

CORPORATE RESPONSIBILITY REPORT

2019

**OUR
RESPONSIBILITY**



**TAKING ACTION
TOWARDS
SUSTAINABLE
DAIRY**



CONTENT

Forewords	3	STRONGER PEOPLE	21	Energy & climate	42
OUR SUSTAINABILITY STRATEGY	6	Inspiring sustainable diets	22	Food safety	44
Governance and ways of working	8	Supporting communities	25	Nutrition	45
Business model	10	Caring for people	29	Health & safety	46
STRONGER PLANET	11	ABOUT ARLA	36	Decent work	47
Environmental ambition	12	Company performance	37	Responsible sourcing	48
Sustainable dairy farming	13	Owners	38	Legal compliance	49
Resource efficient production	16	AMBITIONS & PROGRESS DATA	39	Anti-corruption & bribery	50
Reducing waste	18	About this report	40	Environmental, social and governance data	51
Sustainable packaging	20	Sustainable dairy farming	41	UN Global Compact	52
				Materiality analysis	53

Arla Foods is a **global dairy company**, and the world's largest organic dairy producer. We are also the world's oldest cross-border dairy cooperative and, as such, our **9,759 farmer owners** in seven European countries are the core of our business. Our mission is to secure the highest value for their milk.

Our **vision** is to **create the future of dairy**, and fulfil the needs of our customers and consumers with our **natural, healthy, sustainably sourced dairy products**.

STRONG PERFORMANCE, BETTER CLIMATE

FOREWORDS FROM THE CHAIRMAN AND THE CEO



TAKING RESPONSIBILITY FOR A SUSTAINABLE FUTURE

Sustainability is top of Arla's agenda and we have taken a strong position in the ongoing climate and sustainability debate in which dairy farming plays a central part.

Through our cooperative mindset we have come a long way already and feel well prepared to take the next important steps towards even more sustainable dairy production.

We perceive sustainability in the broadest sense and work in respect of the environment, develop healthy products for feeding the rapidly growing world population and respect human rights abroad and at home alike.

For me as chairman of Arla and as a farmer owner it is important that we as farmers continue to develop our production in a responsible and sustainable way, and that we are committed to being open and transparent about our actions. We contribute to the realisation of the UN's Sustainable Development Goals and to make the biggest impact, we focus on the goals closest to our value chain.

In 2019, we launched our climate ambitions to become carbon net zero by 2050 and to reduce greenhouse gas emissions by 30 per cent within

the next 10 years as part of our new sustainability strategy. It is ambitious and demonstrates our will and ability to act and drive change and make dairy farming a sustainable part of the future, which is also required by consumers and customers.

To deliver on our ambitions we need strong tools to help us reach our targets on milk quality and animal welfare in sustainable production. We have reviewed and aligned our quality assurance programme Arlagården® to be implemented on farms in 2020 across all owner countries, with focus on third part audits, further strengthened animal welfare parameters and focus on biodiversity and working conditions for employees on our farms.

As part of the sustainability work we will also introduce a new, global climate check in 2020 where Arla farmers provide detailed information on their farm and production. This enables us to build one of the world's largest sets of externally verified climate data from dairy farming. The climate checks are a strong tool to identify and reduce emissions even further on farm level, as they give clear, practical advice and examples on how to achieve sustainability improvements and targets.

We collaborate with experts from the scientific community and universities on a variety of areas such as how to further reduce greenhouse gas emission from dairy cows, developing an animal welfare index and how carbon sequestration can play an important role in the reduction of emissions.

As a global farmer-owned dairy cooperative we collaborate with farmers around the world and support local dairy industries to develop a sustainable dairy chain. In this report you will find examples of how we share our knowledge and know-how in production and business to create win-win collaborations with our partners around the globe.

Our mission is to secure the highest value for our farmers milk while creating opportunity for their growth. This report will give you an insight into how we aim to fulfil our mission in respect of our corporate responsibility commitments.

Jan Toft Nørgaard
Chairman of the Board of Directors

“ WE ARE COMMITTED TO BEING OPEN AND TRANSPARENT ABOUT OUR ACTIONS ”



SIGNIFICANT ACTION TOWARDS SUSTAINABLE DAIRY

2019 saw us take some important steps to build confidence in dairy as one of the building blocks of a sustainable diet, delivering part of the nutrition necessary for people to thrive.

Sustainability was an overarching theme in Arla during 2019. While delivering a strong performance on all our financial targets, we also succeeded in taking significant action within our operations and products. We set new ambitious targets, developed new farm programmes as well as enforced our sustainability governance to ensure business integration.

A major step was to announce a carbon net zero 2050 ambition as well as a target to reduce greenhouse gas emissions per kilo of milk by 30 per cent by 2030. The target has been approved by the Science Based Target initiative as being aligned with the Paris Agreement.

To support our 9,759 cooperative farmers in identifying emissions on farm and enable them to take action to reduce them further, we have introduced a new climate check programme, the first of its kind to be used by farmers across seven countries in Europe.

While we are working on the long-term targets, we have taken more immediate action. We have launched the world's first climate-neutral dairy range based on milk from a group of organic Arla farmers. The greenhouse gas emissions from the range are counteracted by tree planting, tree conservation, and biogas production.

In our new sustainable packaging strategy we commit to reducing emissions from packaging by approximately 8,000 tonnes of greenhouse gasses every year until 2030. In 2019, we converted packaging across Europe to become more sustainable.

Respecting human rights in our organisation as well as being a good citizen in the communities we are part of continue to be a fundamental objective. An example of our community engagement is a new public-private partnership to further development of a long-term sustainable dairy industry and local dairy sector in Nigeria. The ambition is to help 1,000 small scale farmers create better livelihoods by providing commercial opportunities for their milk.

During the last decade, we have witnessed a growing awareness of how production of different

foods affects climate, nature and social conditions, and we have increasingly engaged in the high profile public debate. In this respect, the 2020s will be a defining decade for dairy. We will need to reshape dairy farming and dairy production to build trust and relevance – not only for consumers, but also to attract the next generation of progressive and responsible farmers.

Dairy has the power to change the livelihoods of individuals, families, and communities. It generates jobs directly on the farm, up and down the value chain, and in other local business.

We will continue to play our part in taking the necessary action and establishing essential partnerships with our industry colleagues, academic institutions, governments, interest groups and consumers. Together, I am confident that we can create a sustainable future for the dairy sector.

Peder Tuborgh
CEO

“ A MAJOR STEP WAS TO ANNOUNCE A CARBON NET ZERO 2050 AMBITION ”





OUR SUSTAINABILITY STRATEGY

Arla creates the future of dairy by taking action today. With strategies, actions and support from our farmer owners, we secure a responsible and sustainable business.

Arla is one of the world’s largest dairy companies, and we work actively to feed people around the world within the planetary boundaries.

We see signs of pressure on the Earth’s ecosystems as well as a growing world population in need of nutritious food. By taking responsibility across our value chain and continuously improving our performance, we drive sustainable dairy production and consumption now and for future generations.

In 2019, we launched our new sustainability strategy, which focuses on improving the environment for future generations, and increasing access to healthy dairy nutrition and inspiring good food habits. The strategy is founded on our commitments to respecting human rights and ensuring responsible business practices across our markets.

Arla contributes to the realisation of the UN’s Sustainable Development Goals (SDGs). The SDGs are closely linked and we know that we have an influence on all of them through our general business practices and commitments, as defined in our Code of Conduct. Our prioritised focus is on the SDGs relating to food, environment and climate. They are linked directly to our value chain, as this is where we can have the biggest positive impact and carefully address the potential negative impact.

SUSTAINABILITY STRATEGY

STRONGER PLANET
Improving the environment for future generations



STRONGER PEOPLE
Increasing access to healthy dairy nutrition and inspiring good food habits



CODE OF CONDUCT

Supporting the realisation of the Sustainable Development Goals (SDGs)



GOVERNANCE AND WAYS OF WORKING

Arla's Code of Conduct – **Our Responsibility** – is our foundation for sustainable development. It covers all aspects of our business and is at the heart of every decision made in our company.

OUR RESPONSIBILITY

Our Code of Conduct is approved by Arla's Board of Directors. Arla's Executive Management Team approves strategies, prioritises areas, ensures progress, annual follow up and sets direction for necessary improvements, and further updates.

All managers are responsible for embedding our Code of Conduct in Arla's culture and business, and each and every colleague plays an important role in its implementation.

Our Code of Conduct is further operationalised in policies, processes, standards and codes of practice throughout our value chain. Our overall due diligence process, which we apply before entering a new partnership or joint venture, covers economic, social, and environmental concerns.

BUSINESS PRINCIPLES

A strong part of Our Responsibility is a responsible business conduct, ensuring we are acting credibly and with integrity, complying with applicable laws, rules and regulations, in all of our operations. For us, a responsible business conduct also comes from living our company values, through our culture of openness and transparency.

VISION

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

MISSION

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

SUSTAINABILITY STRATEGY GOVERNANCE

In 2019, at the same time as we launched our new sustainability strategy, we formed a Sustainability Board. This board governs the implementation of the new strategy and is anchored in the top management with key competences across functions. During 2019, the Sustainability Board has set goals for 2025, and initiated actions for 2020. Goals and activities are specified for workstreams on for example sustainable dairy farming, sustainable packaging, health and support to local communities. These are monitored by the Board of Directors.

Daily implementation of the strategy, underlying ambitions and policies to support sustainable development lies with relevant functions. Strategic issues in particular in relation to farm management are discussed and agreed with our Board of Directors.



RESPECTING HUMAN RIGHTS

We work to ensure that we respect human rights, and we continuously embed our human rights policy in our business processes and plans. This is part of our compliance with the UN Guiding Principles on Business and Human Rights. Human rights are a reoccurring topic on our top management's agenda as it is Arla's priority to stay focused and continuously raise competences within the area.

HUMAN RIGHTS COMMITMENTS

Advancing respect for human rights is key to sustainable development. Our continuous human rights work minimises Arla's risk of having adverse human rights impacts and contributes to the realisation of SDGs. We continue to improve and implement our systematic human rights due diligence process in compliance with UN Guiding Principles on Business and Human Rights, see illustration below.

As a multinational dairy company, we have a large number of entities in our value chain. We have therefore prioritised focus on our non-European growth markets where we face the highest risk of negative impacts due to national contexts and complexity in business operations. It is essential to Arla to operate in a responsible manner and we expect our business partners to live up to the same standards. Whenever we enter into a new joint venture in these markets, we roll-out the entire due diligence process to assess areas where Arla could potentially cause, contribute to or be directly linked to adverse impact.

HUMAN RIGHTS DUE DILIGENCE PROCESS

By enhancing our tools and streamlining our approach, aligning it with relevant and responsible functions in the business, we are developing a more comprehensive, efficient and integrated approach to assessing human rights risks.



OUR BUSINESS MODEL



STRONGER PLANET

We see Arla as being part of the solution to the planet's challenges and we want to be judged by our actions. We are in the unique position of being able to work with every step from cow to consumer, to make a positive contribution to a more resilient and stronger planet.



Our milk cartons with brown paper board combined with renewable plastic reduce greenhouse gas emission per package with 22 per cent.



OUR ENVIRONMENTAL AMBITION

Together with our 9,759 farmer owners we launched our climate targets in March 2019. The ambition is to become carbon net zero by 2050 and to reach our Science Based Targets by 2030, reducing Scope 1 and 2 emissions by 30 per cent in absolute terms, and Scope 3 emissions by 30 per cent per kilo milk. The Science Based Targets are aligned with climate science and define a clear path to accelerate the transition to sustainable dairy production.

OUR AMBITION COVERS THREE THEMES

Better climate



Clean air & water



- Nitrogen and phosphorus cycles in balance

More nature



- Increase biodiversity and access to nature

TO REACH OUR GOALS WE WILL FOCUS ON THREE AREAS

Farms



- Optimized feed for cows to decrease methane emissions
- Improved manure efficiency
- Boosted carbon capture in the soil on farms

Production



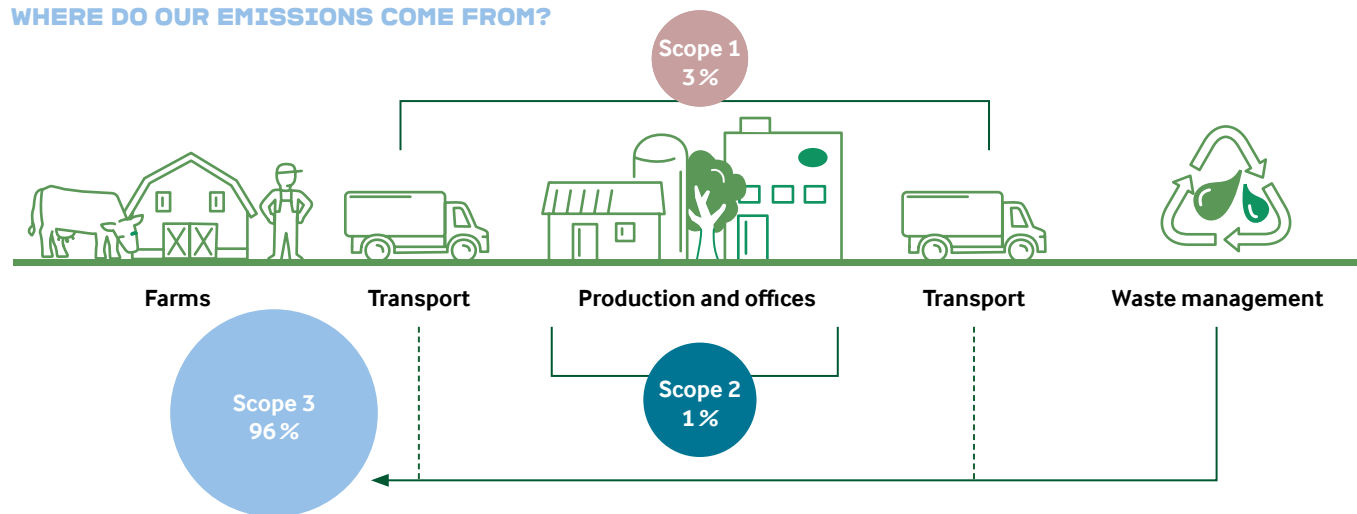
- More fossil free transportation
- Energy-efficiency
- Increased use of renewable energy in supply chain

Packaging and Food waste



- More sustainable packaging
- Decreased food waste through several initiatives
- Increased use of recyclable materials


WHERE DO OUR EMISSIONS COME FROM?



