



SECTION 172 STATEMENT

FOR

ARLA FOODS LIMITED
ARLA FOODS UK HOLDING LIMITED
ARLA FOODS UK PLC

This statement describes how the Directors foster effective stakeholder relationships aligned to Arla Foods Limited's purpose, and how the Board has demonstrated its responsibility to ensure meaningful stakeholder engagement and considered their views when making decisions. The statement also covers Arla Foods UK PLC and Arla Foods Holding UK Limited as direct and indirect parent companies respectively, to Arla Foods Limited. The statements relating specifically to these entities can be seen within their annual accounts obtainable from Companies House. The section describes how the Directors have had regards to the matters set out in section 172(1) to (f) and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

The Directors consider that they have performed their fiduciary duty, as stipulated under section 172 of the Companies Act 2006 in good faith to promote the success of the Company for the benefit of its members. Details of stakeholders, primary methods of engagement, why Directors consider engagement to be important, issues raised by stakeholders and actions taken as a result of the engagement are detailed below. They have taken into consideration, amongst other matters:

- The likely consequences of any decision in the long-term;
- The interests of the Company's employees;
- The need to foster the Company's relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and the environment;
- The desirability of the Company maintaining a reputation for highstandards and business conduct; and
- The need to act fairly as between members of the Company.

The Board has considered its key stakeholders and the methods of engagement with each of those stakeholders, both at Board level and across the business. It receives regular reports from management to enable it to monitor the quality and effectiveness of the arrangements for stakeholder engagement. Specific examples of the way in which the

Directors have performed their fiduciary duty under section 172 are provided in the following section. The Board has completed a programme of training to ensure that in preparing proposals for Board consideration, managers are aware of the section 172 requirements in Director decision making, ensuring that Directors have the assurance that all relevant stakeholder interests and other relevant matters, are being set out for their consideration.

The Board understands that good governance includes maintaining a clear, effective, meaningful relationship with all relevant stakeholders including our customers, our colleagues, the wider Group, our suppliers and the communities and environments in which we operate. As a wholly owned subsidiary, the Board is committed to ensuring the UK is aligned to the long-term vision and mission of its owner, the Group, which is to seek out opportunities for growth, securing the highest value for our farmer owner's milk. The Group strategy is to achieve this working as one Arla, from a common platform, which requires more alignment of performance management and planning, but also by sharing a common vision for the future. This vision includes our approach to sustainability, aiming to reduce our negative impact on the world around us and increase our positive impact.

Through the involvement of Peter Giørtz-Carlsen and Morten Holm, the Board retains a significant direct link of communication through to the Group and its farmer owners, which contributes to the ability of the Company to achieve alignment with the Group. Each Company Board member will also report to a Group based senior figure within their respective functions. The Group consistently promotes engagement with all stakeholders.

The Board maintains a commitment to promoting an active, open and honest approach to interactions with the Company's stakeholder community, and this includes regularly interacting with local government and industry bodies. Our relationship with the media is also one of openness, honesty and is proactive.

COLLEAGUES

Our UK business is home to around 3,400 colleagues. We recognise that people are our most valuable asset. