

# ACCELERATING SUSTAINABILITY ACTIONS IN CHALLENGING TIMES



CORPORATE  
RESPONSIBILITY  
REPORT

2020



# ABOUT THIS REPORT

This report describes how we are progressing in our corporate work with social, ethical and environmental commitments and results. We aim to provide transparent and balanced information about our short and long term strategies and goals, and about the impact of our activities on people and planet.

## 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 Ambitions & Progress data section we describe our ambitions and show our progress towards our sustainability targets for the financial year 2020. The scope of this report 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.

Due to the crisis caused by the COVID-19 pandemic and the rapid shift in focus for many

stakeholders, we decided to postpone the planned full update of our materiality analysis. Instead we did a limited consultation with some of our key internal and external stakeholders. This enables us to capture material issues and potential changes since our last full update, which in combination with continuous dialogue with selected stakeholders, provide valuable input to improving the scope and focus of our work, and our reporting and communication processes. Furthermore, it serves as a basis when relating to the Global Reporting Initiative (GRI) guidelines.

For further information and accounting principles, please visit [arla.com](http://arla.com) and read Arla's Annual Report 2020.

We welcome any comments, suggestions or questions you may have with respect to this report. Please reach out to [csr@arlafoods.com](mailto:csr@arlafoods.com), and stay updated on [arla.com](http://arla.com) or our local web-sites or social media.

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# EMBRACING SUSTAINABLE CHANGE IN TOUGH TIMES

Sustainability remains top of Arla's agenda and we have made great efforts to meet important milestones in our transition towards even more sustainable dairy production.

During 2020, COVID-19 has been a predominant focus of our attention, and we have relied heavily on our cooperative democracy to mitigate the crisis and disruption caused by the pandemic both for our business and everyday life on our farms, when safeguarding employees and families were added to our other responsibilities.

Maintaining food supply has been a critical requirement. As farmer-owner, and chair man of Arla, I am proud of how we, as a dairy cooperative, have risen to the challenge. We have succeeded in maintaining focus on our core purpose, which is producing and delivering healthy, nutritious and affordable dairy products to our customers and consumers, despite the pandemic closing down many countries around the world.

For me, this immediate collective response summarises our cooperative character and the commitment we have made for many years to responsible citizenship. It was undoubtedly the biggest single social contribution we made in 2020, though you will also read about others as you go through this report.

As dairy farmers we operate in tough cost environments, in which many struggle to make ends meet in their production, but we have not wavered from our commitment to sustainability and becoming carbon net zero by 2050, and we have remained fully committed to contributing to the realisation of the UN Sustainable Development Goals.

In 2020, we made a particularly important stride forward on our transition towards even more sustainable dairy production, when we implemented landmark programmes that will enable us to

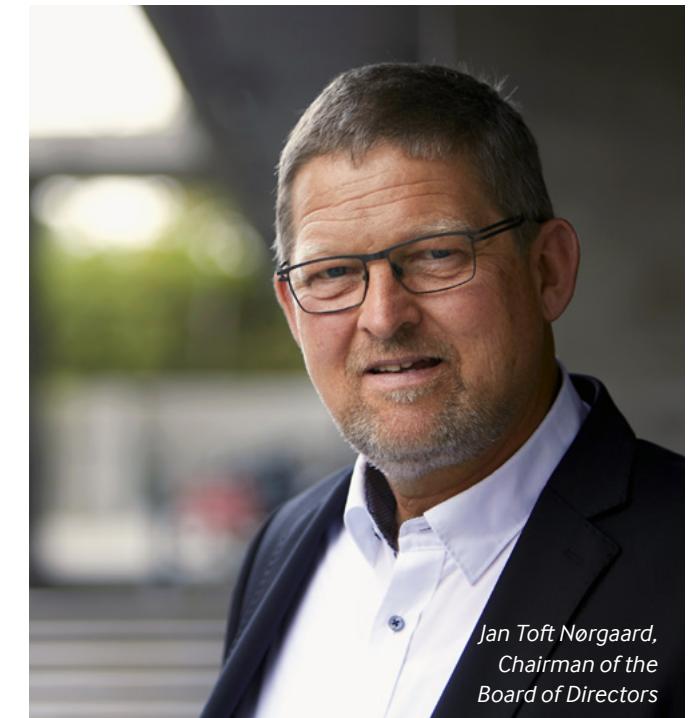
accumulate one of the world's largest sets of externally verified climate data for dairy farming.

With the introduction of Climate Checks on our owners' farms and the roll out of our updated Arlagården® quality and farm management programme, we continue to develop our production in a responsible and sustainable way and enhance our commitment to being open and transparent about our actions.

Looking forward, we will evolve our scope to build on our important work on biodiversity, explore the potential of regenerative livestock farming and maintain our leadership in organic dairy production.

We will not do this alone. We will collaborate with the scientific and academic communities and other leading players in the farming and food industry.

As a cooperative, our mission is to secure the highest value for our farmer owner's milk, to this we add the perspective of doing so in a sustainable and responsible way. This report will give you an insight into how we work in our core markets and internationally and give you examples of how we join forces with fellow farmers around the world to support the development of a sustainable global dairy chain and create win-win partnerships.



*Jan Toft Nørgaard,  
Chairman of the  
Board of Directors*

**“WE HAVE RELIED HEAVILY ON OUR COOPERATIVE DEMOCRACY TO MITIGATE THE CRISIS AND DISRUPTION CAUSED BY THE PANDEMIC”**

# CONTINUED SUSTAINABILITY ACTION DESPITE COVID-19 DISRUPTION

In the decade of action, our commitment to invest in sustainability has never been more firm and our pipeline of initiatives has never been broader.

2020 was indeed a year that dramatically changed daily life, business plans and political agendas across the world. Despite challenging circumstances at work as well as at home, both farmers and colleagues in Arla managed to uphold a steady flow of products to our customers and consumers, while doing our best to help limit infections among us and in society as a whole.

We are proud to have played an active role during the pandemic, while at the same time to have delivered a relatively strong performance and not least continued sustainability action. New activities have been implemented across farms, operations, packaging and logistics in close collaboration with customers and other partners, and steps have been taken to strengthen our human rights work and our transparent reporting.

In 2020, with considerable efforts from our owners, we reached an important milestone by implementing our on-farm Climate Checks and an updated Arlagården® farm programme. We now have fully aligned audit and reporting methods for all 9,406 Arla farmers across seven countries, which will provide comprehensive and externally verified data on animal welfare and climate impact. The data will be used to develop new data-based solutions to help dairy farmers take further next steps to reduce emissions and strengthen farm management.

Unfortunately the immediate and long-term economic effects of COVID-19 hit vulnerable populations hardest. The demand for affordable nutrition in low-income regions has increased in 2020 and we have intensified our focus on making products such as nutrient-dense milk powder even more affordable and accessible in these markets.

The pandemic has only deepened the importance of building reliable local supply chains that ensures safe nutrition to the local population and livelihoods for small-scale dairy farmers. Our engagement and investments in developing a sustainable local dairy sector in Nigeria, Bangladesh and Indonesia together with private and public partners have been enforced in 2020 and will continue in the years to come.

Across the world, scientist, governments, NGOs and businesses agree that sustainable development is needed more than ever and that green recovery is the appropriate and logical response to the economic damages caused by the pandemic. The 2030 Agenda for Sustainable Development set out by the United Nations has reached its first five years of implementation in 2020 and with 10 years left to achieve the SDGs, we are in the decade of action.

In Arla, our commitment to invest in sustainability has never been more firm and our pipeline of initiatives has never been broader. With the capabilities and resilience of our colleagues and farmers, we will support and contribute to the green recovery with focus on reducing our emissions from farm to fridge, providing high-quality and affordable nutrition and helping to develop the local dairy sector in key vulnerable markets.



Peder Tuborgh,  
CEO of Arla Foods

**“WITH THE CAPABILITIES AND RESILIENCE OF OUR COLLEAGUES AND FARMERS, WE WILL SUPPORT AND CONTRIBUTE TO THE GREEN RECOVERY”**

# GOVERNANCE



Arla is a dairy cooperative, and is as such guided by the cooperative philosophy where earnings are equally split, and where one member has one vote. We are owned by dairy farmers in seven European countries, and these farmer owners are also suppliers of our most important raw material.

# 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 Code of Conduct is approved by Arla's Board of Directors, who is responsible for setting Arla's strategic direction. Arla's Executive Management Team 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.

## OWNERS AND SUPPLIERS IN THE DEMOCRATIC ORGANISATION

In Arla, the suppliers of our most important raw material - milk - are also our owners. All our farmer owners have the opportunity to take part in the company's democratically governed decision process, and as suppliers they must adhere to the company's demands on responsible milk production.

### 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

Arla's Sustainability Board governs the implementation of the sustainability strategy and is anchored in the top management with key competences across functions. During 2020, the Sustainability Board has set goals for 2025, and initiated actions for 2021. Goals and activities are specified for our eight workstreams: Farm, Operations, Logistics, Packaging, Food waste, Health, Inspiration and International dairy development. Other relevant topics such as responsible sourcing are also discussed. All is 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 relation to farm management are discussed and agreed with our Board of Directors.

To further accelerate the sustainability agenda in Arla, we have included sustainability perspectives in our investment processes and increased our focus on change management. Investments aimed at improving sustainability performance often carry a slightly longer payback time, and to manage this a climate-adjusted payback is calculated for all Arla investments above 1 million EUR. This results in

a shorter pay-back time for investments reducing greenhouse gas emissions and a prolonged payback time for investments increasing them. The process provides transparency of potential negative impacts of changes in production, improving the strategic decision making process.

### BUSINESS CONDUCT

A strong part of Our Responsibility is a responsible business conduct, ensuring we are respecting human rights, and 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.

### 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.

# GOVERNANCE FRAMEWORK

## COOPERATIVE GOVERNANCE

Arla is a cooperative owned by 9,406 dairy farmer owners in seven countries: Denmark, Sweden, UK, Germany, Belgium, Luxembourg and the Netherlands. All farmer owners have the opportunity to influence important decisions. Farmer owners elect members to the Board of Representatives, which is the supreme decision making body, and, which in turn elects the Board of Directors. The primary objectives of these two democratically elected boards are to develop the ownership base, safeguard the cooperative democracy, embed decisions and develop leadership competencies amongst farmer owners, and set the overall strategic direction for Arla. The company's governance is shared between these elected bodies and the Executive Management Team (EMT).

**Chairman of the Board of Directors:** Jan Toft Nørgaard

## CORPORATE GOVERNANCE

Arla's corporate governance is shared between the Executive Board, appointed by the Board of Directors, and the Board of Directors itself. Together they define and ensure adherence to the company's strategic direction to ensure long-term growth of the business, supervise management and ensure compliance. The Executive Management Team is appointed by the Executive Board. The EMT is responsible for Arla's day-to-day business operations, preparing strategies and planning future operational structure.

**Employees:** Arla has 20,020 full time equivalents (FTE) globally, compared to 19,174 last year. Employees are represented both in the Board of Directors and Board of Representatives.

**CEO:** Peder Tuborgh

For further details, please see Arla's Annual Report 2020

## COOPERATIVE GOVERNANCE

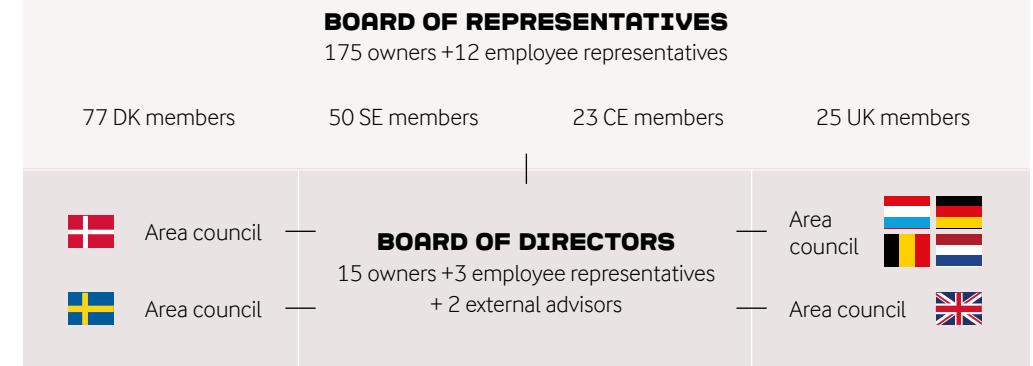
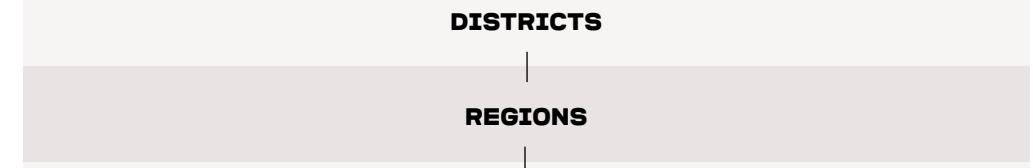


### OWNERS

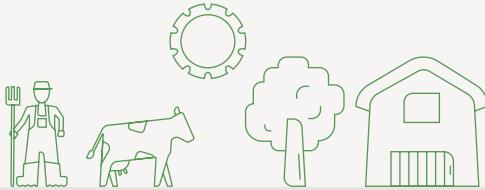
### LOCAL REPRESENTATIVES

### BOARD AND COUNCILS

## CORPORATE GOVERNANCE

# OUR BUSINESS MODEL



## OWNERS & COWS

Arla farmers are at the core of our business. As both raw milk suppliers and owners of the cooperative, they are leading the way making dairy farms more sustainable.

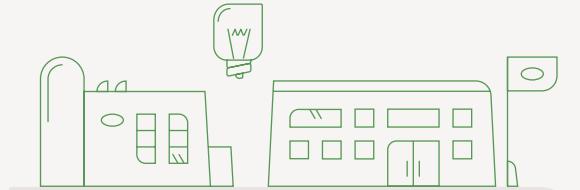
- We have 9,406 farmer owners in seven countries, responsible for over 1.5 million cows.
- Animal welfare is key to Arla and we provide digital tools to our farmer owners to constantly track the well-being of their herds.



## MILK COLLECTION

Arla collection trucks drive millions of km each year – and we continuously optimise logistics through investments and route planning.

- We collect 13.7 billion kilos of raw milk each year.
- We aim to switch to fossil-free fuel in our trucks. This is already the reality in our Swedish business.



## PRODUCTION, PACKAGING & INNOVATION

We provide a safe and healthy working environment. Our 20,020 colleagues work to ensure world-class food safety standards, resource efficient and sustainable production, transportation and administration.

- We process milk at our 60 sites, where 35 per cent of the energy use comes from renewable sources.
- Our innovative packaging solutions focus on recyclability, less and better plastics and renewable materials



## CONSUMERS & WASTE MANAGEMENT

We inspire good food habits and support our consumers in making informed choices. It is important to us that our products have the least possible negative impact on the environment.

- We provide healthy, accessible nutrition to millions of people around the world.
- We provide information and inspiration online and on products about how to reduce food waste and recycle packaging.



## CUSTOMERS

We use our knowledge and dedication to meet the needs of customers around the world. We take market expectations seriously and transform them into actions in our supply chain.

- We have an ambitious innovation agenda and engage in external research collaborations.
- We are continuously in close dialogue with our customers about expectations and initiatives.

# OUR SUSTAINABILITY STRATEGY

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



# OUR SUSTAINABILITY STRATEGY

The global population in need of nutritious food is growing and the Earth's ecosystems are already under pressure. We take responsibility for moving dairy production and consumption in a more sustainable direction now and for future generations.



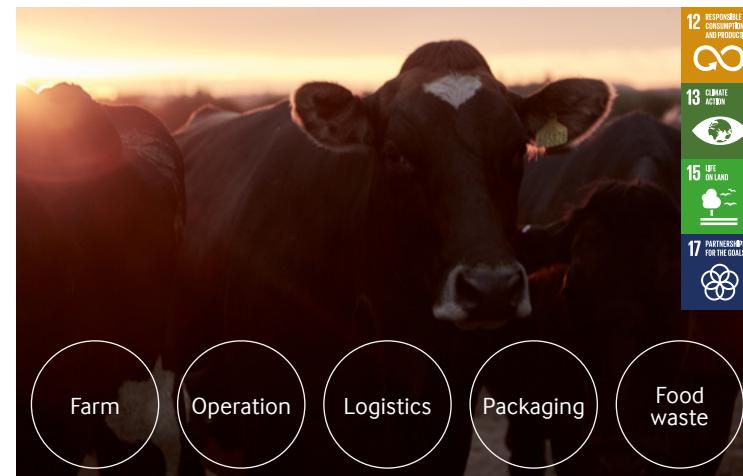
Our new sustainability strategy, launched in 2019, focuses on improving the environment for future generations, and increasing access to healthy dairy nutrition and inspiring good food habits. The strategy is founded on our commitments to respecting human rights and ensuring responsible business practices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

We have concluded and followed up on our targets in our 2020 strategies and dedicated a separate page for these results in our Ambitions & Progress data section, see page 44. Follow up on our new strategy and targets can also be found in this section, and our consolidated environmental, social and governance data are presented on page 56.

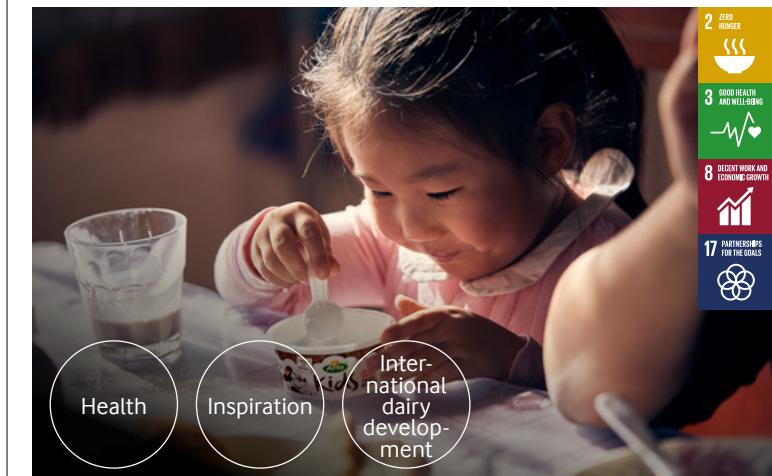
## STRONGER PLANET

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)



A photograph of a herd of cows in a field at sunset. The sky is filled with warm orange and yellow hues. The cows are dark-colored, with one cow in the foreground having a white patch on its back and a yellow ear tag with the number 605826. They are looking towards the horizon.

# STRONGER PLANET

We are striving to build a better future for generations to come. We work with every step in our value chain from cow to consumer because we want to contribute to a more resilient planet. Stronger Planet is one of the pillars in our sustainability strategy. For our products to be part of a sustainable diet, we must protect the environment.

Farm

Operation

Logistics

Packaging

Food waste

# OUR ENVIRONMENTAL AMBITION

Together with our 9,406 farmer owners we launched our ambitious 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 and whey. The Science Based Targets are aligned with climate science and define a clear path to further improve Arla's climate performance.

## OUR AMBITION COVERS THREE THEMES

### Better climate

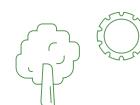


### Clean air & water



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



- Optimise feed for cows
- Optimise use of manure and fertilizer
- Boost carbon capture in the soil on farms

### Production and logistics



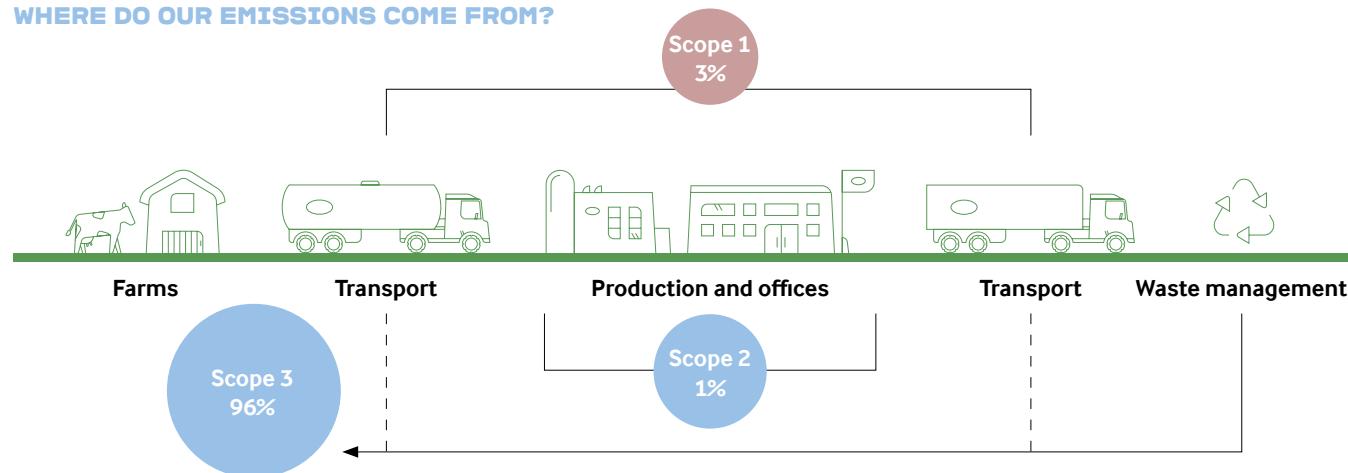
- Improve efficiency in energy and fuel use
- Increase share of renewable energy and fuels
- New technologies

### Packaging and food waste



- Improve packaging recyclability
- Increase use of renewable and recycled materials to reduce use of virgin plastics
- Reduce food waste

## WHERE DO OUR EMISSIONS COME FROM?



**Scope 1** emissions relate to the activities under our direct control. They include transport with Arla's vehicles, and emissions from Arla's production facilities.

**Scope 2** emissions are the indirect emissions caused by the energy that Arla purchases, i.e. electricity, steam, heating or cooling.

**Scope 3** emissions are the indirect emissions from purchased goods and services (e.g. raw milk from our farmer owners, packaging and external transport), but also from waste handling (e.g. recycling) at our sites.

Read more about Science Based Targets on page 17.

# FARM – TOWARDS MORE SUSTAINABLE DAIRY FARMING

Our farmer owners are among the best producers in the world when it comes to low climate impact per kilo of milk. Collectively, their carbon footprint is about half of the world's average, and we recognise our responsibility to reduce farm level emissions further. Together with our farmer owners, we have set ambitious Science Based Targets for 2030 and we have a carbon net-zero ambition for 2050.

Our new global Climate Check tool, introduced in 2020, has now been implemented by 8,126 Arla farmers, representing 93 per cent of our farmer owners and 96 per cent of our owner raw milk volume. The tool helps farmer owners to identify emissions on farm and provides a clear picture of the actions they can take to reduce emissions further. It's one of the ways we are supporting our farmer owners to deliver reductions of three per cent per year, on average, in order to reach our targets.

All our farmer owners provide information covering aspects including herd size, housing, milk volumes, feed usage and feed production, fuel usage, as well as energy and renewable energy use to a shared data system. The data is verified by an external advisor who visits the farm to point out areas where the farmer is doing well, and to give detailed advice on action plans to improve efficiency, reduce emissions and environmental impact, and improve animal welfare.

This information is enabling us to build one of the world's largest sets of externally verified dairy farming climate data. It will be the solid foundation for benchmarking, knowledge sharing across the dairy industry and correlation analysis.

Farmer owners who signed up to the Climate Check in 2020 received a financial incentive of one eurocent per kilo of milk, this will continue throughout 2021. Due to COVID-19, the project has been delayed, however, by the end of March 2021, we expect all Arla owners, who have signed up for a Climate Check to have completed it.

## CLIMATE CHECKS IN PRACTICE

Learn more on how Arla's climate check works, and hear from our farmer owners what they focus on in their work to create a more sustainable dairy production. For more information about climate work and climate checks on farms, please visit [arla.com/sustainability](http://arla.com/sustainability)

## DEVELOPMENT OF THE CLIMATE CHECKS

We continuously collect feedback from our farmer owners and advisors to improve the Climate Checks, advisory meetings, and online solutions. During 2020, we have been in close dialogue with our farmer owners, and with key stakeholders such as farm advisory experts who have key competences related to the assessments, benchmarking and engaging in dialogue with each farmer on the strengths and improvement potentials of that individual farm.

During the year, the Climate Check tool has been developed and can easily process the collected data and interactively display an individual farm's results. The results can also be benchmarked against peers. Many checks have been performed at a distance due to the COVID-19 restrictions, making the development of a user-friendly online version crucial.

Arla has also developed and shared a climate lever catalogue that consists of concrete examples of management practices, which

farmers can adopt. The focus is on improving animal health, and on resource efficiency. The launch of the catalogue was supported by webinars using experts from the different regions.

## CLIMATE CHECKS

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

We are addressing the lack of a standardised scientific methodology for inclusion of carbon sequestration (capturing and storing carbon in the soil) in carbon footprint calculations in a project with experts and peers. The methodology will be piloted on owner farms in 2021.

# FARM (CONTINUED)

## DATA QUALITY VALIDATION

Arla has a science based approach and follow best-in-class standards regarding data quality. This means we continuously review our ways of working, including our work with the Climate Checks. The validation of input data is key to ensuring the validity of the climate check results. As expected, when we analysed the climate check results, we found a number of outliers that had to be revisited by the advisors.

When methodologies change, there is a need to update the baseline when reporting on progress. In Arla, we set our Science Based Targets using 2015 as the base year. The baseline data used for farm level climate performance was taken from the best available data source across markets, which were national carbon footprint averages. Now as we have more specific data for farm level carbon footprint, we will also revise our 2015 baseline.



## SUPPORTING FARMER OWNERS AND ADVISORS

Onboarding of farmer owners and external advisors has been challenged by the pandemic lock-downs. We transferred physical meetings to online equivalents and training sessions. To engage farmers in the climate reduction journey, farmer owners have been invited to digital onboarding meetings and webinars with external experts. Support has also been provided directly from Arla's member service.

External advisors have been trained in the Climate Check tool and Arla's environmental ambition. Interpretation and validation of data have also been part of the onboarding. Before performing independent checks, new advisors must participate in several climate checks with experienced climate advisor colleagues.

## BIODIVERSITY

Within our environmental ambition, we have a goal to promote on farm biodiversity and access to nature. Although loss of biodiversity is a global issue, it depends largely on local conditions. Environmental factors such as climate, soil and surrounding ecosystems need to be taken in to account as do factors such as historic and present land use. Although measuring biodiversity is challenging, we plan to introduce biodiversity assessments for owner farms in 2021 to develop the approach. We strongly believe in expert stakeholder dialogues and collaboration to develop robust and rational methodology to measure and improve Arla's impact on biodiversity. In February we hosted a biodiversity workshop with external and internal experts.



## ONE PLANET BUSINESS FOR BIODIVERSITY

Arla is engaging in building impact for biodiversity together with industry peers and experts. In 2020, we joined One Planet Business for Biodiversity (OP2B). OP2B is an international cross-sectorial, action-oriented business coalition on biodiversity with a specific focus on agriculture. The coalition is determined to drive transformational systemic change and catalyse action to protect and restore cultivated and natural biodiversity within the value chains. It also engages institutional and financial decision-makers and develops and promotes policy recommendations.

# FARM (CONTINUED)

## QUALITY ASSURANCE ON FARM

Our reviewed and updated quality assurance programme Arlagården® was implemented in 2020. Arlagården® is a comprehensive programme with four key focus areas; milk quality and food safety, animal welfare, climate and nature, and people.

The updated programme has not only added new requirements but also made it compulsory to assess and report animal welfare on a quarterly basis. The indicators used are cow mobility, cleanliness, lesions and body condition. This is reported in our Arlagården® portal and all owners have complied with this requirement. The update reflects our own as well as our customers' and consumers' focus on animal welfare.

To ensure compliance, farmer owners are audited by an external certification body.

In 2020 the audit process was upgraded and harmonised across all owner countries to ensure that external auditors follow the same procedure and assess owners against the same standards. Each year, 30 per cent of all farms are audited. There are also spot checks and extra audits of farms that demonstrate low performance and/or do not submit mandatory data. If a farm fails to meet the requirements in the Arlagården® programme, there are clear and consequential sanction systems.

In 2020, due to COVID-19 and changed auditor set-up, 23 per cent of our farmer owners were audited. This is lower than previous years (36 per cent in 2019, and 50 per cent in 2018). We expect to go back to normal routines when the pandemic is under control.



# FARM – FOCUSING ON ANIMAL WELFARE

In Arla, we strongly believe that all animals should be treated well. Healthy cows that are well cared for produce more nutritious milk in a more sustainable way. Therefore, it is a key focus for Arla to support our owners in constantly improving the health and welfare of their cows.

## ANIMAL WELFARE

Animal welfare is one of the most important aspects of our business. We focus on four key indicators for cow well-being; clean cows with normal body condition, normal mobility and without injuries. In 2020, all of our 9,406 farmers submitted data relating to the welfare of their herds. They answered a questionnaire, covering housing, feeding, grazing and the general well-being of the cows. Farmers complete the questionnaires based on their self-assessment documented in the Arlagården® portal. Unfavourable scores demand actions to address the problems. Unwell cows must receive treatment and medication when necessary.

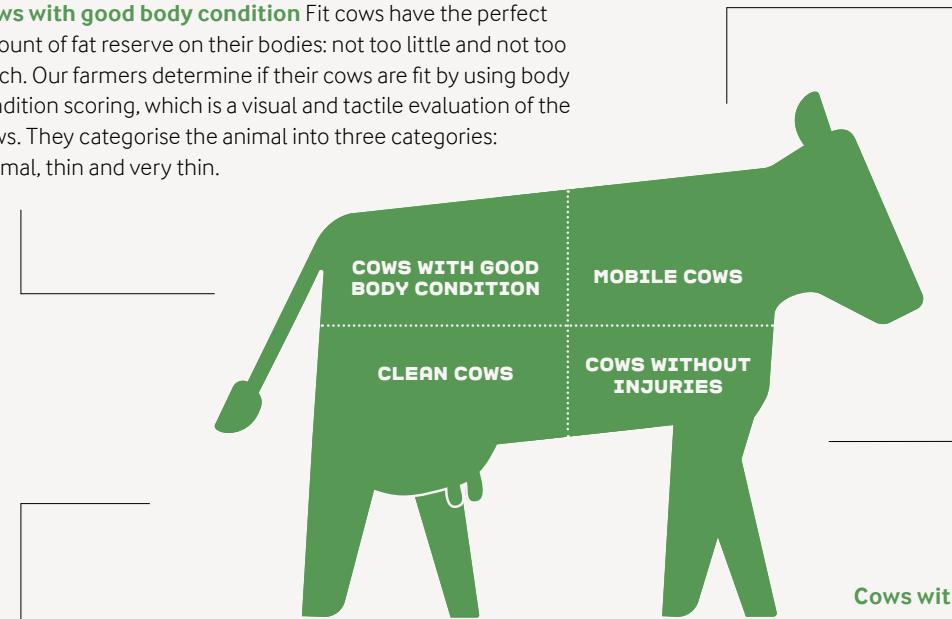
To gain an even clearer picture of animal welfare on farms, we also gather data concerning the average lifespan, mortality and the average age of a cow at first calving from the National Herd Databases of our owner countries.

We know that running a dairy farm is complex. Minor problems can accelerate without the right support and knowledge. That is why we take a preventive approach and are creating a system to enable early detection of problems. When individual farms do not provide sufficient animal care, farmers are required to take appropriate action.

In 2020, we disclose the percentage of farmer owners reporting on animal welfare, and audited farms. Somatic cell count is reported in our ESG table on page 56. From 2021, we will report the results of the animal-welfare questionnaires from audited farms, focusing on the measures we find the most important to work with to improve animal welfare. We are also going to disclose the ratio of audited farmers complying with our animal welfare standards.

**We measure the general well-being of the cows with four indicators, developed based on scientific research into the most common problems with dairy cattle.**

**Cows with good body condition** Fit cows have the perfect amount of fat reserve on their bodies: not too little and not too much. Our farmers determine if their cows are fit by using body condition scoring, which is a visual and tactile evaluation of the cows. They categorise the animal into three categories: normal, thin and very thin.



**Clean cows** have a lower risk of being infected by disease. Farmers assess the cleanliness of the cows by looking at the size of dirt and muck patches on their bodies. Then they categorise the cows into three categories: normal (clean), slightly dirty and dirty.

**Mobile cows** have no problem walking, and no pain in their legs and feet. If mobility is impaired, cows limp, which can be caused by a range of conditions, like disease, poor management and environmental factors. Farmers categorise the cows into three categories: normal, slightly lame, and obviously lame.

**Cows without injuries** An injury on a cow can be a lump, bump, ulcer, sore or coloured area on the skin. Farmers categorise the cows into three categories: normal (without injuries), with small injuries, and with bigger injuries.

# OPERATIONS

In our operations we continue to have high ambitions and clear targets for further reducing greenhouse gas emissions by increasing efficiency and for shifting to renewable energy. In 2020 our fresh milk dairies and four distribution terminals in Denmark became carbon neutral.

## EFFICIENCY AND RENEWABILITY

The Danish carbon neutral sites have reduced their greenhouse gas emissions by investments in efficiency measures and by buying 100 per cent renewable energy and electricity through high-quality certificates of origin from Danish windmills and biogas plants. It is expected that the purchase of renewable electricity and biogas will reduce the greenhouse gas emissions from the dairies by 84 per cent, or 26,000 tonnes of CO<sub>2</sub>e (carbon dioxide equivalents) per year.

We have also invested to reduce our use of natural gas through better use of excess heat. The investments have resulted in a 30 per cent reduction of energy use in the carbon neutral Danish dairies and their terminals. The remaining emissions, which are not yet possible to mitigate, are offset using carbon credits from best-in-class Verified Carbon Standard-certified projects. Transition to more carbon neutral dairies is planned in the coming years.

To calculate the climate impact of our energy use in a credible and robust way, we follow applicable standards. Based on changes in the standards, we will change the way we calculate and report greenhouse gas emissions from energy use from 2020 and onwards. The greenhouse gas emissions from our sites differs according to whether we apply location-based or market-based calculation methods, please see fact box. Please find results in the ESG table on page 56.

## CALCULATING GREENHOUSE GAS EMISSIONS

In our 2020-strategy, we used the location-based method, as described in the Greenhouse Gas Protocol, which is the global standard for corporate climate reporting. This means that the emissions from the average electricity mix in a country are used when calculating the carbon footprint for sites, for example.

The climate impact of electricity use can also be calculated using market-specific emissions, which capture the impact in a more detailed way. The market-based reporting impacts emissions related to the electricity use in our value chain (scope 2 and 3). We adopt the same logic when buying biogas certificates (scope 1 and 3).

Going forward (from 2020 onwards) we will use dual reporting, introducing the market-based method and continuing to use the location-based method to enable transparent tracking of performance.



**SCIENCE  
BASED  
TARGETS**

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

## SCIENCE BASED TARGETS

Arla has set Science Based Targets to significantly reduce our greenhouse gas emissions by 2030. The target for Scope 1 and 2 emissions is a 30 per cent reduction in absolute terms and for Scope 3 emissions, expressed as per kilo milk and whey at farm level, it is a 30 per cent reduction.

In October 2019, the targets were approved by the Science Based Targets initiative as aligned with climate science and 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.

# LOGISTICS

The goal for our work in logistics is to further improve efficiency and to reduce climate impact from our transportation by increasing the share of renewable fuels. Work has also continued to optimise routes, often in dialogue with customers, to maintain service levels while minimising mileage by, for example, changing delivery times.

Commercial initiatives in 2020 led to increased complexity in the transportation of milk from owner farms to the dairies. For example, milk from cows on non-GM (Genetically Modified) feed and milk with higher animal welfare standards, must be segregated throughout the value chain.

The work to increase the share of renewable fuels is continuing across Arla. In Sweden, Arla only uses renewable fuels and it is aiming to increase the use of biogas in the coming years. In 2020, Arla Sweden invested in four new biogas trucks, running on biogas partly based on manure from farmer owners' cows. In the UK, two Arla tankers were adapted to run on biogas in a trial during 2020. Manure from about 500 cows on Arla owner farms was used to power the vehicles. The examples above show how both Arla and our farmer owners contribute to a more circular society.

Across Arla, we continue to be challenged by availability and the price of renewable fuels. We have favourable conditions on some markets, like Sweden while other markets are particularly challenging. Also, biofuels differ in climate impact. While we fulfil our ambition to have 100 per cent biofuels in Sweden, greenhouse gas emissions have slightly increased due to a shift from the biodiesel HVO (Hydrogenated vegetable oil) to one made from rapeseed, RME (Rapeseed oil methyl ester).

Exploring new technologies in logistics is also important. Arla Denmark has introduced the first large electric distribution truck in the Copenhagen area. The vehicle, including its cooling units, is run on 100 per cent renewable electricity from Danish windmills. It is estimated that the vehicle reduces greenhouse gas emissions by

67 per cent, compared to equivalent fossil-fuel transportation. Furthermore, it substantially reduces noise and particle emissions.

## OFFSETTING AIR TRAVEL

From 2020 Arla is off-setting greenhouse gas emissions from company air travel, booked through our corporate travel agency. We use best-in-class carbon credits, from projects certified under the Verified Carbon Standard.

## IMPROVED CIRCULARITY

Biogas is an example of how biological resources, such as dairy cow manure, food industry by-products and other high-quality organic resources, can be used for biogas production. Biogas is replacing fossil fuels and energy, and the nutrients are circulated back to agriculture. The organic matter remaining after the production of biogas, the biogas digestate, has higher value fertilizer than manure and smells less.



# PACKAGING – TOWARDS FULLY CIRCULAR PACKAGING 2030

In 2020, Arla launched a new packaging ambition 'Towards fully circular packaging 2030'. We have a strong commitment to use resources in the best possible way to reduce climate and environmental impact. That includes improving the recyclability of packaging, reducing the use of fossil virgin plastic and combatting food waste.

In Arla, we use around 300,000 tonnes of packaging material each year to protect the quality of our products. We strive to ensure that no material goes to waste, that we keep emissions to the environment at a minimum and that we do not deplete any natural resources that cannot be renewed on a human time scale.