Scope 1 emissions relate to the activities under our control. It includes transport with Arla's vehicles, and emissions from Arla's production facilities.

Scope 2 emissions are the indirect emissions caused by the energy that the company purchase, i.e. electricity, steam, heating or cooling. We are working towards reducing our impact by increasing the use of renewable energy.

Scope 3 emissions are the indirect emissions from purchased goods and services (eg. raw milk, transport and packaging), but also from end-of-life processing of our waste (eg. recycling).

 Read more about Science Based Targets on page 16. [Click here for more information on our ambitions.](#)

SUSTAINABLE DAIRY FARMING

Together with our farmer owners, we continue to improve sustainability at farm level as this is at the top of the agenda for us as well as for our stakeholders. With focus on aspects from animal welfare to farm management and climate impact, we collect data to support our farmer owners to achieve best practice and lead the way in sustainable dairy farming.

CLIMATE CHECKS ACCELERATE THE JOURNEY TOWARDS CARBON NET ZERO

Even though the climate impact of Arla milk is about half of the global average per kilo, we continue to set higher ambitions. Our new global climate check tool will help farmer owners to identify emissions on farm and provides a clear picture of the actions farmers can take to reduce emissions further. Each Arla farmer will input information covering aspects like herd size, housing, milk volumes, feed usage and feed production, energy and fuel usage and renewable energy production.

The data is verified by an external advisor who will visit the farm to provide detailed advice on action plans to improve efficiency, reduce emissions and environmental impact, and improve animal welfare. The data captured will enable each farmer owner to see what level of greenhouse gas emissions they produce per kilo of milk (carbon footprint) and identify where there is room for improvement. Arla will support its farmer owners to deliver reductions of three per cent per year on average, so we can reach our target to reduce greenhouse gas emissions by 30 per cent by 2030 and contribute to the carbon net zero ambition by 2050.

With the information, Arla is also building one of the world's largest sets of externally verified climate data from dairy farming. This will be the solid foundation for benchmarking, knowledge sharing across the dairy industry and correlation analysis.

Farmer owners who sign up to the climate check in 2020 will be paid a financial incentive of one eurocent per kilo of milk.

AREAS MEASURED IN THE CLIMATE CHECKS

- Number of animals
- Feed composition
- Crop production
- Use of fertilizer
- Manure handling
- Use of electricity, fuel and renewable energy

Carbon sequestration (capturing and storing carbon in the soil) is currently not included in the climate check as a standardised scientific methodology has not yet been agreed.



Sustainable dairy farming

Together with the launch of our new environmental strategy, we introduced a new climate check tool with comprehensive support for our farmer owners. This will pave the way for the company to reach its ambition to reduce greenhouse gas emission by 30 per cent by 2030, compared to 2015, and have a carbon net zero impact by 2050.

While working towards new goals for 2030 and our ambition for 2050, we have been following up on the goal in our sustainable dairy farming strategy – to reduce the emission of greenhouse gases from farms by 30 per cent per kilo milk, from 1990 to 2020.

In 2019, we have continued our work with carbon assessments on farms, going forward these are referred to as climate checks, giving farmers the opportunity to receive recommendations on how to further reduce such emissions. The results from climate checks are compiled across markets and results are reported the following year.

Farm level emissions were reduced by 23 per cent in 2018 (2017: 24) compared to 1990. This reflects a small increase compared to previous year which can partly be explained by the draught situation in 2018.

The 2020 strategy for the farm uses 1990 as a baseline. To follow up on the 2020 strategy we have used a fixed milk composition from 2013, as data was not available for all farmers in all countries. In the 2020 strategy we did not include non-owner milk in the reporting. Going forward, following up on the 2030 goals for farm emissions, the actual milk composition will be used also including non-owner milk. The 2019 scope 3 emissions per kilo of milk at farm level was reduced with 7 per cent compared to 2015.

Arlagården® update

Our quality assurance programme Arlagården® has been comprehensively reviewed and updated and will be implemented in 2020. The programme has been extended to include additional animal welfare and sustainability parameters and a new section addressing working conditions for employees on farm. The new programme has translated market expectations into farmer-oriented requirements, and vice versa, supporting us in our dialogue with customers.

Animal welfare is a top priority for Arla, our farmer owners and consumers. The updated programme has not only added new requirements but also made it compulsory to measure and assess animal welfare on a quarterly basis, using multiple indicators such as cow mobility, cleanliness, lesions and body condition. Data will be uploaded using Arlagården® digital tool.

We will regularly obtain data on Arla herds from the member countries' herd databases and thereby build extensive knowledge about performance. The data will be used to calculate different animal welfare indicators, for example, average lifespan for cows and mortality.

When it comes to working conditions, a number of requirements regarding contracts, accommodation, health and safety have been included to ensure employee welfare, and also to help prevent the risk of forced labour.

**OUR QUALITY ASSURANCE PROGRAMME
ARLAGÅRDEN® HAS BEEN COMPREHENSIVELY
REVIEWED AND UPDATED AND WILL BE
IMPLEMENTED IN 2020.**

From 2020, as part of the updated programme, farmer owners will be expected to self-assess their herds and farms, and they will be audited by an external certification body to ensure compliance. Farmer owners will be audited at least once every three years, and there will also be spot checks and extra audits of farms that demonstrate low performance and/or do not submit mandatory data. If a farm fails to follow the Arlagården® programme, there are clear and consequential sanction systems.

Digital documentation

To streamline the updated Arlagården® and the climate check processes a digital platform was developed in close collaboration with farmer owners. This is to replace the original digital documentation center, which has been used to collect data on key animal welfare and sustainability parameters. The new digital platform also enables farmer owners to operationalise and document Arla's promise to customers. At year-end 2019, 89 per cent of our farmer owners had registered their data, representing 97 per cent of our farmer owners' milk pool.

ARLA FARMS CONTRIBUTE WITH POSITIVE ENVIRONMENTAL IMPACT THROUGH SUPPORTING ECOSYSTEM SERVICES.

A number of the original documentation requirements have now become a mandatory part of the updated Arlagården® programme, as we continue to work with our farmer owners to make continuous improvements on farm and drive transparency.

Animal welfare

In cooperation with Aarhus University, Denmark, we are developing an animal welfare index. The index creates a common ground for discussing and working systematically with animal welfare on farm, and further improve animal welfare. The index is based on indicators from Arlagården® combining eight weighted aggregated indicators. In 2019, our farmer owners have been reporting quarterly on two types of these indicators. As we develop our measurements' accuracy, reliability and data validity, we will add more indicators to our external reporting in the coming years.

Feed and resource efficiency

One of the biggest possibilities we have to lower the carbon footprint per kilo of milk is to improve cows'

feed and its production. We continue to support research on how to further reduce greenhouse gas emissions from dairy cows, in collaboration with Danish researchers with a special focus on the connection between feed composition and methane production. During 2019, the research group has been successful in getting additional funding, to further address the challenges in collaboration with Danish as well as international partners.

Farmers leading the way

To speed up the decrease of greenhouse gas emissions, all Swedish organic Arla farmers are obliged to stop using fossil fuels in their machines on farm from 1 January 2022, at the latest. In Denmark, all organic milk farmers have adopted new contracts with higher demands for animal welfare. The milk from these cows, labelled with two hearts, will be launched to Danish consumers as part of an animal welfare programme set out and controlled by the Danish Government. During 2020 more products will carry the two hearts signalling that the organic farmers are moving towards a more sustainable way of farming by improving the animal welfare for the cows.

Several hundred farmers in the UK have joined the Arla UK 360 programme throughout 2019, a pioneering set of on farm standards that has successfully launched with a number of Arla's retail customers.

INDICATORS OF ANIMAL WELFARE

The **indicators** include scoring of the cow's mobility, cleanliness, lesions and body condition, providing an objective indication of the herd's health and welfare.

Somatic cell count (SCC) per millilitre of milk is a main indicator of milk quality, reflecting the cow's udder health. We continuously measure SCC to support farmer owners' work with animal health.

Carbon sequestration

One important way Arla farms contribute with positive environmental impact is through supporting ecosystem services, for example, through the uptake of carbon in grasslands, hedges and pasture lands, which mitigates climate change. Nevertheless, there is not scientific consensus on how to calculate carbon sequestration in dairy farming. Arla is part of a project called C-Sequ with other dairy and livestock organisations to develop an internationally recognised and globally adopted carbon sequestration calculation method.

RESOURCE EFFICIENT PRODUCTION

With high ambitions and clear targets, we continue to reduce greenhouse gas emissions from our operations and transportation. Increasing the share of renewable energy, continuous energy efficiency projects, and food waste reduction are also on top of our agenda.



Environmental strategy

One of the elements in the new sustainability strategy, is a new environmental strategy, covering the areas of *Better climate*, *Clean air and water* and *More nature*. For Better climate, the long term ambition is carbon net zero by 2050. In 2019, Arla had Science Based Targets for 2030 approved, ensuring that we take responsibility for reaching the Paris Agreement on climate change. These targets are to reduce the absolute emissions at site and in transportation by 30 per cent by 2030, compared to 2015, and work towards carbon net zero in our value chain by 2050. Depending on local conditions, some markets may have more ambitious targets. Arla Sweden is, for example, aiming for carbon net zero in 2045.

We will still be following up on our targets in our 2020 environmental strategy, in which we have committed to reduce greenhouse gas emissions by 25 per cent within operations, packaging and transport, compared to the 2005 level. Since 2005, Arla's emissions have decreased by 25 per cent, despite increased production. This is the result of a continued focus on resource efficiency and the transition from fossil to renewable energy and fuels.

SINCE 2005, ARLA'S EMISSIONS HAVE DECREASED BY 25 PER CENT, DESPITE INCREASED PRODUCTION.

Water efficiency

During 2019 we managed to reach our aim to improve water efficiency in production by 3 per cent annually. However, the total water consumption increased due to a more diverse product mix, requiring for example more cleaning of equipment. More focus on how to reduce overall water consumption is needed going forward.

Energy efficiency and renewable energy

Our energy targets include an improved energy efficiency of 3 per cent per year at site level. During 2019, our energy efficiency increased with 2 per cent. The results indicate that more focus is needed on improving energy efficiency going forward.

SCIENCE BASED TARGETS

Arla set Science Based Targets to significantly reduce our greenhouse gas emissions by 2030. The target for Scope 1 and 2 emissions is to reduce by 30 per cent in absolute terms and for Scope 3 emissions, expressed as per kilo milk at farm level, it is to reduce by 30 per cent. In October 2019, the targets were approved by the Science Based Targets initiative as aligned with climate science, contributing to the UN Paris Agreement to limit global warming. The initiative defines best practice

in science based target setting and independently assesses and approves

companies' targets. It is a collaboration between Carbon Disclosure Project (CDP), World Resources Institute (WRI), the World Wide Fund for Nature (WWF) and the United Nations Global Compact (UNGC) and one of the We Mean Business Coalition commitments.



In 2010 we set a target to increase the utilization of renewable energy to 50 per cent by 2020. The share of renewable energy in 2019 was 33 per cent, increasing 6 per cent since 2018. This is mostly due to an increase in the use of biogas in Denmark of more than 120 per cent. This has mainly been achieved through investments in two 35 tonnes biogas motors at the site Denmark Protein, with the capacity to provide up to 40 per cent of the site electricity use with renewable energy. Two of the five steam boilers have been rebuilt to run on biogas, providing about one third of the steam used at the site.

Despite the positive development, Arla no longer expects to achieve the goal of 50 per cent

renewable energy by 2020 due to capacity increase and expansion in the international segment, where renewable energy sources are less accessible.

Fossil free transportation

Arla has continued to focus on improving transportation efficiency through optimised logistics throughout the business. Investments in more efficient engines reduce fuel use, as does optimised routes and higher load capacity in the tankers that collect milk from the farms. In many cases, efficiency improvements have been achieved in close dialogue with customers. Joint benefits in terms of substantial emission cuts have been achieved with reduced delivery frequency in the UK and Sweden.

Availability and price of biofuels remains a challenge in most of Arla's markets, not least outside of Europe. Sweden is an exception, where we continue to drive only on biofuels in all Arla-labelled trucks. Here a pilot was launched where biogas, based in part on Arla dairy farm manure, was successfully used to fuel both milk collection and distribution vehicles. In Denmark, Arla launched a pilot where biogas from manure is used to fuel distribution vehicles in Copenhagen.

Biogas from manure represents an area where Arla's value chain can contribute significantly to a circular bioeconomy, especially if dairy cow manure is co-digested with by-products from the food industry, consumer food waste and other high-quality resources for biogas production. We can use the energy produced, either at dairy sites or, if it is upgraded, as fuel in our trucks. However, this potential is heavily dependent on regulation and investments so requires long-term policies promoting the transition.

Food waste reduction in operations

Arla has a goal to reduce food waste by 50 per cent in our own operations from 2015 to 2030 and we have worked on two dedicated projects over the year to cut food waste on sites and in logistics. Food waste mapping and a structured approach to dealing with the hot-spots identified has been implemented, using a common approach across markets including local

27%

Food waste in our production sites was reduced by 27 per cent compared to 2015. Arla's ambition is to reduce food waste by 50 per cent in 2030.

food waste champions for spreading best-practice. We transparently report on progress, engage in dialogue and share learnings with stakeholders on our different markets. The results show a 27 per cent decrease in food waste in relation to processed milk since 2015.

