end of 2016, 1,000 Arla farmers from Germany, Belgium and Luxembourg had made the transition as well as 90 Danish

farmers. We see this trend as a sign of increased interest from consumers to know what happens at farms, and a wish from farmers to respond quickly to new consumer and customer demands.

### Environmental strategy 2020

Arla's environmental strategy 2020 is the guiding principle for all our environmental and climate work. As part of this strategy we will reduce greenhouse gas emissions by 25 per cent by 2020 within operations, packaging and transport, compared to the 2005 level. Since 2005, Arla's total climate impact has decreased by 12.4 per cent, despite increased production. See diagram to the right.

### Energy and water use

Our environmental strategy also includes efficiency targets of a three per cent annual reduction



in water and energy consumption towards 2020. By 2020, half of the energy we use must originate from renewable energy sources such as biomass, wind and water. In Sweden, our use of renewable energy is above 70 per cent due to the availability of bio-based energy for heat and electricity from renewable sources. In Denmark, several of our high energy consuming sites, such as Bislev, Rødkærsbro and Arinco, are gradually moving from natural gas to biogas. See also page 26. At Rødkærsbro and Arinco dairies the biogas is used for producing electricity and heat. Surplus heat is

sold to municipalities and used in their district heating systems. For example, Rødkærsbro dairy provides 600 households in the area with district heating, corresponding to approximately 14,000 MWh.

We work systematically to reduce water consumption. Inspired by our experiences from energy mapping at our dairies to reduce energy consumption, our next step is water mapping. We have contributed to a Danish project managed by DHI (Danish Institute for Water and Environment) to develop a tool for water mapping. The tool has been

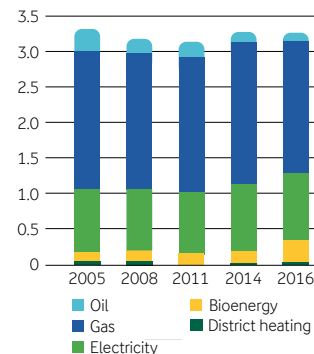
tested at Rødkærsbro dairy and will eventually be used to evaluate Arla's other sites. A number of water saving activities have been implemented, for example, at Sipoo, Finland, and at Danmark Protein in Denmark, both sites reuse water in their processes. Our total water consumption shows a 0.7 per cent decrease during 2016.

**Transport improvements**

Reducing the climate impact of Arla's transportation by 25 per cent by 2020 remains the most challenging goal in our environmental strategy. Not only

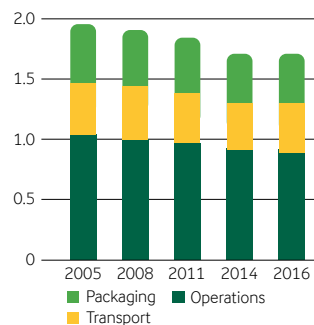


**Energy consumption, TWh**



The diagram includes all Arla facilities at the end of 2016. Previous years' data has been updated. During 2016, energy consumption decreased by 0.7 per cent, mainly due to energy efficiency measures in operations. Since 2015, the share of renewable energy has increased by 2.1 per cent to 21.2 per cent.

**Climate impact, million tonnes of CO<sub>2</sub>-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 (scope 1+2+3)\*. Since 2005, Arla's total climate impact has decreased by 12.4 per cent, despite increased production. The increase in 2016 is connected to a lower proportion of electricity in Europe from non-fossil sources.

\* See page 33.

## Greenhouse gas emissions



In 2016 we came halfway towards reaching our 2020 goal for reducing greenhouse gas emissions from packaging, transportation and operations by 25 per cent.

## Sustainable Development Goals



We have taken further steps to ensure that we contribute to the second and twelfth UN Sustainable Development Goals, 'End hunger, achieve food security and improved nutrition and promote sustainable agriculture' and 'Ensure sustainable consumption and production patterns'.

## FSC

# 100%

All corrugated material delivered to sites in Denmark and Sweden is now 100 per cent FSC (Forest Stewardship Council) certified.

