

2017

Our Responsibility

CORPORATE RESPONSIBILITY REPORT



Arla Foods is a **global dairy company** owned by more than 11,200 dairy farmers in seven European countries. Our products are sold on 120 markets **globally**.

- 02** **Foreword.** Åke Hantoft, Chairman, and Peder Tuborgh, CEO, share their views on corporate responsibility.
- 04** **Arla's foundation for sustainability.** Starting with our Code of Conduct, we will achieve our vision through our strategy.
- 06** **UN Sustainable Development Goals.** We focus our efforts on the goals on which we can have the biggest positive impact.
- 08** **Our contribution to society.** We engage in stakeholder dialogue and actively contribute to society.



480,000

In Denmark, Sweden, the UK and Germany, consumers can visit Arla farms to learn more about dairy production and to enjoy Open Farm and cows out to pasture events. More than 480,000 consumers visited farms through these events.

93%

93 per cent of Arla® branded products fulfill our Nutrition Criteria.

No. 1

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

100%

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

We believe **sustainability** and **profitability** go hand in hand, and that our dedication to being responsible will benefit our business.

- 10** **Health.** We offer a wide range of tasty dairy products and help consumers live healthier lives.
- 16** **Inspiration.** We see inspiration in all parts of Arla, from our farmer owners sharing experiences to consumers exploring our products.
- 22** **Natural.** We maintain high animal welfare and reduce climate and environmental impact all the way from cow to consumer.



18,973

Arla has 18,973 colleagues worldwide.

-18%

Since 2005, Arla's total climate impact has decreased by 18 per cent, despite increased production.

- 28** **Human rights.** We have strengthened our commitment to respect human rights in all business areas and processes.
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Peder Tuborgh CEO

Feeding the growing population with sustainable food is one of the big challenges the world faces going forward, and I believe Arla is part of the solution.

These years we see the signs of the pressure on the Earth's boundaries. The growing world population is leading to changing consumption patterns and increasing climate change, challenging our planet. As a big dairy company, we work actively together with our farmer owners to address some of the challenges related to the production of milk and dairy products.

In 2017, we took an important step towards more sustainable and transparent dairy production with the introduction of Arlagården® Plus. We also saw clear progress towards our targets on decreasing the environmental impact of farms, production and logistics.

We opened our global Innovation Centre in Aarhus, Denmark, which is now the heart of innovation in Arla. Developing new products is naturally in focus, but innovation is also about developing packaging and technologies to help us achieve our ambitious goals, for example, for reducing climate impact and food waste. This will enable us to deliver safe, healthy, tasty, and sustainable dairy products, inspire better food habits, and meet the needs and expectations of tomorrow's global consumer. We have seen a significant improvement in our market reputation this year, a position we will work hard to develop.

In Arla we are committed to following our principles of mutual respect and understanding wherever we operate, whether it is creating an inclusive workplace, providing better nutrition for low-income consumers, tackling modern slavery or market driven sustainable growth. We have strengthened our focus on human rights in business processes as part of our responsibility, especially in emerging markets, but also in more mature markets.

In the years to come, we will continue to strengthen Arla's business even further and we will also initiate discussions about the strategy beyond 2020, and how we can do good for both our business and the world in support of the UN Sustainable Development Goals.

Ten years ago, Arla signed up to the United Nations' Global Compact. This means we are committed to adapting the way we conduct our activities to the 10 basic principles of the Global Compact, and to communicate these principles to our stakeholders and the surrounding world. This report is part of that work, just as it is part of Arla's Annual Report 2017, which can be downloaded from arla.com.

I invite you to read through this report, and I'm looking forward to sharing more about our work in the future.

Aarhus, Denmark, March 2018

Peder Tuborgh, CEO

Åke Hantoft Chairman

Looking back at 2017 we have continued our focus on developing more sustainable dairy production, while at the same time increasing the milk price to farmer owners.

Arla farmers will undoubtedly describe 2017 as being one of the good years for dairy farming and dairy products. The milk price recovered after a difficult 2016, which was crucial for many dairy farmers.

Ensuring the best possible milk quality for our dairy products is at the core of our business, together with continuous work with animal welfare and sustainable production methods. In 2017, we introduced Arlagården® Plus, a tool that enables us to be even more transparent about the animal welfare and sustainable production on our farms. At the end of the year, only a few months after the launch of the tool, 75 per cent of all farmer owners had signed up, representing 88 per cent of the Arla milk pool.

The mid-term review of our sustainable dairy farming strategy 2020 concludes that Arla farms are on track to achieving our strategic targets. Regardless of where we do business, we need to understand that we operate in a highly consumer driven market, where consumers expect transparency in the value chain. They want to know more about the origin of dairy products, how we treat our cows and how we maintain a high biodiversity.

Being a farmer-owned cooperative allows us to build trust with both consumers and customers by, for example, sharing our stories and opening our farms to the public and by sharing our cooperative mindset in all markets, supporting local farmers, sustainable farming and local production in all markets. With more than 480,000 visitors to our farms, we help create a stronger link between food production and consumers.

While the daily focus for each individual dairy farmer lies in managing the farm, optimising production and delivering the best possible raw milk, focus for us as Arla owners being part of the cooperative involves much more. During the year we saw a further development of our farmer owner democracy as we aligned our work across borders even more, and strengthened the farmer owners' roles.

Consumer demand for more sustainable production methods will continue and I'm proud that we are leaning in and adopting new practices and more transparency. As a global farmer-owned dairy company, we are measured not only on our products and financial performance, but also on how we operate and govern our business.

Please take the opportunity to learn more about how we in Arla commit ourselves to the future through examples that demonstrate how we seek to grow our business in a responsible way all over the world.

Ösarp, Sweden, March 2018

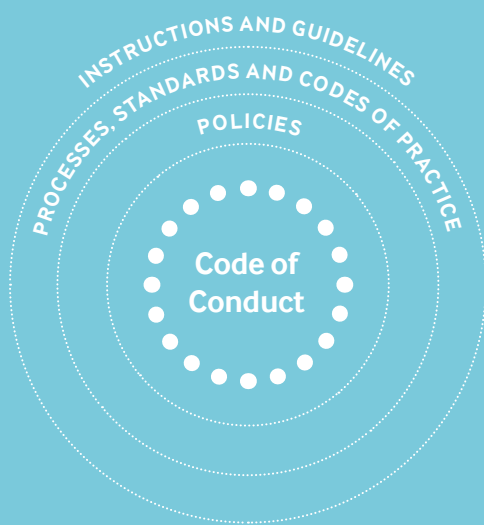
Åke Hantoft, Chairman

Arla's foundation for sustainability ...

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.

We are dedicated to developing our business in a responsible manner. We know that long-term success is only achieved if we add value to people's lives – whether they are consumers, customers, business partners, colleagues or owners.

We take the lead in areas close to our core. As a farmer-owned cooperative, it is in our nature to work together to develop the business and improve the efficiency and sustainability of our production. As a major food provider, we inspire good food habits and make it easier for people to live healthier lives.



How we work responsibly

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

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.

... and how we go forward



Arla's vision

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

Vision

Our vision includes great ambitions for our farmer owners, our business and our consumers all over the world.

This year's responsibility report focuses on the following keywords in our vision: **HEALTH**, **INSPIRATION** and **NATURAL**. We want to explain how our responsibility and sustainability work connects to our vision.

Good Growth strategy 2020

Our strategy to reach our vision is called Good Growth. It is at the heart of everyone at Arla that we grow the business in a good way.

Arla's strategy is to grow the value of our farmer owners' milk by developing our position as a leading global dairy company.

In order to succeed, we will:

- Excel in eight dairy categories
- Focus on six geographical regions
- Win as one united and efficient Arla

In this report, you will find examples of how we work to grow our business, while acting responsibly in every step.

Read more about Good Growth on arla.com.



UN Sustainable Development Goals



The 17 Sustainable Development Goals (SDG) that UN adopted in 2015 take a broad perspective and are relevant for all countries. For these goals to become reality, all countries, businesses and organisations should embrace necessary changes.

The pressure on the Earth's resources, the impact of climate change, and the quickly growing population, increase the need for healthy food and change the conditions for food production, and thereby for our business going forward.

For Arla the journey has already begun – for many years we have worked systematically with sustainability in our full value chain. Our business activities positively impact several SDGs either directly or indirectly.

Arla plays an important part of societies around the world through the local anchoring of our farmer owners, through our operations and not least through the dairy products consumed by millions of people every day. Through our operations, we are able to contribute to the goals.

Arla supports all SDGs, and focus our efforts towards the goals on which we can have the biggest positive impact – goals number 2, 8 and 12.



Goal 2
End hunger, achieve food security and improved nutrition and promote sustainable agriculture
 We help feed the world with healthy, sustainable and affordable dairy products, and further developing a resilient agricultural sector.



Goal 8
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
 We create livelihoods and support sustainable economic growth for farmers. We attract and retain people with good, decent jobs, and provide equal opportunities for development.



Goal 12
Ensure sustainable consumption and production patterns
 We promote sustainable production methods, we work actively to minimise waste throughout our value chain, including food waste among consumers.

All the goals are closely linked, and we appreciate that we have a positive impact on some of the other goals and individually related targets as well. We will therefore also refer to goals number 3, 5, 6, 7, 13, 15 and 17 in this report.



Goal 3
Ensure healthy lives and promote well-being for all at all ages
We provide nutritious products and support well-being for all.



Goal 5
Achieve gender equality and empower all women and girls
We focus on non-discrimination and equal opportunities.



Goal 6
Ensure availability and sustainable management of water and sanitation for all
We minimise the use of water and chemicals, and ensure all waste water is safely treated.



Goal 7
Ensure access to affordable, reliable, sustainable and modern energy for all
We continue to increase the share of renewable energy used within our operations, we increase energy efficiency internally and in collaboration with neighbouring communities.



Goal 13
Take urgent action to combat climate change and its impacts
We work according to our ambitious climate strategy, to combat climate change.



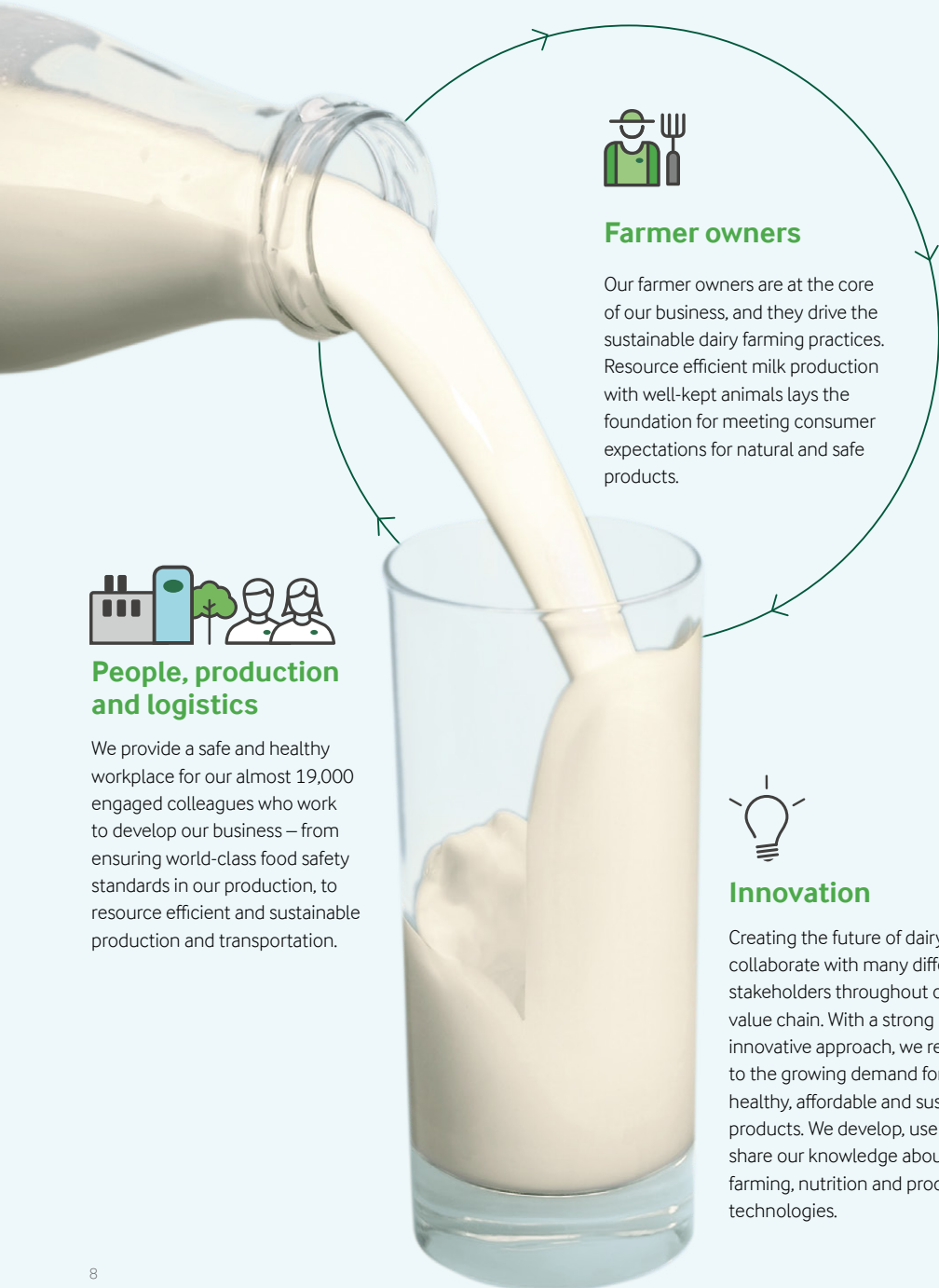
Goal 15
Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
We promote sustainable land use, and increase biodiversity.