If possible, we donate surplus products to charitable food banks, preferably members in the Food Banks of Europe. Other preferred uses of our surplus products and of by-products from production, is animal feed and reprocessing. The most common use of our food waste is anaerobic digestion followed by sewer and land application. Keeping track of volumes and destinations enables Arla to identify improvement potential in moving resources up the value hierarchy, making better use of the valuable nutrients in the raw materials.

RENEWABLE RESOURCES AND LAND USE

One of the core principles in Arla's new environmental strategy is to make the transition 'From fossil to renewable'. This means we replace fossil with renewable carbon sources, such as biofuels, renewable energy and bio-based packaging materials. However, in the transition to a bio economy, land becomes a potentially limiting resource. The use of land to produce resources, have environmental impacts, both directly through emissions

of for example greenhouse gases, nitrogen and phosphorous, and indirectly through the competition for land required to maintain vital ecosystems. Even if Arla does not source products from regions with an expansion of land used for agriculture and forestry, our demand for renewables can be seen as indirectly causing the transformation. It remains challenging to account for that and report on environmental impact, and Arla is following this debate closely.

REDUCING WASTE

We have a strong commitment to use resources in the best possible way to reduce climate impact. This includes both improving recyclability of packaging and our ambition to combat food waste.



Better climate and less waste through sustainable packaging

Packaging represents about five per cent of Arla's full value chain climate impact. In 2018, we achieved our 2020 environmental strategy goal of reducing climate impact from packaging by 25 per cent from a 2005 baseline. However, we continue our work to reduce emissions, while balancing the focus on climate impact reductions and maintaining the critical role of food packaging, which is to protect the food to maintain its quality and freshness and to avoid food waste.

During 2019, many initiatives were taken, delivering on the three principles in our packaging strategy; from fossil to renewable, circular economy and cooperation in the value chain.

From fossil to renewable

We have continued our work to replace fossil-based packaging material with bio-based alternatives across our product categories. In 2019, we converted packaging across Europe to become more sustainable, for example by converting millions of milk cartons to be fully renewable by replacing the fossil plastic lids and coatings with renewable bio-based

WE HAVE CONTINUED OUR WORK TO REPLACE FOSSIL-BASED PACKAGING MATERIAL WITH BIO-BASED ALTERNATIVES ACROSS OUR PRODUCT CATEGORIES.

plastic. Through this change, we have reduced the climate impact per carton by 22 per cent, corresponding to about 2,500 tonnes of greenhouse gas emissions in total. Another example is the introduction of bio-based plastic in selected cheese foils in Denmark.

The share of renewable packaging material in Arla was 53 per cent in 2019. Replacing non-recyclable plastic packaging material with renewable carton and paper also contributes to improved recyclability, as described below.

Circular economy

Making our packaging recyclable and using more recycled packaging materials is important to contribute to a more circular economy. During 2019, Arla launched several packaging initiatives to improve recyclability. One example is the transition from plastic cups

in non-recyclable polystyrene to recyclable polypropylene or paper-based cups for our global brands such as Arla Skyr® along with local brands such as Karolines Køkken® in Denmark. We have increased the share of recyclable packaging by 3 per cent since last year.

92%

Arla has now reached 92 per cent recyclable packaging. The remaining 8 per cent consists primarily of complex films and laminates for cheese, butter and powder.

PLASTIC LEAKAGE

During 2019, Arla commissioned a study to calculate how much of our plastic use ends up as unmanaged waste, this is termed plastic leakage. The analysis includes Arla's value chain from the dairy farms to product end-of-life, including waste handling in the countries where our products are sold. The focus is on plastic packaging, but also plastic particles from transportation (tyres) and pellets' production is included. The study estimates that approximately four per cent of the plastic used in Arla's value chain is lost, mainly when the plastic packaging is disposed at its end-of-life. This is almost equally distributed between upper, middle and lower income countries. About 1,000 tonnes of plastic is estimated to find its way into the oceans.

Arla has decided to act to address this problem through packaging innovation and dialogues with local stakeholders on improving recycling systems.

In Finland and Sweden, we launched paper-based cheese packaging films, improving not only recyclability but also the share of renewable packaging materials.

The share of recycled packaging materials used in Arla increased with 6,000 tonnes, equivalent to 7 per cent compared to 2018. Initiatives include recycled material in secondary packaging and in plastic milk bottles in the UK. Since 2019, new crates in Denmark contain recycled plastics which leads to a 30 per cent reduction of greenhouse gases compared to the previous crates.

Collaboration in the value chain

Arla has joined the Circular Plastics Alliance with the goal to promote the use of more recycled plastic in Europe through voluntary action. This alliance endorses the ambitious target that by 2025 at least 10 million tonnes of recycled plastics should find its way into products and packaging in Europe

MAKING OUR PACKAGING RECYCLABLE AND USING MORE RECYCLED PACKAGING MATERIALS IS IMPORTANT TO CONTRIBUTE TO A MORE CIRCULAR ECONOMY.

each year. The alliance consists of more than 100 private and public partners and is supported by the European Commission.

Arla is working to replace plastic spoons and straws, in close collaboration with suppliers, to comply with the upcoming EU-ban on certain single-use plastic items.

One of our challenges is how to further improve the recycling of milk cartons on markets where this is not yet working well, such as Denmark and the UK. We have a good dialogue with authorities and other stakeholders to get more efficient systems in place to collect and recycle the cartons.

Inspiring food waste reduction

For years we have encouraged consumers to reduce food loss and waste. We will continue the efforts even if we cannot quantify the effect at this level. Examples include offering tips and tricks online and

on the back of milk cartons about how to avoid food waste, and we provide inspiration for cooking with leftovers on social media, in recipe databases and through apps and weekly meal planning tools.

Many products are fine to consume beyond the best before date, especially if they have been stored at the correct temperature. To encourage consumers not to discard products only based on date, Arla Sweden changed the date-labelling on fresh dairy products to 'Best before, often good after' in 2018. Following this example, Arla Denmark and Germany introduced the same labelling on a fresh milk label in 2019, and Arla UK started to label fresh dairy products with a 'Best before date' instead of 'Use by date'.

SUSTAINABLE PACKAGING TOWARDS 2030

Our overall ambition is **better climate** and a **circular economy** avoiding **waste**, and that is not easy to achieve. We need to make sure the packaging protects the food and maintain its quality and freshness to avoid food waste. To make the necessary changes we rely on technological developments, being able to source the right material in the right place at the right time at reasonable cost, and we need governments and local authorities to put the systems and policies in place that allow consumers and us to reuse, recycle and reduce the amount of packaging circulating in society.

CLEAR TARGETS

We have two clear targets.

30%

30 % CO₂ reduction from 2015 to 2030.

100%

Towards 100 % recyclability by 2025. Our packaging must be recyclable in core markets where sold.

Going forward we have actions, goals and ambitions set out with different timelines, depending on what we need to achieve.

GUIDING PRINCIPLES

We have three guiding principles for further improving our packaging.



FROM FOSSIL TO RENEWABLE



CIRCULAR ECONOMY



COOPERATION IN THE VALUE CHAIN

DELIVERED THROUGH 6 STRONG LEVERS



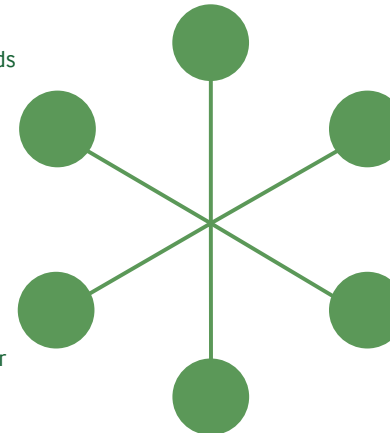
RETHINK

Partnering towards 100 % fiber dairy cups



RECYCLE

Spreadable butter tubs to become recyclable



REMOVE

Remove aluminum layer



REDUCE

Reduce weight in plastic milk bottles



RENEW

Fully plant based cartons for fresh products



REUSE

Buckets certified for reuse in food service kitchens





STRONGER PEOPLE

Our continued focus on innovation enables us to meet consumer demands, for example with new lactose free and organic products.



Across the world, dairy products are recommended as part of a daily diet from childhood to old age. We have the possibility to positively influence millions of consumers' food habits. Making dairy products available around the world will contribute to a future with stronger people.

INSPIRING SUSTAINABLE DIETS

We believe that dairy products play a positive role in a sustainable diet, balancing the environmental impact of production with the nutritional value of the food. To support better food choices, we constantly improve our product portfolio and we provide insight into the origin of our products.



Integrating the health strategy

In our health strategy we have a commitment to promote and offer healthy and affordable dairy products and to help people eat healthily around the world. This is now integrated into our new sustainability strategy, balancing our efforts towards the realisation of the SDGs.

Food safety comes first

We want to help people to eat healthily, but first and foremost, we want to ensure that eating and drinking our products is always safe. The approval of a global Arla quality and product safety policy in 2019, further supports this commitment and strengthens the continuous improvement of our quality culture.

Control of product lifecycle

To capture quality parameters and other sustainability aspects of our products, throughout their lifecycle, we use our Product Lifecycle Management (PLM) system. PLM integrates people, processes, data and systems to increase efficiency and speed. It also helps us to improve transparency and control of our product data and our ability to share information about our products internally as well as externally. The roll-out of PLM across Arla began in 2018 and by the end of 2019, 20 dairies used the PLM solution. The roll-out will

continue over the next two years. Developed agile PLM systems can fulfil new demands on our product data and support our sustainability goals.

Nutrition Criteria for Arla® branded products

Dairy products are recommended as part of a daily diet from childhood to old age, across the world. Milk naturally contains one of the richest combinations of nutrients you can find in a single food source, such as calcium, vitamin B₂ and B₁₂, iodine, a high content of protein and a broad range of other vitamins and minerals.

The Arla® Nutrition Criteria secure the content of dairy protein and calcium, while limiting the amount of added sugars, salt and fat. The criteria are the guiding principles that support our development of healthier products and we strive to ensure our products fulfil the criteria.

Our ambition is to increase the percentage of products complying with the criteria and achieve 95 per cent by 2020. In 2019, 90 per cent of the Arla® branded products in the milk, yogurt and everyday cheeses categories comply with the criteria. This is one per cent down compared to 2018, due to decline in sales of drinking milk.

MORE NUTRITION FOR LESS EMISSION

FAO, the Food and Agriculture Organization of the UN has the following definition of sustainable diets:

“Sustainable diets are those diets with low environmental impacts which contribute to food and nutrition security and to healthy life for present and future generations. Sustainable diets are protective and respectful of biodiversity and ecosystems, culturally acceptable, accessible, economically fair and affordable; nutritionally adequate, safe and healthy; while optimising natural and human resources.”

(FAO, 2010, Sustainable Diets and Biodiversity)

Arla uses the FAO definition of sustainable diets. We work to deliver on its aspects through our strategies on health and environment, and our continued focus on human rights. Our work to ensure food safety and quality is also key, as is our collaboration with farmer owners and customers.

We are in the process of improving our Nutrition Criteria, based on advice from independent scientific experts.

Product innovation

We continuously develop new products and explore new ideas to meet consumers' needs. To meet the needs of lactose intolerant consumers, as well as consumers who are interested in lactose free products, we have relaunched the lactose free assortment.

Natural ingredients

Our technical guidelines support our efforts towards using natural ingredients when possible. We do, however, use artificial ingredients, for example to secure the safety of products that are transported long distances. We are striving to reduce our use of artificial ingredients and are continuously searching for natural alternatives.

Sugar reduction

We are continuously working to further improve our portfolio when it comes to sugar reduction. In

Denmark, we have launched an organic non-lactose skyr and a fermented yogurt, both with flavour. Both products have a keyhole mark, which is a Nordic nutrition mark to help consumers make informed choices. For our young consumers we have launched Arla® Explorers, which is lactose free and without any artificial flavours, colours or sweeteners. Our three new yogurts (Swirl, Bubble and Squeeze) all contain at least 30 per cent less sugar than similar products in the market. We have also reduced the sugar content in our Arla® Explorers drinking and 4-pack yogurt, which means that the 4-pack now carries the keyhole mark, as the only product in the children's category to do so.

Last year's launch in Germany of flavoured yogurts with no added sugar, sweeteners, additives, stabilisers or concentrated fruit juices has been successful. The products were the first on the market to contain only natural yogurt and fruit and have now been introduced in Denmark. Another example of products being launched in more markets is the innovative range of products to deliver small and healthy in-between meal options.

This healthy, filling option was first launched in Sweden and Finland and was introduced in Denmark last year. The range has a broader market presence, as the same product packaging is used across three different markets. The text on the front of the pack is in English and the back of pack is written in the three local languages.

Dairy's role for diabetic consumers

We collaborate with several stakeholders within health and nutrition to enhance our knowledge and to jointly develop new solutions that will bring benefits to our consumers. For example, the public-private partnership in nutrition research – Arla Food for Health – in cooperation with Bispebjerg University Hospital in Denmark has published a study which challenges dietary recommendations for diabetic consumers. The study questions the recommended carbohydrate-rich diet, since results suggest that cutting some of the carbs and replacing them with protein and fat is more beneficial for blood sugar management. The study has encouraged more researchers to reassess guidelines for diabetic consumers.

WE ARE CONTINUOUSLY WORKING TO FURTHER IMPROVE OUR PORTFOLIO WHEN IT COMES TO SUGAR REDUCTION.



Natural food inspiration

We want to inspire consumers to better food choices by providing knowledge and insight into the origin of our products and the work that takes place on farm. For example, we invite school children and the general public to visit our owners' farms.