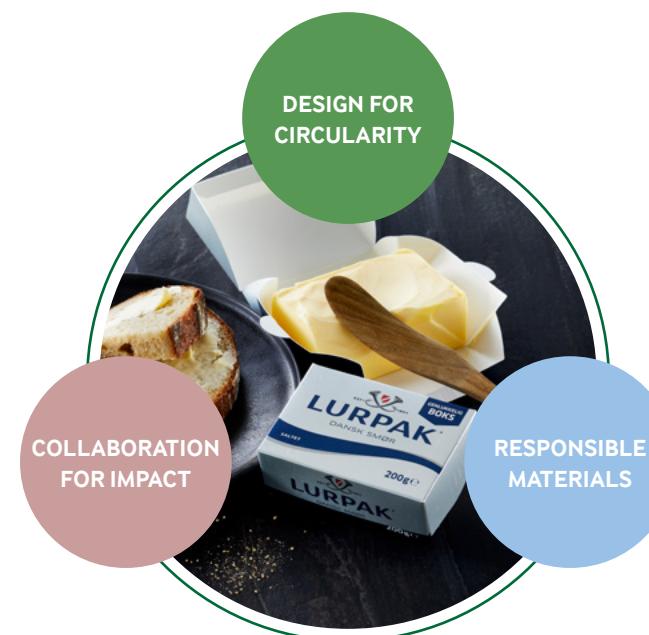
## ENSURING FOOD SAFETY AND REDUCING FOOD WASTE

Packaging safeguards products during distribution, in the store and in our home fridges and is essential to securing food safety, and access to nutritious products around the world.

One third of the world's food goes to waste and in wealthy countries, more than half of this food waste takes place in households. Packaging extends the product's shelf life and maintains taste and functionality and therefore plays an important role against food waste.

Around one third of all the packaging material we use is plastic, which is still necessary to fulfill the strict functional requirements that apply to food contact material. However, we are continuously rethinking our use of plastic; replacing plastic with fiber materials where possible, removing plastic components, converting into bio-based plastic and increasing the recycled content. And we have an obligation to do as much as we can to ensure, that our packaging can be sorted, collected and recycled where our consumers live.

## OUR AMBITIONS TOWARDS FULLY CIRCULAR PACKAGING 2030



### BIO-BASED PLASTICS REDUCE OUR CARBON FOOTPRINT

The bio-based plastics we use in Arla are structurally identical to conventional plastics, but they are derived from natural, crop-based material instead of fossil resources like crude oil and natural gas. Bio-based plastic is considered a renewable material and can help reduce the carbon footprint of our packaging. For the time being, most of our bio-based plastic is made from sugar-cane, but together with our suppliers we are also exploring alternative sources – for example bi-products from European paper production processes and other renewable sources.

### THE PLASTIC RECYCLING CHALLENGE

Many plastic materials are widely recycled across our markets and the simple mechanical recycling process, where used plastic material is sorted, cleaned, re-grinded and recycled back into new plastic products, offers significant environmental benefits compared to virgin fossil-based material. However, not all waste plastics can be mechanically recycled back into food contact material. Examples include mixed plastic waste, plastics with residues or multi-layer food packaging. But together with our suppliers, we explore more advanced recycling technologies, where the waste plastic is thermally broken down to its basic building blocks and rebuilt into new plastic polymers. Using such a pyrolysis technology, about 70 per cent of a mixed plastic waste can be converted into secondary raw materials with the exact same properties as virgin feedstock. High energy use poses challenges that must be addressed for this technology to offer low carbon footprint plastics.

# PACKAGING – OUR SUSTAINABLE PACKAGING JOURNEY

Going forward we will use our two new ambitious targets to communicate our progress towards fully circular packaging in 2030 continuously rethinking, replacing and removing materials to develop the packaging solutions of tomorrow.

## OUR COMMITMENTS

### Design for circularity

We design our packaging to be recyclable, reusable or compostable and help consumers to dispose it, so that it stays in the value chain.

### Responsible materials

We use less and better materials, prioritising recycled content and responsibly sourced renewables.

### Collaboration for impact

We collaborate with authorities to ensure collection and recycling in practice and with suppliers to develop the solutions of tomorrow.

## OUR ACTIONS



**We increase recyclability of our packaging to ensure it can go through recycling systems where our consumers live**



**We reduce our use of virgin fossil plastic by using more renewable or recycled material**



### We collaborate to:

- Ensure collection and recycling in practice
- Develop the packaging materials of tomorrow
- Meet current and future external requirements for viable solutions

## OUR NEW TARGETS

### 100% recyclable by 2025

We will ensure that the packaging used for Arla's own brands can be collected, processed and returned to use in the form of raw materials or products, not necessarily into food packaging (based on ISO Standard 14021). This is applicable in markets where established waste handling and recycling systems are in place. For some of our international markets, where this is not the case, we will collaborate with local stakeholders to ensure our packaging will be managed responsibly.

The share of recyclable packaging material is measured as percentage of total weight. Where certain packaging parts are not recyclable, this part is excluded from the recyclability share. The recyclable share end of 2020 is approx. 85 per cent and this will be the baseline for our 2025 target.

When stepping up our ambition as detailed above, and using a stricter definition of recyclability for our new targets, performance cannot be compared directly to previous years. Please see page 46 for further details.

### 0% fossil based virgin plastic used in our packaging by 2030

By virgin plastic we mean any plastic content used in our packaging which is material derived from fossil resources, such as crude oil or natural gas. The share of virgin fossil-based plastic is measured as percentage of total weight of total plastic used. Baseline end of 2020 is approx. 85 per cent of our total plastic used is fossil virgin. This corresponds to approx. 20 per cent of total packaging material used for Arla's own brands.

## OUR LEVERS



**Remove**



**Reduce**



**Reuse**



**Recycle**



**Renew**



**Rethink**

# PACKAGING – ACTIONS TOWARDS FULLY CIRCULAR PACKAGING

Throughout 2020 Arla has launched a number of sustainable packaging initiatives that have delivered on our ambition. During the year, we have used our 6 levers as guide for launching a number of packaging initiatives in different product categories.

Reducing climate impact is a top priority for Arla, and progressing towards fully circular packaging by 2030 is key to lowering the packaging emissions. We will track greenhouse gas emissions for packaging specifically to make sure that all the choices we make and the new products we launch will contribute to our 2030 reduction target- and our 2050 carbon net zero ambition.



A new carton for organic milk was launched in Denmark at the end of the year. The plastic lid was removed from the carton to reduce climate impact from the packaging, saving approximately 740 tonnes CO<sub>2</sub> each year, which corresponds to 30 per cent of the packaging's climate impact.

Arla Unika's new packaging solution for e-commerce is 100 per cent fibre-based, has 60 per cent lower greenhouse gas emissions compared to the previous, and can keep products' temperature under 5°C for 26 hours.



For our popular 1kg bucket format, we have reduced plastic by 40 per cent which brings down the carbon footprint by 30 per cent. Every year Arla sells approximately 17m of these buckets in 5 markets resulting in a saving of 680 tonnes of CO<sub>2</sub> and 270 tonnes of plastic all whilst continuing to be recyclable in the markets where consumed.



Through a combination of an easy to separate cardboard layer and clear disposal guidelines on pack, Arla has started to convert key branded spreadable butter products to a new recyclable format. In addition, the plastic content has been replaced with a more recycle friendly plastic (from PS to PP).



## ENGAGING WITH THE EUROPEAN CIRCULAR ECONOMY ACTION PLAN

In March 2020, the European Commission adopted a new Circular Economy Action Plan - one of the main blocks of the European Green Deal, Europe's new agenda for sustainable growth. The Action Plan announces initiatives along the entire life cycle of products, targeting for example their design, promoting circular economy processes, fostering sustainable consumption, and aiming to ensure that the resources used are kept in the EU economy for as long as possible.

Arla is actively engaged in bringing added value to a number of packaging initiatives in the action plan, for example the revision of the Packaging and Packaging Waste Directive and the new policy frameworks for green claims, recycled content and bio-based plastics.

## CLOSING THE CIRCULAR PACKAGING LOOP

Availability of recycled materials with food grade quality as well as effective waste handling and recycling systems continue to be challenging across our markets, and the two challenges are closely interlinked. Only if the recycling improves, can the availability of recycled materials increase. This is key to closing the circular packaging loop, where used packaging is turned into new materials and products. Arla is committed to contributing to closing the circular loop by designing our packaging to be recyclable and to increase the use of recycled plastic in our packaging. But for our ambitions to be realised we also rely on effective waste handling and recycling systems and on new and advanced recycling technologies.

# FOOD WASTE

Arla aims at halving food waste in our own operations and logistics by 2030, compared to 2015. Mapping of food waste hotspots and a structured approach to analysing causes and addressing them in innovative ways are key to success, and implemented across markets.



## COLLABORATION TO REDUCE FOOD WASTE

In our supply chain, we work to share best-practice between dairy sites and countries through our dynamic Arla community of food waste champions. We managed to handle the rapid changes in demand, caused by COVID-19 during 2020, ending up with almost the same performance as last year. Since 2015, we have reduced food waste by 24 percent.

Food waste can be avoided by collaborating with customers. In 2020, we launched a successful initiative called Arla Deals. It is a digital platform for retail customers where Arla products with short shelf-life are sold at a discount in Denmark, Sweden and the UK.

Donating surplus products to food banks is another important way to avoid food waste while also contributing to improving diets among vulnerable groups. We have continued our regular food bank collaboration during 2020 and volumes captured in our reporting systems have more than doubled compared to 2019. We have also responded on an ad-hoc basis to the COVID-19 crisis, supporting vulnerable groups and front-line workers. Examples include UHT-milk in government care-packages in the UK, food programme support in the US, baby food to Chinese mothers and meals to health-workers in Sweden and Finland. These volumes have not all been reported in detail in our systems.

Furthermore, we have continued to launch consumer-oriented campaigns to inspire to reduce food waste at home. In Sweden, an app "Töm din kyl" was launched to help consumers to use what is already in their fridge. In the UK, we launched an ultra-filtered milk with longer shelf-life under the Cravendale brand, that reduces

milk waste, and consumers were also offered a complementary food waste reduction-kit to inspire further reductions at home. We have continued and expanded our labelling "Often good after", encouraging consumers to smell and taste the product before throwing it away after the best-before-date has passed, across several markets.

## FOOD WASTE INITIATIVES

Arla is committed to reducing food waste across markets and we have continued to engage in the development of quantification methodology and reporting. We are engaged in international initiatives such as Friends of Champions 12.3 and together with large retail customers in the Initiative 10-20-30 aimed at scaling impact. In 2020, we joined new national initiatives such as "Danmark mod madspild" in Denmark and 'Samarbete för minskat matsvinn' in Sweden, similar to our long engagement in the Courtauld commitment in the UK. We are supporting the "Zu gut für die Tonne" Initiative by the German Agricultural Ministry and engage in local projects and initiatives across several other markets.

**CHAMPIONS 12.3**  
**10X20X30**

# ORGANIC – CREATING THE FUTURE OF ORGANIC DAIRY

Arla is the world's largest producer of organic dairy products. We often use organic to spearhead sustainability initiatives and engage with consumers.

As the world's largest producer of organic dairy products we want to move the organic agenda forward. All our farmer owners are audited against our own standard Arlagården®, and farmer owners supplying organic milk are in addition certified according to external organic standards. In addition to these basic requirements we have initiatives to explore how we can evolve further.

In 2020, we launched organic carbon neutral dairy products (Arla ØKO®) in Denmark, building on the concept (Arla KO® EKO) launched in Sweden in 2019. Carbon neutrality is achieved by balancing the product portfolio's emissions with nature-based carbon credits. We have set more ambitious emission reduction targets on-farm and in our supply chain for the products we launch as carbon neutral, aligning with the available standard on making carbon neutral claims (ISO14021). The carbon footprint on organic farms is to be reduced by 30 per cent by 2028, which is a higher ambition than our Science Based Targets for 2030, and in addition organic dairy farms only use renewable electricity. We have made investments to reduce energy use and greenhouse gas emissions on some of the dairies processing organic milk in Denmark (see page 17 for more details) and made changes to the packaging of organic milk to reduce emissions further (see page 21).

We have launched these initiatives in parallel to our Science Based Targets for 2030, and do not use the offsetting to reach the targets or in any other corporate reporting of our climate impact.

We follow available international standards on quantification of greenhouse gas emissions (ISO 14067), and we include all the

relevant greenhouse gases in the lifecycle of the products, from milk production on farm to use in consumers' homes. The calculations are externally audited.

We use what is considered best-in-class carbon credits (BSI PAS 2060). The credits are from certified projects that avoid and capture greenhouse gas emissions by protecting valuable forest ecosystems in Brazil and Indonesia, and by planting trees in Uganda. The projects are not only certified to generate climate benefits through the Verified Carbon Standard requirements but also to promote benefits for the local communities and biodiversity through the Climate, Community and Biodiversity Standards requirements. We communicate transparently on-pack and give more detailed information about calculation and off-setting projects on-line.

## COMMUNICATING CARBON NEUTRAL DILEMMA

Communicating carbon neutral to consumers in a short, simple and transparent way on-pack is challenging. Consumer authorities in both Sweden and Denmark have received complaints about the campaigns. Arla is collaborating to fulfil demands and best-practice on transparency, changing information both on-pack and online in Sweden to facilitate consumer understanding. In both countries, authorities, experts and other stakeholders stress the need for robust green claims. We engage in and follow the developments closely.



# SOURCING

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. We have procedures in place to select suppliers and we pay close attention to their environmental, social and ethical practices.

Our ways of working in our upstream supply chain is outlined in our Statement on Responsible Sourcing [☒](#). Our ambition is for all external suppliers to sign our code of conduct for suppliers, which governs environmental, social, business ethical 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. [☒](#)

Arla engages in stakeholder dialogue on how to promote more sustainable sourcing practices, including protecting biodiversity. In 2020, we joined the initiative One Planet Business for Biodiversity (OP2B) where we collaborate with likeminded peers and experts to build power of change at scale (see page 14).

## SUPPLIER AUDITS

Every year, we carry out on site audits based on risk evaluation, during which we visit suppliers and inspect relevant areas. Because of the COVID-19 outbreak, we have conducted audits virtually via video calls during the second part of the year. Although this required new ways of working, our suppliers supported this change, and provided virtual access to their systems and processes.

During 2020, 71 physical, virtual and desktop supplier audits were conducted. The number of audits was increased compared to last year. The increase is among other things a result of onboarding the dairy site we acquired in Bahrain in 2019 into Arla's sourcing process and reporting structure, as well as follow up audits of selected suppliers based on risk assessment.

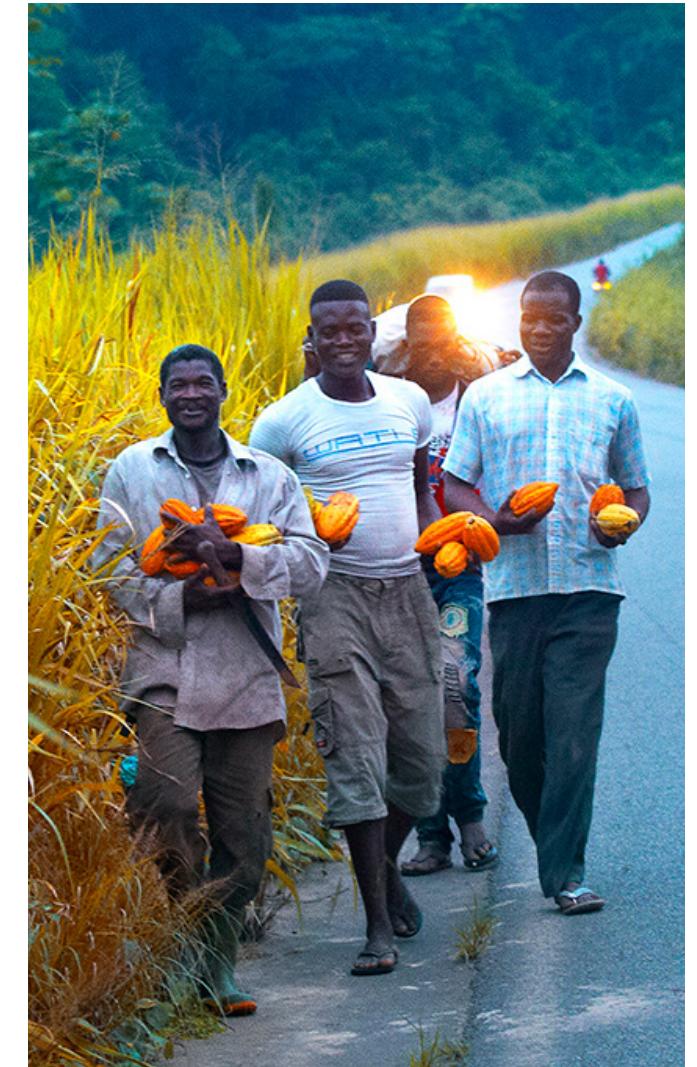
## HUMAN RIGHTS FOCUS WHEN SOURCING

During the year, we have followed up on human rights impact assessments specifically for service suppliers such as labour providers, cleaning, catering and security. Starting in the UK last year, we have demanded suppliers of specific categories to register on SEDEX (Supplier Ethical Data Exchange) and to complete a self-assessment questionnaire. Besides our own ethical audit set up, this enables us to monitor and track the providers' status for human rights and modern slavery, thereby reducing the risk in our supply chain.

We are in the process of introducing a Health & Safety appendix in all new logistics tenders and contracts. The purpose is to address our expectations on ways of working, when suppliers are at an Arla site or acting on behalf of Arla. This is primarily to prevent accidents for both Arla colleagues and other people on sites.

## RISK COMMODITIES

For many years, we have identified three commodities with particular sustainability challenges: palm oil, cocoa and soy. We have developed sourcing positions to mitigate the risks and to contribute positively to more sustainable and responsible practices, including reducing risk of negative impact on human rights and the environment. Similarly, we have identified the risks associated with unsustainable production of forest fibre and in 2020, we formally adopted a sourcing position on this commodity in our European markets and are working towards a similar ambition in the rest of our business..



# SOURCING (CONTINUED)

## PALM OIL

For palm oil, our policy is to buy only segregated certified raw material, and when this is not possible, we use mass-balance or cover the use by RSPO credits. In 2020, the share of segregated certified palm oil was 90 per cent, the share of certified mass-balance was 7 per cent, whereas 3 per cent of the palm oil use was covered by RSPO-credits due to lack of availability for segregated certified products in some markets. In Saudi Arabia, where we used credits last year, we managed to move most of it to mass balance in 2020.

## COCOA

Our policy is to use 100 per cent UTZ-certified cocoa for our branded products, and we continue to comply with this goal. In 2020, cocoa farmers' use of child labour in the Ivory coast has been under scrutiny by international media. Use of child labour is unacceptable, and we are monitoring the case closely in dialogue with our main supplier of cocoa to ensure compliance with the certification standard.

## SOY

We aim to source 100 per cent certified soy for ingredients and for animal feed on our farmer owners' farms. The soy must be certified according to the standards organic, ProTerra or Round Table for Responsible Soy (RTRS) or covered with RTRS credits. As there is limited availability of segregated certified soy, particularly for soy in feed, Arla relies on covering a large share of the soy use with RTRS-credits.

In 2020, we purchased all of our RTRS-credits through an agent ensuring that the credits come from one certain region where

farmers comply with the RTRS-standard, thereby contributing to the development of segregated supply of certified soy over time.