## Environmental award

In Austria, we have won the ARA award for the most environmental friendly packaging development, in cooperation with a supplier.

do our transport requirements differ across markets, the availability of bio fuels as well as incentives from national governments also vary, leading to very different opportunities and challenges. In Sweden, the 25 per cent goal has already been exceeded and different initiatives continue to reduce greenhouse gas emissions. In 2016, 17 new biofuel vehicles were introduced in Sweden, leading to an annual reduction in greenhouse gas emissions of 90 per cent for each of the vehicles.

As a large proportion of Arla's transportation is handled by third parties, it is critical to have a good collaboration with our suppliers. We are in continuous dialogue with our largest transport suppliers and suppliers of fuels. Similarly, the climate and environment are integral aspects of our contract negotiations.

### Reduce waste

Arla has an ambition to halve food waste both during production and among consumers. In addition, we want to avoid packaging waste. When this is not possible, we treat waste as a resource to be reused or recycled. We call this zero waste. To be able to fulfil our zero waste vision, we have set ourselves three targets.

**Recyclable packaging.** Our goal has been that all our packaging would be 100 per cent recyclable by 2020. In countries where this not already has been the case, we have cooperated with suppliers,

researchers and key customers to evaluate and select packaging that can be recycled. 100 per cent of the packaging we used globally in 2016 was recyclable.

**Reduce food waste.** We want to support consumers to reduce food waste. We provide recipes and shopping lists to help them better plan food purchases and to make full use of products by optimising pack sizes. We also offer information and inspiration on-pack and on our Arla-websites, for example in the Netherlands, Denmark, and Sweden.

In the UK, we are members of the Courtauld Commitment 2025, a waste reduction programme that aims to reduce consumer food waste. In the Netherlands, we have initiated a research project to collect data about the amount of dairy that is being thrown away.

If we have surplus products that cannot be sold, we donate them to charitable food banks in Denmark, the Netherlands, the UK, and Kuwait for example.

**Waste from production.** We want to eliminate waste to landfill from production. Waste product is used for animal feed or biogas production. Solid waste is recycled or reused in cooperation with waste management suppliers. In the UK, major improvements have been made. 76 per cent of solid waste from UK dairy sites is now recycled, an improvement of five per cent since 2015.

## Packaging improvements

The environmental impact from packaging material is reduced by continuously decreasing the weight of individual packaging formats without impacting functionality. Recent examples are plastic milk bottles, caps on milk bottles and cartons and packaging for spreads.

In cooperation with our suppliers of corrugated packaging material, we have reduced the number of different variants and chosen material with less climate impact.

Furthermore, we strive to increase the use of renewable raw materials in our packaging. In partnership with our suppliers and leading technological consultancy companies, we aim to find the best solutions. In Sweden and Denmark, we already have milk cartons made only of renewable packaging materials, and this switch will be seen in the Netherlands very soon.

Furthermore, Arla uses as much recycled material as possible in its packaging, without compromising food safety.

## Environmental profit and loss

In 2015, for the first time, Arla put financial figures on its environmental impact, from cow to consumer. The results from this environmental profit and loss accounting show that the most significant environmental impact categories are climate change, air emissions (ammonia), land use and energy resources. This confirms that our current environmental strategy

is largely right in focus, but also that there are areas in need of more action. The results will be used as input for the next environmental strategy beyond 2020. ■

#### New technology

The use of drones helps us to be efficient and cost conscious. We are piloting their use at one of our sites which has started to use drones to inspect large buildings and towers, rather than using expensive cranes or helicopters to take photos from the air.

#### Renewable energy consumption



By 2020, half of the energy we use should originate from renewable energy sources. In 2016, the share of renewable energy amounted to 21.2 per cent.

## International cooperation to increase sustainability

**In dialogue with competitors and customers, Arla actively contributes to addressing the challenges of producing dairy in a sustainable way.**

As an implementing member of the Dairy Sustainability Framework (DSF), an initiative leading the way to sustainable dairy production globally, Arla supports the industry by sharing its knowledge.