In Denmark, Sweden, Germany, Belgium, Holland and the UK, our owners hosted open farm days, attracting almost 474,000 people in total.

To stress the importance of the origin of milk, as well as Arla being a farmer-owned cooperative, we use our farmer owners in external communications, from TV commercials to on-pack information.

Providing recipes is another important source of inspiration for consumers around the world. On several markets we publish recipes and inspiration in different formats, from brochures and cookbooks to various on-line channels.

FARM VISITS FOR SCHOOL CHILDREN

Over the years, our 'little farmer programmes', in which we invite school children to our owners' farms, have educated more than one million children about life on farm. The visits are usually combined with study material for children to work with at school before and after the visit. In 2019, Arla farmers in Denmark, Sweden, Holland and Germany hosted more than 125,100 children on farm.



INSPIRING RECIPES

We believe inspiration and knowledge about cooking is the best way to develop good food habits. Our recipe services provide cooking inspiration on our national websites, in brochures and via online apps.

Arla is increasingly using short films to engage consumers in cooking, and sharing tips and tricks, and also to raise awareness of topics including sustainable farming and increased recycling of packaging.

FOOD CAMPS

Each year, Arla donates 10 million DKK to the Arla Foundation. The foundation annually arranges food camps for 1,600 school children aged 13–14 years. The evaluation of these is positive, showing increased confidence in cooking among the young chefs as well as an interest in, for example, tasting new vegetables.

IMPROVED SCHOOL MEALS

To broaden our contact with Danish school children, we also provide study material, which aims to improve the culture around school meals, for example focusing on enough time to eat in a calm environment and encouraging an open attitude to trying different foods.

500 MILLION

ENGAGING WITH CONSUMERS

In markets where Arla® is a well-known brand, social media is now the main platform for consumer engagement. In 2019, Arla had 500 million (2018: 230) digital engagements, which means:

- Visitors spend more than two minutes on one of our websites
- Visitors are watching a video to the end on YouTube
- Likes and comments on social media

We also engage in consumer dialogue face to face, as an example, Arla met with a total of 32,000 consumers at Stockholm Central Station, reminding them about the unique taste of milk, and discussing topics like sustainability and health.

SUPPORTING COMMUNITIES

We have the opportunity and responsibility to contribute to sustainable development in the communities we are part of, and across markets. This encompasses creating jobs, providing nutritious affordable products, ensuring transparent dialogue with stakeholders, and contributing to dairy value chain development.



DAIRY VALUE CHAIN DEVELOPMENT

Partnerships for sustainable development

During the year, we have further strengthened our involvement in selected emerging markets to promote sustainable development, which is a key priority in Arla's sustainability strategy.

Whenever we engage in national dairy sector development in emerging markets, we safeguard the strategic match of commercial interests and fulfilment of the SDGs. We believe the full dairy value chain should be strong and commercially viable and that this is the foundation for long-term value creation for all stakeholders.

To ensure that our local engagement actively supports national plans to implement the SDGs, we have enhanced our dialogue with civil society organisations, national governments, UN organisations, multi-stakeholder initiatives and Embassies. In particular, our involvement in national dairy sectors, where we join partnerships, facilitates the pooling of knowledge, expertise, technology and financial resources. It also further builds the foundation for Arla's long-term ambitions and presence in these markets.

Examples of partnership projects in which we are participating:

Milky Way Partnership project in Nigeria

Arla is the lead business partner in a partnership project to develop a sustainable dairy value chain in Nigeria in partnership with SEGES, Danish Agricultural and Food Council, Care DK, CORET, a Nigerian farmer association, and Milcopal, a farmer cooperative in Kaduna state, Nigeria. Supported by the Danish Ministry of Foreign Affairs, the five-year project, launched in 2016, aims to increase the livelihoods of 450 farmer households through capacity building and milk off-take agreements with Arla.

Following the positive development of the partnership, a new Memorandum of Understanding with Kaduna State and the Nigerian government was signed during September 2019. The State and the Government will provide 1,000 nomadic dairy farmer households with permanent farmlands and access to water, while Arla will be the commercial partner that will purchase, collect, process and bring the local milk to market. Arla will play a key role in managing the comprehensive project.

Part of the public commitment is to secure the infrastructure such as roads, power and

water, which is necessary to process and bring the milk to market. Moreover, the government will establish schools and health clinics for its nomad citizens.

The project will primarily be funded by loans provided by the Central Bank of Nigeria and taken by the local state. As the commercial partner, Arla will, among other things, invest in establishing milk collection centres. These will be pivotal to Arla's role as a processor of the milk supplied by the farmers.

SECURE COLD CHAIN IN NIGERIA

During 2019, the Milky Way project in Nigeria expanded to include four farm clusters with around 70 farmer households. To build a well-functioning commercial cold chain from cow to consumer, innovative milking parlours were installed, a milk truck is operational, and the dairy plant has been upgraded and is managed by Arla. Additional farm clusters have been identified to be included in 2020. The target is to reach 450 farmer households before 2022.

Organic dairy farming in Indonesia

The interest for organic dairy farming is increasing in Indonesia. Therefore, Arla and its business partner Indofood have been approached by the Indonesian government and pioneer farmers to support the development of organic farming in the country. Arla has hosted a study tour on modern dairy farming in Denmark for a group of Indonesian cooperative farmers and co-facilitated a roundtable discussion titled "Trend of Organic Consumption and Lifestyle in Indonesia", attended by representatives from Ministries, organic experts and practitioners as well as media.

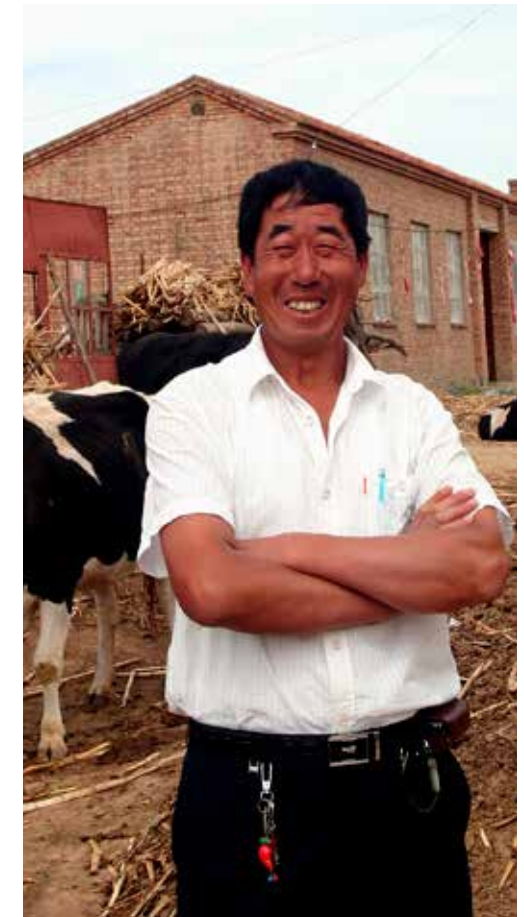
Chinese dairy partnership

Arla has a long-term partnership with Chinese dairy company Mengniu. Since 2012, we have been working together to improve animal welfare, milk quality, food safety, environmental impact and knowledge about milk production. Our common goal is to contribute to a more sustainable dairy industry in China.

IMPROVING DAIRY FARMING IN CHINA

The main focus for the cooperation between Arla and Chinese Mengniu has, during 2019, been on improving the skills and knowledge of both farmers, farm workers and employees working within dairy production. This has been achieved by hosting seminars with over 1,200 participants, conducted via several on farm workshops, advisory work on local farms and by publishing a monthly newsletter containing advice and articles on dairy production.

Together we have also had special focus on saving costs in milk production. In this project, 24 local farms have participated, with close to 20,000 dairy cows in total. Furthermore, we are establishing know-how amongst local advisors and qualifying them to expand the approach to more farms.



CALF REARING PROJECT IN EAST JAVA

Together with our Indonesian business partner, we contribute to the development of the calf rearing project on East Java, with direct investments and capacity building. The first model stable has been established. As result, cow barns have been expanded and more adequate infrastructures have been built. Calves are fed with the right amount of nutrients and are also reared with due regard to the comfort and principles of animal welfare. When calves are at an age when they can mate, they will be sold

to farmers at an affordable price. This income is invested back into the operation in order for it to become a sustainable business unit.

The rearing centre is expected to rear 60 cows each year ready to become high quality dairy cows when full-grown, for the benefit of local farmers and to increase overall local milk production. Our experience from the centre will form the basis for a guideline that could be implemented in other locations.

BY 2022, WE AIM TO HAVE EMPOWERED 5,000 WOMEN TO GENERATE THEIR OWN INCOME.

NUTRITION AROUND THE WORLD

Nutrition surveys in developing markets

In Bangladesh and Nigeria, we have initiated studies to better understand the nutritional and health status of families. The studies will identify nutritional gaps in specific target populations, enabling more focused efforts to address malnutrition through, for example, product innovation.

In *Nigeria*, we have performed a comprehensive literature review to identify gaps in the nutritional and health status of the population. Continuation of the project will result in detailed and area-specific nutritional and health data, which will support public institutions, NGOs and private companies when developing targeted initiatives to improve nutrient deficiencies and the health status of Nigerian families.

In *Bangladesh*, Arla has initiated a collaboration with the International Health Research Institute, International Centre for Diarrhoeal Disease Research,

Bangladesh and the social enterprise iSocial in order to conduct a literature review mapping intake of nutrients, food habits and preferences, as well as the health status amongst middle and low-income consumers. Based on the findings, an actual dietary intake and health research programme will be initiated in specific areas of Bangladesh.

Better access to affordable nutrition

More than half of the children in Bangladesh are underweight and malnutrition is still prevalent despite of progress in the country. Arla has a long-term presence in the country and is the second most popular milk powder brand in the country. Arla is determined to give everyone access to affordable, nutritious dairy products and this was the reason for us to become the lead commercial partner in a project to create a last-mile-distribution network of female micro-entrepreneurs in Bangladesh. As well as selling nutritious Dano® milk powder sachets, the women educate people about health and diet, at the same time they are securing a reliable income, lifting themselves out of poverty.

The four-year project, which started in 2018, is supported by the Danish Ministry of Foreign Affairs and we work in partnership with Dutch-based NGO BoP Innovation Center, and Bangladesh based NGO BRAC, Dnet and social enterprise iSocial. The project aims to increase access to our affordable dairy

products for 1.25 million low income consumers in rural Bangladesh. The two Bangladeshi organisations have so far recruited, trained and managed a network of 150 female micro-entrepreneurs. By 2022, we aim to have empowered 5,000 women to generate their own income.



Arla Foods Ingredients partnerships

Arla Food Ingredients, which is a subsidiary of Arla Foods and a whey ingredient supplier, has continued partnerships with GAIN (Global Alliance for Improved Nutrition) Nordic and DanChurchAid. Projects include:

Sustainable dairy supply chain in Ethiopia

Arla Foods Ingredients is the lead business partner in a GAIN Nordic Partnership project to develop a sustainable dairy supply chain in Ethiopia in cooperation with a local dairy and dairy farmers. Supported by the Danish development cooperation Danida, the three-year project aims to bring safer and better dairy nutrition to low-income families. During 2019, development of an affordable, nutritious yogurt has continued. The yogurt is planned to go into production at the local dairy in spring 2020. GAIN is responsible for the school feeding programme in the project's final phase.

Nutritious long-life drink in Zambia

The UK Department for International Development (DFID) is funding a GAIN Nordic project to establish local production and sales of a nutritious long-life drink to address malnutrition among children and women in Zambia. The drink will be made from local milk and will include whey permeate, which will both enable a higher production volume and support product quality.

As a GAIN Nordic partner, Arla Foods Ingredients is designing the drink and training the staff at the dairy. This project was completed in 2019. The next phase is local implementation in 2020.

Local production of nutritious food in Ethiopia

Arla Foods Ingredients, DanChurchAid and several other companies have formed a partnership to share knowledge and expertise and develop new affordable food concepts. Their first joint initiative is the Sustainable Food Platform, a project to promote local production of nutritious food for people living in or around refugee camps. Ethiopia is the primary country in focus, with links to Uganda and Kenya.

In 2018, the Sustainable Food Platform was awarded funding by P4G – a global forum that supports public-private partnerships with a focus on accelerating sustainable development. P4G is partly funded by the Danish government and hosted at World Resources Institute.

The ideation phase has continued in 2019 and will be completed by March 2020. This includes determining local needs and identifying potential local manufacturers. The partners hope to obtain further P4G funding for the scale-up phase.



CARING FOR PEOPLE

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



HUMAN RIGHTS

Respecting human rights

Arla works to ensure that we respect human rights, and we continuously embed our human rights policy in our business processes and plans. During 2019, we have enhanced our governance structure to ensure that executive management in strategic growth markets receive an annual report on critical and major human rights risks, identified non-compliance and issues resolved. This report, together with a plan of action for the coming year has been formally signed off.

To further embed our human rights policy and processes in the business, several global functions responsible for the daily management of Arla have been trained on how to integrate human rights in their daily business operations.

To strengthen the implementation of our human rights action plans in emerging markets, we have continued to coordinate and align findings. We ensure exchange of findings, alignment of mitigation plans and improved follow-up through regular on-site visits and a database with access to shared documentation.

We prioritize human rights' assessments in markets where we already have, or are in the process of acquiring, production facilities to ensure a high level of focus. In 2019, we made our first human rights risk assessment in Bahrain, and continued monitoring and following up on risks in Saudi Arabia, Nigeria and Bangladesh.

Modern slavery

Modern slavery is a serious challenge in our supply chains. Since the publication of our first modern slavery statement in 2017, we have taken steps to further strengthen our processes to mitigate the risks. These include, for example, improved internal data checking, ensuring migrant worker colleagues retain passports

and identity documents unless they require otherwise, incorporating our commitment to work against modern slavery including forced labour in our General Membership terms signed by all Arla owners, and a continuous focus on how we risk assess our suppliers.