Goal 17
Strengthen the means of implementation and revitalize the global partnership for sustainable development
We engage actively in public, public-private and civil society partnerships.

Our contribution to society

Arla Foods is a global dairy cooperative, and with farmer owners in seven European countries and consumers in 120 countries worldwide, we know our business impacts society in various ways. Through our collaborative business model, we promote development and good citizenship, wherever we operate. We create jobs around the world, ensure livelihoods for farmers, and run a transparent and resource efficient business.



Farmer owners

Our farmer owners are at the core of our business, and they drive the sustainable dairy farming practices. Resource efficient milk production with well-kept animals lays the foundation for meeting consumer expectations for natural and safe products.



Consumers and customers

We use our knowledge and dedication to meet the needs of consumers and customers around the world for safe, healthy, nutritious and natural products. We inspire good food habits, support our consumers in making informed choices and share knowledge about the origin of food.



People, production and logistics

We provide a safe and healthy workplace for our almost 19,000 engaged colleagues who work to develop our business – from ensuring world-class food safety standards in our production, to resource efficient and sustainable production and transportation.



Value creation

Being a responsible dairy company, we create sustainable growth opportunities for our farmer owners. We source responsibly, creating livelihoods for farmers and workers in many countries, and we create value for consumers by offering products to fulfill their demands.



Innovation

Creating the future of dairy, we collaborate with many different stakeholders throughout our value chain. With a strong innovative approach, we respond to the growing demand for more healthy, affordable and sustainable products. We develop, use and share our knowledge about dairy farming, nutrition and production technologies.

About this report

WELCOME TO OUR WORLD OF RESPONSIBILITY!

This report summarises how we drive our sustainability activities and progress our business. Just as our Code of Conduct applies to all Arla colleagues and all companies where we have management control, so does this report unless otherwise stated. This English master version has been translated to several languages.

HOW DO WE STAY ON TRACK?

As a responsible business it is important to work with the identification, prevention and mitigation of different kinds of risks in all areas of the business. In a sustainability context, risk takes on two meanings; the risk business activities pose to societies and the people that inhabit them, and the risk sustainability issues pose to our business objectives. In this report we focus on the risks associated with the following five areas: social and employee issues, corruption, environment, climate and human rights. We have worked for years with many of these areas, and have well-established methods for mitigation, follow-up and reporting. This approach is now applied in our increased focus on avoiding negative human rights impacts.

RESULTS 2017

Demonstrating progress towards our vision and strategy is essential in our work. Please find our follow-up on development and results on page 35–39.

IN THE MINDS OF OUR STAKEHOLDERS

During 2017, we updated our materiality analysis, see page 40. We invited main stakeholders to prioritise the importance of 22 aspects related to our sustainability activities. In addition, they could add comments. This was an opportunity that consumers in particular took advantage of. We present our answers to three of the most frequent consumer concerns in this report, see page 15, 21 and 27.

WE SUPPORT GLOBAL COMPACT

This report serves as our annual communication of progress towards the UN Global Compact. Arla also adheres to the United Nations Guiding Principles on Business and Human Rights.

WANT TO KNOW MORE?

Please visit arla.com and read Arla's Annual Report 2017.

HEALTH

Milk **naturally contains** one of the **richest combinations of nutrients** you can find in a single food source. Across the world, dairy products are **recommended** as part of a daily diet from childhood to old age.



Dairy – part of a healthy life

As one of the world's largest dairy companies, Arla has the opportunity to influence millions of consumers' food habits. We make dairy available in a variety of tasty products, and enable consumers to live healthier lives.

HIGHLIGHTS 2017

- Responsible marketing commitment
- Affordable products developed
- 93 per cent of Arla® branded products comply with Nutrition Criteria

Strategy for health

Our health strategy is built on our responsibility to promote and offer healthy and affordable dairy products around the world. To date, three years after the health strategy was launched, we are delivering on the strategy, as we are introducing healthier products, inspiring good food habits, collaborating in research, and supporting local health initiatives for our colleagues.

Improved food safety standards

We want to help people eat healthily, but first and foremost, we are determined to ensure that eating or drinking our products is always safe. During 2016 and 2017, we have merged all national quality functions into one global function, to continuously maintain our high level of quality and food safety. We have seen the benefits of this in 2017 as we are more aligned and have placed even greater attention on quality and food safety in the organisation.

Some of the essential elements in our development are to drive strong quality management through our full value chain, from farmers and suppliers through to transportation,

production and delivery to collaboration with our customers. This also includes having the same high quality mindset across Arla.

Part of the work in 2017 has been to improve our management of incidents associated with product quality. One of the focus areas has been to improve global reporting of structured problem solving for each incident and how that secures better prevention of future incidents. This work leads to both internal improvements and closer collaboration with suppliers and with joint ventures. Our commitment to quality and food safety ensures we actively drive competence development and improved ways of working for our existing and new suppliers as trusted partners in our value chain.

As we continue to develop new, safe and high-quality products, we have now targeted our initiatives on three main areas:

- **Commitment:** our internal mindset to deliver quality and food safety in Arla
- **Consistency:** quality and food safety all the way from farmers and other suppliers to consumers

■ **Confidence:** deliver consistently in order to be a trusted partner with customers and consumers.

New markets require new processes

The key demand driver for imported products in some growth markets is safe food. One of the issues often faced in these markets is maintaining a refrigerated supply chain. In response to this we have developed a long-life yogurt which retains its flavour, taste and texture during its shelf life even when it is not kept refrigerated throughout the distribution chain. We have achieved this by applying a different manufacturing process compared to regular yogurt.

Nutrition Criteria for Arla® branded products

Arla® Nutrition Criteria were introduced in 2016, and are an extension of our health strategy. Milk naturally contains many beneficial nutrients, such as calcium, vitamins B₂ and B₁₂, iodine, a high content of protein and a broad range of other vitamins and minerals, see page 15. The principle of our criteria is to ensure the content of milk protein and natural

dairy calcium in products, while limiting the amount of fat, added sugar and salt.

Specific examples of how the Nutrition Criteria are applied to our existing and future product portfolio is the focus on sugar content in fruit yogurts, protein and fat balance in cheese spreads and salt content in some cheeses. When reformulating products there is often a challenge to keep taste, and it can also have an impact on affordability and shelf-life.

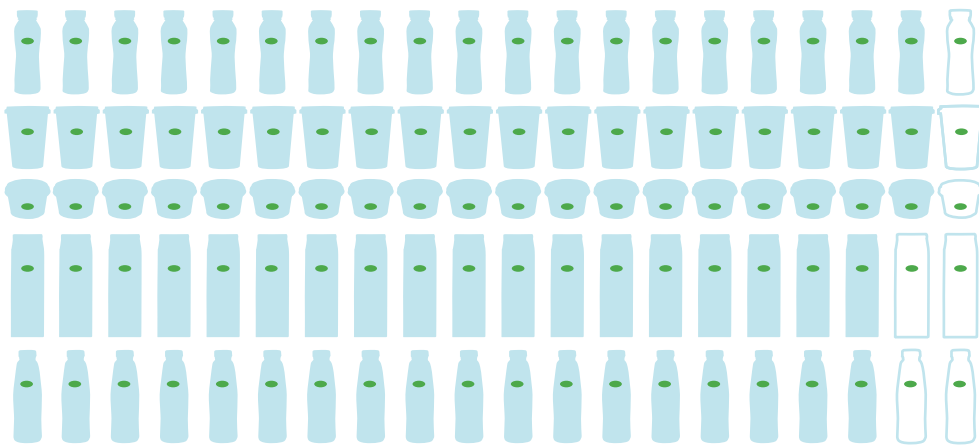
A result of applying the nutrition criteria is that we, only on Arla® branded products fulfilling the criteria, communicate about health. Transparent labelling of the nutritional content of our →

Food safety

100%

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

Products fulfilling Arla® Nutrition Criteria



93 per cent of Arla® branded products in the milk, yogurt and everyday cheeses categories comply with the Arla® Nutrition Criteria.

products is a way of informing consumers and enabling them to make conscious choices.

We do not want to guide the consumers to consume large quantities of cheese with high fat content as a source of protein and calcium, and have, for example, removed the claims of 'high in protein and calcium' from the packaging of two yellow cheeses, due to the relatively high fat content.

Affordable dairy

We want to provide healthy and affordable foods in emerging markets. 155 million under-fives are stunted, and 52 million children worldwide are defined as wasted, meaning they don't weigh enough for their height, according to the Global Nutrition Report published in 2017.

To find solutions, we are investigating how we can make more dairy products affordable in various ways. For example, by using ingredients complementing the nutrient content of dairy, and also in

relation to processing technologies (recombination) and packaging (portion size) to facilitate access to dairy goodness and health benefits to consumers in lower income groups. These measures will support the local food sector and could lead to reduced import tax, when applied in non-European markets.

At the beginning of 2018, we will launch a product with improved nutritional composition, to address the need for better nutrition in the lower income groups and the most vulnerable consumers in Bangladesh. Read more about Bangladesh on page 29.

Collaboration for better nutrition

Arla Foods Ingredients is engaged in a project with NGOs to increase the general health of Ethiopia's children by making better use of the milk from the country's 11 million cows. The aim of the project is to develop a locally produced, safe and fortified yogurt to be sold at a price families can afford. Read more about Ethiopia on page 28.

Responsible marketing

Inspiring people to develop better food habits is not only about offering good products, it is also about marketing them correctly, and during the year, we published our first corporate marketing policy.

The policy states that we always present nutrition and health claims in compliance with international standards, that we neither encourage nor condone overeating, and that we never present products as substitutes for meals when they are not intended as such. The restrictions become stricter the younger the audience.

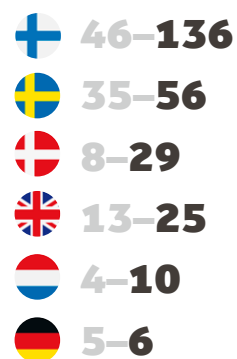
Furthermore, Arla has joined 21 other major food companies in signing up to the voluntary EU Pledge initiative on responsible food marketing to children.

The EU Pledge membership requires companies to commit to:

- No food and beverage advertising to children under 12 years, except for products fulfilling the EU Pledge common nutrition criteria.

■ No communication related to products in primary schools, except where specifically requested by, or agreed with, the school administration for educational purposes. →

Number of lactose free products



From 2013 to 2017 (in black) the demand for lactose free products has risen sharply in Finland, Sweden and Denmark.





Collaborative research

Arla is an active member of global networks and organisations, such as Global Dairy Platform and the International Dairy Federation. We initiate research together with other dairy companies, to be able to contribute with products to address challenges and opportunities.

The public-private partnership in nutrition research – Arla Food for Health – in cooperation with Copenhagen and Aarhus universities has continued its studies to better understand the health benefits of dairy, dairy ingredients and a balanced diet. In current research we are studying, for example:

- Does the dairy matrix, especially cheese, have any influence on fat digestion?
- Which milk ingredients could be used to optimise clinical nutrition products in order to prevent muscle wastage during hospitalisation and acute illness?