Valuable discussions on how to move forward are also held in the Sustainable Agriculture Initiative Dairy Working Group (SAI DWG) in which Arla is an active member, together with peers and customers.

In 2016, DSF-indicators were defined for greenhouse gas emissions and animal care, and the SAI DWG agreed on minimum levels for animal care, working conditions, legal compliance and biodiversity. It is Arla's conviction that this wide and collaborative approach will result in both sustainable and commercial advantages. ■



# Switching to renewable energy doesn't happen overnight

**Arla's 2020 goal is for half of its worldwide energy consumption to come from renewable sources. However, it's not as simple as just pushing a button to make this green shift. It is a question of cost, availability and quality.**

"When I started working with this, about 12 years ago, we were purchasing diesel oil, electricity and natural gas, and our focus was wholly on price. Now, with our goal of 50 per cent of our energy coming from renewables, it's much more complex," says Peter Engelbrektsen, Senior Category Manager at Arla, who is responsible for purchasing all the energy that Arla uses in all markets, for both production and transport.

Peter describes how conditions today vary a lot from country to country. Sweden and Denmark already use a high percentage of renewables, while the UK and Germany, Arla's two other large production countries, still have a long way to go. In these two locations, the approach to renewable energy generation has not been as focused, which is why the markets and infrastructure for renewables have not developed as quickly. This makes green energy more expensive in these countries. Consequently, Arla has to work harder to find and encourage suppliers of green energy sources.

Another challenge is quality. When it comes to switching to biomass and wood pellets at dairy sites, and rapeseed diesel oil for transport, for example, Arla has experienced less stability and more quality related issues, compared to fossil fuels.

"This is why we need to continuously challenge our routines and behaviour to become greener. Maybe we have to change the filters in our trucks more often or leave an engine running when it is cold. Also, some of the things we tried at the start of our journey probably weren't as green as we first thought."

The fact that renewables, with the exception of solar and wind, have not yet reduced in price and become more readily available disappoints Peter. He anticipated that biogas facilities would grow at a faster rate, as a diversified business opportunity for more Arla farmers, for example. One way Arla helps to encourage renewable energy production is to work closely with both existing and potential suppliers.

Meanwhile internally, Arla's recipe to reaching its goal is cooperation between colleagues in procurement, environment and processing.

"Our main learning is that we need to work together. Finding solutions that are green is a complex task requiring reasonable adjustments in production and of our vehicles, and, at the same time, they must be economically viable." ■



## More biogas in the UK

**A UK biogas site that is under construction will reduce Arla's climate impact as well as generate energy for the grid.**

At Arla's Lockerbie site in Scotland, production waste is currently fed to an effluent treatment plant that includes a very large, aerated lagoon. Once treated the outflow of this is fed to the local river, Annan. The lagoon is old and in the event of a failure, there could be a risk of contamination of the river and surrounding grounds.

To eliminate such risks and create a better use of the waste, Arla together with third parties, initiated the construction of an anaerobic digestion site that will replace the old effluent plant. The new biogas site will be in operation by the end of 2017. Fed also with whey permeate from the Lockerbie site, the biogas site will generate energy for Arla as well as biogas for the grid. It will also reduce the Lockerbie site's greenhouse gas emissions by 35 per cent. ■



# How will we feed the world?

**In 2050, we expect approximately nine billion people to inhabit our planet. Will we be able to feed them all adequately? According to Dr. John Ingram, even today many people don't have sufficient calories or nutrients, while many others are consuming too much food. This overconsumption is leading to diet-related diseases, putting additional pressure on already over-stretched public health services. It is also significantly contributing to the further degradation of the natural resources on which our food system depends.**

## What actions do we need?

I would turn the question around and ask: What outcomes do we want? We have just one planet and its natural resources are already being seriously degraded. I see three main ones: We want to ease the pressure on the environment and eat more healthily to reduce the consequences on the public health sector. And we also need vibrant enterprises across the whole food sector as these are fundamental to providing our food.