## FOREST FIBRE

Although we have been working with certified forest-based packaging material for years, in 2020 we formally adopted a sourcing policy stating that by end of 2021, all use of forest fibre in Europe will be from certified sources, we are exploring opportunities to expand to all markets. We prefer FSC-certified forest fibre for packaging materials and energy use at our sites, and when this is not possible, we allow for PEFC-certified.

In 2020, we have mapped our use of forest fibre and made plans for transition into compliance with our sourcing statement by the end of 2021.

## COOPERATION IN INDONESIA

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 labor issues, particularly addressing child labor risks, and to improve plantation management practices and responsible business practices. These workshops build on the already ongoing responsible sourcing trainings provided to multiple existing suppliers across Indonesia.

## USING CREDITS TO DRIVE SUSTAINABLE PRODUCTION

In Arla's sourcing positions on soy and palm oil, we accept 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 in some categories, leading to high costs and lack of availability. And as an individual company, we 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. In parallel, we engage in value chain stakeholder dialogues on how to promote the transition to full traceability.

# STRONGER PEOPLE



Around the world, dairy products are recommended as part of a daily diet from childhood to old age. We have the possibility to positively inspire millions of consumers' food habits, contributing to stronger people now and in the future.

Health

Inspiration

International  
dairy develop-  
ment

# HEALTH – SAFE AND NUTRITIOUS PRODUCTS

Dairy products can play a positive role in a sustainable diet, when balancing the environmental impact of production with the nutritional value of the food. To support consumers to choose a healthy diet, we constantly improve our product portfolio, and we provide insight into the origin of our products.

## INTEGRATING THE HEALTH STRATEGY

We commit to promoting and offering healthy and affordable dairy products and to helping people eat healthily around the world. This is integrated in our sustainability strategy and contributes to 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 it is always safe to eat and drink our products.



The global Arla quality and product safety policy supports this commitment and strengthens the continuous improvement of our quality culture.

In March 2020, we launched a Quality, Environment, Health and Safety (QEHS) manual including all mandatory requirements within quality, product safety, environment and health and safety. The manual covers requirements in international standards, as well as internal requirements and several customer requirements. The purpose of the manual is to align ways of working, to reduce complexity in the organisation and to ensure all sites live up to the requirements. Implementation of the manual is ongoing, but the roll-out has been partly delayed due to COVID-19.

During the year we did a label check on our core markets, which include Denmark, Germany, Finland, Sweden, the Netherlands and the UK, with focus on both mandatory and voluntary information on pack.

We found that the labels are compliant with food regulation in the specific countries. Going forward we will cover more countries in the label check, including specific non-European markets. Furthermore, we have added food regulation to the internal learning agenda, to support local teams.

## NUTRITION CRITERIA

Milk naturally contains a rich combination of nutrients. These include calcium, vitamin B2 and B12, iodine, a high content of protein, as well as carbohydrates and fat, and a broad range of other vitamins and minerals.

The Arla® Nutrition Criteria is a set of internal standards guiding our product development by securing the content of dairy protein and calcium, while limiting the amount of added sugars, salt and fat in our products.

During 2020, the Arla® Nutrition Criteria have been updated and improved. Based on input from independent scientific experts, the scope of the Nutrition Criteria has been extended to cover all our brands, not only the Arla® brand. This move creates a more accurate and transparent picture of our portfolio.

We have the ambition to increase the volume of products fulfilling our Nutrition Criteria and, in 2020, we increased this by more than 15,000 tons. This is a result of us both reformulating existing products and launching new ones.

## PRODUCT LIFECYCLE MANAGEMENT

Our Product Lifecycle Management (PLM) system integrates people, processes and systems and captures a product's performance towards multiple goals throughout its lifecycle.

In 2020 the PLM system contributed to our environmental ambitions by promoting more sustainable packaging, and we are in the process of integrating our Nutrition Criteria into the system as well, which will improve our understanding of our portfolio's nutrition status and help initiate actions where needed. The roll-out of PLM was initiated in 2018 and since then 33 dairies are using the PLM solution. The roll-out and the development of the system will continue in 2021.

# HEALTH – TOWARDS SUSTAINABLE DIETS

## RESEARCH COMBINING SUSTAINABILITY AND HEALTH

Sustainability has been high on our agenda for a long time. Our strong focus is on producing high quality milk while continuously lowering impact on the environment. In order to understand the role of dairy products within a healthy diet we have, for many years, been actively engaging in and following high-level research.

In recent years, we have combined these aspects and increased our focus and activities to understand the role of dairy products in sustainable diets. In Arla, we endorse the FAO's definition of sustainable diets. We recognise that the concept of sustainable diets is multi-dimensional and includes many aspects beyond environmental impact, for example, safe and healthy, cultural acceptability, and affordability.

We have learned that there is a knowledge gap in relation to combining the different dimensions of sustainable diets, including both production and consumption. It is of high importance to address this gap in order to provide a scientifically robust base for future recommendations and policies. Therefore, in 2018, we initiated a research programme together with the Swedish research fund Swedish farmers' foundation for agricultural research (SLF). Our ambition was to conduct high-level cross-disciplinary research on the topic of sustainable diets from sustainable food chains.

[slu.se](https://slu.se)

The programme is starting to generate results, and during 2020, we have engaged in several seminars on the topic of sustainable diets from sustainable food systems, in several markets.

In parallel with the above research programme, we are continuously driving the public-private partnership 'Arla Food for Health' initiated in 2015. In 2020, a new research call was launched with 3 studies approved and planned for launch in 2021. Furthermore, in 2020, 2 studies were finalised with 10 peer-reviewed papers published

within scientific journals. These all contribute to discovering and documenting the health effects of dairy and dairy ingredients.

Find more information on the new and finalised research studies funded by Arla Food for Health [arlafoodforhealth.com](https://arlafoodforhealth.com)



*Figure captures the dimensions included in the definition of sustainable diets.*

## NUTRITION AND HEALTH INDICATORS

One of the projects we funded with the Swedish research fund SLF aimed to develop indicators, which show the relation between the environmental impact and the nutrition and health qualities of foods. This project was finalised in 2020 and is an important step forward in this complex interdisciplinary field of research. The project showed that there are challenges in designing a methodology that is suitable for a wide range of foods as well as wide range of applications. It also highlighted that there are gaps to address in data availability, in addition to knowledge of how to link nutrient content and health outcomes of individual foods. We will continue to engage in this important piece of research.

## 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 sustainability strategy and its foundation, 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 will continue to engage in this important piece of research.

# INSPIRATION – ENGAGING CONSUMERS

We want to inspire consumers by offering a wide range of products to meet their different needs and preferences, and we engage through social media to provide recipe inspiration for cooking at home.



## TARGETED PRODUCT PORTFOLIOS

Consumer expectations vary, and to meet consumer demands we offer a diverse product portfolio. During 2020, Arla launched products with targeted sustainability performance improvement. In Denmark and Sweden, elevated animal care standards have been introduced involving extra time outdoors, free range, soft bedding for rest, and massage brushes.

We have launched three organic oat-drinks, which are 100 per cent plant-based, under the new brand JÖRD. The products are solely based on raw ingredients that grow in the Nordic region. The drinks were launched in Denmark and the UK, and we expect the products to become available in more of our markets going forward.

Further, we have launched organic carbon neutral dairy products building on the concept launched in Sweden last year. Read more about our organic production on page 23.

## RECIPE INSPIRATION

We believe inspiration and knowledge about cooking is the best way to develop good food habits, and we provide cooking inspiration around the world on our national websites, in brochures and online. We are increasingly using short films and newer media platforms to engage consumers in cooking and to raise awareness of topics including sustainable farming and increased recycling of packaging.

In Sweden an initiative 'Matkanalen' was launched in 2019 on YouTube, and further developed in 2020. The channel is widely used, especially by younger adults, who often use social media for inspiration.

In Denmark we adapted content on Instagram to create inspiring posts for families to use when cooking, during the year, as many spent much more time at home during the pandemic.

In our Middle East business we also focused on home cooking during the year, and supported the new trend of baking at home, brought on by COVID-19 lock-down.

## ENGAGING WITH CONSUMERS

In markets where Arla® is a well-known brand, social media is now the main platform for consumer engagement. In 2020, activities boomed and Arla had 1 billion (2019: 500 million) digital engagements, which means:

- Visitors spend more than two minutes on one of our websites
- Visitors watch a video to the end on YouTube
- They like and comment on social media

# 1,000,000,000

digital engagements in 2020.

# INSPIRATION – FOOD ORIGIN AND USE

We believe we have a responsibility for inspiring and supporting sustainable food choices especially for future generations. Every year, we offer a number of activities, which increase knowledge and competences in relation to food, diets and raw material origin.

## FARM VISITS FOR SCHOOL CHILDREN

We want to inspire future generations, and we give insight into the origin of our products and the work that takes place at our farmer owners farms, so we invite school children to visit, to learn where milk comes from and how it is produced.

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 2020, due to COVID-19, only school children in Sweden were able to visit Arla farms, which 12,500 did.



## NEW TAKE ON FOOD EDUCATION

Many children have never been to a farm and knowledge of the origin of food is low. This was revealed in a survey among 1,000 6-7-year-olds in the UK. To help parents tackle this knowledge gap and inspire children to take a more active role in making positive food choices, Arla has produced a special storybook, based on a real-life dairy farmer and his cow.

An initiative in Denmark, the Arla Food Designer, is a platform for teaching 12-13-year-old pupils about sustainable packaging. There is also an app, available for everyone, where they can design a product online. Furthermore, the study material we provide for Danish school children to connect them better with food, Arla food movers, reached 125,000 school children.

## NATURAL FOOD INSPIRATION

Every year we invite the general public to visit our owners' farms. Due to COVID-19, the possibilities have been very limited extent this year. The popular event, when cows are put out to pasture in the spring, was only possible to view online. In Sweden, this attracted 165,000 viewers and in Denmark 70,000.

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.

## FOOD CAMPS

In Denmark, the Arla Foundation annually arranges food camps for 1,600 school children aged 13-14 years. In January 2020, the Arla Foundation opened a second food camp bringing the total capacity up to 3,000 school children annually. 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.

At the beginning of the year, both camps were fully booked. However, due to COVID-19 restrictions, both camps were open on and off during the year. This means that only 1,450 children have been able to attend. The camps will reopen when national guidelines allow.

Arla donates 10 million DKK to the Arla Foundation annually, and the camps are further supported through fund-raising and partnerships.

## FOOD WASTE ACADEMY

In October, Arla Denmark, together with the Arla Foundation and the Danish food waste initiative Too Good To Go, conducted a pilot test of a new initiative with the aim to teach families to avoid typical household food waste, by creating new meals instead, applying the same methods used at food camps.

Evaluations showed that all of the 66 families attending, found that they gained new competences to avoid and reduce food waste. We will investigate whether this collaboration can continue and, if so, in what format.

# INTERNATIONAL DAIRY DEVELOPMENT – PROJECTS

During the year, we have further strengthened our involvement in selected emerging markets to promote international dairy development, which is a key priority in our sustainability strategy. Through our engagement we want to contribute to a sustainable and commercially viable dairy sector in these markets, to improve farmer capacity and to provide nutritious food to a growing population.

## PARTNERSHIPS FOR SUSTAINABLE DEVELOPMENT

Whenever we engage in national dairy sector development in emerging markets, we ensure that our local engagement actively supports governmental policies on sustainable dairy development. This includes promoting sustainable dairy production, enhancing food safety and quality, improving food security and providing access to affordable nutrition for low income consumers.

In strategic cross-sectoral partnership programmes, in which we engage as lead commercial partner, we contribute with expertise and experience from work in the dairy value chain, to promote sustainability from cow to consumer. We do this through better technology, capacity building, advocacy, formal off-take agreements, and sales and distribution. In such programmes, we create a route to market and link small holder dairy farmers to a commercial and formal value chain, providing a stable income from dairy.

## STATUS INTERNATIONAL DAIRY DEVELOPMENT PROGRAMMES

During 2020 we have focused on executing our international dairy development programmes.

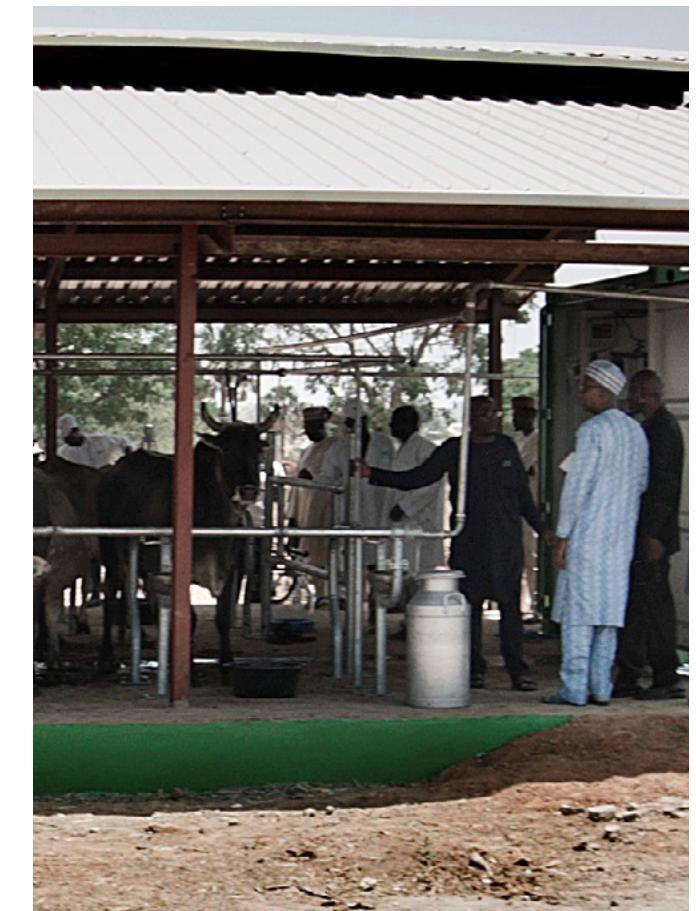
We have consolidated our partnerships, continued dialogues and entered into strategic collaboration with governmental bodies, donors, embassies, civil society organisations and knowledge institutions.

Our programmes have continued during the COVID-19 pandemic. In all countries, local implementation has been delayed, but innovative solutions has also been found to ensure nutrition, support and income to beneficiaries enrolled.

Despite, but also because of the pandemic, we have succeeded in reaching our 2020 targets, to enrol 1,000 farms in sustainable dairy development programmes, and to reach ~71 mio. low-income consumers with affordable dairy products.

We were able to enroll more than 1,200 farms, mainly in our programmes in Nigeria and Ethiopia counting for 768 and 400 farmers households, respectively.

We reached 75 mio. low income consumers with our affordable products; Dano Cool Cow in West Africa, and Dano Daily Pushti in Bangladesh. This was primarily driven by extraordinary sales and distribution in Bangladesh, where low income consumers have prioritised trustworthy, safe and nutritious products. Dano is perceived as a top brand in Bangladesh and has been a preferred consumer choice. Additionally, our comprehensive and well-functioning distribution network in Bangladesh has managed to continue to function efficiently during the year.



# INTERNATIONAL DAIRY DEVELOPMENT – PROJECTS (CONTINUED)

## INTERNATIONAL DAIRY DEVELOPMENT PROJECTS IN NIGERIA

Arla is the lead commercial partner in the project “Milky Way Partnership in Nigeria”. The project is a cross-sectorial partnership with the Danish Agricultural and Food Council/SEGES, CARE Denmark and Nigerian based NGOs, Milk Value Chain Foundation and CORET, supported by the Danish Ministry of foreign affairs. The project collaborates closely with Kaduna State and the Kaduna based dairy cooperative Milcopal.

The Milky Way Partnership has now enrolled more than 400 farmer households. During 2020, the focus has been on capacity building of local farmers as well as adjusted off-take arrangements and new partnerships to increase number of farmers enrolled. Besides, Arla has taken over a local dairy plant, which has been renovated to produce drinking yogurts under the local Milcopal brand. Arla will further upgrade this dairy to make it approved by Arla standards in 2021.

The Milky Way Partnership programme has scaled up through its participation in the DAMAU Household Milk Farm Project. This is a public private partnership with Kaduna State Government with an aim to settle 1,000 farm households in a 9,000 hectare land by providing infrastructure and three imported cows to each farmer. On the same land, Arla is building a state-of-the-art Arla Dairy Model Farm with 400 milking cows, which Arla imports from South Africa. The construction is expected to begin in 2021.

Due to COVID-19, the large DAMAU household project has been delayed, and the plan is to initiate the establishment of grassland for cows and the construction of houses and common facilities in 2021.

In 2020, Arla also signed an agreement with SAHEL Consulting under the Melinda and Bill Gates Foundation that has enrolled 368 farms from surrounding farm clusters in Kaduna State, Nigeria. One of the most challenging parts of the projects in Nigeria, is to reach

a sufficient volume of milk intake to sustain the business case. By end 2020, 230 farmer households are delivering milk per day. The projects in Nigeria are supported by the Central Bank of Nigeria.

## PUSHTI AMBASSADOR PARTNERSHIP BANGLADESH

A strong distribution network is key, to improving access to affordable dairy nutrition for low income consumers. During lock-down in Bangladesh and Nigeria we have kept focus on reaching low income consumers to ensure access to nutrition.

To contribute to improved nutrition in rural Bangladesh and women's economic empowerment, Arla is the lead commercial partner in a project “Pushti Ambassadors Partnership – Creating jobs for female entrepreneurs in rural Bangladesh”. The project is supported by the Danish Ministry of Foreign Affairs and is a partnership between the Dutch-based NGO, BopInc; Bangladesh based NGOs, dNet and BRAC; and a social enterprise called iSocial. The project is a pilot project to explore last mile sales and distribution channels.

The project started operating in 2019, when the female salesforce began going door-to-door to raise awareness on nutrition and to sell Arla's affordable nutritious solution, from a diversified basket of health-related products.

The four-year project aims to extend rural distribution networks using innovative tools with the ambition to scale up to 5,000 female micro-entrepreneurs reaching 1.25 million new consumers by 2023. These females are not only gaining knowledge and an accreditation through training, they are also securing a reliable income for their households.

However, due to COVID-19, the project implementation has been delayed and the results of the proof of concept phase, where the project model is tested in six hubs, still remains to be documented. The project now includes more than 200 entrepreneurs.

## DIETARY STUDIES IN BANGLADESH

When developing new products to emerging markets a thorough understanding of nutritional needs and potential deficiencies is required. In 2020 the local Arla Brand – Dano – celebrated 60 years engagement in Bangladesh. However, to stay up to date with current nutritional status, Arla funded a systematic literature study investigating intake of nutrients, food preferences and nutritional status among the population in Bangladesh. The research is carried out by the well-recognised research institute: Icddr,b, and findings will be presented beginning of 2021. Furthermore, in collaboration with Aarhus University we are conducting field research to explore cooking, eating and consumer habits in households in Bangladesh. Together, these studies will provide us with an understanding of our consumers' behavior and nutritional status, supporting us in developing relevant products.



Despite COVID-19 and major floods, the female ambassadors managed to change sales methods and thereby increase sales to improve nutrition in rural Bangladesh.

# INTERNATIONAL DAIRY DEVELOPMENT – PROJECTS (CONTINUED)

## SUPPORTING THE LOCAL DAIRY SECTOR IN INDONESIA

In collaboration with our business partner in Indonesia, Arla has contributed to a calf rearing project in East Java, Indonesia, since 2018. The project aims to tackle one of the most prominent problems in the Indonesian dairy sector, which is lack of dairy milk production in terms of quality and quantity, to meet increasing consumer demands.