- Can milk protein and/or dairy minerals improve growth in undernourished children?
- Can a diet high in protein/high in dairy and reduced in carbohydrate be beneficial for people with type-2 diabetes?
- How can the effects of dairy protein on energy metabolism help weight management?

Healthy colleagues

With almost 19,000 Arla colleagues around the world, we have plenty of ambassadors for the Arla message about healthy living and cooking. As healthy products are an important part of our strategy, we want our colleagues to act as spokespersons and empower them with knowledge to be able to confidently discuss topics such as health and healthy food choices.

In Denmark, we have educated 225 of our colleagues from different functions and departments during a two-day course to become food ambassadors to inspire colleagues,

friends and family to healthy eating. Read more on page 20.

Safe colleagues

For many years, we have worked systematically to prevent accidents. All colleagues should feel confident that they are safe at work. We are aiming for zero work accidents. To ramp up this work, and to further step change health and safety at all Arla sites, we have introduced a global plan to significantly reduce workplace accidents. The new behaviour safety programme is built on the work many sites already have begun. During 2019, all 62 sites will have started working with the new programme, which proactively monitors and targets safety culture improvements. See page 35.

Furthermore, we have developed our health and safety work in Bangladesh, Saudi Arabia and Nigeria, by strengthening management systems and increasing colleague involvement.



Risks

As a food producer, food safety is of utmost importance. Unsafe products can have a negative impact on consumer health and a serious impact on our reputation and business. To support our promise to supply safe products we have policies and processes in place, and we continue to build and share competencies. The risk of accidents, injuries or other negative health impacts at the workplace must always be minimised. We continue to work with our safety culture to make sure all colleagues stay safe and healthy, while working.

PRIORITIES 2018

- Increase the number of products complying with Arla® Nutrition Criteria by 1 per cent
- Launch more new health concepts/products targeted towards consumer needs



CONSUMER CONCERN

“As a conscious consumer, searching for healthy choices for me and my family, why should we eat dairy products?”

First, it is important to discuss what is healthy eating. The importance of healthy eating has been established globally as one of the most important factors in living a healthy life and ranked even higher than, for example, high blood pressure and being overweight. Healthy eating, as defined by dietary guidelines across the globe, is generally characterized as a diet that contains a diversity of foods, with special emphasis on vegetables, fruit, nuts, whole grains, fish and low-fat dairy products.

An easy way for you to build a healthy diet is to include dairy on a daily basis. We describe milk as ‘naturally nutrient dense’, as milk naturally contains many nutrients, e.g. protein, calcium, vitamin B₂ and B₁₂, iodine, phosphorous and potassium in relation to how much energy (calories) it contains. However, no food should be eaten in isolation and dairy’s health potential is only released if consumed in combination with a variety of other natural and healthy foods.

Milk products, forming important parts of food cultures around the world, have unique and complex tastes that cannot be

mimicked by artificial processes. To include milk and dairy products in your daily diet is a simple, tasty and resource efficient way to constitute to a healthy diet for people of all ages.

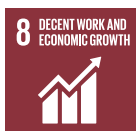
So, all in all, we believe that milk and dairy products constitute a natural part of a healthy diet, and should be enjoyed with a variety of different foods.



*Elin Boll
Nutrition Specialist, Arla*

INSPIRATION

Every day milk and dairy products take **centre stage on the kitchen tables** of millions of consumers around the world. Milk is not only recognised as **nutritious food**, the dairy industry also **creates job opportunities** and **partnerships worldwide**, supporting local development for farmers and businesses.



Sharing creates engagement

When we talk, discuss and share knowledge, we inspire new ideas and creative solutions. Inspiration is evident in all parts of Arla, from our farmer owners sharing experiences on new farming practices to consumers feeling inspired to try new recipes or products in their cooking. We also want to inspire future generations, so we invite school children to visit Arla farms to learn where milk comes from.

HIGHLIGHTS 2017

- 148 million consumers engaged online
- 70,000 school children on farms
- Strengthening of owner democracy

Knowledge about farming

Today, more people than ever live in cities. We know from research that urban children and their parents are disconnected from where their food comes from. Nearly three quarters of parents in Northern European cities say that if they knew more about food, it would enable them to make better food choices.

We provide insight into the origin of our products and the work that takes place at the farms of our owners. We do this by showcasing owners in external communications and by inviting members of the public to visit their farms. In Denmark, Sweden, Germany and the UK, we arrange events like open farm days and organic days. When cows are put out to pasture in the spring in Denmark and Sweden it is a big event with more than 300,000 visitors and 1.8 million followers online.

Over the years, our 'little farmer programmes', where we invite school children to our owners' farms, have educated more than one million children about life on farm. This is usually combined with study material for children to work

with at school before and after the visit. In 2017, Denmark, Sweden and Germany hosted 70,000 children on farm.

Embracing our role as a global food company, Arla is now broadening this kind of inspiration and knowledge sharing to other markets. In 2017, we launched an initiative aimed at children in Dubai, where they are given the opportunity to learn more about dairy farming through an interactive virtual dairy farm. Many of them have never visited a farm and the initiative is providing a possibility to connect the organic milk products they consume with the production.

Other ways of providing information about farmers' work and sharing knowledge about food is communication on milk cartons and in social media channels. In several European countries, milk cartons are used to provide information in an easily comprehensible manner. A new way to showcase life at a dairy farm is a 360-degree film distributed on Swedish social media, where the viewer can move around to see how cows live.

Cooking inspiration

We believe inspiration and knowledge about cooking is the best way to develop good food habits. We provide recipes on our national websites, in brochures and via online apps. With the increased possibilities to distribute videos on social media, cooking videos have become a format with which we inspire home cooking and explain the benefits of our different products. In many countries, we collaborate with chefs and bloggers to encourage people to cook more and adopt better food habits. We are also sponsoring national and international chef and food competitions.

Our independent body, Arla Foundation, arranges food camps in Denmark. At the camps, school children 13–14 years old learn about food, nature and raw materials. During 2017, 1,600 children attended the camps, and since the beginning in 2014, a total of 5,250 students and 250 teachers have participated. In line with this, and developed in cooperation with Arla Foundation, we also provide study material for students in sixth grade. The purpose is to empower students

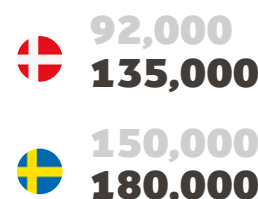
to cook and make good food choices in their everyday lives.

Consumer contact and inspiration

Having a strong reputation among the millions of consumers who consume our products every day is crucial for our business. In an annual survey, conducted in Denmark, Sweden, Germany, Finland, and the UK we monitor the development of our reputation. A significant increase was seen during 2017 and Arla's reputation is considered high on all markets. Please see page 37.

In markets where Arla® is a well-known brand, social media is now the main platform for consumers →

Visitors to cows out to pasture



In the last five years, from 2013 to 2017 (in black), increasing numbers of consumers have visited events when cows are let out to pasture.

to post questions and opinions, which were earlier directed to our consumer relations service in e-mails and telephone calls. In Denmark and Sweden, consumers are very active on our Facebook pages and it's our ambition to answer questions or concerns on social media within one working day.

An experiment to engage with consumers online was a live streaming of an organic themed show in China. It was aired on a popular e-commerce platform. Celebrities shared organic stories from different lifestyle perspectives, combined with interviews, recipes, and a live cooking demo. Similarly, 'Vardagspuls', a digital health concept owned by Arla Sweden, operates as an independent editorial office providing (online) inspiration and tips for both healthy eating and a healthy lifestyle.

Engaging farmers in the cooperative

As a strong and visionary cooperative, Arla needs a pool of

future farmer representatives. With the training programme, **Arla Next**, we want to inspire more Arla farmers to become elected representatives, and we offer an international network within the cooperative. The first training programme involved 60 participants from Denmark, Sweden, the UK and Central Europe and concluded in 2017. With 53 per cent of the participants elected to district councils and the Board of Representatives in the elections in March, it greatly exceeded the target of 20 per cent after two election periods.

We have farmer owners in seven countries, so we want to increase integration, cultural understanding and knowledge about area specific conditions between them. In our **mentoring programme**, elected members of the Board of Representatives pair with newly elected representatives from another country.

With 11,262 farmer owners, having a continuous dialogue on a local

level is crucial to uphold a dynamic cooperative. At **Arla Seminars**, farmer owners meet in smaller groups to discuss current topics. Our target is that a third of our farmer owners attend at least one meeting during 2017–2018.

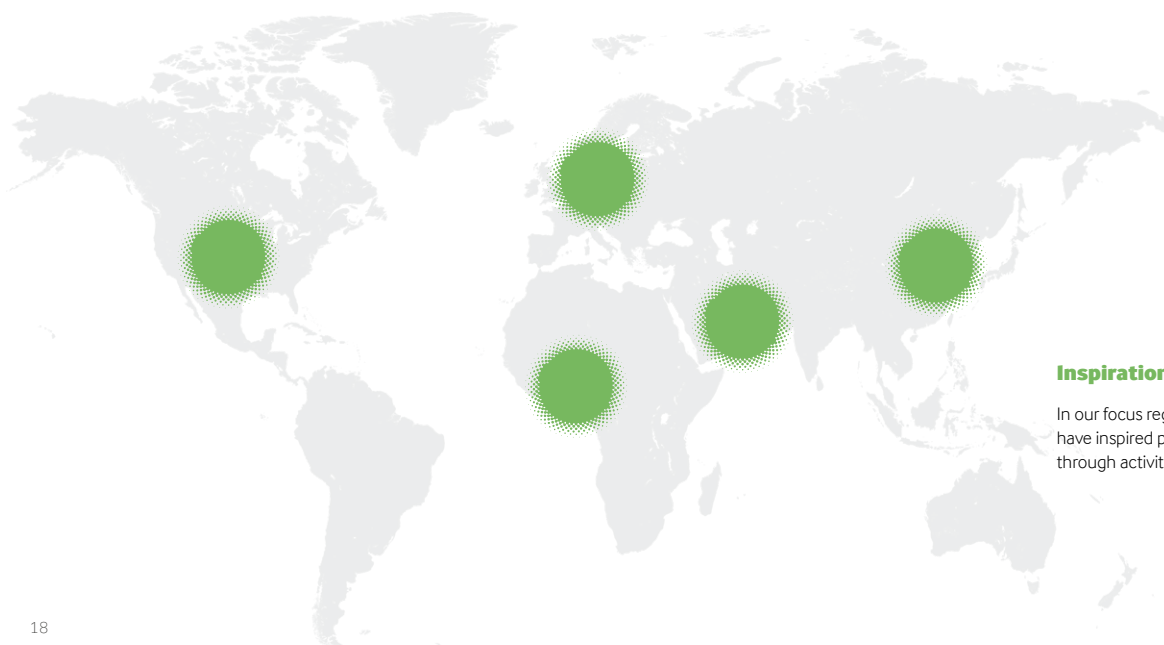
In addition to the Arla farmers' website and newsletter, an information channel with immediate access to news and data relating to quality and payments has been introduced in a mobile application to farmers in Denmark, Sweden, and the UK.

Cooperation with external suppliers

As a cooperative, we naturally prioritise initiatives which enable us to work together with others to develop our businesses. In collaboration with suppliers we can improve both their and our processes and contribute to goals on quality, efficiency and environmental performance. Together with a supplier of cleaning detergents we have

completed 125 projects with the ambition to reduce and optimise detergent product waste and other environmental optimisations. During the year we have reduced our consumption of water by 700,000 m³. In addition we have reduced our energy consumption, chemical usage and product waste. More than 200 projects are in the pipeline to deliver further savings.

Colleagues at our procurement office in Hong Kong have conducted supplier development training. The purpose was to enhance problem-solving through a systematic approach, strengthening the understanding of our audit process, or increasing understanding about food fraud. In 2017, we visited palm oil plantations and mills in Indonesia. As a result, Arla, in collaboration with the main supplier of palm oil and together with other palm oil customers, supports the training of managers at palm oil plantations in Indonesia with the ambition to improve the working conditions. →



Inspiration around the world

In our focus regions around the world we have inspired people to better food habits through activities and programmes.





International cooperation in industry networks

In dialogue with customers and competitors, we can actively address the challenges of producing dairy in a sustainable way. We prioritise initiatives that enable us to contribute to leading the industry in areas that are mutually beneficial.