During the last year, we have continued to raise awareness among our farmer owners and colleagues throughout the organisation, and we have carried out a training session with our European union collaboration forum, the Works Council. In our training and communication, we have also included how to escalate concerns either through our whistleblower function, or other reporting channels. There were no modern slavery reports in 2019.

HUMAN RIGHTS RISKS IN BAHRAIN

To support the acquisition process of a cheese business in Bahrain, the Danish Institute for Human Rights (DIHR) developed a short briefing on key human rights risks of relevance to Arla. Based on the briefing, a human rights assessment has been conducted, together with an action plan for mitigation. Follow-up with the management team in Bahrain, as well as global support functions and on-site support will ensure integration in Arla's health and safety reporting, human resource systems and responsible supply chain management are on track. No critical or major adverse human rights impact have been identified.

WORKSHOPS ON RESPONSIBLE BUSINESS CONDUCT

When participating in publicly funded partnerships, all partners involved have the obligation to adhere to international standards for responsible business conduct. With Arla's human rights processes in place, we have been assessing and addressing human rights risks in the projects, together with our partners. We have also been responsible for the identification and development of action plans related to Responsible Business Conduct for our partnerships in Nigeria and Bangladesh. The focus for 2019 was on human rights, including gender equality.

In September 2019, the first workshop on responsible business conduct was held in Dhaka, Bangladesh by Arla with some 20 participants from our five key partners. Its focus was to assess potential weaknesses within our own organisation in terms of human rights management systems. It was identified that potential risks are mainly related to local supply chain management and distribution partners. A plan of action has been agreed and follow-up will be conducted in 2020. For some partners, internal human rights management systems must be strengthened.

HUMAN RIGHTS DIALOGUE FORUM

In November, we invited a number of internal and external stakeholders to our first Human Rights Dialogue Forum. The purpose of the Forum was to improve our business practices through dialogue and sharing of expertise with key partners amongst NGOs. Further, it provided an opportunity for us to receive feedback on our current and planned work with human rights, and to discuss potential improvement areas.

The discussions at the Forum clearly showed that it is necessary to consider environmental and human rights impacts together, and not work in silos. The collaboration with the NGOs will continue, and we will review our commitments on climate and environment, taking human rights impacts into the equation.

The external participants came from Amnesty International, GAIN Health, Care Denmark and Danchurch Aid, and the Forum was facilitated by the Danish Institute for Human Rights.

DIVERSITY, EQUALITY AND INCLUSIVENESS

Securing diversity

We believe a diversified workforce enhances productivity and innovation, no matter where in the world. Our focus on diversity and inclusion has been re-activated through several initiatives including e-learning courses and internal network groups. Themes including "how to avoid unconscious bias" and "how to improve team performance through inclusion" are covered.

To support Arla's leaders in making diversity-conscious decisions, resources have been made available during 2019 including e-learning and video courses as well as updated recruitment guidelines.

In June, Arla held a diversity and inclusion event with several external speakers at the Danish head office, attended by around 100 colleagues in the auditorium and around 500 on-line. This event was the culmination of a series of local initiatives in association with the Pride celebrations across countries.

GENDER EQUALITY IN NIGERIA

In August 2019, Arla hosted the second workshop on responsible business conduct in Kaduna State, Nigeria with some 40 value chain actors participating. The focus was to follow-up on our human rights' action plan and to promote gender equality and women empowerment. Prior to the workshop, a gender analysis was conducted, including several recommendations.

The outcome of the workshop was an agreed action plan to promote gender equality in the project dairy value chain through education, communication, income generation and cultural change. Women already make up more than 30 per cent of the workforce employed at our dairy and a model for equal distribution of dairy income has been agreed with one farm cluster. Similarly, women are employed as milking parlour managers and we have developed a communication strategy to ensure equal involvement in the Milky Way Partnership project activities.

OUR OPERATION IN BANGLADESH HAS BEEN ACKNOWLEDGED GLOBALLY AS A FRONTRUNNER WITH 1,000 DAYS WITHOUT A LOST TIME ACCIDENT.

SAFE AND HEALTHY COLLEAGUES

Decent working conditions

We want all our colleagues to stay safe at work. Our target is zero work accidents, and for many years we have worked systematically to prevent accidents. To advance this work, we introduced a step change programme 'Arla Cornerstones' in 2017. Most accidents are a result of unsafe behaviour and the programme focuses on rooting global operating standards, boosting operational safety competences and embedding our existing behaviour safety programme.

During 2019, we have seen greater levels of colleague engagement and significant reductions in accidents, and we will continue with the strong focus, towards our ambition of zero accidents.

In 2019, we implemented our global reporting system for health and safety in Nigeria, Middle East,

Bangladesh, USA and Canada. Our operation in Bangladesh has been acknowledged globally as a frontrunner with 1,000 days without a lost time accident.

Based on our assessment of human rights risks, we have enhanced our action plans to address adverse impacts related to decent work. For example, it was revealed that our main challenges regarding decent work are related to local distribution managed through a large number of business partners in high-risk markets. This will be addressed in 2020 through a strengthening of supplier contracts and dialogue with business partners.

Housing facilities

In the Middle East, we employ a large number of migrant workers. These colleagues are potentially in a vulnerable position as they live and work in host countries and are thereby at risk of not being granted the same legal rights as national workers.

We acknowledge our responsibility as employer to respect the human rights of these colleagues.

The process of improving the housing facilities that Arla provides in the Middle East continued during the year in Qatar, Oman, United Arab Emirates and Saudi Arabia. In 2019, we have resolved all non-compliance issues. In Saudi Arabia, where the vast majority of Arla's migrant workers are employed, new employer-provided accommodation has been rented in Riyadh to ensure that we are now in full compliance with ILO (International Labour Organisation) standards. Only minor issues remain in Oman and United Arab Emirates.

Global security

In cooperation with external partners we make sure all colleagues who travel as part of their role, including expats and their families are safe before, during and after they travel. We have developed

a risk-based monitoring system to proactively support all Arla locations worldwide. This has been implemented in 2019, with the main focus being on our locations in Africa, the Middle East and South East Asia. To ensure knowledge and ownership, incident management drills are conducted.

Protecting people, food and sites

Our safety programme includes protection of sites against all types of threats, from sabotage to nature disasters, since that could threaten colleagues, food safety and buildings. In 2019, we started to roll out a new standardised supply chain security programme in the UK and Sweden, which will be implemented in the rest of the supply chain in 2020. The main focus is on access control, CCTV surveillance, fences and burglar alarm systems.

OUR SAFETY PROGRAMME INCLUDES PROTECTION OF SITES AGAINST ALL TYPES OF THREATS, FROM SABOTAGE TO NATURE DISASTERS.

ENGAGING COLLEAGUES

Colleague engagement survey

The annual engagement survey, Barometer, was conducted in October and distributed to 18,117 colleagues in 16 different languages. The response rate was 83 per cent, 2 per cent less than last year. The result continues to show that Arla colleagues are very engaged. It also shows that there is still a need for focus on communication, which is being addressed for example by using multiple digital channels to ensure information is available for colleagues when needed. Additional attention areas for the coming year are customer focus and the continued work on reducing incidents of harassment.

Recruitment processes

Arla has a global recruitment policy that outlines talent acquisition processes for all white-collar roles across all markets. The process ensures validated tools as well as an engaging candidate experience. We use assessment tools that support our efforts to minimise bias in selection and assessment.

Our recruitment IT system has been extended to include blue collar roles for core countries. This ensures a good quality of hire, and solid candidate experience.

New ways of learning

Continuous training of colleagues at all levels is important to safeguard competence and performance. In 2019, learning in Arla has been significantly streamlined in relation to delivery methods. The global portfolio consisting of leadership and personal development training opportunities has been converted to more blended learning programmes, containing face-to-face, digital and peer-to-peer learning. When we follow up with colleagues taking part in these programmes, after three and six months, their feedback shows that the knowledge, attitude and behaviour of people managers has improved, while costs have also been driven down.

Learning is now taking place within functional learning task forces and mentoring programmes. This means more learning is integrated into a colleague's work, which is expected to deliver greater impact from the learning initiatives. The challenge during 2019 has been a perception among colleagues that there is no training available, as training is typically viewed as a course or face-to-face training.

Blue-collar upskilling

In our supply chain, we are constantly developing our colleagues. Building functional capabilities

among our blue collar colleagues is key to create the future of dairy. In Denmark, for example, we had around 2,500 participants totally in 2019 from our blue-collar population taking part in various courses. One focus area supporting the Calcium transformation is what we call 'operator asset care'. This means upskilling our operators to be able to perform more technical skills on our machines. Not only is this an opportunity to develop our operators, it also results in a reduction of costs as we are able to fix potential breakdowns more quickly.

Talent programmes

Over the last three years, we have recruited 40 graduates from 17 different countries and four continents to our international F15® graduate programme. The gender split is more or less even, although there are slightly more women.

We have launched a new talent development concept with approximately 150 participants, 30 of whom are our global talents, sponsored by EMT. The group consists of people from five management levels, nine nationalities and seven business units. There is a 40/60 per cent women/men mix.

Furthermore, a total of 571 colleagues (212 women, 359 men) have participated in Arla's leadership

development, people management and our new Executive Masterclass, in which more than 350 colleagues were trained in one day.

SKILLED INDUSTRIAL OPERATORS

The dairy industry is becoming increasingly complex with higher demand for efficiency, which in particular will put colleagues with shorter formal training under pressure. Therefore, Arla has joined forces with two Danish trade unions to which the majority of blue-collar employees in the Danish dairy industry belong. For three years, we have committed to upskill 80 Arla colleagues to skilled industrial operators to fulfil the needs of the business and to increase employability of the participants in the project.

EU-PROJECT TO PROMOTE DAIRY EDUCATION

Compared to other European industries, the dairy industry is quite small in terms of the number of people it employs, and as a company we rely on well-educated colleagues. We acknowledge that we need to put a lot of effort into protecting and developing the dairy education systems in our core markets. Over the past three years, Arla has been engaged in an EU-project with partners from 13 European countries. The project has been successful in terms of underlining the need for dairy skills across Europe and has shown the potential for greater cooperation between dairy colleagues, universities, and dairy companies.

Cooperating with unions

A good forum for internal dialogue is our Works Councils, at both local and global level. The councils normally consist of colleagues as well as employer representatives and they work to secure the conditions necessary for the company's continued competitiveness and development, and for the well-being and safety of all colleagues.

The *European Works Council (EWC)* is our high-level forum for open dialogue between management and employees and for discussing corporate matters in Arla. The EWC comprises employee representatives from each of the EU countries in which Arla has more than 150 employees. Arla's CEO, Executive Vice President for supply chain and Executive Vice President for human resources represent the company management at these meetings. The *Select Committee* of the EWC is always informed prior to major changes in the Arla organisation.

In September 2019, we revised and signed a new EWC agreement to ensure that the UK remains in scope for EWC, although the underlying EU Directives only apply to EU member states. We have therefore made an agreement that will enable us to maintain EWC as the forum that oversees all employee cooperation in European countries.

To strengthen the global perspective of business practices, Arla continues its dialogue with International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations International (IUF). One outcome during 2019, was the signing of an agreement to fight sexual harassment, and discussions are under way to further formalise the collaboration.



RESPONSIBLE SOURCING

Sourcing management

Our supply chain is one of our most important levers in creating a positive impact in the world as well as one of our most critical aspects with regard to risk mitigation. To ensure the right quality of ingredients for our products, we have procedures in place and only use approved suppliers. We recognise that our suppliers have a major impact on our sustainability performance, and we pay close attention to their environmental, social and ethical practices. In March 2019, we published a [Statement on Responsible Sourcing](#) which outlines our ways of working in our upstream supply chain.

Our ambition is for all external suppliers to sign our code of conduct for suppliers, which governs environmental, social and human rights aspects. Written contracts control the commercial and legal terms, and we expect all suppliers to ensure

their agents and sub-contractors also fulfil the requirements set out in these documents.

Focus on service suppliers

During 2019, we have conducted human right impact assessments on all our sourcing categories, including service categories such as labour providers, cleaning, catering and security. We look into our suppliers' work with human rights principles and eradication of modern slavery in their supply chains. Beginning in the UK, we have made the decision to require SEDEX (Supplier Ethical Data Exchange) registration, demanding suppliers to register on SEDEX and complete a self-assessment questionnaire. This will enable us to monitor and track the providers' status for human rights and modern slavery, the first one will be labour providers. Implementation is still ongoing. By doing this, we believe we reduce the risk of modern slavery in our supply chain.

Supplier audits

Every year, we carry out audits based on risk evaluation, during which we visit suppliers and inspect relevant areas. In 2019, we have provided training to suppliers outside Europe to strengthen their workplace, environment, safety and human rights processes. We have also informed Arla colleagues outside Europe about how to work in accordance with our purchasing policy and procurement processes.

To ensure that colleagues hear about Arla's purchasing policy, official purchasing channels and the importance of purchasing compliance, all new white collar colleagues joining Arla in six core markets during 2019, were invited to an online information session. Those who do not sign up for the first session are invited to next month's session as well. More than 600 persons have joined the sessions. Existing colleagues are encouraged to complete the eLearning course on the same topic.

WORKSHOPS WITH SUPPLIERS

In Indonesia, we have continued to financially support workshops in collaboration with our main supplier of palm oil. Our primary objective has been to strengthen sub-supplier understanding of human rights and labour issues and to improve plantation management practices. Through the workshops, suppliers also gain a deeper understanding of responsible sourcing expectations. This year's focus has been the implementation of a child protection policy, which was finalised with the support of UNICEF.