## How are we going to achieve these ambitions?

First of all, we must remember all three outcomes and not just concentrate on one of them. All three interact and are necessary. We need to ask ourselves: what do we want to reduce and what do we want to promote?

Some specifics could be reducing the amount of human-edible food that is wasted or is put into non-food use, such as feed for animals or biofuels. We need to

use environmentally sustainable technologies, and we need a behavioural change when it comes to consumption patterns. We need to be much more clever in how we manage our natural resources, and we need to reduce our consumption of animal products in general. I'm aware that some of the things we need to do require difficult political decisions and they are usually coupled with substantial economic challenges.

## In your opinion, what would be the solution?

Generally, we need to increase our understanding of the strong interconnections between our society, health, environment and the food sector, what I call increasing 'food system thinking'. This allows us to carefully consider what we could and should do to reach our goals. It is, however, very clear that the general public is not only unaware of the whole food story, but is also often uninterested. We need to use the knowledge that we already have to raise awareness

of these interconnections, and show the benefits of thinking more about them. We also need more equitable access to food around the world and increased investment in sustainable food systems.

## In this large picture, what role does dairy play?

Towards 2050, we need to think more about pasture-fed animal production and radically reduce the amount of cereals and other human-edible foodstuff fed to cows. A cow is really good at turning grass into something we can eat. However, a lot of cereals are also used as cow feed which is a very inefficient practice as we can eat cereals directly.

As dairy products can help provide essential nutrients for the many people around the world who do not have access to enough, we should help increase their consumption and do so sustainably as part of a balanced diet that doesn't entail excess calorie intake.

## What is your advice to Arla?

Arla is obviously trying to do a lot of what we have discussed. But you have to prepare for a future world where the political, economic, social and environmental challenges call for immediate action. Be in control of the change process, don't have it thrust upon you! ■



**Dr. John Ingram** leads the Food Systems Research Group in the University of Oxford's Environmental Change Institute. His interests are in the conceptual framing of food systems; the interactions among the many actors involved and their varied activities, and the outcomes of their activities for food security, livelihoods, the environment and food system resilience.

RESPONSIBLE RELATIONS



## Our worldwide operations provide employment for many people and economic growth. We value the relationships we have with people, organisations and communities. No matter what the nature of the relationship, we are committed to maintaining mutual respect and understanding.

### A constantly changing organisation

Arla has 18,765 colleagues in 38 countries throughout the world. In spring 2016 Arla changed the structure of the organisation in order to best execute its new strategy – Good Growth 2020. As a result, more than 540 white collar positions were made redundant. During the reorganisation, internal and external colleague representatives as well as the European Works Council were involved. Colleagues whose positions were made redundant were offered redundancy packages and Arla arranged information meetings, coaching sessions and workshops to help them find new employment.

### Colleague engagement survey

The annual engagement survey, Barometer, was conducted in October and sent to 17,497 colleagues in 38 countries and in 15 different languages. The response rate was 89 per cent, which is the same as last year. The overall results still show very high engagement, and Arla continues

to be well above the Global high performance norm. Nevertheless, we need to continue our work towards a more collaborative, open and inclusive Arla.

At one of our Danish dairies, the percentage of colleagues who have experienced unacceptable behaviour has decreased from 19 per cent in 2015 to 16 per cent in 2016, thanks to strong focus from leaders and information campaigns.

### Refugee internships

In Denmark, Arla supports the integration of refugees into the labour market. 45 interns enrolled on 13 week internships. This helps clarify the refugees' competences and how to match that to the Danish context, as well as preparing them for working in Denmark.

### Focus on workplace safety

Our work environment ambition is 100 per cent engagement, 100 per cent wellbeing, 0 accidents and 0 harassment. We want our colleagues to be healthy and engaged at work, and we

constantly work to reduce physical and psychological accidents and illnesses. See diagram below.

We have established a new Global Health and Safety team to focus on this important aspect of our responsibility.