■ **Dairy Sustainability Framework (DSF).** Arla is an implementing member of the DSF and has

provided input to the work in the DSF to expand the number of indicators to assess sustainability performance of the dairy value chain.

■ **Sustainable Agriculture Initiative.** Arla is an active member in the Dairy Working Group of the Initiative. In 2017, the group focused on developing a business-to-business approach to assess company implementation of the DSF. The business-to-business approach aims to capture the DSF's continuous improvement principle and will hopefully result in a robust yet rational way to assess sustainability performance, reducing the number of customer audits.

■ **Food Reform for Sustainability and Health (FReSH),** an initiative by World Business Council for Sustainable Development and EAT, offers a forum to discuss across sectors and to join forces in developing approaches to address common challenges within sustainable production and consumption. Arla has been

active in two working groups in the FReSH initiative during 2017. These focused on sustainable diets and sustainable food systems.

Inspiring colleagues to be healthy

We want our colleagues to be healthy and feel inspired, both at work and in their free time. As we are living longer and working for longer, we continue to educate and train colleagues to enable a longer and healthy work life, both physically and mentally.

In the UK, we have approximately 50 dedicated health heroes across the country acting as health ambassadors at sites. All colleagues in Sweden are invited to participate in the ArlaGo programme with various training and health activities and dedicated health inspirers at every site.

At most of our dairies and offices there are local initiatives to inspire colleagues to be active, for example, step counting competitions, yoga classes and running clubs.

To energize participants and encourage a healthy, active lifestyle, Arla's sales teams have introduced exercise as part of their major conferences.

Training programmes

Just as a healthy mind and body is important, continuous learning and development of colleagues is crucial to running a successful business. This includes training programmes in leadership, competence and personal development, to ensuring necessary skills. As an example, 1,500 blue collar colleagues in Denmark have been trained in subjects such as basic Danish and mathematics, logistics (transport and production) as well as soft skills including cooperation, communication and how to plan tasks.

Farm visits by school children

 **11,600**
30,000

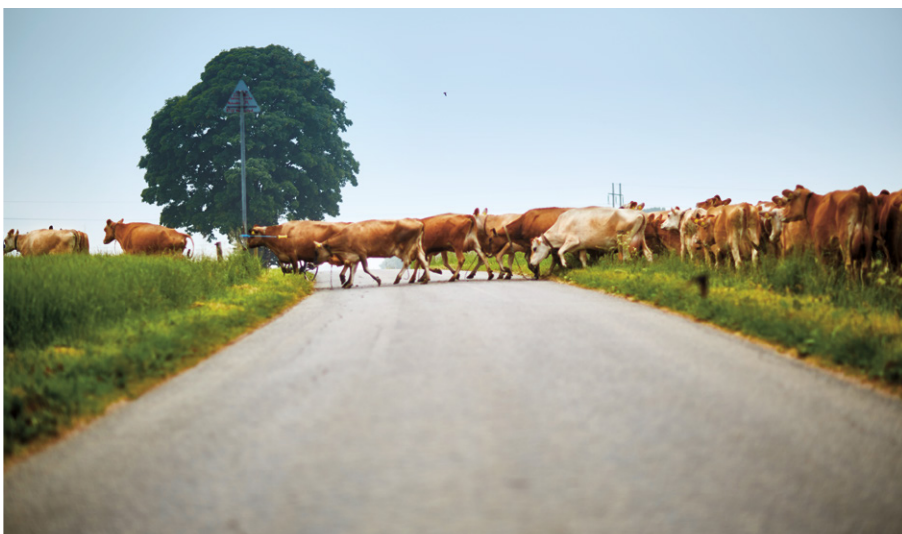
 **50,000**
29,000

 **12,000**
11,000

Many farmer owners welcome school children to their farms to learn more about where food comes from. Figures show visitors in 2013 and 2017 (in black).

PRIORITIES 2018

- Continued focus on inspiring good food habits
- Further engage farmers in the cooperative



CONSUMER CONCERN

“How do you ensure that the ingredients you use are produced in a safe and sustainable way?”

It is important that every product we offer is safe, is of high quality and is produced in an environmentally as well as socially sustainable way.

All new suppliers are audited and approved by the supplier assurance team before we sign a contract with them. Our team also focuses on addressing food safety and sustainability risks and issues related to ingredients we buy from our suppliers. Furthermore, we have monitoring programmes to verify the safety and quality of purchased raw materials.

We evaluate our suppliers on an ongoing basis, and take actions based on the outcome of the assessments. These actions can include dialogue about sensitive topics, and visits or audits to verify how the suppliers manage and control their production and supply chain.

We follow up on necessary improvements and if the supplier has an unresolved issue we stop trading until it is safe to use ingredients from that supplier again. Our code of conduct for suppliers is included as a mandatory demand in supplier contracts and a foundation for dialogue and

collaboration. If there are breaches of the requirements we terminate the contract.

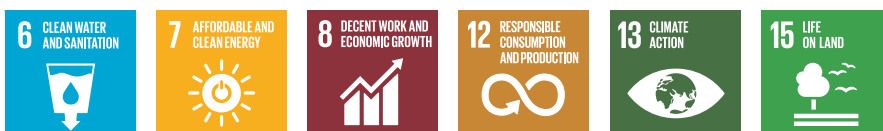
To be proactive, we have regular dialogues with suppliers, customers and colleagues at our sites. We stay updated through NGO and authority reports, trainings, newsletters and media. Based on this we prioritise our actions towards a country or region, a product or an entire category or specific suppliers. These dialogues are often a good opportunity to share experiences, practices and elaborate our expectations towards the suppliers.



*Elif Dayioglu Davidsen
Supplier Assurance Specialist, Arla*

NATURAL

In the production of milk and dairy products **nature** plays a key role. With focus on **sustainable dairy production**, future generations of a growing world population will be able to enjoy the **benefits** of nutritious dairy products.



Towards a circular business

We depend on nature, and we take our planet's challenges seriously. Together with our farmer owners, we are in the unique position of being able to work with every step in the whole value chain, to make a positive contribution to a more sustainable future. This includes aspects from what Arla cows eat, the types of energy we use at our dairies to how we transport our products.

HIGHLIGHTS 2017

- Increased use of biogas at our dairies
- Fossil free transportation
- Ecosystem services on farms

Continuing the sustainable dairy journey

Arla strives to minimise its negative environmental impact, contributing to the SDGs and improving conditions for future generations. We have a clear value chain perspective, and can implement activities to deliver on the goals in the sustainable dairy farming strategy and the environmental strategy, from cow to consumer.

Raising ambitions on farms

Grassland, hedgerows, grazing animals, pollination and a cycle

where nutrients from manure contribute to soil fertility are all valuable elements in milk production. These elements are referred to as ecosystem services. They are services of vital importance for society that nature provides. An expert report produced in Sweden has identified which ecosystem services our farms contribute to and what more could be done at farm level to support resilient ecosystem services.

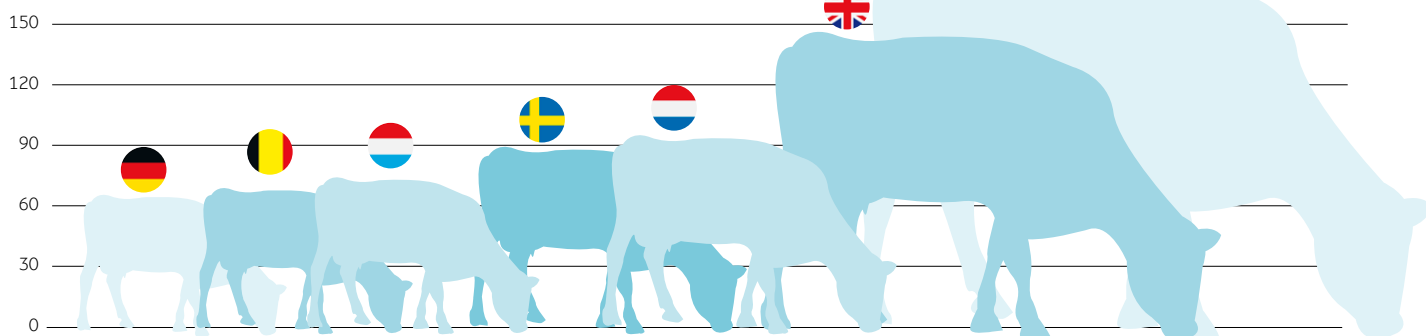
As ecosystem services are key to our societies, yet still unknown to

many stakeholders, in Sweden we have communicated about these on the back of milk cartons and introduced an app for children, to increase general knowledge. Furthermore, Arla has initiated a project to stimulate increased pollination, engaging 30 farms to sow bee-feed-crops that provide food for pollinators throughout the season. The learnings from the ecosystem services report and experiences gained from local projects on biodiversity are now incorporated into the sustainable dairy farming strategy.

We have had the midterm review of our sustainable dairy farming strategy 2020 and can conclude that Arla farms are on track to achieve the targets within this, see tables on page 24 and 38. As part of the review we have increased our ambitions.

We have added 'Interaction with nature' in the strategy to stress that we see biodiversity and ecosystem services as important assets for dairy farming and future productivity. →

Number of cows per farm 2017



The number of cows per farm is an average, which includes all dairy farmers in each country.

Source: National trade associations

Climate and energy progress

Goal	Status 2017	Comment to performance
Reduction of greenhouse gas emissions from farms by 30 per cent per kilo milk, from 1990 to 2020.	23%	Carbon assessments enable farmers to receive recommendations on how to further reduce greenhouse gas emissions.
Reduction of greenhouse gas emissions from operations, packaging and transport by 25 per cent, from 2005 to 2020.	18%	Achieving the goal for transportation is the most challenging part of our environmental strategy.
By the end of 2020, half of the energy we use must originate from renewable energy.	24%	The availability of renewables differs between countries. Sweden is leading the way with a share of 73 per cent followed by Denmark with 22 per cent.

Increased transparency with Arlagården® Plus

To further understand and create transparency in every step in our value chain, we introduced a digital documentation centre, Arlagården® Plus, in October. Detailed information about the farm, sustainability and animal welfare is collected in this database.

The database was developed in close collaboration with farmer owners from different countries. We expect Arlagården® Plus will be an asset for farmer owners as well as our business, enabling us to increase transparency at both farm and individual cow level. For our farmer owners, Arlagården® Plus is a systematic way to analyse the status at farm, as each cow and her condition is assessed. The statistics will play an important part in improving animal welfare. Within the first months, 75 per cent of the farmer owners submitted data, representing 88 per cent of the Arla member milk pool.

Green operations, packaging and transport

For Arla's own operations, our environmental strategy 2020 sets the objectives for our environmental and climate work. We have committed to reducing greenhouse gas emissions by 25 per cent by 2020 within operations, packaging and transport, compared

to the 2005 level. Since 2005, Arla's total climate impact has decreased by 18 per cent, despite increased production.

Our environmental strategy also includes efficiency targets of a three per cent annual reduction in water and energy consumption towards 2020. By 2020, half of the energy we use must originate from renewable energy sources such as biomass, wind, and water. See above and page 38.

Energy from renewable sources

Our ambition is to use as much renewable energy as possible, globally, taking into account national legislation and the availability of renewables.

Biogas is becoming more available in Denmark, and an increasing number of Danish Arla sites are using biogas to produce electricity and heat. Within Arla, the use of biogas has increased by 80 per cent compared to 2016. In 2017, 5.7 per cent of Arla's total use of energy came from biogas, and 24 per cent from renewable sources. As a result, we are close to halfway to achieving our goal.

Until this year, our dairy in Aylesbury, UK, has partly been powered by biogas generated at its on-site biogas plant, which covered around five per cent of the dairy's energy

requirement. Now, a third-party company has built a food waste digester adjacent to the dairy. Effluent from the dairy, together with sorted external food waste, is fed to the new digester which in turn produces biogas for the dairy, covering 100 per cent of its energy requirement. An even bigger circular loop will be created when digestate from the biogas plant is used by farmers to grow more food crops.

A true circular example comes from Rødkærø dairy in Denmark, which buys biogas produced from manure from a neighbouring Arla farm. The biogas is transported through a 3.5 km long pipe. The surplus heat from the dairy is then sold to local district heating systems and used for heating households.

We took a step towards using even more biogas, when the construction of a new biogas plant was initiated in Videbæk, Denmark. This is a collaboration between Arla and external partners and the plant will supply one major production site when it is finalised in late 2018. This means that almost 12 per cent of Arla's gas consumption in Denmark will be converted to biogas.