Working together with our business partner, Indolakto, and one of the largest local dairy cooperatives in Indonesia, KPSP Setia Kawan, we developed a calf rearing centre with a capacity of 99 cows. The rearing centre rears calves into high quality cows through good rearing practice and these are sold at a fair price to local farmers. Local farmers are trained in good dairy farming practices, after buying cows. This way, local farmers can have access to high quality cows, which are guaranteed to produce a high quantity of milk and provide a better income.

In 2019, the first 25 cows were sold to local farmers and it was formally announced that the rearing centre had become Rearing Social Business Unit (RSBU), a separate business unit of the cooperative which aims to provide sustainable income from selling cows. During 2020, RSBU has provided more than 60 high quality cows to local farmers, 15 per cent less expensive compared to the usual market price, while still creating a commercial sustainable social enterprise independent of external funding.

Due to COVID-19, we have seen a decrease in the purchasing power of local farmers, making it difficult for us to release cows from the centre during the first half of 2020. However, local farmers started to buy cows again during the second half of 2020.



## ORGANIC DAIRY PRODUCTION IN INDONESIA

Arla is the lead commercial partner in a new project, "Pilot Organic Dairy Production in Indonesia", starting in 2021. The objective is to develop the organic dairy sector in Indonesia, sharing best practices from Arla's organic dairy farmers with Indonesian farmers who want to convert to organic dairy farming. The project is supported by the Danish Ministry of Foreign Affairs, and is a partnership between our business partner, Indolakto, Indonesian NGO Bina Swadaya, Danish Agricultural and Food Council and the agricultural knowledge and innovation centre SEGES, who is the lead non-commercial partner. The project includes a close collaboration with the Indonesian Ministry of Agriculture.

## THE CHINA-DENMARK MILK TECHNOLOGY COOPERATION CENTRE

The China-Denmark Milk Technology Cooperation Centre (CDMTCC) began in 2012 as a collaboration between Arla and China's Mengniu Dairy Company. The objective of the Centre is to lift the quality and quantity of Chinese milk production, drawing on Arla's know-how and Arlagården®. This includes working directly with dairy farmers who supply their raw milk to Mengniu, to help them improve animal welfare, improve milk quality, and to lower the environmental impact of milk production.

COVID-19 made 2020 a challenging year for the CDMTCC, as it had a huge influence on the operation and project solutions. The board of CDMTCC prioritised online activities to deliver capacity building to the Chinese dairy farming industry, and on-farm training was postponed.

During 2020, with the goal of disseminating good dairy farming practices in China, CDMTCC has:

- Hosted 19 local seminars and trainings sessions, both on-site and online, and 32 on-farm training courses, reaching 3,257 farmers and farm employees.
- Published 12 monthly newsletters, more than 100 short educational news feeds, 5 teaching booklets & reports, and 10 short teaching videos about common dairy farming mistakes.
- Delivered speeches in 5 international online webinars & meetings
- Had 2 articles published by the International Dairy Federation

In 2020, the centre has reached its objective and will consequently phase out its activities.

# INTERNATIONAL DAIRY DEVELOPMENT – ARLA FOODS INGREDIENTS AFFORDABLE NUTRITION ACTIVITIES

## GAIN NORDIC COLLABORATION

Arla Foods Ingredients has continued its affordable nutrition activities in 2020, despite delays and challenges related to COVID-19.

As lead business partner in the GAIN Nordic Partnership project to develop a sustainable dairy supply chain in Ethiopia, Arla Foods Ingredients has supported the development of a locally produced fortified yogurt. The project's main delivery for 2020 was to conduct a school feeding study to evaluate the nutritional impact of the yogurt among schoolchildren. Due to the pandemic, the study will now take place in 2021.

In Zambia, another collaborative project with GAIN has resulted in the development of a nutritious long-life drink to address malnutrition among children and women. Made from local milk and including whey permeate from Arla Foods Ingredients, the product was scheduled for launch in 2020 but has been postponed due to COVID-19.

In the meantime, the GAIN Nordic partners have focused their attention on documenting these affordable nutrition models and developing open source manuals for scaling up further sustainable supply chains in developing countries. All knowledge will be shared via the Scaling Up Nutrition (SUN) Business Network in 2021.

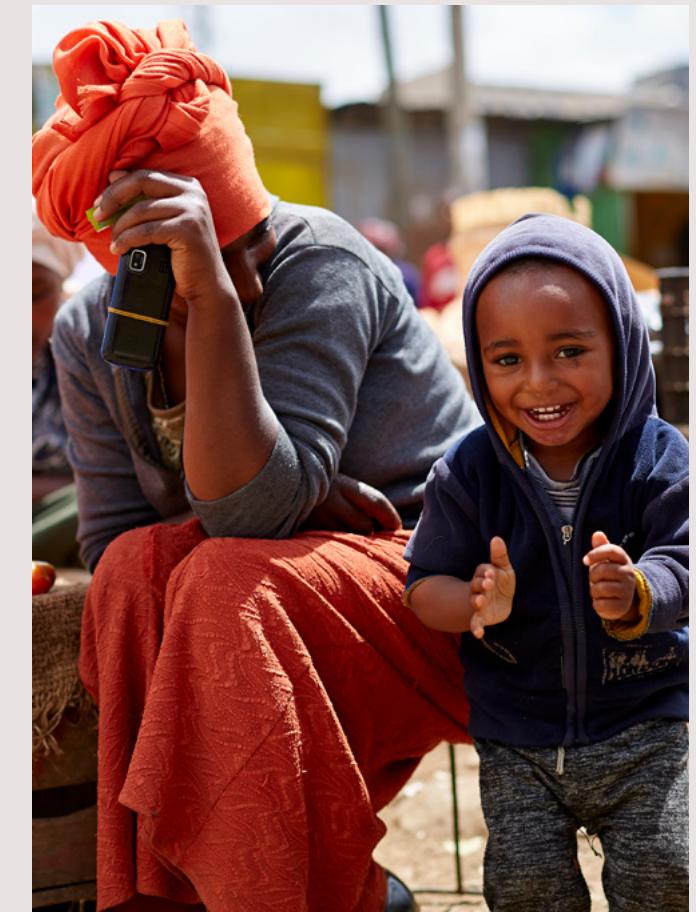
## P4G FUNDING FOR PROTEIN-ENRICHED BISCUIT

Arla Foods Ingredients is founder member of a partnership with the NGO DanChurchAid, Novozymes and other companies to develop new affordable nutrition concepts and share related knowledge and expertise. In 2020, a two-year project to develop a protein-enriched biscuit in Ethiopia gained funding from P4G – a global forum that supports public-private partnerships focused on accelerating sustainable development. The biscuit, containing protein from locally grown chickpeas and whey protein, will be produced by a manufacturer in Addis Ababa.

P4G has previously funded the partnership's Sustainable Food Platform initiative to promote local production of nutritious food for people living in or around refugee camps.

## MILK MATTERS STUDY IN SIERRA LEONE

Washington University and Project Peanut Butter are conducting a new clinical study in Sierra Leone to investigate the effect of lactose and dairy protein on recovery from moderate acute malnutrition (MAM), gut permeability and the intestinal microbiome. The study will involve 900 children aged six to 59 months who have been diagnosed with MAM. Arla Foods Ingredients is supplying whey ingredients for the ready-to-use supplementary foods that will be given as treatment.



# HUMAN RIGHTS - GOVERNANCE AND COMMITMENTS

Our worldwide operations provide employment for many people and contribute to economic growth. We are committed to advancing respect for human rights and maintaining mutual understanding in the relationships we have with people, organisations and communities.

## IMPLEMENTING HUMAN RIGHTS

Respecting human rights is key to sustainable development. Arla's human rights work is guided by the UN Guiding Principles on Business and Human Rights (UNGPs), our Code of Conduct and our human rights policy.

We continuously work to ensure that human rights are respected in our value chain. We embed our human rights work in our policies and activities and support with training of global key functions responsible for the daily management of Arla. In recent years we have evolved and refined our approach to assessing and managing human rights issues across our value chain.

During the year, 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.

## DUE DILIGENCE PROCESS

Our continuous human rights work minimises Arla's risk of having adverse human rights impacts and contributes to the realisation of the SDGs. We continue to improve and implement our systematic human rights due diligence process in compliance with UNGPs. As a multinational dairy company, we have a large number of entities in our value chain. We prioritise to conduct human rights' impact assessments in 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.

We have a specific human rights focus when sourcing, please see page 24 for more information.

## HUMAN RIGHTS ASSESSMENTS

We prioritise human rights' assessments in markets where we already have, or are in the process of acquiring, production facilities. In 2020, we carried out human rights impact assessments in Nigeria, Ghana and Senegal, as part of our regular and continuous follow-up programme, and follow-up in Saudi Arabia (KSA) and Bangladesh. The main findings are presented on pages 36-37.

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



## 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.

# HUMAN RIGHTS – SALIENT ISSUES

During 2020, we have defined our salient human rights issues, which are the issues that stand out due to their significant potential negative impact through our activities or business relationships. The concept of salience uses the lens of risk to people, not the business, while recognising that where risk to people's human rights is the greatest, there is a strong convergence with risk to the business.

We have defined the salient human rights issues based on our due diligence processes, in dialogue with stakeholders, our daily human rights work and our dairy value chain knowledge. The issues form the basis for our human rights reporting structure. Going forward we will continue to refine our work with salient issues and the risk they pose, and we will analyse gaps to initiate further mitigating actions.



## SALIENT RIGHTS BASED REPORTING

### Right to enjoy just and favourable conditions of work

#### ■ Living wage

Arla complies with local legislation regarding minimum wages for employees. However, there is a risk that the compensation does not meet an estimated local living wage, meaning that basic needs are not met. We will investigate potential gaps during 2021.

#### ■ Safe and healthy 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 called '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. A comprehensive safety project will be launched in 2021 in KSA. This project will include our dairy, logistics and warehouses/depots. We continue to strengthen our health and safety reporting system as well as establishing robust environment, health and safety management systems in all non-European markets. The overall setup is in place and there has been progress with the implementation of reporting systems in Nigeria, Bangladesh and Canada, as well as the implementation of the Cornerstone programme in Bahrain. However, there have been setbacks in training and implementation due to the COVID-19 pandemic.

We also include health and safety led questions in our colleague engagement survey Barometer, and response rate has continued to improve.

#### ■ Working hours (rest, leisure, and paid holidays)

We expect all colleagues to enjoy a healthy balance between work and leisure time. In KSA, the workload has resulted in too much overtime being worked by our colleagues. To solve this, more migrant workers have been recruited and some work has been outsourced. Furthermore, a new policy has been introduced to reduce weekly working hours from 48 to 45 hours. This also includes white collar employees, for whom a controlled flexible working hours scheme has been rolled out as well.

However, due to COVID-19 and the lock-down in KSA, it has been a challenge to comply with the new policy's requirements. Arla's migrant colleagues have been unable to travel back to their country of origin. As compensation, Arla has offered them the opportunity to work overtime periodically and thereby be able to better support their families. Hardship allowance has been paid to compensate during the lock-down period. The plan for 2021 is to continue to employ more people and to operate two shift patterns in the dairy. Hopefully, country lockdowns will be lifted so the workers are able to travel back to their families on holidays.

# HUMAN RIGHTS – SALIENT ISSUES (CONTINUED)

## Right to adequate standard of living

We aim to follow ILO standards regarding standards of living for our colleagues. Upgrading of employer provided housing in the Middle East, to ensure compliance with ILO standards, is now complete, with a few exceptions, which are planned to be resolved as soon as possible. 2020 has been an exceptional year, and to minimise the risk of COVID-19 infection, the majority of employees in Oman (13 out of 18) and United Arab Emirates (UAE) (127 out of 141) have been housed in hotels. This situation is estimated to last until June 2021. In KSA, additional apartments in all regions were provided to maintain the distance for colleagues in company provided accommodation. Similarly, extra buses have been arranged to transport colleagues to and from work.

## Right to Health

We want to make sure it is always safe to eat and drink our products, and we have policies and processes in place to strengthen our quality assurance and our recall procedures. We have a policy in place to ensure we market our products in a transparent and responsible manner, with a special consideration in relation to children. We also aim to ensure that all colleagues have access to medical care.

During the year we found the need for strengthening our focus on our recall procedures in some markets. We have not seen any issues related to unsafe products.

We support colleagues with access to health services, medical assistance or insurance, where relevant, and depending on their local country's system. Examples include access to doctors at our sites in Bangladesh and KSA, and health insurance in Nigeria, Ghana and Bahrain. In some of our other markets we ensure access to physical therapy.

## Right not to be subjected to slavery, servitude or forced labour (incl. child labour, mobility)

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, continued focus on supplier risk assessment, improved internal data checking, and ensuring migrant worker colleagues retain passports and identity documents unless they require otherwise. Further, the roll out of the updated Arlagården® during 2020 and 2021 include checkpoints on respect for human rights, health and safety and accommodation. See Arla's modern slavery statement for more details [☒](#)

There were no modern slavery reports in our reporting channels in 2020. In UAE, previous issues about withholding of passports have been resolved. All outsourced staff will be transferred to Arla by January 2021 and receive their passport in accordance with Arla's policy. Colleagues may sign a Letter of Consent if they prefer to keep their passports in a safe at the Arla office.

## Access to grievance mechanism

We want all Arla colleagues to be aware of the Arla Whistleblower system. However, a self-assessment survey in our non-European markets revealed that overall awareness must be strengthened to ensure colleagues know about and have access to the system. Human Rights Assessment and follow-up in Nigeria, Ghana, Senegal and KSA confirmed the results of the survey.

During the year, we decided to strengthen the grievance mechanism by, for example, further focusing on the Arla Whistleblower system and actions planned in compliance with UN Guiding Principles §31. This includes enhanced communication and access and is to be implemented at the beginning of 2021.

## FOOD DONATIONS

An adequate standard of living includes access to food and its distribution, and when we have surplus products we donate to charitable food banks.

Due to COVID-19, we have stepped up this support and provided products and meals to health workers and fire and police departments in Europe. During lockdown in the UK, we have provided vouchers for breakfast milk to children from vulnerable families, in cooperation with an organisation providing food packages for these children. In Bangladesh and Nigeria, for example, we have donated milk powder and food parcels to consumers during lockdown.



# HUMAN RIGHTS – WORKPLACE EXAMPLES

## HEALTH AND SAFETY IN NIGERIA

In Nigeria, workplace health and safety has been significantly strengthened. A health and safety committee coordinates initiatives and activities, including an annual safety week focusing on creating awareness and training colleagues in safe behaviour in their everyday work.

The introduction and use of a system for hazard and accident reporting also further strengthened the level of safety in the organisation as colleagues were trained in the identification of near misses and incidents and in reporting.

This increased level of safety consciousness saw our team in Nigeria achieve 1,000 days without a Lost Time Accident (LTA).

## HEALTH AND SAFETY IN BANGLADESH

In Bangladesh, a revised distributor agreement was developed after a serious accident. An important part of the agreement is that the distributor must have insurance to cover any loss suffered due to injury, disability or death while providing service to the distributor. A plan for full implementation of the revised agreement and the necessary health insurance coverage has been developed and is expected to be finalised in April 2021.

We are always seeking opportunities to collaborate across markets and our Bangladesh team has begun to share health and safety best practice with the team in Nigeria online. The strong health and safety management in Bangladesh has resulted in 1,300 days without a Lost Time Accident (LTA) in Bangladesh.

## PARENTAL LEAVE IN ARLA

Arla has introduced a new policy to support minimum parental leave for all colleagues around the world. By this commitment, we want to foster a supportive environment for our colleagues and their families, and to support equal opportunities for all.

The policy is intended to supplement or exceed existing local legislative conditions. Where local laws and customs apply, the procedure most beneficial to the colleague should be implemented.

The policy entitles the primary caregiver (including adoption and foster parents) of 14 weeks paid leave, and two weeks for the secondary caregiver. Furthermore, primary caregivers are allowed unpaid leave for an additional 12 weeks (totalling six months) and secondary caregivers an additional two weeks (totalling four weeks).

After parental leave, all colleagues have the right to return to the same or equivalent job. Additionally, good practices for daily breaks or reduction of work hours are implemented for female colleagues who breastfeed.

## GLOBAL SECURITY

In cooperation with our partner International SOS, we have implemented a concept called Workforce Resilience including duty of care obligations with the aim to protect our colleagues. The concept also includes challenges of operating across borders, managing supply and distribution chains, as well as proactive employee wellbeing risk mitigation.

Since March, our Global Security department has had a strong focus on a crisis operating plan for COVID-19. Further, the work has continued towards one common security standard in Arla. Incident fire drills have been conducted to ensure knowledge and ownership of an awareness and security mindset.

## COVID-19 IMPACT

The pandemic has forced extensive lockdowns in many markets, which have led to adverse human rights impacts in some places. Measures have therefore been taken by Arla to mitigate any such unintended consequence in all markets, for example by establishing special safety procedures, and by ensuring protective equipment such as sanitizer, masks and gloves have been distributed, and by implementing working-from-home where possible. Extensive efforts on awareness raising and training have been prioritised to minimise the spread of infection. In Arla's non-European markets, safe transportation arrangements have been implemented to secure social distancing where needed, and in particularly affected markets, hardship allowances have been paid. In the Middle East, we have extended our support of the dependents of the migrant workers. In Nigeria, limiting the movement in and out of the site by working in smaller shifts in isolation has secured the production while putting the colleagues' health first. Lastly, maximised hygiene and sanitization, including personal hygiene package for colleagues, and an increased cleaning frequency has been implemented.



# ABOUT ARLA

A photograph of three professionals in a modern office environment. On the left, a young woman with long brown hair, wearing a striped sweater, sits at a round white table, looking at a laptop screen with a smile. In the center, an older woman with blonde hair, wearing a dark textured blazer, also looks at the laptop screen with a smile. On the right, a man with glasses and a bald head, wearing a grey sweater, stands with his hands in his pockets, looking towards the laptop screen. They are all smiling and appear to be engaged in a positive conversation or presentation. The background is blurred, showing office plants and other office elements.

At Arla, we are dedicated to developing our business, and we know that the best results are achieved in collaboration. We stay in close dialogue with colleagues, unions and farmer owners, to support continued engagement and learning, for the benefit of both people and company performance.

# ENGAGING COLLEAGUES AND UNIONS

## COLLEAGUE ENGAGEMENT SURVEY

The annual engagement survey, Barometer, was conducted in October and distributed to 19,037 colleagues in 15 different languages. The response rate was 85 per cent, 2 per cent more than last year. Despite a year, which has changed the work-life numerous times for many colleagues, the result continues to show that Arla colleagues are very engaged.

The overall Barometer results were presented at an online meeting, which was open to all. One of the global focus areas is to reduce incidents of harassment, and all managers and employees were asked to have a particular focus on promoting good behaviour in the workplace. Further focus areas are mental and physical health, and leadership including clear communication.

## TRAINING

Continuous training of colleagues at all levels is a key enabler for Arla's growth. We aim to ensure the right learning opportunities to safeguard competence and performance. With COVID-19 restrictions, much traditional classroom training was cancelled or postponed. Instead, we found creative ways of conducting trainings online – also for operators – and at the work lines.