We also continue to provide training to four key suppliers in the Asia Pacific region. This year's focus has been on ingredients in organic products, bacteria and enzymes, and food additives and processing aids, including the latest updates of European Commission regulations.

OUR AMBITION IS FOR ALL EXTERNAL SUPPLIERS TO SIGN OUR CODE OF CONDUCT FOR SUPPLIERS, WHICH GOVERNS ENVIRONMENTAL, SOCIAL AND HUMAN RIGHTS ASPECTS.

USING CREDITS TO DRIVE SUSTAINABLE PRODUCTION

In Arla's sourcing positions on soy and palm oil, we include credits within the certification systems Round table for Responsible Soy (RTRS) and Round Table for Sustainable Palm Oil (RSPO). By doing this, we push for more responsible practices in production while more robust supply chains for segregated certified products are developing.

Recently, there is an increasing stakeholder push for full traceability of risk commodities contributing to deforestation and land conversion of high value nature areas. However, currently there is limited supply of traceable, segregated and certified commodities, leading to high costs and individual actors have limited leverage. We see a risk that the transformation of production practices will be delayed if the approach of RTRS- and RSPO credits is devaluated, as it offers a cost-efficient way to promote the transition.

Sourcing positions

We have identified three ingredients with particular sustainability challenges: soy, palm oil and cocoa, and we have developed sourcing positions to mitigate the risks and to contribute positively to more sustainable practices, including reducing risk of negative impact on human rights and environment. We believe we can use our purchasing power to contribute to these categories being more sustainably produced, in close dialogue with key stakeholders. The sourcing positions identify certification standards that we support and request, for each of the three risk ingredients.

Our target of 100 per cent responsibly sourced palm oil, soy and cocoa has been achieved for soy and cocoa. In 2019, the share of segregated certified palm oil was 98.5 per cent whereas 1.5 per cent of the palm oil use was covered by RSPO-credits due to lack of availability for segregated certified products in some markets.



ABOUT ARLA



We are proud of our strong brands and adapt our portfolio to regional markets.



Arla Foods is a global dairy company and a cooperative owned by dairy farmers in seven European countries. Our products are sold under well-known brands around the world.

COMPANY PERFORMANCE

Results 2019

Arla's net revenue in 2019 amounted to EUR 10.5 billion, compared to EUR 10.4 billion in the previous year. The profit for the year was EUR 323 million, compared to EUR 301 million in 2018.

The dairy industry is volatile and to secure future growth and a long-term competitive milk price for our farmer owners, a three-year transformation programme, called Calcium, was introduced in 2018. The purpose of the programme is to transform the way we work, reduce bureaucracy, cut unnecessary costs, reinvest more in selected strategic initiatives, and save EUR 400 million during the period. The programme delivered EUR 110 million in 2019, ahead of our expectations, and it is contributing positively to the company's milk price to farmer owners.

Market development

Arla maintains its position as the world's fourth largest dairy company in terms of volume of milk intake. The global dairy market is increasingly competitive and fast-moving putting pressure on us to continuously deliver on customer and consumer expectations. We maintain our strong position by focusing on consumer demands and continuous innovation of products and packaging, a more diversified product portfolio and product launches in new markets. Arla is expanding sales in South East Asia and in Sub-Saharan markets.

Milk price

In 2019, for a full year, Arla was able to hold the average performance price at 36.6 EUR-cent/kilo, compared to 36.4 EUR-cent/kilo last year. During the year, global milk production remained stable, with slight growth in production in Europe and New Zealand, which was offset by reductions in other major exporting areas, particularly North and South America. This limited growth resulted in commodity prices remaining firm and increased demand was balanced by increases in supply. The outlook for the milk price for the coming months remains stable.

Brexit preparations

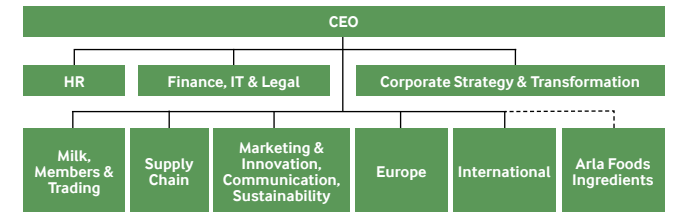
Arla is the biggest dairy company in the UK and will continue to be a significant player in the UK dairy industry after Brexit, supporting thousands of jobs, and being home to 25 per cent of our farmer owners. Arla is focusing on maintaining free trade and minimizing the negative effects of a potential increase in bureaucracy.

Since the UK decided to leave the EU in 2016, we have worked on contingency planning to ensure we are as prepared as possible for the different scenarios. This includes supporting our UK colleagues who live and work in the EU and EU colleagues in the UK to ensure they were aware of the potential rule changes and the need to comply with new migration legislation. We also offered information to our UK farmer owners on how to prepare for a no deal Brexit, working with external consultants to provide practical advice which supplemented publicly available information.

Acquisition in the Middle East

In May 2019, Arla's acquisition of a processed cheese business in Bahrain was formally completed. The acquisition gives us full ownership of a state-of-the-art cheese production site, which provides the opportunity to further expand the company's branded cheese production in the Middle East and North Africa (MENA).

As demand for dairy continues to increase in MENA, the site in Bahrain will be Arla's key strategic manufacturing hub in the region. The majority of Arla products sold in the region will now be produced locally at the site, which means we can further expand our branded cheese production and improve overall efficiency in our supply chain. By moving production of processed cheese and sterilised cream from Europe to this site, we expect to improve the shelf-life of these products by up to six weeks as transport and handling time to customers in MENA are reduced significantly.



Chairman Jan Toft Nørgaard CEO Peder Tuborgh

Revenue by product group



- Fresh products and milk powder 43%
- Cheese 26%
- Butter and spreads 14%
- Ingredients, whey products and non dairy 17%

The revenue by product group was similar to 2018.

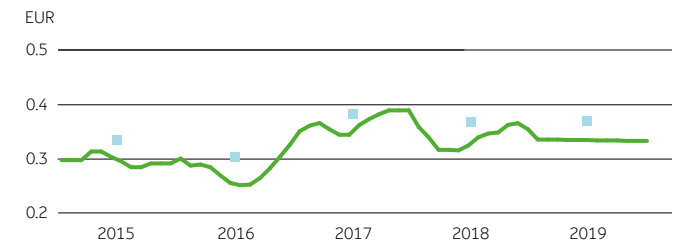
Revenue by segment



- Europe 60%
- International 17%
- Arla Foods Ingredients 7%
- Trading and other 16%

Arla's total revenue has increased by 1 per cent since 2018. For further information, see Arla's annual report.

Milkprice



The graph shows the prepaid price, and the dots the average performance price.

OWNERS

Democratic organisation

Arla's mission is to secure the highest value for our farmers' milk while creating opportunities for their growth. All farmer owners have the opportunity to influence important decisions through the democratically governed farmer cooperative.

Arla has 9,759 owners in seven countries: Denmark, Sweden, UK, Germany, Belgium, Luxembourg and the Netherlands. In October, Arla announced the appointment of two external advisors to its Board of Directors, Florence Rollet and Nana Bule, who will bring global digital, marketing and technology expertise to complement the strong commercial and farming knowledge of its elected board members.

During 2019, among other things, elected representatives have been involved in workshops, discussing Arlagården® and sustainability.

Owner strategy

Following the decision of our farmer owners in the UK and Central Europe in 2018 to become direct members of Arla Foods amba, we have been working to align all processes and workflows. The purpose is to ensure a well-functioning and transparent democratic structure, with the same democratic governing body and rules for all individual farmer owners in Arla.

Engaging farmers in the cooperative

As a strong and visionary cooperative, Arla needs a pool of future farmer representatives. With the training programme, *Arla Next*, we want to inspire more Arla farmers to become elected representatives, and we offer an international network within the cooperative. The second Arla Next programme concluded in January 2019 and many of the cohort were elected as farmer representatives in the spring elections. Others have gone on to support Arla as ambassadors.

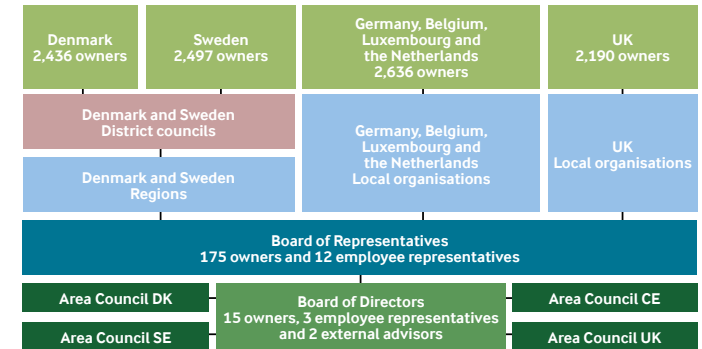
All newly elected members of the Board of Representatives attend a two-day Introduction programme and also have access to our *Mentor Partnership Programme* where experienced members of the Board of Representatives are paired with newly elected to strengthen their development in the new role. The current mentoring programme has 46 pairs and will conclude at the Board of Representatives meeting in February 2021.

All newly elected district representatives are also invited to attend a two-day introduction course in each member area, during which they learn more about the business, the strategy, the democracy and also about meeting management from an external coach. In addition, experienced members of the Board of Directors have been offered a course to gain a deeper insight into Arla's markets and business.

At Arla Local farmhouse meetings (earlier referred to as Arla Seminars) farmer owners meet in smaller groups to discuss current topics. Each market has specific targets for the share of farmer owners attending these meetings.

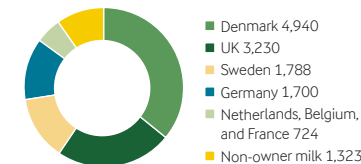
Digital Learning – Arla Farmer Owner website

Within the new global owner web, we have created a new learning area accessible for all members. The digital learning content is specifically designed to support members' understanding of their business, the democracy, Arlagården® and sustainability.



The chart shows the number of owners/members as of December 31, 2019. All elections and polls are held according to the 'one owner, one vote' principle. The Board of Representatives is Arla's top decision-making body.

Raw milk intake, million kilos



Arla's total milk intake amounted to 13,705 million kilos in 2019, which means that the milk intake is almost unchanged compared to 2018. Owners' milk represents around 90 per cent of total milk intake.



AMBITIONS & PROGRESS DATA

We are committed to sustainable development, to work towards ambitions and targets and to report transparently on progress.



The famous Danish butter has a history of more than 100 years and is today sold worldwide.

ABOUT THIS REPORT

Our aim is to be open and transparent towards our stakeholders. In this report we share examples from our global business, providing an overview of our significant social, ethical and environmental commitments and results – and some of the actions planned for 2020 and the strategies going forward.

Transparent reporting

The report serves as our annual communication on progress against the UN Global Compact and the statutory statement on CSR in accordance with section 99a of the Danish Financial Statements Act.

This English master version has been translated into several languages.

Sustainable development scope

In the following section we describe our ambitions and show our progress towards our sustainability targets for the financial year 2019. The scope is Arla colleagues and companies where we have management control, unless otherwise stated. Joint ventures and other entities over which Arla does not have management control are not covered in the quantitative reporting. However, we work with our partners to ensure an ongoing focus on sustainability issues.

During 2017, we updated our materiality analysis. We invited main stakeholders to prioritise the importance of 22 defined aspects related to our sustainability activities, see page 53.

The outcome, in combination with continuous dialogue with key stakeholders, helps us improve the scope and focus of our work, reporting and communication processes. Furthermore, it serves as a basis when relating to the Global Reporting Initiative (GRI) guidelines.

Risk management

Our approach to due diligence is integrated in the way we work and do business along our value chain. We identify, prevent and mitigate risks related to our activities to help minimise adverse impact on people, society and business. We focus on reporting on progress in relation to social and employee issues, environment, climate, corruption, human rights and other topics material to us.

For further information and accounting principles, please visit arla.com and read [Arla's Annual Report 2019](#).

SUSTAINABLE DAIRY FARMING

POLICY/AMBITION

Both Arla's environmental strategy 2020 and the new sustainability strategy, launched in 2019, are targeting sustainable dairy farming as one of the most important areas to address in our value chain. The ambition is to minimise negative and maximise positive impacts by targeted actions at farm level.

IMPACT ON SOCIETY

We have identified raw material production, especially milk, as our most significant environmental impact on society, involving greenhouse gas emissions, land use, biodiversity impacts and contamination of air and water.

IMPACT ON ARLA

Climate change, water stress and malfunctioning ecosystems are threats to our supply chain, mainly to our farmer owners and other farmers providing our agricultural raw materials. Rising costs and/or declining availability are business risks going forward. Not addressing environmental and climate challenges pose reputational risks as well.

TARGETS

To mitigate risks identified at farm level, one of our strategic goals is to reduce climate impact per kilo of milk at farm level by 30 % from 1990 to 2020.

In 2019, Arla set new Science Based Targets towards 2030, aiming to reduce greenhouse gas emissions per kilo of milk at farm level by 30 %, with 2015 as the baseline year. The long-term ambition is to reach carbon net-zero by 2050 through focus on emission reductions, carbon sequestration and other activities reducing global warming. Also, Arla promotes sustainable dairy farming at farmer workshops for sharing of best practice and expertise.

Further, we have the goal to build a more diverse, robust and accessible local agricultural landscape to increase biodiversity and access to nature.

The new environmental strategy targets clean air and water, with the goal to protect regional water sources and reduce emissions across the whole value chain, with a particular goal on nitrogen and phosphorus cycles in balance.