In other owner countries, national initiatives favour other types of renewable energy. In Germany and the Netherlands, for example, windmills and solar panels are

more common. In Arla Netherlands, 100 per cent of the electricity is renewable, most of it is generated from windmills on Dutch farms. In Sweden, wood chips and district heating from the incineration of waste are common sources.

Arla transports are moving forward

Reducing the climate impact of Arla's transportation by 25 per cent by 2020 remains the most challenging goal in our environmental strategy due to business growth. Not only do our transport requirements differ across markets, the availability of bio fuels, as well as incentives from national governments, also vary leading to very different opportunities and challenges. →

Return of Danish milk crates

100,000

In Denmark, milk is distributed from dairies in green crates that have become popular for other purposes. Every year, Arla Denmark must produce 300,000 new crates to replace the ones that haven't been returned. To encourage consumers to return the crates we initiated a project in cooperation with the Danish Society for Nature Conservation, resulting in 100,000 crates being returned during the year and cost savings of 0.3 MEUR.



In Sweden, the 25 per cent goal has already been exceeded, as a result of determined work, availability and tax reduction of bio fuels. In 2017, Arla Sweden set a goal to have fossil free transportation by 2020, which is ten years ahead of national ambitious targets for the transportation sector.

In milk collection we continuously optimise logistic routes and educate drivers in eco-driving, and we invest in larger milk collecting tankers to reduce the amount of fuel per tonne of milk transported. Furthermore, we want to reduce empty weight on trailers. In cooperation with suppliers, we have worked with the development of tankers, resulting in weight savings that reduce greenhouse gas emissions. Emissions per kilogramme of transported milk, combined with quality and price, are now the criteria for our investments in new tankers.

New packaging reduces climate impact

We continuously reduce our impact from packaging material by decreasing the weight of individual packaging formats without impacting functionality. Arla Sweden has launched two new packaging innovations that lower the climate impact and increase the percentage of renewable and recycled packaging material. One is a new carton used for organic products, made from unbleached paperboard where one material layer has been removed. As before, the plastic in the packaging comes from renewable sources, both in the carton and in the cap and neck. The other is a new crème fraîche carton. The plastic cup has been replaced with a cardboard equivalent, the aluminium foil has been replaced with paper and the plastic lid is now recycled PET. The changes deliver a calculated reduction in the climate impact from the packaging of 50 per cent. The total impact of the two improvements is estimated

to amount to a decrease of 1,000 tons of greenhouse gas emissions annually.

Reducing food waste

Food waste is an important issue and is addressed in several of the UN Sustainable Development Goals. Arla has an ambition to halve food waste in production and at consumer level. In production, the demand for a more diverse portfolio can lead to more food waste at Arla’s sites as the production becomes more complex. Products with extended shelf life can reduce food waste at consumer level, but the production requires more energy. At Pronsfeld in Germany, we have worked to reduce the load to the waste water plant, over a two-year period, resulting in 40 per cent less dairy products and raw materials now being flushed out.

In the event we have products, which for any reason cannot be sold through our usual sales channels, we donate them to charitable

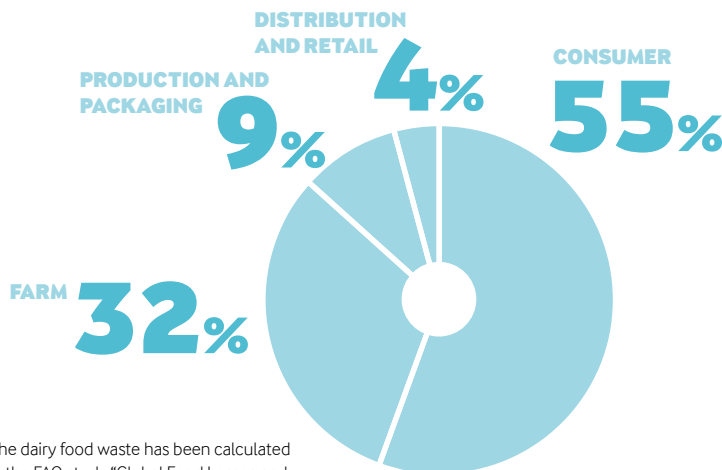
food banks where possible. During 2017, we have signed a partnership agreement with the European Federation of Food Banks (FEBA), which will enable us to donate surplus products in a structured way, making use of the FEBA network partners in Europe. The partnership agreement with FEBA strengthens the partnerships already in place between Arla and local food banks such as Fairshare in the UK, Fødevarebanken in Denmark, the Dutch food bank and Matcentralen in Sweden.

In our non-European markets, we continue our collaboration with local partners.

Recyclable packaging

Our goal is that 100 per cent of our packaging is recyclable by 2020. 91 per cent of Arla’s packaging is now recyclable, based on the EU definition (Directives 2008/98/EC and 94/62/EC).

Dairy food waste in the value chain, FAO 2011



The dairy food waste has been calculated in the FAO study "Global Food Losses and Food Waste" published in 2011.

Risks

Throughout our full value chain there is a risk of negative impact on environment and climate. Our sustainable dairy farming strategy and environmental strategy describe our mitigation measures, and define targets and actions. We are committed to reducing our impact and fulfill present and future demands.

PRIORITIES 2018

- Reaching 2020 targets
- Reducing food waste
- Promote circular solutions



CONSUMER CONCERN

**“Cows can’t speak.
How do you know
they have a good life?”**

When we talk about animal welfare or the well-being of cows, we acknowledge that we do not know for sure what a good life is for a cow. We base our quality programme on science and the general answer includes access to fresh water and feed to maintain health, appropriate living conditions including shelter and a comfortable resting area and that the animals are free to express normal behaviour. We also include that they are free from pain, injury and disease and live in conditions that avoid fear and distress.

For a cow to have good life, it is, of course, necessary to have a good living environment on the farm, good management practices and daily care and attention. The welfare of cows is key to ensuring the quality of milk, which means high standards are very important to our farmer owners.

The continuous development of our work with animal welfare also emphasises the necessity of meeting interests of dairy farmers, the industry and consumers. That is why, among other things, we include animal-based indicators as a tool for farmer owners to measure and show progress, for Arla to be transparent and as a basis for further development of animal welfare.

Animal-based indicators are actual observations of what constitutes a good life. Examples include that the cows are clean, free from injuries, have a good mobility by walking with even weight-bearing rhythm on all four feet, and that their bodies are in a good condition. These real-life observations are, in our view, essential and why they are part of Arlagården® Plus, which requires farmers to assess all their cows every quarter.

We believe that by sharing our ideas on how to assess animal welfare, we can stimulate initiatives and further improve a cow’s daily life.



*Peter Stamp Enemark
Animal Welfare Specialist, Arla*

HUMAN RIGHTS

Arla has strengthened its focus on human rights during recent years, especially in emerging markets, but also in more mature markets. We believe that as a dairy business we contribute to the UN Sustainable Development Goals through job creation and responsible sourcing, as well as through competencies on quality, food safety and product innovation. We are committed to meeting international human rights principles.

Governance and policies

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

Human rights in business processes

During the year, we have aligned our tools and processes for human rights assessment of business partners and suppliers. Using the same approach and eliminating overlaps, we now have leaner processes which will improve efficiency, optimise resources and create better results in how we mitigate or resolve human rights and business risks. Human rights assessments of new joint venture partners are now also an integrated part of our overall business due diligence process. Please see illustration to the right.

We estimate that the highest risk of having a negative impact on human rights is when we enter new markets in developing countries. To evaluate such risks, a coordinating unit is established

with representatives covering legal, merger and acquisition, human rights, security and commercial competences.

Strengthened focus on human rights impacts

During 2017, we have conducted human rights due diligences in Indonesia and Ghana, both in terms of country assessments to evaluate the context, as well as a partner assessment. A key learning is that every market presents dilemmas, which we can only address through concrete actions together with local management, business partners and organisations.

From the number of human rights assessments we have conducted, we have learned that the risk of adverse human rights impact on working conditions in the agricultural value chain is prevalent and that we must continue to address our potential adverse impact on local farmers as we grow our business in developing countries where the local dairy sector is still fragile. Although we have robust processes in place to prevent negative human rights impacts within own operations it is of utmost importance to collaborate closely with suppliers, business partners and organisations to promote human rights along the entire value chain and in the industry.

Live our values on human rights

To continue embedding human rights in Arla, we have integrated human rights as part of the on-boarding programmes of managers in Arla's non-European business. Supported by e-learning courses, we ensure that colleagues in Arla are trained in human rights. In addition, a number of internal presentations, courses and training sessions have been conducted for business units and functions globally.

Strengthened stakeholder involvement

When we enter new markets, we face complexity in mitigating negative human rights impacts. Consequently, we have gradually strengthened our systematic involvement, collaboration and consultation with NGOs, government bodies, embassies, UN organisations and experts on human rights issues. This has particularly been the case in our approach to addressing human rights issues such as the working conditions amongst colleagues in the Middle East, Arla's impact on local farmers in West Africa, and access to affordable nutrition for lower income segments in Asia and Africa. Read more about affordable nutrition on the following pages.

To further develop our human rights competencies, we entered into a formal partnership agreement with the Danish Institute of Human Rights. The Institute is also facilitating a Nordic business and human rights network for multinational companies, in which we have become an active member of the steering committee.

Better nutrition for low-income consumers

Arla Foods Ingredients has further expanded its engagement in the GAIN (Global Alliance for Improved Nutrition) Nordic partnership, which brings together businesses, NGOs and other organisations with a common goal to provide safe and better nutrition for low-income consumers in developing countries. Achieving this goal means supporting the development of local supply chains.

During the year, Arla Foods Ingredients has been the lead business partner in a GAIN project, supported by Danida, to develop a sustainable dairy supply chain in Ethiopia in cooperation with Ethiopian dairy companies and dairy farmers.

Furthermore, addressing malnutrition in Zambia, Arla Foods Ingredients, together with UK Aid, is involved in a project with the



objective to develop a sustainable model for producing and selling an affordable and nutritious long-life drink with milk ingredients.

In **Senegal**, Arla Foods Ingredients supplies whey permeate as well as application knowledge to a local dairy. This has made it possible for the dairy to supply low-income consumers with yogurts that have been rated as creamier and tastier than previously. An Arla farmer also supported local dairy farmers in Senegal to increase the daily milk yield, by advising farmers on growing the right feed for their animals.

Market driven sustainable growth

In **Nigeria**, Arla is the lead business partner in a project, supported by Danida, with the purpose of

supporting job creation and market driven sustainable growth in the country's dairy value chain. Arla will source fresh milk from local pastoralist farmers, process the milk locally and market it to consumers. The purpose is to increase capacity amongst some 1,000 Nigerian farmers and to increase milk quality and milk quantity so that they are able to deliver raw milk to be processed and sold by an Arla owned brand in Nigeria.

Our view is that we can contribute with knowledge about how farmers and dairies can organise themselves and what it takes to ensure the sustainability of the local dairy sector. The Nigerian model has been developed in cooperation with the Danish Agricultural and Food Council as the lead non-commercial partner. Coret, a Nigerian pastoralist

organisation and Care Denmark. The project builds on the results from our comprehensive human rights assessments in 2015, an agreement with the Federal Ministry of Agriculture and Rural Development in 2016, followed by a social impact assessment in 2017 to ensure that the project will have no unforeseen adverse human rights impact on the dairy farmers and their families.

Improving access to affordable nutrition in Bangladesh

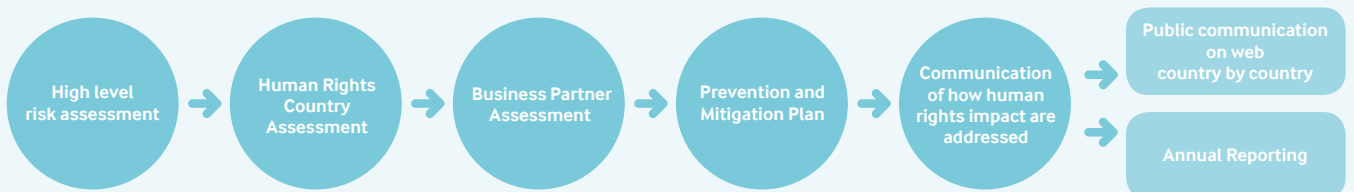
In **Bangladesh**, Arla has partnered with BRAC, Building Resources Across Communities, the world's largest NGO, in a pilot project to improve access to affordable dairy, enhance female empowerment and create more and better jobs in Bangladesh through a market driven inclusive business model.