Our 'operator asset care' course enables operators to be able to carry out basic asset care tasks such as cleaning, lubricating and inspection of equipment. By end of year, more than 150 core area technicians have been trained in how to train others at the lines. As a result, learning on the job is a part of the normal work at the lines.

Another example is a Danish project to upskill colleagues. In collaboration with two trade unions, which organise most blue-collar employees within the Danish dairy industry, we have offered a programme to become 'industrial operator'. Within next year, 100 experienced colleagues will have finished the programme.

For those colleagues who do not wish to go through a programme, we offer a long list of course activities which supports the life-long learning and long-term employability.

## TRAINING DURING COVID-19

The learning designs and deliverables have been heavily influenced by COVID-19. Leadership and People management learning portfolios and graduate training have been redesigned from face-to-face to all online. New learning portfolios include online-first ways of working, focusing on collaboration, leadership and wellbeing, with the aim to strengthen and increase learning within mental health and resilience to support our sustainability agenda.

## APPRENTICESHIP PROGRAMMES

In Denmark, the labour-laws in force give us the possibility to employ a large number of apprentices in various programmes within dairy technology, industrial operations, maintenance and engineering, logistics and transportation. This gives us strong functional capabilities among our employees as well as an engagement in the local communities where we operate. In Denmark, we employ about 300 apprentices at any given point in time. The positions are offered to young people coming directly out of school as well as a large number of +25-year old.

## IMPROVED WORKFORCE MANAGEMENT

With production sites in many different countries, we continue to align processes and data handling, to work effectively. One example is a global platform for handling employee and organisational data which is being implemented. Another example is a time

track project initiated in 2020 which will help us to standardise workforce management and streamline our workforce management processes in Denmark, Sweden, Germany, the UK, the Netherlands and Finland, over the coming two years. With this project, we will ensure continued compliance with current and future labour laws and agreements, while improving Arla's ability to utilise our workforce in the most efficient way. The project also aims at creating higher levels of transparency for our colleagues and their time, attendance and absence data.

## UNION COLLABORATION

Our Works Councils, at both local and global level, are good forums for internal dialogue. The councils normally consist of colleagues as well as employer representatives, who work to secure the conditions necessary for the company's continued competitiveness and development, and for the wellbeing 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. The two annual EWC meetings have been replaced by one fully virtual and one hybrid meeting with only some participants in the room. The forum depends heavily on the social interaction in a physical setting, so finding ways for cooperating during COVID-19 has been a challenge.

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). During 2020, a constructive dialogue around formulating a Memorandum of Understanding has continued and Arla representatives have contributed to the conversations with insights on our responses to COVID-19 for employees outside Europe.

# ENGAGING FARMER OWNERS

## ACCELERATED DIGITAL JOURNEY

Arla's cooperative democratic process is normally guided by a lot of meetings between farmer owners and elected representatives. The Board of Representatives meeting in February 2020, was the last physical meeting before COVID-19 restrictions forced us to turn our democratic meeting agenda to digital format only. Apart from a few Spring District Member Meetings, all District and Regional Member Meetings have been replaced by digital formats.

Our farmer owners have become more familiar with digital meetings. The attendance at the Area Forum meetings, the area representatives' meetings that usually takes place twice per year in the four areas, has been high. In 2020 we organised an extra third session as there was a need for more information in summer 2020. In general, our conclusion is that ensuring information flow works well digitally, but it has proven to be more challenging having a profound democratic debate.

## ENGAGING FARMERS OWNERS 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 third Arla Next programme will conclude early 2021 with a total of 60 participants prepared to be elected as farmer representatives or acting as Arla ambassadors, for example in commercial activities.

## ONBOARDING FARMER OWNERS IN NEW PROGRAMMES

All farmer owners have now submitted data in the new data portal of the quality programme Arlagården®. Physical and digital drop-in sessions as well as telephone service have been offered to help

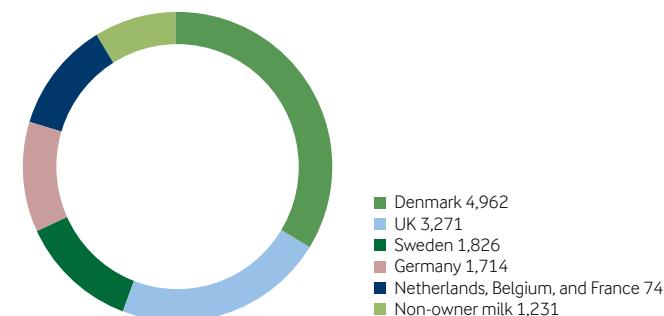
farmer owners with practical questions about data submission in the portals for both Arlagården® and the Climate Check (read more on page 13-16).

Since September, we have offered webinars in all areas to inspire farmer owners to reduce their carbon footprint with the help of the Climate Check catalogue and experts providing practical guidance.

## DIGITAL LEARNING – ARLA FARMER OWNER WEBSITE

In the learning area of our global owner web, accessible for all members, information, videos, Q&A's and checklists about Arlagården® and Climate Check have been uploaded to support the launch on farm level.

Raw milk intake, million kilos



Arla's total milk intake amounted to 13,746 million kilos in 2020, which means that the milk intake is almost unchanged compared to 2019. Owners' milk represents around 91 per cent of total milk intake.



## COMMUNICATION DURING COVID-19

To ensure thorough communication during COVID-19, a weekly newsletter has updated farmer owners on how COVID-19 is affecting Arla's business and assuring them that all processes related to milk collection and processing are ensured.

# COMPANY PERFORMANCE

## RESULTS 2020

Arla's net revenue in 2020 amounted to EUR 10.6 billion, compared to EUR 10.5 billion in the previous year. The profit for the year was EUR 352 million, compared to EUR 323 million in 2019.

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 130 million in 2020, compared to EUR 110 million in 2019, accumulated we have now reached 354 million and are well on the way towards the target.

## MARKET DEVELOPMENT

Arla maintains its position as the world's fourth largest dairy company in terms of volume of milk intake, and the world's largest

producer of organic dairy products. 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 2020 the Arla performance price was 36.9 EUR-cent/kg, compared to 36.6 EUR-cent/kg in 2019. Despite year on year increases in milk volumes across the globe, commodity market prices have continued to remain relatively stable with some softening in cheese prices being offset by increase in powder and cream prices. The increase in the Arla milk price is the result of our improving business mix and general business performance. The current outlook remains stable.

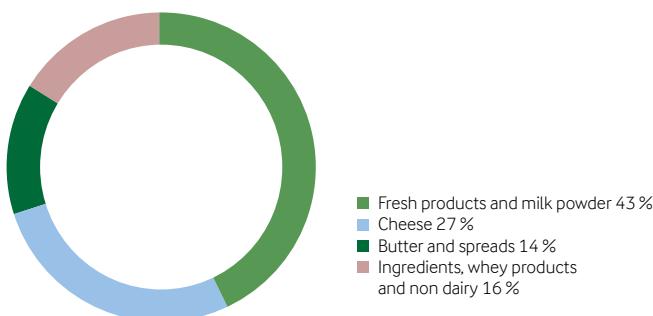
## BREXIT AGREEMENT

At the end of 2020, the UK and the EU finalised a Free-Trade Agreement, which supports tariff-free trade in dairy, removing a significant risk for Arla's trade across borders. However, as the UK has left the EU Single Market and Customs Union there will be additional administration and we are preparing for disruption and delays at ports and borders. Implications for our UK-colleagues working in EU-countries, and vice-versa, remain to be handled as the agreement enters into force.

## EFFECTS OF COVID-19

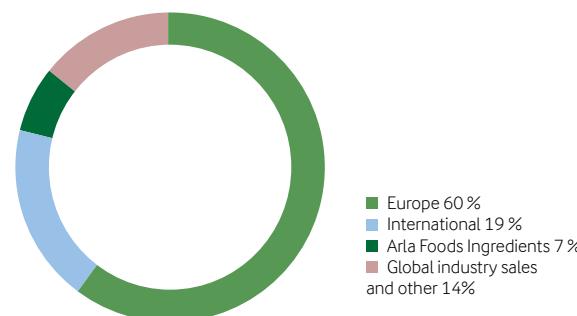
Arla has managed the significant changes to the dairy market brought by COVID-19 well. Based on excellent work and front line focus, from all employees across functions, we have strengthened our business, gained market shares and ensured customer service, while keeping our employees safe.

### Revenue by product group



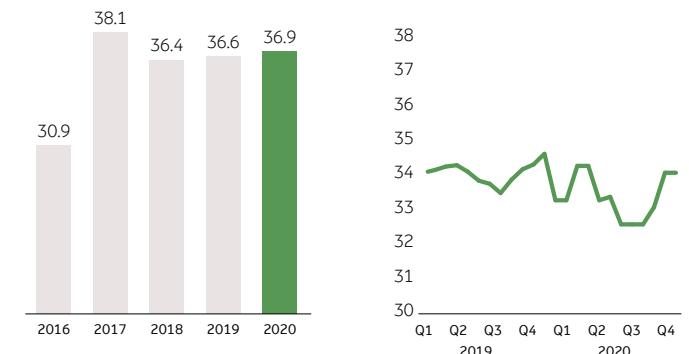
The revenue by product group was similar to 2019.

### Revenue by segment



Arla's total revenue has increased by 1 per cent since 2019. For further information, see Arla's annual report.

### Performance price (EURc/kg)



The left graph shows the performance price (EURc/kg). The right graph shows the average pre-paid milk price was 34.1 EUR-cent/kg unchanged compared to last year.

# AMBITIONS & PROGRESS DATA

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



The section includes data from all production and logistical sites, This, together with milk production, external waste handling, external transport and packaging cover all material activities in Arla value chain.

# 2020 STRATEGIES - FINAL FOLLOW UP ON GOALS AND TARGET

In 2011, Arla launched its 2020 Environmental strategy targeting three areas, climate, energy & water, and waste, and in 2014 the Sustainable dairy farming strategy was introduced. Both strategies helped us raise the bar, and below is a summary of the final results, together with a follow-up on our 2020 strategies for packaging and nutrition.

## Sustainable dairy farming

To reduce the emission of greenhouse gases from farms by 30 % per kg of milk, from 1990 to 2020.

	2020	2019	2018
	22%	23%	24%

Carbon footprint of milk from owner farms is reduced by 22% from 1990 to 2020. The reduction did not meet the target, which is explained by the complexity of quantifying and reducing climate impact from farms. The baseline was calculated as a national average from the four countries (Germany, Sweden, UK and Denmark – German data was used to represent the four countries in CE). 2020 data is based on specific results from Arla climate checks performed and audited in 2020. Until 2019, more than 5.500 farmers had a climate check – using local carbon footprint tools or in recently the Arla Climate Check tool. This tool has now been implemented, and more than 8000 farmers have submitted data for the climate checks end of 2020. In the strategy period more than 700 farm workshops were arranged to support knowledge sharing and dialogue on e.g. resource efficiency, climate actions and animal welfare. Since 2014, we have sourced 100% responsible soy for feed on owner farms, the feed soy is either certified or covered by RTRS-credits.

## Environment

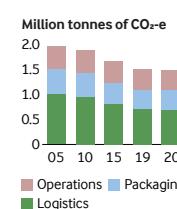
To reduce greenhouse gas emissions from operations, logistics and packaging by 25% by 2020 compared to 2005 levels.

Operations  
Packaging  
Logistics

### Total climate impact reduction since 2005

2020
31%
22%
15%
<b>25%</b>

The overall climate goal of a 25% reduction in 2020 compared to 2005 was reached, mainly due to large emission reductions in operations (more than 31%) thanks to increase in share of renewable energy. Packaging related emissions were reduced by 22%, the complexity of product mix and packaging solutions led to more plastics and complex packaging materials. Logistics reduced emissions by 15%, and cost and availability of renewable fuels remained challenging on most markets.



## Packaging recyclability

Target 2020: 100% recyclability.

Realised 2020: 94%, the remaining 6% is primarily due to complex packaging materials.

## Waste

Target 2020: zero waste to landfill.

Realised 2020: a reduction of 72% compared to 2005, from 4,383 tonnes to 1,204 tonnes. The main reason for not reaching the target is expansion of production outside of Europe, where recycling systems are less mature.

## Water and Energy efficiency

Target: 3% annual improvement.

Realised: this target was met for years, but there is a limit to efficiency improvements and year-on-year improvements have been challenging in recent years.

## Renewable energy

Target 2020: share of renewable energy increased to 50%.

Realised 2020: 35%, while at the same time increasing production. Cost and availability have impacted performance.

## Nutrition

### Arla® Nutrition Criteria

95% of Arla® branded products fulfill the criteria in 2020

2020	2019	2018
89%	90%	91%

The downwards trend is due to a decline in sales of drinking milk, together with a stop in growth for our powder business in Nigeria, due to COVID-19, and growth in the cooking range.

Going forward we will report our progress in relation to our Sustainability strategy and climate targets. Please find results and performance against Science Based Targets in ESG table page 56.

# SUSTAINABLE DAIRY FARMING

## Policy/ambition

Arla's new sustainability strategy, launched in 2019, is 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.

## Targets

In 2019, Arla set Science Based Targets towards 2030, aiming to reduce greenhouse gas emissions per kg of milk and whey 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.

We continue to focus on animal welfare, and strive to improve share of farms reaching top level (Somatic Cell Count <200 000).

## Progress

Scope 3 emissions per kg milk and whey amounted to 1.21 kg CO<sub>2</sub>e in 2020 and were reduced by 7% since 2015 due to activities on Arla farms. In 2020, emissions from milk only amounted to 1.17 kg CO<sub>2</sub>e per kg, while the impact from owner milk specifically amounted to 1.15 kg CO<sub>2</sub>e per kg.

According to our Science-Based Target, scope 3 emissions per kg milk and whey should be reduced by 30% in 2030.

### Greenhouse gas emissions

	2020	2019	2018	2017	2016
Progress towards 2030 CO <sub>2</sub> e reduction target (scope 3 per kg milk and whey)	-7%	-7%	-7%	-6%	-6%

### Animal welfare

(Somatic Cell Count <200 000)

#### Udder health, share of farms reaching top level

	2020	2019	2018	2017	2016
Udder health, share of farms reaching top level	57 %	55 %	53 %	56 %	53 %

Going forward we will report on animal welfare indicators in the ESG table, as described on page 16.

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 with both standards. In 2020, only 23 % of owner farms were audited, which is lower than normal (2018:50% and 2019:36%) due to COVID-19 restrictions and a change in auditor set-up.

## 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.

### 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.

### On Sustainable Development Goals And Targets



For in-depth info please click on icons

# ENERGY & CLIMATE

## Policy/ambition

In Arla's new environmental ambition, launched in 2019, focus areas are Better Climate, Clean Air and Water and More Nature. The ambition for the identified areas is to minimise negative and maximise positive impacts.

## Targets

Arla set Science Based Targets for 2030, using 2015 as a baseline. Direct greenhouse gas emissions (scope 1) and emissions related to purchased energy (scope 2) should be reduced by 30% in absolute terms. For indirect emissions from sourcing of raw milk, ingredients, packaging materials, transportation (scope 3) the target is to reduce the carbon footprint at farm level by 30 % per kg milk and whey, being the most important raw materials.

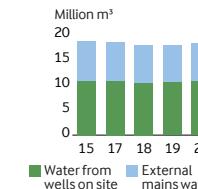
In addition to Science Based Targets, we continue to closely monitor and improve energy efficiency and share of renewable energy, water efficiency and recycling of waste. We have a 50 % reduction target in food waste in production for 2015–2030.

For packaging, the target is to have 100 % recyclable packaging by 2025. Packaging used for our Arla branded products can be collected, processed and returned to use in the form of raw materials or products, not necessarily into food packaging (based on ISO Standard 14021). We also have a 0% target for fossil based virgin plastic used in our packaging by 2030. By virgin plastic we mean any plastic content used in our packaging which is material derived from fossil resources, such as crude oil or natural gas.

## Progress

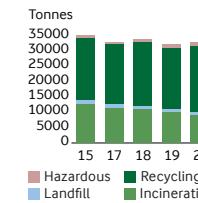
### Water consumption

Total water use has increased slightly compared to 2019, due to a diverse product mix, requiring more cleaning of equipment. Water efficiency has not improved, indicating need for more focus going forward.



### Waste

Arla's goal is zero waste to landfill. The proportion of waste that is recycled increased by 1680 tonnes compared to 2019 and waste to landfill increased by about 200 tonnes compared to 2019. The remaining volumes are mainly in non-European countries where landfill is still common.



### Food waste

Proportion of purchased materials, %

2020	2019	2018	2017	2015
2.00%	1.90%	2.24%	2.35%	2.64%

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

Sent to anaerobic digestion/biogas production 273,676

Animal feed and reprocessing 120,848

Donations to charity 1,425\*

\*Donations to charity are likely underreported, as we have donated more under 2020 due to COVID-19 related surplus, and to support e.g. medical staff and citizens in need.

### Packaging – Recyclability

In 2020, a new definition and baseline were agreed. According to this new definition, the recyclable share end of 2020 is approximately 85%. Going forward we will use this new baseline for our 2025 target.

### Packaging – Virgin fossil-based plastic

The share of virgin fossil-based plastic is measured as percentage of total weight of total plastic used. Baseline end of 2020 is approx. 85%.

## Impact

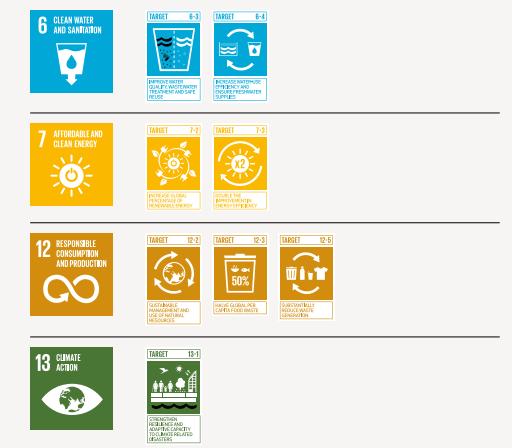
### On society

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.

### On Arla

Climate change, water stress and malfunctioning ecosystems are threats to our supply chain, (mainly related to agricultural raw materials). In addition, our processing sites depend on clean and abundant water resources, energy and other raw materials. Costs and/or availability are business risks going forward. Not addressing environmental and climate challenges pose reputational risks as well.

### On Sustainable Development Goals And Targets



For in-depth info please click on icons

# ENERGY & CLIMATE (CONTINUED)

## Policy/ambition

In Arla's new environmental ambition, launched in 2019, focus areas are Better Climate, Clean Air and Water and More Nature. The ambition for the identified areas is to minimise negative and maximise positive impacts.

## Targets

Arla set Science Based Targets for 2030, using 2015 as a baseline. Direct greenhouse gas emissions (scope 1) and emissions related to purchased energy (scope 2) should be reduced by 30% in absolute terms. For indirect emissions from sourcing of raw milk, ingredients, packaging materials, transportation (scope 3) the target is to reduce the carbon footprint at farm level by 30 % per kg milk and whey, being the most important raw materials.

In addition to Science Based Targets, we continue to closely monitor and improve energy efficiency and share of renewable energy, water efficiency and recycling of waste. We have a 50 % reduction in food waste in production for 2015–2030. For packaging, the target is to have 100 % recyclable packaging by 2025. Packaging used for our Arla branded products can be collected, processed and returned to use in the form of raw materials or products, not necessarily into food packaging (based on ISO Standard 14021). We also have a 0% target for fossil based virgin plastic used in our packaging by 2030. By virgin plastic we mean any plastic content used in our packaging which is material derived from fossil resources, such as crude oil or natural gas.