During the year, a health and safety tool, which has been used in Sweden for about six years, was implemented in Germany and at half of our sites in Denmark. It is a preventative tool as it focuses on safety and includes registration of near misses.

In the Dominican Republic, Egypt and Nigeria, we have conducted human rights impact assessments of working conditions, and conducted health and safety trainings. Following a similar assessment in Bangladesh, we have established a health and safety committee there.

### Safety when abroad

In cooperation with partners we make sure all Arla's travellers, expats and their families are safe

before, during and after they travel. Colleagues who travel in high risk areas, 30 - 40 individuals, have had personal, destination-specific awareness and safety training.

### Training at all levels

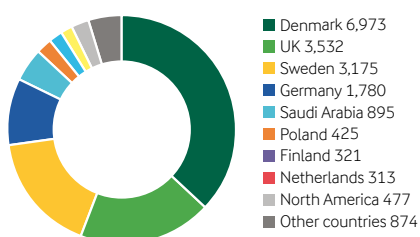
Relevant and continuous training is crucial for all colleagues, and there is an ongoing shift towards more e-learning.

A new portfolio of leadership development programmes has been launched. The portfolio, which includes self-leadership, people management and new ALPs (Arla Leadership Programmes) have been re-designed to create a simpler, inclusive leadership curriculum. During 2016, 132 colleagues have taken part in these programmes.

In Denmark, approximately 800 blue collar colleagues have attended courses within basic IT, basic English or German, optimisation, quality control, and collaboration across functions.

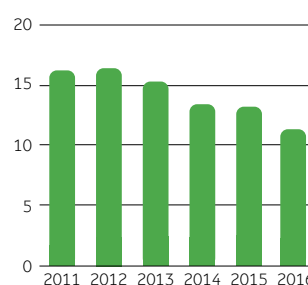
All leaders with responsibility for colleagues at the Swedish

### Colleagues per country



The average number of full time employees (FTEs) in Arla was 18,765. The diagram shows the distribution per country at year-end 2016. In our global graduate Future 15 and supply chain programmes we have 23 nationalities among the current 32 graduates.

### Workplace accidents\*



The total number of accidents has decreased year on year, since 2007. After a few years at almost the same level, we have again this year seen a significant decrease. The result varies from site to site, country to country. Engagement and focus from colleagues and leaders, and a further development of our Behaviour Based Safety programme is key to the continued positive development.

\* Number of workplace accidents involving more than one day's absence per million working hours. Numbers do not include recently established joint ventures.



head office in Stockholm have participated in compulsory work environment and labour law training. In Sweden, colleagues with the drive to develop can apply for the special training programme 'Guldkalven', which in turn can qualify them for new tasks and responsibilities.

#### **Support of internationally recognised human rights**

During the year, we have strengthened our commitment to respect human rights in business areas and processes. The due diligence and human rights assessment processes developed in 2015 have been applied in several countries in which we aim to expand our presence. See fact box to the right.

Traditionally in the Middle East, migrant worker colleagues' passports were safekept by the employer. Arla routines have now been changed and early 2017 all Arla colleagues had their passports returned.

Following the human rights assessment performed last year in Nigeria, a memorandum of understanding has been signed between the Nigerian government and Arla to promote local sustainable dairy production in Nigeria. In November, a multi-stakeholder roundtable meeting was held in Abuja to discuss how to stimulate West African cooperative dairy business and improve dairy capabilities (The Milky Way to Development) over the coming years. Arla's aim is to increase local

sourcing and create partnerships to support the dairy production.

In Nigeria, we have also taken part in society engagement programmes that educate women in low socio economic classes about nutrition and give them the skills to be able to create their own business.

#### **Assessment of housing standards**

As part of our commitment to respect human rights, we have audited all housing facilities for our migrant workers in the Middle East against the International Labour Organization (ILO) standards. During the review, shortfalls were identified and improvements proposed. As a result, renovations have been initiated and some workers have

moved to newly built houses. The process will continue in 2017.