The objective is to increase access to Arla's affordable dairy product Dano® Daily Pushti, by developing alternative sales and distribution channels managed by female micro-entrepreneurs who reach out to rural non-milk producing locations, far-to-reach areas and urban slums including the millions of garment workers living in Dhaka. The female sales force will improve food and nutrition security in their own respective communities.

By entering into a pilot project with BRAC, we will collect data to evaluate a future sustainable business model and an efficient partnership in scaling-up.

Parallel to the project, Arla conducted a comprehensive human rights impact assessment in Bangladesh to ensure that scaling →

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.



up Danone® Daily Pushti would have no negative side-effects on small holder dairy farmers as well as vulnerable consumers, as this would undermine the aim of helping to address malnutrition amongst lower income segments in the country.

By the end of 2017, more than 40 female entrepreneurs have been recruited with an outreach of over 65,000 potential consumers in three major districts of Bangladesh.

Decent work and fair recruitment

Understanding that recruiting is a complex issue due to it being time

and location sensitive, we have initiated a pilot project to assess the risks related to recruitment agencies and subcontractors providing blue collar and part-time workers in the Middle East. The learnings from the pilot will help us develop a more robust process to prevent employees from falling into bondage through hidden fees. Through a screening process of our recruitment agencies we can ensure transparency from countries of origin to employment in Arla. The process will also include training in human rights and access to a grievance mechanism.

Employer provided housing

At the end of 2015, we initiated Project Basic, which governs our minimum standard for Arla provided accommodation, and is based on ILO's (International Labour Organization) standard. Since then we have conducted assessments of all our housing facilities at our markets in the Middle East. Having identified gaps and areas for improvement, we started a project for raising the standard. We have

made progress with a number of locations being renovated, or colleagues being relocated to new facilities. We will continue our efforts in the coming years to ensure the continuation and standard of the accommodation. Please see illustration to the right.

Passport withholding

Traditionally in the Middle East, migrant worker colleagues' passports were safekept by the employer, which could imply a restriction of freedom of movement. In Arla, we also followed this practice, but during 2017, we have returned all passports to Arla colleagues in the Middle East.

However, many colleagues prefer that Arla continues to safekeep their passports, whilst having free access to them upon request. Therefore, we have introduced a letter of consent. This means that if a colleague wants us to safekeep their passport, we do so when we receive a signed letter of consent. We have continued our dialogue with NGOs and participated in roundtables

to share our experience in how to address human rights challenges related to the working situation of migrant workers.

Diversified workplaces

We believe a diversified workforce benefits productivity and innovation, no matter where in the world. At our packaging facility in Lekki, Nigeria, nearly one fourth of the machine operators are women, with equal pay for equal work. Among Lekki colleagues, 65 per cent are from the local community. Furthermore, in Bangladesh we have focused on diversity and additional recruitment of women has begun.

Collaboration with worker representatives

The European Works Council (EWC) is Arla's forum for trade union dialogue at European level. When Arla establishes business outside Europe, we bring our experience, mindset and ways of collaborating.

Furthermore, we now have a dialogue with the IUF (International

Human rights impact assessments



Human rights impact assessments have been conducted in Bangladesh, Egypt, Ghana, Indonesia, Kuwait, Qatar, Saudi Arabia and UAE.



Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations) which is an international federation of trade unions in 130 countries representing over 10 million workers. At the bi-annual meetings with IUF, where EWC representatives also participate, we discuss matters related to countries outside our core markets.

Modern Slavery statement

During 2017, we published a Modern Slavery statement, which outlines our commitment to tackling modern slavery and human trafficking. We recognise that modern slavery may occur in all areas of the value chain, so we have set up a cross-functional steering group to drive and support our actions to reduce the risk of modern slavery, and to ensure that decisions and activities are coordinated and effective. In addition to our continuous work on implementing our human rights due diligence processes, we also work with awareness raising in our business and with our partners, and reviewing our practices to ensure

our corporate activities and supply chains are free from slavery and human trafficking.

During 2017, we have adapted our procurement tendering process to secure that suppliers comply with the Modern Slavery Act.

Risks

To support our Human Rights policy commitment, we have established processes to ensure that we continuously work with preventing and mitigating any negative impact our business activities may have on the human rights of societies and external stakeholders as well as on our colleagues and business. We have primarily directed our efforts towards markets outside of Europe, and this has also been the primary focus for our reporting of potential risks, actions and outcomes. However, we are fully aware that these risks exist globally, and we also work systematically with improving, for example, the health and safety of colleagues

globally (see page 14), the diversity in our business, and our continued efforts towards a workplace without discrimination and harassment.

Raised housing standard

Arla provides accommodation for about 650 migrant workers in Saudi Arabia. All 23 villas have been assessed. The conclusion was that seven were satisfactory, workers from five of them were relocated to new villas, and a total of eleven villas had to be renovated. By the end of 2017, seven were still to be renovated to an acceptable standard. Similar processes are ongoing in UAE, Oman and Qatar.



About Arla

Company performance

Arla Foods is a global dairy company and a cooperative owned by dairy farmers in seven European countries. Our products are sold under well-known brands in 120 countries.

Results 2017

Arla's net revenue in 2017 amounted to EUR 10.3 billion, which is an increase of 8.1 per cent over the previous year. The profit for the year was EUR 299 million, compared to EUR 356 million in 2016.

To maintain the company's profitability and long-term competitive payment to our farmer owners, we are continuing our efficiency programmes, relating to both dairy sites and the collection of milk from Arla farms. To further increase efficiency and value creation, we invest in digitalisation of e.g. operations, marketing and e-commerce.

Market development

Arla is the world's fourth largest dairy company in terms of volume of milk intake. The global dairy market is increasingly competitive and fast-moving. 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

After nearly three years with low milk prices, the recovery of prices paid to farmers which began in the second half of 2016 continued during 2017. This was the result of a lower global

supply of raw milk combined with a higher demand for dairy products in Europe, the US and in growth markets. Demand for products such as butter and cream has also helped to increase the farm gate price.

Value added milk

Arla is the world's largest producer of organic milk, and consumers' demand is increasing in most markets. Growing product segments are, for example, lactose free, organic and pasture milk from specific regions. Furthermore, customer and consumer demands for milk based on non-GM (Genetically Modified) cow feed have increased. As a result, milk from non-GM feed has been introduced on several markets.

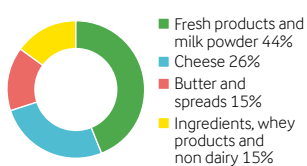
Preparing for Brexit

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

New subsidiaries

In September 2017, a new Arla subsidiary in Ghana began packaging and selling Arla® branded products in response to growing demand for nutritious and affordable dairy products. In December, an agreement was signed for a new subsidiary in Indonesia.

Revenue by product group



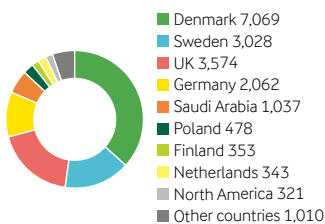
The revenue by product category was similar to 2016.

Revenue by segment



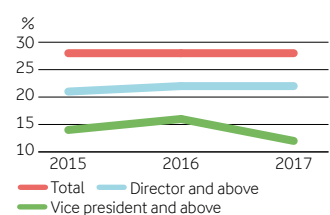
Arla's total revenue has increased by 8.1 per cent since 2016. For further information, see Arla's annual report.

Colleagues per country

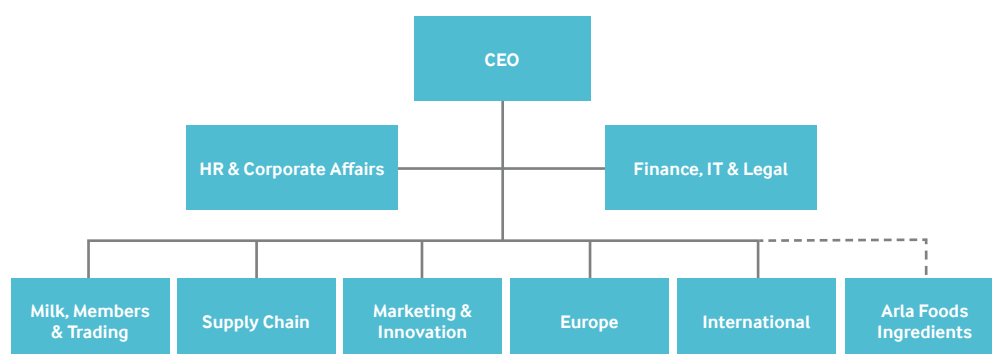


The average number of full time employees (FTEs) in Arla was 18,973 in 2017. The diagram shows the distribution per country at year-end 2017.

Gender balance, share women



There are significantly fewer women than men among our top managers. Out of 77 senior vice presidents and vice presidents 12 per cent are female, which is far from the 28 per cent among all colleagues. The female representation of our director and above level, stays at 22 per cent, which is the same level as in 2016. For information about diversity at Board level, see Arla's Annual Report.



Changed organisation

At the end of 2017, Arla's Vice CEO and supply chain EVP Povl Krogsgaard announced his retirement, effective January 2018. The new supply chain EVP, will be part of Arla's Executive Management Team. Going forward, the Executive Board will consist of Arla's Chairman and CEO.

Democratic organisation

Arla's mission is to create value for its farmer owners. All farmer owners have the opportunity to influence important decisions through the democratically governed farmer cooperative.

Arla's owners

Arla has 11,262 owners in seven countries: Denmark, Sweden, UK, Germany, Belgium, Luxembourg and the Netherlands. All elections and polls are held according to the 'one owner, one vote' principle.

Owner strategy

In March 2017, the Board of Representatives approved a development of the owner strategy ensuring a well-functioning and transparent democratic structure. The strategy includes a new governance structure and common calendar for elections and meetings

in the different owner countries. The new governance structure means the same democratic governing body and rules for all individual farmer owners in Arla, taking into account local variations in the four geographical areas (Denmark, Sweden, the UK and Central Europe). The ambition is that all farmer owners will be members of one area, one region and one district.

Common settlement model

Since January 2017, the payment for milk quality has been aligned for all Arla's farmer owners in all

countries. The price for organic milk is set separately and as before set according to local market and availability of organic milk. The price may differ between owner countries.

Entrance fee

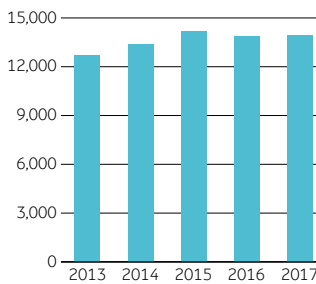
Since 1 July 2017, farmers joining Arla pay an entry fee of 7.5 eurocents per kilo of milk produced during the first year. The fee reflects the value new farmer owners get access to from being a member of the cooperative with its capital, products, brands, dairy facilities etc. However, the entry fee

is not paid by a farmer who takes ownership of an existing Arla farm.

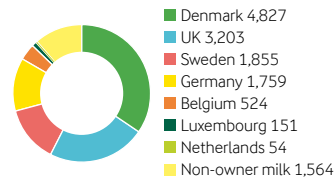
Merger with Gefleortens

Following the approval of the Swedish Competition Authority, the Swedish dairy association Gefleortens merged with Arla, on December 1, bringing 59 new members with 30 million kilos of milk to Arla.

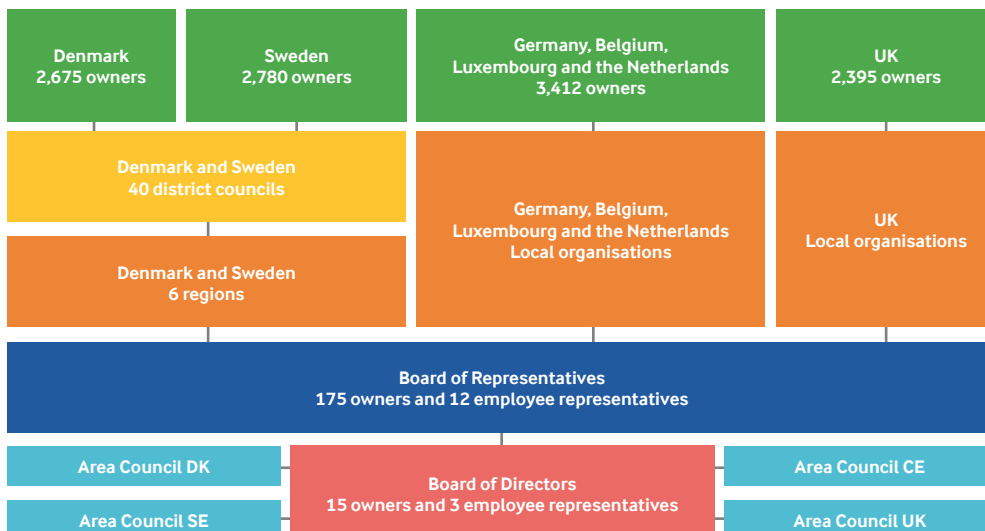
Raw milk intake, million kilos



The steady increase in collected raw milk was during 2016 turned to a decrease due to the low milk prices. The 2017 recovery of the milk price on the world market and to our farmer owners resulted in a slight increase in volumes.