## Progress

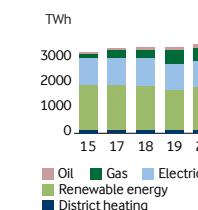
Greenhouse gas emissions (mkg)	2020	2019	2018	2017	2016
<b>CO<sub>2</sub>e scope 1</b>					
Operations	381	366	400	408	388
Transport	93	97	90	84	86
<b>Total CO<sub>2</sub>e scope 1</b>	<b>474</b>	<b>463</b>	<b>490</b>	<b>492</b>	<b>474</b>
<b>CO<sub>2</sub>e scope 2</b>					
<b>Total CO<sub>2</sub>e scope 2 – market-based</b>	<b>277</b>	<b>399</b>	<b>456</b>	<b>438</b>	<b>466</b>
<i>Scope 2 – location-based</i>	237	274	263	313	334
<b>CO<sub>2</sub>e scope 3</b>					
<i>Emissions from farms:</i>					
Emissions related to milk production and operations on farm	16,499	16,380	16,406	16,666	16,603
<i>Emissions from purchased goods and services:</i>					
Whey	1,133	1,032	1,162	1,002	1,117
Packaging	396	384	383	384	433
Transport	306	312	326	345	359
Operations	145	135	134	131	132
<b>Total CO<sub>2</sub>e scope 3</b>	<b>18,479</b>	<b>18,243</b>	<b>18,411</b>	<b>18,528</b>	<b>18,644</b>
<b>Total CO<sub>2</sub>e</b>	<b>19,230</b>	<b>19,105</b>	<b>19,357</b>	<b>19,458</b>	<b>19,584</b>
<i>Total CO<sub>2</sub>e – location-based</i>	19,176	18,977	19,156	19,337	19,456

## Greenhouse gas emissions

Scopes 1+2 emissions decreased by 24% compared to 2015, supported by purchase of renewable energy in our production and change to market based accounting. Scope 3 emissions decreased by 7% compared to 2015. Continued focus on reducing total emissions is key to achieve our Science Based Targets, and we work with farmer owners and suppliers to achieve further emission reductions. The total emissions figure does not include offices, business travel and other less material activities.

## Energy consumption and share of renewable energy

The total energy use has increased, and we did not improve overall energy efficiency from 2019 to 2020, indicating that increasing efforts are needed. The results indicate that energy efficiency measures are not balancing the increased energy use from the product mix and production complexity. Share of renewable energy is increasing. As described on page 17, we will use dual reporting going forward. The 2020 renewable energy share is 31% for market based and 35% for location based.



## 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.

### On Arla

Climate change, water stress and malfunctioning ecosystems are threats to our supply chain, (mainly related to agricultural raw materials). In addition, our processing sites depend on clean and abundant water resources, energy and other raw materials. Costs and/or availability are business risks going forward. Not addressing environmental and climate challenges pose reputational risks as well.

## On Sustainable Development Goals And Targets



For in-depth info please click on icons

# 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.

## Targets

Food safety is key to Arla, and one of our core responsibilities is to ensure that products are safe for consumers to eat and drink. The target for recalls is per default defined as zero. No discard of milk caused by antibiotic-residue.

## Progress

### Product Recalls

Recalls

	2020	2019	2018	2017	2016
Recalls	1	4	2	10	7

In 2020 we succeeded with a further reduction in recalls, and only had to recall on one occasion.

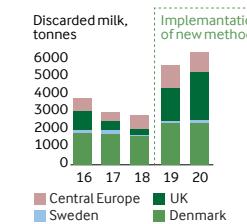
We have been able to keep a low level of product recalls over the last years, and besides following the number of product recalls, we also monitor a number of other factors including other product incidents than recalls; these show a very good trend verifying our continuous efforts to improve quality and safety and prevent failures. Decisions on whether to recall a product from the market will always be taken based on consumer safety.

### Sourcing raw milk quality

The graph shows the volume of milk rejected at our dairies and disposed in our respective owner countries.

Cows maybe treated with antibiotics for disease under the direction of their vet and there are strict procedures in place to prevent any residues from entering the milk supply chain. The milk from treated cows is discarded on farm during the treatment period and for a regulatory period afterwards.

The milk is tested extensively for the presence of antibiotic residues and when detected at the dairy quality control point it is rejected and disposed.



## 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.

### 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.

### On Sustainable Development Goals And Targets



For in-depth info please click on icons

# NUTRITION AND AFFORDABILITY

## 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 products. The nutrition criteria secure the content of beneficial dairy protein and calcium, while limiting the amount of added sugar, salt and fat. We target different consumer groups around the world with our products, and have set targets for reaching non-European market consumers with affordable products.

## Progress

Arla® Nutrition Criteria: 89 % Arla® branded products fulfilled the criteria in 2020. This is a decline by 1 % since 2019, primarily because the consumption of liquid milk has decreased.

Affordability: 75 million low income consumers in Nigeria and Bangladesh was reached, based on data from Kantar Worldpanel. This is by far meeting all expectations, and is mainly due to extra-ordinary sales and distribution in Bangladesh.

## Targets

Arla® Nutrition Criteria: In 2020, 95 % of Arla® branded products fulfil the criteria. We have the ambition to increase the volume of products fulfilling our Nutrition Criteria. Our target for 2025 is to increase by 60,000 tons.

Affordability: In 2020 increase market penetration by 2% and reaching 71,4 million low income consumers in Nigeria and Bangladesh (defined as segment D and below, based on national SEC segmentation). Market penetration rate based on Kantar Worldpanel data.

Affordability: In 2021 reach 77 million low income consumers in Nigeria and Bangladesh (defined as segment D and below, based on national SEC segmentation). In addition we plan to introduce a new affordable dairy product in Nigeria, which we expect will further increase access to affordable and nutritious food for low income consumers.

## 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 and at different cost-levels, Arla contributes to healthy eating patterns as well as addressing different aspects of malnutrition.

### On Arla

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

### On Sustainable Development Goals And Targets



For in-depth info please click on icons

# INTERNATIONAL DAIRY DEVELOPMENT

## Policy/ambition

Arla wants to contribute to sustainable dairy development, and we continue to increase our involvement in selected emerging markets to support a sustainable and commercially viable dairy sector, through for example job creation and up-skilling of farmers and farm workers.

## Progress

Sustainable dairy development programmes: 1,243 farms were enrolled in programmes mostly in Nigeria and Ethiopia by the end of 2020.

## Targets

Arla's sustainable dairy development programmes: reach 1,900 farms enrolled in the programmes in 2021. Continue to work with programmes in Nigeria, Ethiopia, Bangladesh, China and Indonesia, with the focus on capacity building and strengthening the link to Arla's commercial dairy value chain.

## Impact

### On society

Arla supports sustainable development in the dairy value chain and local communities across markets.

### On Arla

Contributing positively to local dairy development, and improve access to affordable nutrition for lower income consumer segments are important to build Arla's reputation and responsible growth, and key to fulfil stakeholder expectations on Arla.

### On Sustainable Development Goals And Targets



For in-depth info please click on icons

# HEALTH & SAFETY

## Policy/ambition

Arla offers a large variety of jobs across geographies, and 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.

## Targets

Our overall target is zero accidents and incidents, resulting in loss of working time.

To support our zero ambition we set annual improvement targets for accident frequency rates, near miss and behavioral observation ratios. In our Cornerstones programme we also have a safety maturity index that guides our future safety journey for all operations.

## Progress

Our step change safety program across supply chain is yielding significant results. We have seen our accident frequency rate per million working hours decrease by over 40% over the last 5 years, this indicates that our Arla behavioral safety program is becoming more embedded.

Unfortunately, 2 fatal incidents tragically occurred in 2020, in our MENA region, where Arla employees suffered injuries while at work. The incidents have been investigated, and additional preventive measures have been put in place.

Our reporting includes head offices in Denmark, Sweden, UK and Germany, and operation and logistics globally with the exception of Senegal.

## 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.

### 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.

### On Sustainable Development Goals And Targets



For in-depth info please click on icons

# 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.

## Targets

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

## Progress

Gender diversity for all employees	2020	2019	2018	2017	2016
Total share of female	27%	27%	27%	26%	26%
Gender diversity in management	2020	2019	2018	2017	2016
Share of female at director level or above	26%	26%	23%	22%	22%
Gender diversity in Executive Management Team	2020	2019	2018	2017	2016
Share of female in executive management team (EMT)	14%	29%	29%	29%	29%

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

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 ESG note 3.1.

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 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.

### 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.

## On Sustainable Development Goals And Targets



For in-depth info please click on icons

# 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.

## 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	1,614
Preferred suppliers have signed our code of conduct for suppliers	96%
Supplier audits with a focus on CSR and food safety have been performed. This is a 55 % increase compared to 2019, due to an increased number of tenders and new suppliers.	71
Share of certified soy	100 %
Share of certified palm oil*	90 %
Share of certified cocoa	100 %
External spend managed by the procurement department	83 %

\* the share of certified mass-balance was 7%, and 3% 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 16 % (17 % in 2019) of our total external spend.

In 2020, 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), Berry Superfos (packaging materials), SIG Combibloc (packaging materials and machinery), and Dentsu Aegis Network (media).



For in-depth info please click on icons

## 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.

### On Arla

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

### On Sustainable Development Goals And Targets



# 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.

## Targets

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

## Progress

### Competition law

In order to further strengthen our competition law compliance we have published an extensive Competition Law Compliance Programme Manual that sets out the measures we are taking on an ongoing basis to ensure strict competition law compliance. The document is accompanied by a formal Competition Law Compliance Policy, as well as an appendix explaining in more detail the constraints that competition law places on our day to day operations. The documents serve as a supplement to our ongoing efforts to ensure the highest level of compliance in particular our regular training sessions for relevant colleagues.

### 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 and virtually	663
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### Substantiated complaints concerning breaches of customer privacy

<b>Number of incidents of non-compliance with regulations and/or voluntary codes resulting in fines</b>	0
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

<b>Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations In the environmental area</b>	0
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## Impact

### On society

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

### On Arla

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

# 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.

## Targets

Zero corruption and bribery, zero facilitation payments.

## Progress

### Strengthened processes

We continuously strengthen our internal controls and policy monitoring activities, to ensure compliance with 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

Openness and trust are among our core values and incorporated into our Code of Conduct. If employees believe that the Code of Conduct has been violated, we encourage them to report these violations. Concerns can be raised by reporting to relevant management, HR or our Risk Controls and Compliance department. We also offer anonymous reporting through our whistleblowing function, applying strict principles of confidentiality and non-retaliation.

Since its inception in 2012, Arla has received 129 reports from its whistleblowing function. In 2020, the whistleblowing function received 8 reports of which 1 led to further investigation. Depending on the outcome of the investigation, appropriate measures have been taken.

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

## 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.

### 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.

### On Sustainable Development Goals And Targets



For in-depth info please click on icons

# CONSOLIDATED ENVIRONMENTAL, SOCIAL AND GOVERNANCE DATA

## Sustainability at Arla

Arla aims at delivering healthy and nutritious dairy products to consumers globally and is committed to do so with a constantly reduced environmental impact. In 2019 Arla launched a comprehensive sustainability strategy to achieve these goals.

To signify our commitment to the sustainability agenda, and to increase accountability towards the goals Arla set, we decided in 2019 to report on figures describing Arla's environmental, social and governance performance in our external reporting, and received limited assurance on these figures from EY. In 2020 Arla aimed at improving ESG data quality and strengthening the reporting process. The effort was guided by EY's requirements for reasonable assurance, which Arla received on most of the ESG KPIs in 2020. Due to various reasons primarily related to lack of standardisation in reporting across farms and the external validation process of self-reported climate data slowed down by the COVID-19 pandemic, scope 3 emissions on farms was assured on the limited level in 2020. Read more about the external assurance on page 134 in Arla's Annual Report.

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. Maturity and quality of data was also taken into consideration when selecting the figures presented in this section. Therefore, some of the KPIs recommended by the above mentioned professional bodies are not part of the current report. Most notably, Arla is not reporting on total water consumption, mainly due to the fact that the majority of the company's water consumption relates to farms, where it is currently not measured at a satisfactory level.

Arla's biggest environmental impact relates to the indirect, scope 3 CO<sub>2</sub>e emissions, more precisely to milk production on farm (86 per cent of total CO<sub>2</sub>e emissions). From 2020 Arla's farmer owners were offered an incentive of 1 eurocent per kg of milk to have climate checks performed on their farms, which resulted in a significant increase in farm level emissions data as 93 per cent of active owners completed the detailed climate questionnaire. For more information on the Climate Check programme, 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 per cent for scope 1 and scope 2 in absolute terms from 2015 to 2030
- Reduce greenhouse gas emissions with 30 per cent for scope 3 per kg of milk and whey from 2015 to 2030

Beyond the Science-Based Targets, Arla also announced the ambition to become carbon net zero by 2050.

In 2020, following the group's restatement policy and the guidelines of the Science-Based Target initiative, Arla restated the baselines related to our Science-Based Targets due to significant methodological changes and the widening of reporting scope. Read more about these changes on page 124 and 133 in Arla's annual report.

For ESG accounting policies please see page 59 - 62.

Five-year ESG overview	ESG note	2020	2019	2018	2017	2016
<b>Environmental data</b>						
CO <sub>2</sub> e scope 1 (mkg)		474	463	490	492	474
CO <sub>2</sub> e scope 2 – location-based (mkg)		237	274	263	313	334
Scope 2 – market-based (mkg)		277	399	456	438	466
CO <sub>2</sub> e scope 3 (mkg)*		18,479	18,243	18,411	18,528	18,644
<b>Total CO<sub>2</sub>e (mkg)</b>	<b>1.1</b>	<b>19,230</b>	<b>19,105</b>	<b>19,357</b>	<b>19,458</b>	<b>19,584</b>
<b>Total CO<sub>2</sub>e – location-based (mkg)</b>		<b>19,176</b>	<b>18,977</b>	<b>19,156</b>	<b>19,337</b>	<b>19,456</b>
CO <sub>2</sub> e scope 3 per kg of milk and whey (kg)*		1.21	1.21	1.20	1.22	1.22
CO <sub>2</sub> e reduction (scope 1 and 2) market-based		-24%	-12%	-4%	-5%	-4%
CO <sub>2</sub> e reduction (scope 1 and 2) location-based		-16%	-14%	-12%	-6%	-6%
Progress towards 2030 CO <sub>2</sub> e reduction target (scope 3 per kg milk and whey)*		-7%	-7%	-7%	-6%	-6%
Renewable energy share (%) market-based	1.2	31%				
Renewable energy share (%) location-based	1.2	35%	33%	27%	24%	21%
Solid waste (tonnes)	1.3	32,975	33,713	34,600	32,608	32,192
Percentage of farmer owners reporting on animal welfare (%)	1.4	100%	89%	82%		
<b>Social data</b>						
Full-time equivalents (average)	2.1	20,020	19,174	19,190	18,973	18,765
Total share of females (%)	2.2	27%	27%	27%	26%	26%
Share of females at director level or above (%)	2.2	26%	26%	23%	22%	22%
Share of females in Executive Management Team (%)	2.2	14%	29%	29%	29%	29%
Gender pay ratio, white-collar (male to female)	2.3	1.05	1.05	1.06	-	-
Employee turnover (%)	2.4	10%	12%	12%	11%	14%
Food safety - number of recalls	2.5	1	4	2	10	6
Accident frequency (Per 1 million. working hours)	2.6	5	6	8	10	11
<b>Governance data</b>						
Share of females, Board of Directors (%)**	3.1	13%	13%	13%	12%	7%
Board meeting attendance (%)	3.2	99%	96%	99%	99%	98%

\* Scope 3 emissions from farm subject to limited assurance in 2020

\*\* Including all board members, those elected by the general assembly, employee representatives and external advisors, the share of females was 20 per cent as of 31 December 2020

# 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
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
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
9. Encourage the development and diffusion of environmentally friendly technologies.

## Anti-corruption

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



Since 2008, Arla has been a member of the Global Compact's Nordic Network. In May 2009, Arla signed up to Caring for Climate, a voluntary and complementary action platform seeking to demonstrate leadership around the issue of climate change. In 2010, Arla's CEO signed a CEO Statement of Support for the Women's Empowerment Principles, an initiative from the Global Compact and UNIFEM (the UN Development Fund for Women). Read more about the Global Compact and its principles at [www.unglobalcompact.org](http://www.unglobalcompact.org), and more about Arla's Code of Conduct at [arla.com](http://arla.com).

# MATERIALITY ANALYSIS

During 2020, we updated our materiality analysis with a limited number of stakeholders. Due to the general COVID-19 focus and related efforts for most stakeholders, we decided to postpone the full update until 2021. However, it was important for us to reach out to both internal and external key stakeholders, to find out which aspects they see as material and to get an indication of how their view may have changed since the latest full update in 2017.

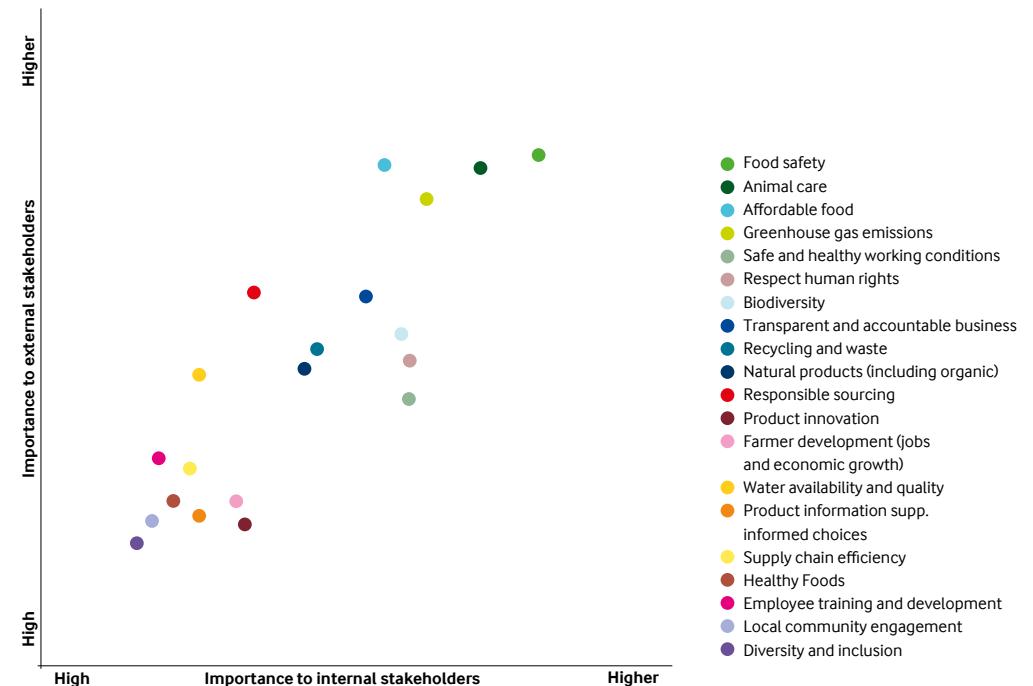
External stakeholders including, customers, consumers, owners, non-profit organisations and financial institutions in Denmark, Sweden, the UK and Germany/Central Europe, as well as Internal key stakeholders took part in the latest full analysis.