#### **Continued dialogue with NGOs**

We want to be a transparent company and we welcome questions and scrutiny from organisations that support the protection of, for example, human rights, the environment, and local dairy production. For this reason, we value and actively participate in ongoing dialogue with NGOs and other international organisations, such as Care, ActionAid, Amnesty International and WWF. ■

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#### **Anti-harassment policy**

A new anti-harassment/ non-discrimination policy has been approved and the implementation has begun. Furthermore, a grievance process has been developed.



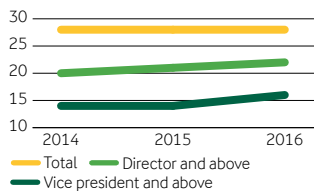
### Human rights assessments

To comply with UN Guiding Principles for Business and Human Rights, Arla conducts human rights assessments to investigate the potential impact of our activities when considering entering into new markets, with products, production or partnerships. These assessments are an integrated part of our due diligence processes. In 2016, in-dept human rights assessments have been conducted in Bangladesh, the Democratic Republic of the Congo (DRC), Egypt, Indonesia and Ghana.

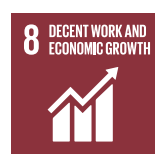
### Modern Slavery Statement

The International Labour Organization (ILO) estimates that there are 21 million people worldwide in forced labour. In the UK, legislation requires companies to disclose what they are doing to prevent modern slavery in their business and supply chains. Whilst our existing policies relating to recruitment, agency workers and supplier assurance cover modern slavery, we are continually reviewing our practices to ensure our corporate activities and supply chains are free from slavery and human trafficking. During 2017, we will publish our Modern Slavery statement which outlines our commitment to tackling modern slavery and human trafficking.

### Gender balance, %



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 previous years, which is far from the 28 per cent among all colleagues. The female representation of our Director and above level, has gone up to 22 per cent this year, from 21 per cent in 2015. The reorganisation in 2016 brought the female representation in Arla's Executive Management Team to 29 per cent, from a representation of 0 per cent in 2015. For information about diversity at Board level, see the financial report.

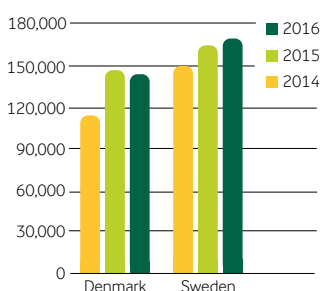


### Sustainable Development Goal

We have taken further steps to ensure that we contribute to UN Sustainable Development Goal number eight: 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all'.



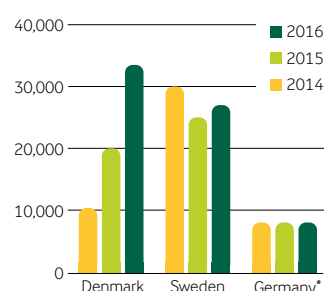
### Visitors to Cows out to pasture



### Knowledge of the origin of milk

We wish to provide 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. In 2016 the annual event, when cows are put out to pasture in the spring, was live streamed in Denmark, and was followed by 15,000 online.

### Farm visits by school children



### Farm visits

**460,000**

In total, more than 460,000 consumers in Denmark, Sweden, the UK and Germany visited an Arla farm in 2016.

\* Since 2014, figures include Luxembourg and since 2015, the Netherlands as well.

## UN Sustainable Development Goals



In September 2015, the UN adopted 17 new Sustainable Development Goals (SDG) to replace the previous Millenium Goals. The SDGs 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. While Arla supports all SDGs, we focus our efforts towards the three goals, on which we can have the biggest positive impact: goals no. 2, 8 and 12.

-  Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture
-  Goal 8: Promote inclusive and sustainable economic growth, employment and decent work for all
-  Goal 12: Ensure sustainable consumption and production patterns

## UN Global Compact

In 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, to the right.

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](http://www.unglobalcompact.org), and more about Arla's Code of Conduct at [arla.com](http://arla.com).



### Human Rights

1. support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.

### Labour

3. uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.

### Environment

7. support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.