Arla's total milk intake amounted to 13,937 million kilos in 2017, an increase of 0.4 per cent since 2016. Owners' milk represents 89 per cent of total milk intake.



Number of owners

11,262

The number of owners has decreased by 5.5 per cent since last year.

Owner democracy

The chart shows the number of owners/members as of December 31, 2017. All elections and polls are held according to the 'one owner, one vote' principle. The Board of Representatives is Arla's top decision-making body.

Arla's Code of Conduct

In Arla we believe that sustainability and profitability go hand in hand. Arla's Code of Conduct – Our Responsibility – contains our principles for ethics and sustainable development.

Responsible culture

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

A holistic approach

The Code of Conduct is at the core of all we do, and serves as both a tool and a compass, guiding us on how we should behave and take responsibility throughout the entire value chain, from the work at the farms through to operations and distribution, even including recycling of packaging material.

The Code is divided into eleven areas:

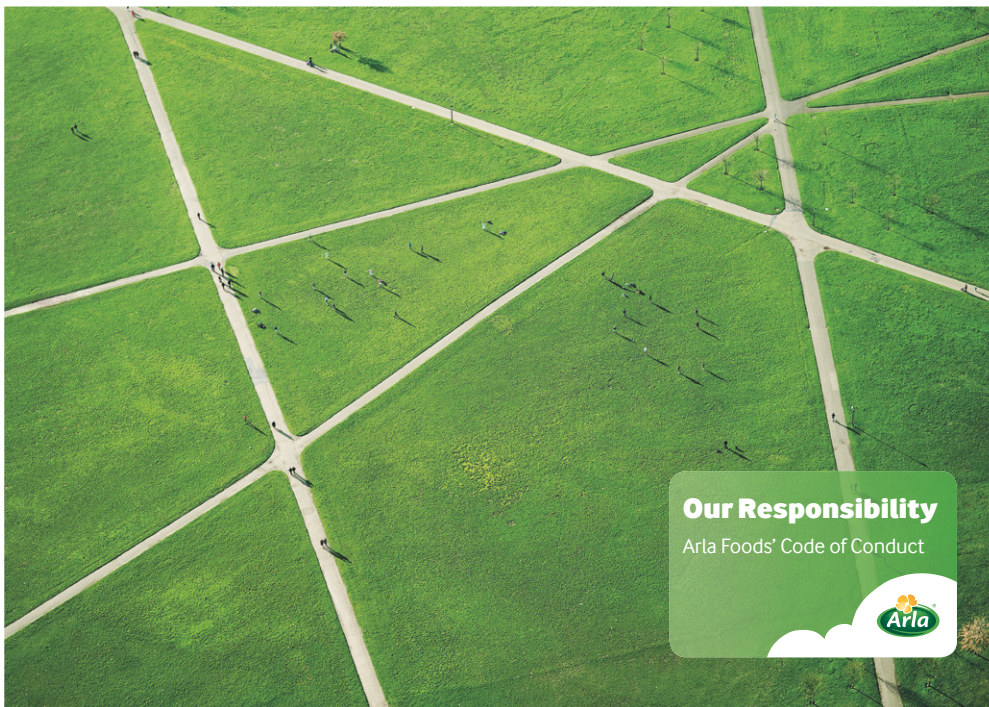
- Business principles
- Operational principles
- Market conduct
- Procurement and supplier relations
- Food safety
- Food and health
- Environment and climate
- Dairy farming
- Workplace
- Human rights
- Society and community relations.

The commitments in each area are further operationalised in a number of corporate policies, addressing important aspects of individual or

business conduct, supporting all colleagues in acting responsibly and with integrity. We continuously evaluate the need for new policies, or the updating of existing ones.

Furthermore we encourage all employees to speak up if they have any concerns in relation to violations to the Code of Conduct, legislation or corporate policies, either through our well-established internal channels or through the whistleblower service.

Our Responsibility can be downloaded from www.arla.com.



Development and results 2017

Milk price development

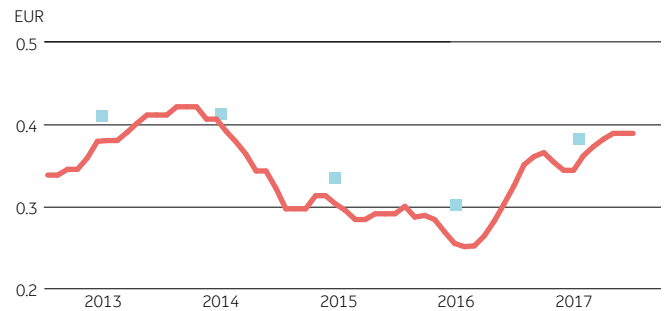
Arla's aim is to maximise the price paid to its farmer owners for their milk. This year's milk price has increased due to lower global production and higher demand on the world market.

Milk price

The milk price improved throughout all of 2017, which meant that the on account price for farmer owners in December was 10.9 per cent higher than in January. The world's total milk production declined

in 2016, and did not recover as fast as expected in 2017, which contributed to the increase. At the same time, the demand for butter and cream was strong, which further drove the dairy prices upwards.

Milk price development



The Arla performance price (payment to the farmer owners plus retainment) for 2017 was 38.1 eurocent/kg milk, which is an 23 per cent increase compared to 2016.

The graph shows the prepaid price, and the dots the average performance price. The performance price is communicated once a year, at the time of the Board of Representatives meeting in February/March, when profits are distributed.

Working at Arla

We strive to continually improve our work environment, company culture and organisation.

Colleague engagement survey

The annual engagement survey, Barometer, was conducted in October and sent to 18,074 colleagues in 40 countries and in 15 different languages. The response rate was 93 per cent, four per cent more than last year. The Barometer result continues to be strong and shows a consistent improvement in all areas. Three important categories have, from an already high level, increased by two per cent since last year: Employee engagement (84 per cent), Strategic alignment (83 per cent) and Agility (82 per cent). Nevertheless, we need to continue our work towards an even more safe and inspiring place to work, free from harassment.

Colleagues – developing our business

Our sustainable business development depends on our colleagues' competences and

engagement. Our focus on leadership, good management and culture is essential to be able to attract and retain the best, most qualified and inspired workforce.

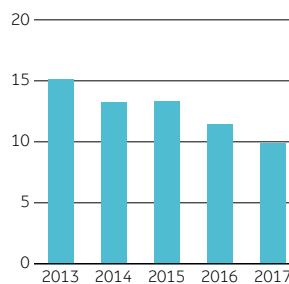
Diversity in talent programmes

We strive to have diversified teams. In our Talent Acceleration Programme we have nearly as many women as men, and 17 different nationalities. In our trainee programme, Future 15, we have participants from 12 different countries, and 40 per cent are women, and finally two thirds of the graduates in our Production Management Programme are women.

Training at all levels

Continuous training of colleagues at all levels is important. During the year, we have continued our focus on training in work environment, dairy technology and local training within functions and roles, which

Work accidents*



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

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

also includes the 'train the trainer approach'. 15 colleagues have participated in the special training programme 'Guldkalven' in Sweden for colleagues with a drive to develop, which can qualify them for new tasks and responsibilities. Furthermore, 504 colleagues (171 females and 333 males)

have taken part in Arla's leadership development programmes during 2017.

Responsible business

Arla complies with local legislation in all the countries in which we operate, and we are committed to the principles contained within our Code of Conduct. We expect all colleagues to act credibly and with integrity, and set a good example of responsible business conduct.

Empower responsible business conduct

To mitigate the risk of financial and reputational damage due to corruption and non-compliant business conduct, we have our corporate policies and regular training in place to guide us to act responsibly and with integrity. It is imperative for us to support social and economic development through our business, and work against corruption, as societies cannot grow and prosper when fair business is impeded.

Throughout the year we have ensured that all new employees read and sign the anti-corruption

policy, when beginning in Arla. Further to this they all have to go through our mandatory e-learning on our set of corporate policies.

Reports of misconduct

Since its inception in 2012, Arla has received 78 reports from its whistleblowing function. Reports have come from most parts of the organisation and include areas such as auditing, accounting, theft, bribery, entertainment and health and safety. In 2017, the whistleblowing function received 26 reports of which 18 led to further investigation. Depending on the outcome of the investigation, appropriate measures have been

taken. Eight reports could not be handled in the whistleblower system due to legal reasons. Instead, the reporter is informed of which person to contact within the HR organisation. A new internal system has been established to handle incidents related to harassment and discrimination.

We have only had a few allegations of corruption, they have been investigated and closed without indictments. During the year, Arla has been exposed to a number of fraud attempts including asset misappropriation and cyber crimes. Due to robust internal controls and investigation/mitigation efforts, all

cases have been closed with only minor losses primarily related to investigation costs.

New data protection regulation

The new General Data Protection Regulation (GDPR) will come into force in May 2018, imposing new and much stricter obligations on all companies in Europe, when processing personal data. A project has been initiated to ensure the protection of data relating to Arla colleagues, members, business partners and consumers fulfilling the demands from the new GDPR.

Competition law training

Number of colleagues trained face-to-face	493
Number of colleagues used e-learning module	257

Corporate policy awareness training

Share of white collar colleagues in core countries having completed the mandatory ONE Behavior Policy	90 %
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Number of incidents of non-compliance with regulations and/or voluntary codes resulting in fines

Incidents regarding health and safety impact from products	2
Incidents regarding product information and labelling	0
Decisions regarding marketing	0

Substantiated complaints concerning breaches of customer privacy	0
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Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area	0
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Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the environmental area	0
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Food safety

As a responsible food manufacturer we are dedicated to ensuring that eating and drinking our products does not cause illness or injury.

Product recalls

	2013	2014	2015	2016	2017
Recalls	7	6	7	6	10

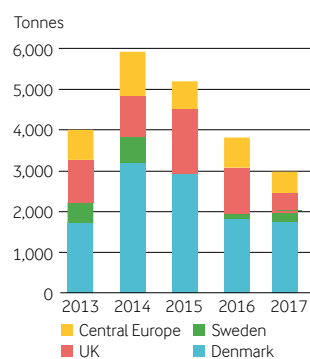
If we have to recall a product from consumers or stop a product that has been delivered to a retailer or another customer, we have procedures in place to ensure that we can act immediately. Despite our strict quality and food safety routines, we have recalled products on 10 occasions during the year, as the products did not meet required standards.

In 2017, we had a higher number of recalls of yogurt and skyr products containing fruit due to contamination associated

with yeasts. Most of the recalls were at the Danish market, and a few affected the Swedish and Central European markets.

Incidents like these always activate analyses of root causes and initiate improvement activities securing the product quality. During 2017, we have cooperated closely with ingredient suppliers and improved internal processes at production sites.

Securing raw milk quality



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

Cows are sometimes treated with antibiotics when they are ill. We have procedures to prevent milk from treated cows to reach the consumer. Milk from treated cows is discarded at the farm during the period of treatment and for a period of time afterwards.

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

In 2017, the volume of discarded milk at our dairies has decreased by approximately 22 per cent. Since January 2017, farmers have been liable for the value of a full tanker of milk if it needs to be discarded, which has driven even more awareness. In total 2,987 tonnes of milk were discarded during 2017, which corresponds to 0,02 per cent of the total milk in Arla.

Responsible sourcing

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

Procurement

The procurement department has overall responsibility for procurement in Arla, the exception being the purchase of milk. Our globally managed external spend represented around 75 per cent of the total spend in 2017, compared to 77 per cent in the previous year.

Preferred suppliers are Arla's first choice suppliers selected by the procurement department, and for product related categories approved by our supplier assurance team. Written purchase agreements control the commercial and legal terms. Arla now has approximately 1,500 preferred suppliers. Currently 87 per cent have signed the code of conduct for suppliers.