We reached out to both external and internal stakeholder groups again for the 2020 update. We also used the same methodology, which means that all stakeholder groups received a survey and were asked to rank a set of sustainability related areas of interest. Moreover, a group of non-profit organisations were interviewed to get a deeper understanding of their views and opinions.

We use the analysis to assess our activities and improve the focus of our reporting and communication. Furthermore, the study serves as a basis when relating to the Global Reporting Initiative (GRI) guidelines.

The 2020 update showed that food safety and animal care are still the top priority for both external and internal stakeholders. Other areas, which are still highly prioritised, are affordable food, greenhouse gas emissions and transparent and accountable business. Biodiversity had moved up the list, whereas topics such as product innovation and supply chain efficiency were prioritised less important than in 2017. This indicates that we see a slightly changed focus for our stakeholders, bearing in mind that this update is based on a limited number of responses.

We are looking forward to the next in-depth analysis.



# ESG ACCOUNTING POLICIES

The appendix describes accounting policies for the content of the ESG table, which is fully aligned with the Annual Report. For further accounting details and the independent auditors combined assurance report please read notes in the Annual Report on pages 123 – 134.

## 1.1 Greenhouse gas emissions (CO<sub>2</sub>e)

Greenhouse gas emissions are measured in CO<sub>2</sub>e and are categorised into three scopes.

### Calculating CO<sub>2</sub> equivalents

Greenhouse gases are gases that contribute to the warming of the climate by absorbing infrared radiation. Besides the widely known carbon dioxide (CO<sub>2</sub>), there are two other major greenhouse gases associated with dairy production: nitrous oxide (N<sub>2</sub>O) and methane (CH<sub>4</sub>). In order to calculate the total greenhouse gas emissions (the carbon footprint) for Arla, different greenhouse gas emissions are converted into carbon dioxide equivalents (CO<sub>2</sub>e). The conversion of different gases reflects their global warming potential.

The potency of the different gases is taken into consideration according to the following calculations (based on the IPCC Fifth Assessment Report, Climate Change 2013):

1 kg of carbon dioxide (CO<sub>2</sub>) = 1 kg of CO<sub>2</sub>e  
1 kg of methane (CH<sub>4</sub>) = 28 kg of CO<sub>2</sub>e  
1 kg of nitrous oxide (N<sub>2</sub>O) = 265 kg of CO<sub>2</sub>e

The majority of Arla's emissions are methane (e.g. produced by cows digesting the feed) and nitrous oxide (e.g. from fertilizer and manure on farms, or

manure storage)(e.g. produced by cows digesting the feed) and nitrous oxide (e.g. from fertilizer and manure on farms, or manure storage).

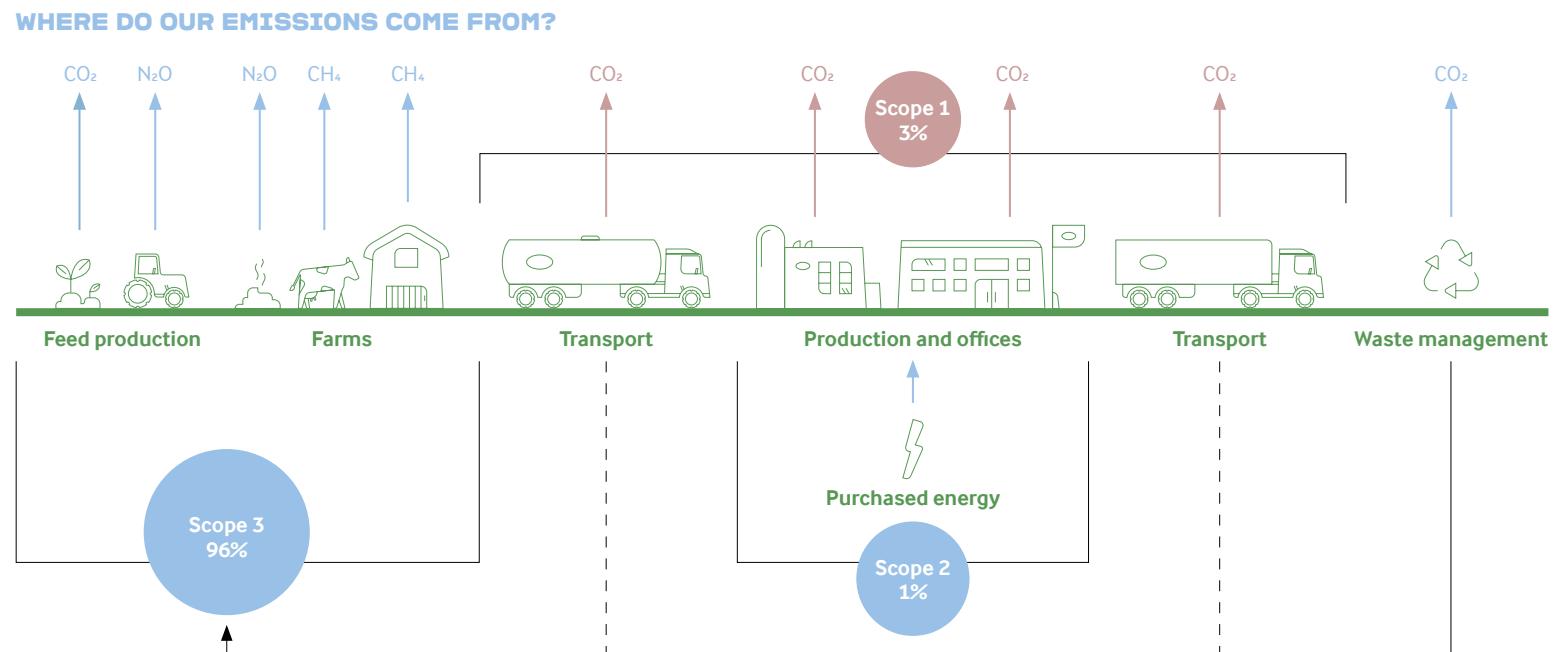
Greenhouse gas emissions are categorised into three scopes according to where they appear across the value chain, and what control the company has over them.

### Scope 1 – All direct emissions

Scope 1 emissions relate to activities under the group's control. This includes transport using Arla's vehicles, and direct emissions from Arla's production facilities. Scope 1 emissions are calculated in accordance with the methodology set out in the Greenhouse Gas Protocol Corporate Standard by applying emission factors to Arla-specific activity data.

### Scope 2 – Indirect emissions

Scope 2 emissions relate to the indirect emissions caused by Arla's energy purchases, i.e. electricity or heat. Scope 2 emissions are calculated in accordance with the methodology set out in the Greenhouse Gas Protocol Corporate Standard by applying emission factors to the group's specific activity data. In 2020, Arla switched from location-based scope 2 reporting



# ESG ACCOUNTING POLICIES (CONTINUED)

to market-based reporting and updated the 2015 baseline. The market-based allocation approach reflects emissions from the specific electricity and other contractual instruments that Arla purchases, which may differ from the average electricity and other energy sources generated in a specific country. This gives Arla the chance to purchase electricity and other contractual instruments that emit less greenhouse gases than the country average. In accordance with the GHG Protocol, Arla discloses scope 2 emissions according to both the market- and location-based method (also known as dual reporting).

## **Scope 3 – All other indirect emissions**

Scope 3 emissions relate to emissions from sources that Arla does not directly own or control. They cover emissions from purchased goods and services e.g. raw milk purchased, packaging and transport purchased from suppliers), but also waste processing at sites (e.g. recycling or incineration). Scope 3 emissions from raw milk are calculated in accordance with the International Dairy Federation's guideline for the carbon footprint of dairy products (IDF 2015). Emissions related to raw milk include all emissions on farm (e.g. from cows digesting the feed, manure handling, nitrogen, diesel use for feed cultivation and peat soil) and off farm (e.g. imported feed, fertilizer production and transport). The majority of Arla farmers report on climate data yearly. The emission figure related to raw milk shown in this report is an average emission per kg of milk, calculated based on the self-reported climate data from farms where the data has been validated by external climate

experts, multiplied by Arla's total milk intake. Farms visited by external climate experts are statistically representative of all Arla farms.

Scope 3 emissions from whey, waste at sites, packaging, third-party transport and extraction of fuels are calculated by applying emission factors to Arla-specific activity data. In 2020, Arla expanded the reporting scope for packaging and transport suppliers, and now covers 100 per cent of the spend on such suppliers (in previous years reporting covered about 95 per cent). Arla collects data from transport and packaging suppliers covering a minimum of 95 per cent of the spend, and based on the collected data, emissions are scaled up to cover 100 per cent. According to the 2020 quantification of Arla's total climate impact, scope 1 and 2 emissions accounted for 3 and 1 per cent of total emissions, respectively.

Scope 3 emissions accounted for 96 per cent of Arla's total climate impact. Milk production on farm (including, among many factors, methane emitted by cows, and emissions related to feed and transport of feed) accounted for 86 per cent of the total emissions. For transport, operations and packaging emission factors are obtained from Sphera, an industry-leading consultancy firm. The emission factors are updated annually to the most recent complete data set for the same year, in this case 2017. Farm-level emission factors are obtained from 2.0 LCA Consultants, a Danish consultancy firm formed by academics.

## **1.2 Renewable energy share**

Energy usage in production consists of renewable and fossil-based fuels and electricity. Renewable energy is energy based on renewable sources, which can be naturally replenished, such as sun, wind, water, biomass, and geothermal heat. From 2020, Arla measures and reports emissions based on market-based accounting and will account for the purchase of green electricity by contractual agreement in the renewable energy share calculation. The renewable electricity purchased from national sources is assessed annually using figures for the national electricity mix supplied by Sphera, an industry-leading consultancy firm collecting, assessing and analysing emission data based on the latest scientific evidence. To calculate the share of renewables, the total renewable energy use is divided by the group's total energy use.

Some Arla sites produce and sell excess energy, i.e. electricity and heat. The energy sold was not deducted in the calculation of the renewable energy share.

## **1.3 Waste**

Solid waste is defined as materials from production which are no longer intended for their original use and which must be recovered (e.g. recycled, reused or composted) or not recovered (e.g. landfilled). This includes packaging waste, hazardous waste and other non-hazardous waste. To follow up on the goal of zero waste for landfill, Arla collects data monthly from all sites where we have control.

## **1.4 Animal welfare**

### **Percentage of farmer owners reporting on animal welfare**

From 2020, it is mandatory for all farmer owners to report on the welfare of their herds quarterly by submitting a questionnaire in the Arlagården® system. If they do not submit the questionnaire by the deadline and after having received a reminder, owners will need to cover the cost of the audit visit themselves.

### **Audits on farms**

Animal welfare conditions on Arla farms are regularly audited. The audit is conducted by an external party and is free of charge for the farmers if they submit their data on time. Farms in Denmark, Sweden, Germany and Central Europe are audited every three years, while farms in the UK are audited every 18 months (due to compliance with local regulations). In a few cases farmers could receive more than one audit in the same calendar year.

### **Somatic cell count:**

Arla monitors the somatic cell count (SCC) by analysing milk at bulk tank level each time milk is collected from the farms. Levels are continuously reported to safeguard milk quality. The figure reported here is a weighted average of Arla's entire milk intake in a given year. The SCC count is received from several laboratories across owner countries. SCC levels are consistently low across all markets.

# ESG ACCOUNTING POLICIES (CONTINUED)

## 2.1 Full time equivalents

FTEs are defined as the contractual working hours of an employee compared to a full-time contract in the same position and country. The full-time equivalent figure is used to measure the active workforce counted in full-time positions. An FTE of 1.0 is equivalent to a full-time worker, while an FTE of 0.5 equals half of the full workload. The average FTE figure reported in Note 1.2 in the consolidated financial statements, and in ESG note 2.1 is calculated as an average figure for each legal entity during the year based on quarterly measurements taken at the end of each quarter. All employees are included in the FTE figure, including employees who are on permanent and temporary contracts. Employees on long-term leave, e.g. maternity leave or long-term sick leave, are excluded. The majority of employees in production and logistics are classified as blue-collar employees, while employees in sales and administrative functions are classified as white-collar employees. The ratio of white-collar to blue-collar employees is calculated based on FTEs as at 31 December. Employee data is handled centrally in accordance with GDPR. The FTE figure is reported internally on a monthly basis. To improve data quality, data is validated by each legal entity on a quarterly basis through the financial consolidation system.

## 2.2 Gender diversity and inclusion

### Gender diversity (all employees)

Gender diversity is defined as the share of female FTEs compared to total FTEs. Gender diversity is based on FTEs as at 31 December 2020. It covers all white-collar and blue-collar employees.

### Gender diversity (in management)

Arla's gender diversity in management is defined as the share of female FTEs in positions at director level or above compared to total FTEs for positions at director level or above.

### Gender diversity

#### (in Executive Management Team)

Gender diversity in management is defined as the share of females in the Executive Management Team (EMT) as at 31 December 2020.

## 2.3 Gender pay ratio

The gender pay ratio is defined as the median male salary divided by the median female salary. The salary used in the calculation includes contractual base salaries while pension and other benefits are not included.

## 2.4 Employee turnover

Employee turnover is calculated as the ratio of total employees leaving to the total number of employees in the same period. The figure refers to the number of employees and not to FTE.

Turnover is calculated for all employees on a permanent contract and includes several reasons for their departure, such as retirement, dismissal and resignation. Departures are only included in the calculation from the month when remuneration is no longer paid (e.g. some tenured employees may be entitled to remuneration for a few months after their dismissal).

## 2.5 Food safety – Number of product recalls

In accordance with ESG reporting standards, product recalls are defined as public recalls. A public recall is the action taken when products pose a material food safety, legal or brand integrity risk. Public recall is only relevant if products are available to the consumers in the marketplace. Public recalls are reported as soon as they happen, and an incident report must be completed about each incident within two weekdays from the first notice of the problem. The total number of public recalls is reported externally on an annual basis.

## 2.6 Accidents

Accidents are defined as any sudden and unplanned event that results in personal injury, ill health, or damage to or loss of property, plant, materials or the environment, or a loss of business opportunity. An LTA is a work place injury sustained by an employee while completing work activities that results in the loss of 1 or more days off from work on scheduled working days/shifts. An accident is considered a lost-time accident only when the employee is unable to

perform the regular duties of the job, takes time off for recovery, or is assigned modified work duties for the recovery period. All employees sustaining injury or illness related to the work place are required to report it to their team leader/manager as soon as reasonably practical, regardless of severity. Employees at all sites have access to a mobile application where they can quickly and easily report any accidents. Notification must be done prior to the injured party leaving work. Accidents reported after the end of the injured party's working day may not be accepted as a workplace accident. However, there could be accidents which are not reported. The number of accidents is reported monthly to the Board of Directors and Executive Management Team.

## 3.1 Gender diversity – Board of Directors

The gender diversity ratio is calculated based on the members of the Board of Directors elected by the general meeting and excludes employee representatives and advisors to the Board of Directors.

## 3.2 Board meeting attendance

The board meeting attendance ratio is calculated as the sum of board meetings attended per board member and the total possible attendance. The current Board of Directors consists of three employee representatives, two external advisors and 15 owners. When calculating board meeting attendance, all 20 board members are included.

# ESG ACCOUNTING POLICIES (CONTINUED)

## 3.3 General accounting policies

### Basis for preparation

The consolidated environmental, social and governance (ESG) data is based on ongoing monthly and annual reporting procedures. The consolidated data complies with the same consolidation principles as the consolidated financial statements unless described separately in the definition section of each ESG note. All reported data follows the same reporting period as the consolidated financial statements.

### Materiality and reporting scope

When presenting the consolidated ESG data, management focuses on presenting information that is considered of material importance for stakeholders, or which is recommended to be reported by relevant professional groups or authorities.

To establish what is material for this report, a materiality analysis was conducted in 2017. The analysis involved consumers, customers, owners, non-profit organisations and financial institutions in Denmark, Sweden, the UK and Germany. All stakeholder groups received a survey and were asked to prioritise 22 defined areas of interest. Moreover, a group of non-profit organisations was interviewed to get a deeper understanding of their views and opinions. In addition to prioritising the group's activities, these results were used to improve communication processes and widen the reporting

scope. Based on results from the materiality analysis and constant tracking of consumer preferences, climate, food safety and animal care were identified as focus areas. Recycling and waste, transparent and accountable business were also ranked as highly important to Arla's stakeholders. The materiality analysis undertook a light update in 2020 with unchanged conclusions compared to the 2017 analysis.

The figures disclosed in the consolidated ESG data section were chosen based on the materiality analysis, but also consider the maturity of data to ensure high data quality on each KPI. In some cases, it was concluded that current data tracking or collection capabilities do not provide sufficient data quality to satisfy disclosure to the highest standards, despite the fact that the figures could be of material importance to stakeholders. In these cases, the necessary steps to improve data tracking and collection have been initiated and the plan is to extend the ESG reporting in 2021 and beyond.

This section was inspired by the principles and recommendations of the The Danish Finance Society/CFA Society Denmark, FSR – Danish Auditors and Nasdaq published in the ESG reporting guidelines booklet in 2019. Where maturity and availability of data allowed, recommended ESG figures were added to this section. In the coming years, plans are to widen the scope of reporting to fully comply with best practice in ESG reporting.

The above priorities are reflected throughout the Annual Report: Animal welfare (page 35), governance principles (page 38-39) and diversity policies (page 40) are reported at length in the management review, while in this section definitions, data and accounting policies related to Arla's greenhouse gas emissions (Note 1.1), animal welfare (Note 1.4), food safety (Note 2.5), waste and recycling (Note 1.3) and diversity (Note 2.2 and 2.3) are presented, making Arla's business more transparent and accountable.

Environmental KPIs (Note 1.1-1.3) included data from all production and logistical sites. This, together with milk, external waste handling, external transport and packaging cover all material activities in Arla's value chain. The environmental impact related to offices, business travel and other less material activities was not included in the total emission figure. This scope also applies to the accident KPI, Note 2.6, however accidents at head offices in Denmark, UK, Sweden and Germany were also included.

### Comparison figures

In line with ESG reporting guidelines, environmental data is presented in absolute figures to ensure comparability. Where relevant, a measure for progress towards Arla's previously communicated internal targets is included. Baselines and comparison figures are restated according to Arla's restatement policy. By default, Arla's baseline emissions are reviewed every five years from the target base year (2020, 2025, 2030), if no significant structural or methodological

changes trigger a recalculation before. Every 5 years, Arla assesses if the structural changes (e.g. acquisitions or divestments) in the past years reach the significance threshold when added together in a cumulative manner. Each year, Arla assesses if the structural changes that year reach the significance threshold (see below) by themselves or when added together.

A threshold is defined for each Science Based Target:

- Scope 1 and 2: 5 per cent change compared to the base year
- Scope 3 per kg of raw milk: 3 per cent change compared to the base year
- Every time baseline emissions are recalculated due to significant structural changes in the company (as defined above), historic figures are also recalculated and reported alongside the non-recalculated (actual) historic emission figures. This provides the reader with more clarity to understand Arla's actual emissions each year. Other externally reported ESG KPIs are only restated if material mistakes in the previous years' reporting are discovered. The materiality of mistakes is determined on a case-by-case basis.

In accordance with the restatement policy and Science Based Target, Arla restated the baseline in 2020, primarily driven by the switch to market-based accounting.



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