PROGRESS

SUSTAINABLE DAIRY FARMING	Carbon assessments	Energy assessments	Farm workshops
UK 2010–2018	3,057	–	587
Sweden 2013–2018	608	409	55
Denmark 2013–2018	1,339	22	39
Central Europe* 2013–2018	58	–	12
Total 2010–2018	5,062	431	693
UK 2019	121	–	19
Sweden 2019	103	–	–
Denmark 2019	133	–	–
Central Europe* 2019	100	–	–
Total 2010–2019	5,519	431	712

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

CLIMATE IMPACT**

Reduction 1990–2018	23 %
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ARLAGÅRDEN® DIGITAL DOCUMENTATION

Share of farms participating	87 %
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ANIMAL WELFARE

	2019	2018	2017	2016
Udder health, share of farms reaching top level	55 %	53 %	56 %	53 %

The updated Arlagården® programme has not only added new requirements but also made it compulsory to measure and assess animal welfare on a quarterly basis, using multiple indicators such as cow mobility, cleanliness, lesions and body condition. Data will be uploaded using Arlagården® digital tool.

Arlagården® audits

All Arla farms are audited according to our quality assurance programme Arlagården® a minimum of once in every three-year 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, 3,412 audits were carried out during 2019 across all seven owner countries.

IMPACT ON SUSTAINABLE DEVELOPMENT GOALS AND TARGETS



2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment

2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality



13 Take urgent action to combat climate change and its impacts

13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries



15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

* Germany, Luxembourg, the Netherlands and Belgium.

** The 2020 strategy for the farm uses 1990 as a baseline. To follow up on the 2020 strategy we have used a fixed milk composition from 2013, as data has not been available for all farmers in all countries. In the 2020 strategy we did not include non owner milk in the reporting.

By 2018 the reduction is 23 % compared to 1990. This reflects a small increase compared to previous year which can partly be explained by the draught situation in 2018.

Going forward for the SBT (2030 goals) the actual milk composition will be used including non owner milk.

ENERGY & CLIMATE

POLICY/AMBITION

Arla's environmental strategy 2020 is targeting three areas: climate, energy & water and zero waste, in addition to sustainable dairy farming, reflecting the material environmental impacts identified in our value chain. The ambition for the identified areas is to minimise negative and maximise positive impacts by targeted actions in production and logistics, and together with consumers. In Arla's new environmental strategy, focus areas are Better Climate, Clean Air and Water and More Nature.

IMPACT ON SOCIETY

The use of energy, water and packaging materials in processing risk contributing to climate change, depletion of non-renewable resources and air- and water pollution. Waste related to our business, both at dairy sites and at consumer level, cause multiple environmental impacts.

IMPACT ON ARLA

Climate change, water stress and malfunctioning ecosystems are threats to our supply chain, mainly to our farmer owners and other farmers providing our agricultural raw materials. In addition, our processing sites depend on access to clean and abundant water resources, energy and other raw materials such as packaging materials. Rising costs and/or declining availability are business risks going forward. Not addressing environmental and climate challenges pose reputational risks as well.

TARGETS

Our environmental strategy sets goals for our supply chain, focusing on climate impact and resource efficiency. Climate targets stipulate a reduction of 25 % in greenhouse gas emissions from each of the areas packaging, transport and processing 2005–2020 (scope 1+2+3), see page 12.

Arla set Science Based Targets for 2030, using 2015 as a baseline, where emissions per kilo milk (scope 3) should be reduced by 30 % and emissions from transportation, packaging, sites (scope 1 and 2) should reduce by 30 % in absolute terms.

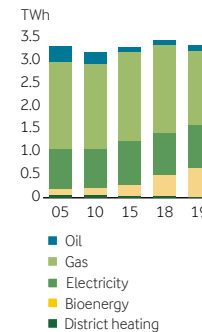
Energy targets include an improved energy efficiency of 3 % per year at site level, and to use at least 50 % renewable energy by 2020. For water the target is to improve water efficiency in production by 3 % annually.

Zero Waste targets include zero waste to landfill from our sites by 2020 and a 50 % reduction in food waste in production for 2015–2030. We cannot quantify food waste of our products at consumer level but we are addressing it with inspiration and information. For packaging, the target is to have 100 % recyclable packaging by 2025. Our packaging must be recyclable in core markets where sold.

PROGRESS

Energy consumption

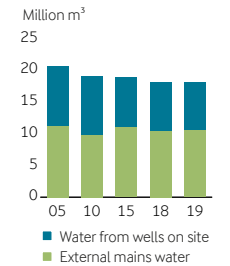
Arla's goal is to improve energy efficiency in production by 3 % annually. During 2019, our energy efficiency increased with 2 %. The results indicate that more focus is needed on improving energy efficiency going forward. The share of renewable energy has increased continuously and reached 33 % in 2019, due to large biogas investments in Denmark. Despite the positive development, Arla no longer expects to achieve the goal of 50 % renewable energy by 2020 due to capacity increase and expansion in the international segment, where renewable energy sources are less accessible. The diagram includes all Arla facilities at the end of 2019. Previous years' data has been updated.



PROGRESS CONTINUED

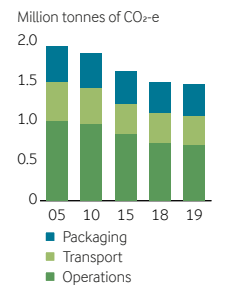
Water consumption

During 2019 we managed to reach our aim to improve water efficiency in production by 3 % annually. However, the total water consumption increased due to a more diverse product mix, requiring for example more cleaning of equipment. More focus on how to reduce overall water consumption water is needed going forward. The diagram includes all Arla facilities at the end of 2019. Previous years' data has been updated.



Climate impact

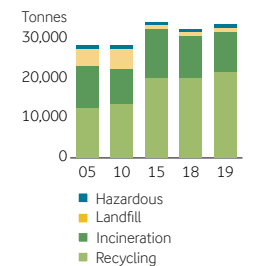
Arla's goal is to reduce greenhouse gas emissions from operations, transportation and packaging by 25 % by 2020, compared to the 2005 levels. Since 2005, Arla's total climate impact has decreased by 25 %, despite increased production. The largest decrease has been within operations.



For the follow up on the new strategy and Science Based Targets, please see the ESG table on page 51.

Waste

Arla's goal is zero waste to landfill by 2020. The development of total waste from 2005–2019 is directly connected to the increase in number of sites. The proportion of waste that is recycled and incinerated is increasing and waste to landfill has decreased by more than 77 % since 2005. The remaining volumes are mainly in non-European countries where landfill is still common (4,383 tonnes waste to landfill in 2005 and 988 in 2019).



ENERGY & CLIMATE

PROGRESS CONTINUED

RENEWABLE ENERGY

Total, %						33
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FOOD WASTE

	2019	2018	2017	2016	2015
Proportion of purchased materials, %	1.73	1.90	1.97	1.52	2.36

The food waste proportion of purchased food raw materials has reduced since 2015.

Sent to anaerobic digestion/biogas production, tonnes	273,651
Animal feed and reprocessing, tonnes	106,580
Donations to charity, tonnes	1,640

IMPACT ON SUSTAINABLE DEVELOPMENT GOALS AND TARGETS



6.3.1 Proportion of wastewater safely treated

6.4.1 Change in water-use efficiency over time



7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

7.3 By 2030, double the global rate of improvement in energy efficiency



12.2 By 2030, achieve the sustainable management and efficient use of natural resources

12.3 By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses

12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse



13 Take urgent action to combat climate change and its impacts

13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

FOOD SAFETY

POLICY/AMBITION

As a global food company, food safety is key to Arla. It is identified as our most material aspect by internal as well as external stakeholders. We are committed to never compromise the safety, quality or compliance of food and feed. This commitment requires everybody to understand their responsibility and importance in delivering safe and good products to our customers and consumers.

IMPACT ON SOCIETY

Unsafe foods pose serious risks to consumers' health. Food safety is therefore important for the general health, daily life, economic development, and social stability in a society. Arla's role is to ensure that our products are safe for consumers to eat and drink, and that the content of the product is clearly labelled on the packaging.

IMPACT ON ARLA

Food safety incidents can pose a serious business risk. Incidents can impact customer and consumer trust negatively and may also involve legal risks and severely damage Arla's reputation. Food safety problems can also lead to reduced production efficiency, increasing food waste along the value chain.

TARGETS

No discard of milk caused by antibiotic-residue.
No unsafe products sent to market – no recalls.

PROGRESS

PRODUCT RECALLS	2019	2018	2017	2016	2015
Recalls	4	2	10	7	6

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

Even though the number of product recalls was higher in 2019 than in 2018, we have kept a relatively low level of product recalls compared to the years before. Besides following the number of product recalls, we also monitor a number of other factors including other product incidents than recalls; these show a very good trend verifying our continuous efforts to improve quality and safety and prevent failures. Decisions on whether to recall a product from the market will always be taken based on consumer safety and fulfillment of product quality expectations.

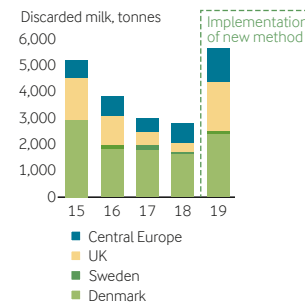
Sourcing raw milk quality

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

Cows maybe treated with antibiotics when they are ill. We have procedures to prevent milk from treated cows reaching the consumer. This milk is discarded at the farm during the treatment period and for a period afterwards.

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

We have during 2019 improved the sensitivity of the quality control testing on delivery at dairies. With this new method we are able to detect even lower levels of antibiotics, which is reflected in the statistics. The improved testing gives us better possibilities for driving continued improvements at farm level.



IMPACT ON SUSTAINABLE DEVELOPMENT GOALS AND TARGETS



2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round

NUTRITION

POLICY/AMBITION

Access to adequate, affordable and healthy food is a basic human right, and we want to provide high quality products that match consumers' nutritional needs around the world. Our Arla® Nutrition Criteria are the guiding principles that support the development of healthier Arla® branded products. The nutrition criteria secure the content of beneficial dairy protein and calcium, while limiting the amount of added sugar, salt and fat.

IMPACT ON SOCIETY

One of the most important factors for a healthy life is our diet. Physical as well as cognitive health through all stages in life depend on quality nutrition. By offering a wide range of nutritious products for different needs, Arla contributes to healthy eating patterns as well as addressing different aspects of malnutrition, and thereby supporting more prosperous societies.

IMPACT ON ARLA

Contributing positively to healthy and sustainable diets is important to build Arla's reputation and responsible growth, and key to fulfill stakeholder expectations on Arla.

TARGETS

Arla® Nutrition Criteria: 95 % of Arla® branded products fulfill the criteria in 2020.

Affordability: In 2020 increase market penetration by 2 %, reaching 71.4 million lower income consumers in Nigeria and Bangladesh (defined as segment D and below, based on national SEC segmentation). Market penetration rate based on Kantar Worldpanel and population data from World Bank.

PROGRESS

Arla® Nutrition Criteria: Currently 90 % Arla® branded products fulfill the criteria. This is a decline in 1 % since 2018, as the consumption of liquid milk has decreased.

Affordability: Currently we reach 70 million lower income consumers in Nigeria and Bangladesh, based on data from Kantar Worldpanel and population data from World Bank.

IMPACT ON SUSTAINABLE DEVELOPMENT GOALS AND TARGETS



2.2 By 2030, end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons



3.4 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being

HEALTH & SAFETY

POLICY/AMBITION

Our colleagues are key to the success of our business. Our overall ambition is to provide all colleagues with safe and healthy working conditions. We are committed to preventing accidents, injuries and work-related illnesses. We apply a systematic approach to setting targets, tracking progress and work in close dialogue with colleagues to mitigate problems and reduce risks.

IMPACT ON SOCIETY

We have a complex and long value chain and offer a large variety of jobs across geographies and societies. One part of our license to operate is our ability to ensure safe and healthy working conditions.

IMPACT ON ARLA

Not safeguarding the health and safety of our colleagues poses a business risk to Arla in terms of loss of efficiency, profitability and the opportunity to attract competent colleagues. Further, the ultimate risk related to safety is serious injuries and fatalities, which pose business risks such as legal action, reputational damage and loss of license to operate.

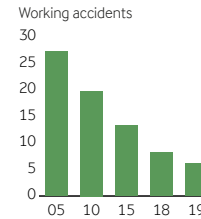
TARGETS

Our target is zero work accidents.

PROGRESS

The diagram shows number of work accidents involving more than one day's absence per million working hours.

Our Senegal site is not yet fully integrated in our reporting.



IMPACT ON SUSTAINABLE DEVELOPMENT GOALS AND TARGETS



8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment

DECENT WORK

POLICY/AMBITION

Diversity is key to the success of the business. Arla's policies do not differentiate between men and women when it comes to promotion opportunities or remuneration. We want to ensure a workplace with a diverse workforce, characterised by mutual respect and trust, promoting equal opportunities allowing colleagues to live up to their full potential. Our policies on Human Rights, Diversity and Anti-harassment governs how related issues are handled in a structured manner. Further, our Works Councils, at both a local and global level, help secure workplace decisions are made in the best interests of both colleagues and company.

IMPACT ON SOCIETY

We recognise our responsibility to respect basic human rights in the workplace and across markets, to contribute to sustainable societal development. We want to ensure that both current and future colleagues are treated in a fair non-discriminatory manner, which will in turn support prosperous societies.

IMPACT ON ARLA

We respect basic human rights in the workplace by ensuring an open inclusive dialogue, taking the perspectives and innovative approaches of people with diverse backgrounds into account. This approach mitigates significant business risks to Arla, as well as the risk of legal actions and reputational damage.

TARGETS

Zero discrimination, harassment including sexual harassment and bullying. The ambition is that no team should consists of more than 70 % of the same gender, age group or nationality.

PROGRESS

Diversity statistics for teams are calculated monthly and communicated to the business.

GENDER BALANCE, FEMALE %	2019	2018	2017	2016	2015
Directors and above	26	23	22	22	21
Vice president and above	18	14	12	16	16

There are significantly fewer women than men among our top managers. Only 18 % of vice presidents and senior vice presidents are female, which is far from the 27 % among all colleagues. For information about diversity at Board level, see Arla's Annual Report.