Supplier audits across the world

Every year, we carry out audits based on risk evaluation, during which we visit suppliers and inspect relevant areas. In 2017, our supplier assurance team conducted 63 audits globally, focusing on GFSI non-conforming suppliers, packaging suppliers, allergen management, traceability, food fraud risk management, contract manufacturing and new suppliers.

Sourcing of palm oil, cocoa and soy

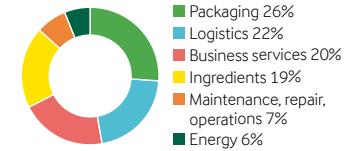
99 per cent of palm oil purchased during 2017 has been segregated and certified according to RSPO (Round table for Sustainable Palm Oil) criteria. Due to lack of availability of segregated oil mixes,

one per cent was covered by RSPO credits.

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

All soy fed to cows at Arla farms is either organic, ProTerra-certified, RTRS-certified (Round Table Responsible Soy) or covered by RTRS-credits.

Global contracts



The diagram shows the external spend handled by Arla's procurement department, divided across product and service categories. Our 10 largest suppliers account for 19 per cent (21 per cent in 2016) of our total external spend.

In 2017, the following companies were our five largest suppliers in order of size of spend: Tetra Pak (packaging materials and machinery), PCL Transport (distribution), Elopak (packaging materials and machinery), Dentsu Aegis London (media) and Moran Logistics (distribution).

Responsible relations

We value the relationships we have with people. No matter what the nature of the relationship, we are committed to maintaining mutual respect and understanding.

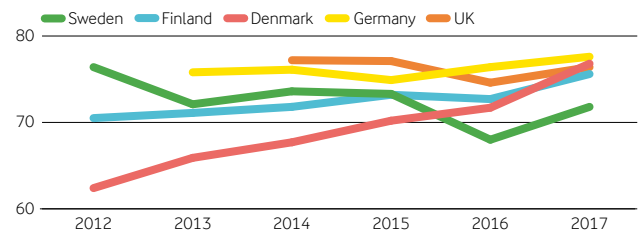
Consumer awareness

In markets where we have the majority of our farmer owners, we see a positive development in the awareness level among the consumers with more people knowing that Arla is farmer-owned. Furthermore, in most key European markets, more and more consumers perceive Arla as being the brand that 'helps them to eat healthily'.

Consumer contacts

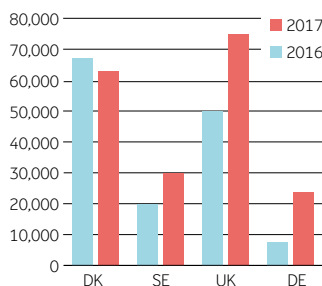
In Northern Europe, our consumer relations services received more than 87,000 enquiries in 2017. Our digital sites on eleven markets had 148 million visits resulting in interaction.

Market reputation

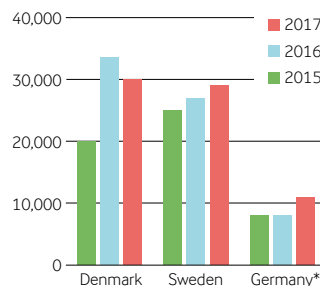


The diagram shows the overall score on a scale of 0–100, with 100 being the highest and above 70 considered strong, awarded to Arla by consumers in a survey conducted by Reputation Institute in 2017.

Visitors to Open farm days

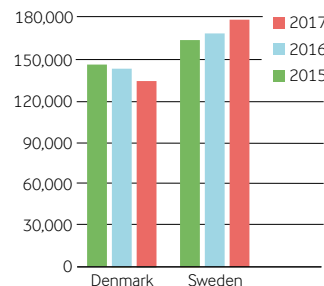


School children visiting farms



* Figures include Luxembourg and the Netherlands.

Visitors to cows out to pasture



We see great consumer interest in visiting farms and gaining insight into the origin of dairy products and the work that takes place at the farm.

Dairy farming

We want to ensure that farms supplying milk to Arla operate in a way that shows respect for the milk, the animals and the environment.

Arlagården® assessments

All Arla farms are audited according to our quality assurance programme Arlagården® a minimum of once in every three-year period. In the UK, our farmer owners also adhere to the UK industry standard, the Red Tractor Farm Assurance Dairy Scheme, and are assessed every 18 months to ensure compliance to both standards. In total, 5,318 audits were carried out during 2017 across all seven owner countries, compared to 4,050 audits in 2016.

Common model for milk quality

From 1st January 2017, a common milk quality model has been operating in all member countries.

The model was developed in a democratic process within the cooperative. Fairness and the aim of promoting the best milk quality have been the drivers for its development.

Under the new model, milk now has the same value in all geographic areas and good milk quality is rewarded. Another achievement is the harmonisation of our system for offering milk quality advisory services for farmer owners. An advisory service is offered when milk quality analyses indicate that the farmer would benefit from an advisory visit.

Sustainable dairy farming

	Carbon assessments	Energy assessments	Farm workshops
UK 2010–2016	2,435	–	496
Sweden 2013–2016	546	348	55
Denmark 2013–2016	1,011	22	39
Central Europe* 2013–2016	4	–	–
Total 2010–16	3,996	370	590
UK 2017	312	–	59
Sweden 2017	38	24	–
Denmark 2017	179	–	–
Central Europe* 2017	8	–	12
Total 2010–17	4,533	394	661

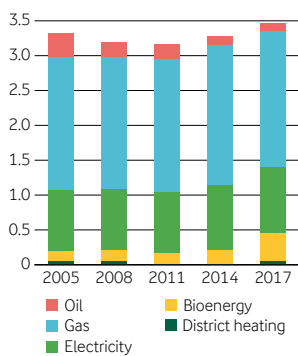
The table shows the number of activities carried out in line with our sustainable dairy farming strategy.

* Germany, Luxembourg, the Netherlands and Belgium.

Climate and environment

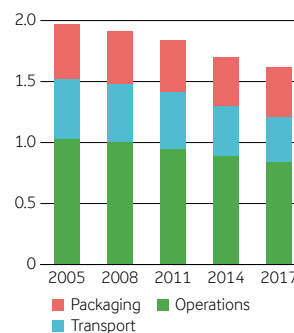
Our ambition is to minimise emissions and continually reduce our environmental impact within the entire supply chain.

Energy consumption, TWh



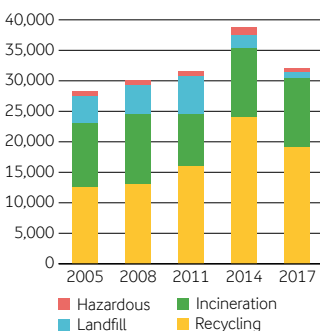
Arla's goal is to reduce energy consumption by three per cent annually. The increase in energy consumption since 2011 is closely connected to the growth of Arla with more sites, higher production volumes and a changed mix of products. The share of renewable energy has increased continuously and reached 24 per cent 2017. The energy used per ton of processed milk was reduced by 22 per cent between 2005 and 2017. The diagram includes all Arla facilities at the end of 2017. Previous years' data has been updated.

Climate impact, million tonnes of CO₂-e



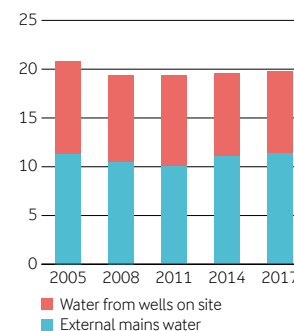
Arla's goal is to reduce greenhouse gas emissions from operations, transportation and packaging by 25 per cent by 2020, compared to the 2005 levels (scope 1+2+3, see page 39). Since 2005, Arla's total climate impact has decreased by 18 per cent, despite increased production. Most challenging is to reach targets for transportation.

Waste, tonnes



Arla's goal is zero waste to landfill by 2020. The development of total waste from 2005–2014 is directly connected to the increase in number of sites. The proportion of waste that is recycled and incinerated is increasing and waste to landfill has decreased by 77 per cent.

Water, million m³



Arla's goal is to reduce water consumption by three per cent annually. Total water consumption has increased over the last 10 years. Water saving initiatives and investments have not fully compensated for the increase in production volume and changes in product mix. The water used per ton of processed milk was reduced by 27 per cent between 2005 and 2017. The diagram includes all Arla facilities at the end of 2017. Previous years' data has been updated.

Responsibility key performance indicators

Arla uses a range of performance indicators to measure its sustainable and responsible business development. The indicators are inspired by the Global Reporting Initiative (GRI) and are in line with the material issues we need to address.

This table presents 10 indicators of special interests and their connection to the Sustainable Developments Goals and the GRI indicators.

Area	Arla definition	2017 result	SDG	GRI	Page
Food safety	Number of recalls	10			36
Animal welfare	Top level in udder health ¹	56 %	12		27
Nutrition criteria	Arla® branded products fulfilling Arla® Nutritional Criteria (fresh dairy products and cheese)	93 %	2		12
Transparency	Fraud or bribery cases (convictions)	0		205-3	36
Responsible sourcing	Signed CoCs for preferred suppliers	87 %	12		37
Employee health & safety	Accident frequency ²	9.85	8	403-2	35
Climate impact	Total reduction of GHG emissions (scope 1+2) ^{3,4}	25 %	2/13	305-1,2	38
Recycling and waste	Total reduction of waste to landfill ³	77 %	12	306-2	38
Water consumption	Total reduction of water consumption ³	4.8 %	2/6	303-1	38
Renewable energy	Share of total consumption	24 %	7	302-1	24

¹ Share of farms reaching top level.

² Accident frequency per 1 million working hours.

³ Baseline 2005.

⁴ Please see www.lifecycleinitiative.org/starting-life-cycle-thinking/life-cycle-approaches/carbon-footprint/

UN Global Compact

In early 2008, Arla signed up to the Global Compact, the UN initiative to promote ethical business practices. As a participant, we are committed to observing the Global Compact's 10 fundamental principles, to the right.

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

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



Human Rights

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

Labour

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

Environment

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

Anti-corruption

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

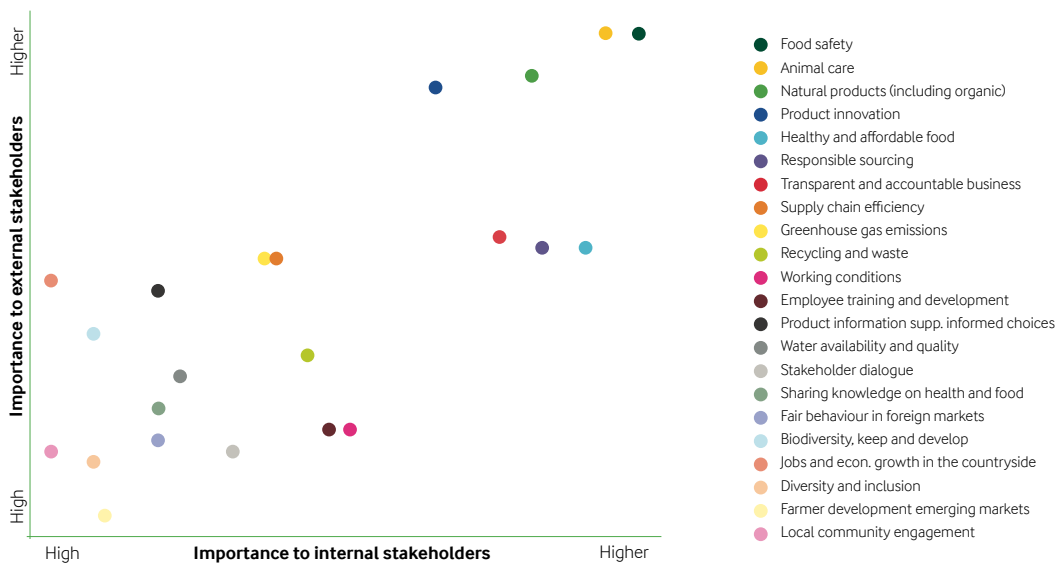
Materiality analysis

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

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

In addition to prioritising our activities, we also use the results to help us improve the scope and focus of our reporting and communication processes. Furthermore, the study serves as a basis when relating to the Global Reporting Initiative (GRI) guidelines.

Based on the results from the study in 2017, we have identified food safety, animal care and natural products as key areas of focus. These are followed by product innovation, healthy and affordable food and responsible sourcing.





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