### Anti-corruption

10. work against corruption in all its forms, including extortion and bribery.

## Responsibility key performance indicators

Arla uses a range of performance indicators to measure its sustainable and responsible business development. The indicators are inspired by the Global Reporting Initiative (GRI) and are in line with the material issues we need to address. This table presents 10 indicators of special interests and their connection to the Sustainable Developments Goals and the GRI indicators. A comprehensive list of indicators will be available at arla.com before summer 2017.

Area	Arla definition	2016 result	SDG	GRI	Page
Food safety	Number of recalls	6		FP5	17
Animal welfare	Top level in udder health <sup>1</sup>	53 %			21
Nutrition criteria	Arla® branded products fulfilling Arla® Nutritional Criteria (fresh dairy products and cheese)	93 %	2		13
Transparency	Fraud or bribery cases (convictions)	0		S8	9
Responsible sourcing	Signed CoCs for preferred suppliers	76 %	12	FP1	11
Employee health & safety	Accident frequency <sup>2</sup>	11.47	8	LA6	29
Climate impact	Total reduction of GHG emissions (scope 1+2) <sup>3,4</sup>	24 %	2/12	EN 15+16	23
Recycling and waste	Total reduction of waste to landfill <sup>3</sup>	82 %	12	EN23	24
Water consumption	Total reduction of water consumption <sup>3</sup>	6.1 %	2/12	EN 8	23
Renewable energy	Share of total consumption	21.2 %	7		23

1 Share of farms reaching top level.

2 Accident frequency per 1 million working hours.

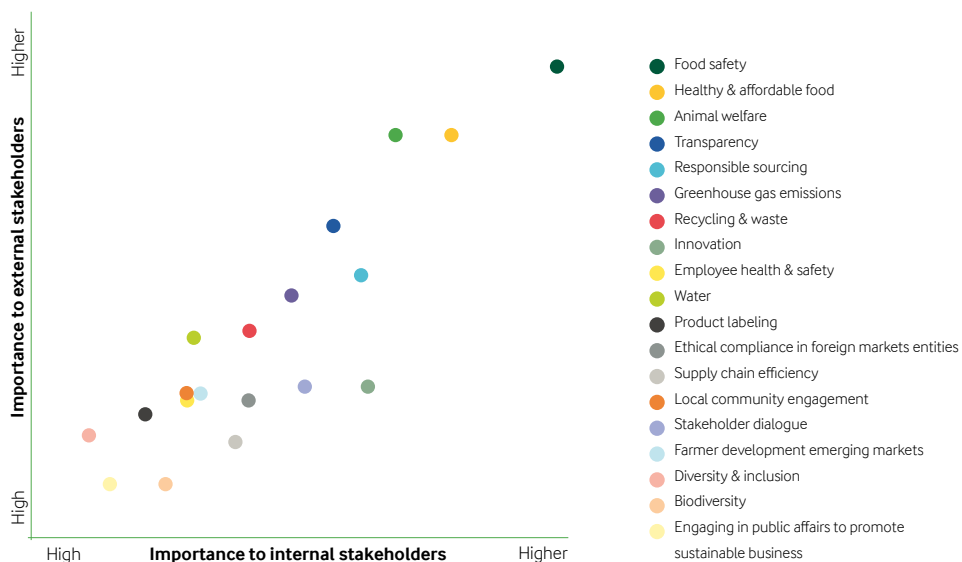
3 Baseline 2005.

4 Please see [www.lifecycleinitiative.org/starting-life-cycle-thinking/life-cycle-approaches/carbon-footprint/](http://www.lifecycleinitiative.org/starting-life-cycle-thinking/life-cycle-approaches/carbon-footprint/)

## Materiality analysis

Through our materiality study, performed in 2014 and updated every third year, we aim to identify material aspects in the views of our main stakeholders, and use this knowledge to better prioritise our activities. We also use the results to help us improve the scope and focus of our reporting and communication processes. Furthermore, the study serves as a basis when relating to the Global Reporting Initiative (GRI) guidelines.

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.





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