In general women are underrepresented in the blue collar workforce of Arla, and to a lesser extent in the white collar workforce as well.

IMPACT ON SUSTAINABLE DEVELOPMENT GOALS AND TARGETS



5.1 End all forms of discrimination against all women and girls everywhere

5.2 Proportion of women in managerial positions



8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value

8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms



17.9 Enhance international support for implementing effective and targeted capacity-building in developing countries to support national plans to implement all the sustainable development goals, including through North-South, South-South and triangular cooperation

RESPONSIBLE SOURCING

POLICY/AMBITION

Our ambition is for our preferred suppliers to follow our code of conduct for suppliers, which governs environmental, social and human rights aspects. Furthermore, to support a more sustainable production of raw materials with particular challenges, we have sourcing policies for soy, palm oil and cocoa.

IMPACT ON SOCIETY

Sourcing of both goods and services is identified as having important environmental, socio-economic and human rights' impacts on societies. We acknowledge our opportunity to influence suppliers, and thereby also societies, through our demands on sustainable and responsible business practices.

IMPACT ON ARLA

A well-functioning supply chain, with sustainable and responsible business practices, is key to our production, profitability and reputation.

TARGETS

All preferred suppliers to sign our code of conduct for suppliers.

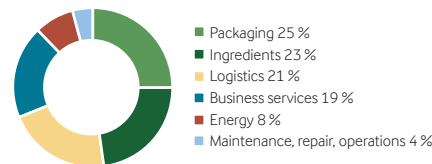
100 % responsible sourcing of palm oil, soy and cocoa, defined as certified products according to internationally recognised third party certification systems. Palm oil ingredients must be certified according to the standard of Round Table of Sustainable Palm Oil (RSPO), segregated certified. Soy in animal feed must be certified according to the standards organic, ProTerra or Round Table for Responsible Soy (RTRS) or covered with RTRS credits. Cocoa must be UTZ-certified for Arla® branded products and Cocio.

PROGRESS

RESPONSIBLE SOURCING

Preferred suppliers	1,465
Preferred suppliers have signed our code of conduct for suppliers	93 %
Supplier audits with a focus on CSR and food safety have been performed. This is a 21 % increase compared to 2018, due to an increased number of tenders and new suppliers.	51
Share of certified soy	100 %
Share of certified palm oil*	98.5 %
Share of certified cocoa	100 %
External spend managed by the procurement department	83 %

* 1.5 per cent of the palm oil use was covered by RSPO-credits due to lack of availability for segregated certified products in some markets.



External spend

The diagram shows the external spend handled by Arla's procurement department, divided across product and service categories. Our 10 largest suppliers account for 17 % (18 % in 2018) of our total external spend.

In 2019, 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), Ørsted (energy), Superfos (packaging materials and machinery) and Dentsu Aegis Network (media).

IMPACT ON SUSTAINABLE DEVELOPMENT GOALS AND TARGETS



2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment

2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality



6.3.1 Proportion of wastewater safely treated

6.4.1 Change in water-use efficiency over time



8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms

8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment



12.2 By 2030, achieve the sustainable management and efficient use of natural resources

12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment



13 Take urgent action to combat climate change and its impacts

13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries



15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally

LEGAL COMPLIANCE

POLICY/AMBITION

Arla is committed to complying with applicable legislation and regulation in all the countries in which we operate. We develop our policies to capture relevant legislation and provide training for employees in policies and processes relevant for their job function, and we track and act upon non-compliance.

IMPACT ON SOCIETY

In order to contribute to a sustainable societal development, it is important that Arla complies with laws and regulations in general.

IMPACT ON ARLA

There are multiple business and reputational risks associated with non-compliance to laws and regulations in general.

TARGETS

No fines or sanctions – to comply with legislation and regulation.

PROGRESS

GDPR

In order to ensure continued GDPR compliance, we have initiated activities to further expand our internal compliance program, including updating of privacy policies and guidelines; conducted mandatory GDPR training for new employees as well as additional training activities for relevant employees; taken additional steps to ensure that relevant data protection agreements are concluded when engaging new suppliers and business partners; implemented a stronger process for managing rights of data subjects and data breaches.

PROGRESS

DATA PRIVACY

Number of incidents of non-compliance with regulations resulting in fines	0
Number of incidents of non-compliance with regulations resulting in non-monetary sanctions	0

COMPETITION LAW TRAINING

Number of colleagues trained face-to-face	698
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SUBSTANTIATED COMPLAINTS CONCERNING BREACHES OF CUSTOMER PRIVACY

0

NUMBER OF INCIDENTS OF NON-COMPLIANCE WITH REGULATIONS AND/OR VOLUNTARY CODES RESULTING IN FINES

Incidents regarding product information and labelling	0
Decisions regarding marketing	0

SIGNIFICANT FINES AND NON-MONETARY SANCTIONS FOR NON-COMPLIANCE WITH LAWS AND/OR REGULATIONS IN THE SOCIAL AND ECONOMIC AREA

0

SIGNIFICANT FINES AND NON-MONETARY SANCTIONS FOR NON-COMPLIANCE WITH LAWS AND/OR REGULATIONS IN THE ENVIRONMENTAL AREA

0

ANTI-CORRUPTION & BRIBERY

POLICY/AMBITION

Conducting our business in an honest and ethical manner is key to maintaining our license to operate, our reputation and responsible growth. Arla's Anti-bribery policy sets out our zero-tolerance approach to bribery and corruption and our commitment to upholding all relevant laws in all jurisdictions in which we operate. Gifts and hospitality to and from third parties are controlled by rules and must be registered.

IMPACT ON SOCIETY

Bribery and corruption present risks to societies by undermining trust in public institutions and the mishandling of resources. Where funds and priorities are diverted to activities that will benefit corrupt individuals, fair competition is undermined. With our global presence, and long and diverse value chain, we impact societies across the world, and have an opportunity to contribute to positive societal development by honest and ethical business conduct.

IMPACT ON ARLA

Any kind of involvement in bribery or corruption would present risks of heavy legal fines and loss of business opportunities. A finding of involvement in bribery would be damaging to our reputation and impacts the business environment.

TARGETS

Zero corruption and bribery, zero facilitation payments.

PROGRESS

Strengthened processes

We continuously strengthen our internal controls and policy monitoring activities, to ensure compliance to our Code of Conduct and policies.

Payments fulfill the 4-eye principle, meaning the approval of two people. Currently we are looking into further strengthening this process to manage risks.

Reporting on Whistleblowing function

Since its inception in 2012, Arla has received 121 reports from its whistleblowing function. In 2019, the whistleblowing function received 25 reports of which 13 led to further investigation. Depending on the outcome of the investigation, appropriate measures have been taken.

During 2019 the reports have delivered additional input to the improvement of internal processes, and as an example the purchase to pay process is one of the areas where we will continue to strengthen compliance training.

9 reports could not be handled in the whistleblower system due to legal reasons. The reporter was informed about alternative reporting channels.

3 reports were tests made during external audits to check that we have a system in place.

IMPACT ON SUSTAINABLE DEVELOPMENT GOALS AND TARGETS



16.5 Substantially reduce corruption and bribery in all their forms

CONSOLIDATED ENVIRONMENTAL, SOCIAL AND GOVERNANCE DATA

ESG figures in the following section were chosen according to their materiality, and following the most recent reporting guidelines published by the Danish Finance Society/CFA Society Denmark, FSR – Danish Auditors, and Nasdaq. With the chosen figures Arla aimed at providing a complete picture of the company's impact on the environment, how employees are treated and how the quality of products is safeguarded. Maturity and quality of data was also taken into consideration when selecting the figures presented in this section. We are further inspired by the GRI indicators.

Arla's biggest environmental impact relates to the indirect, scope 3 CO₂e emissions, more precisely to milk production on farm (around 86 % of total CO₂e emissions). From 2020 Arla is going to enhance scope 3 reporting by accelerating data collection on farms through the company's new global Climate Check programme. For more information go to page 13.

In 2019 Arla's emissions targets were officially approved by the Science Based Target initiative as aligned with climate science.

Our science-based targets:

- Reduce greenhouse gas emissions with 30 % for scope 1 and scope 2 in absolute terms from 2015 to 2030
- Reduce greenhouse gas emissions with 30 % for scope 3 per kg of raw milk from 2015 to 2030

Beyond the science-based targets, in 2019 Arla also announced the ambition to produce carbon net zero dairy by 2050.

The methodology used for calculating emissions on farm level is constantly evolving. For example, currently carbon sequestration on farms is not included in the method and thus the figure presented here is a conservative estimate. Developments in methodology will also be reflected in restatements of baseline.

This ESG table relates to Science Based Targets, for follow up on Arla's 2020 Environmental strategy, please see page 42.

For further information about Arla's accounting principles and relevant notes, please read Arla's Annual Report.

		2019	2018	2017	2016	2015	GRI
ENVIRONMENTAL							
CO ₂ e scope 1	Mio. kg	470	497	498	483	535	305-1
CO ₂ e scope 2	Mio. kg	275	263	313	334	342	305-2
CO ₂ e scope 3	Mio. kg	17,758	18,073	18,217	18,292	19,802	305-3
Total CO₂e	Mio. kg	18,503	18,834	19,028	19,110	20,679	-
Progress towards 2030 CO ₂ e reduction target (scope 1 and scope 2)		-15 %	-13 %	-8 %	-7 %	-	-
Progress towards 2030 CO ₂ e reduction target (scope 3 per kg milk and whey)		-7 %	-7 %	-6 %	-6 %	-	-
Renewable energy share	%	33 %	27 %	24 %	21 %	19 %	302-1
Solid waste in production	Tonnes	33,713	34,600	32,608	32,192	33,106	306-2
SOCIAL							
Full time equivalents	average	19,174	19,190	18,973	18,765	19,025	102-7
Gender diversity for all employees	% of females	27 %	27 %	26 %	26 %	27 %	405-1
Gender diversity in management	% of females	26 %	23 %	22 %	22 %	21 %	405-1
Gender diversity in top management	% of females	29 %	29 %	29 %	29 %	13 %	405-1
Gender pay ratio, white collar	male to female	1.05	1.06	-	-	-	405-2
Employee turnover	%	12 %	12 %	11 %	14 %	-	401-1
Food safety	Number of recalls	4	2	10	6	7	-
Accident frequency	Per 1 Mio. working hours	6	8	10	11	14	403-2
GOVERNANCE DATA							
Gender diversity Board of Directors*	% of females	13 %	13 %	12 %	7 %	7 %	405-1
Board meeting attendance	%	96 %	99 %	99 %	98 %	97 %	-

* Including all board members, those elected by the general assembly, employee representatives and external advisors, the share of females was 20 % as of 31 December 2019.

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.

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.

WE SUPPORT



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.

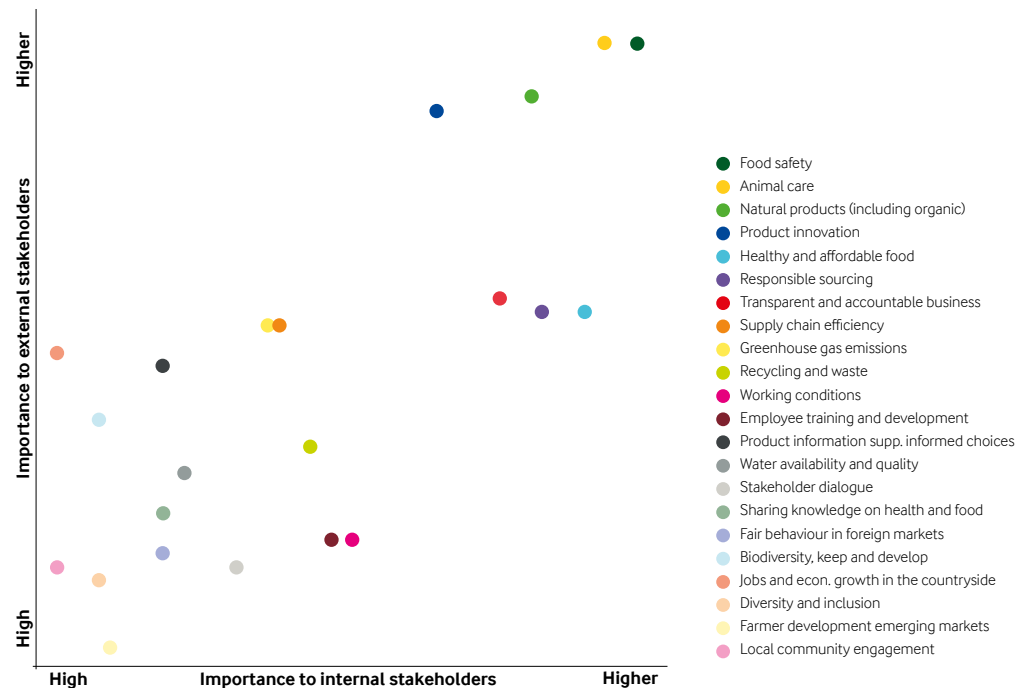
MATERIALITY ANALYSIS

Through our materiality analysis, first performed in 2014 and updated in 2017, we aim to identify material aspects in the views of our main stakeholders, and use this knowledge to better prioritise our activities.

External stakeholders including consumers, customers, owners, non-profit organisations and financial institutions in Denmark, Sweden, the UK and Germany/Central Europe have taken part in the analysis. All stakeholder groups have received a survey and been asked to prioritise 22 defined areas of interest. Moreover, a group of non-profit organisations were interviewed to get a deeper understanding of their views and opinions.

In addition to prioritising 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 2017, we have identified food safety, animal care and natural products as key areas of focus. These are followed by product innovation, healthy and affordable food and responsible sourcing.



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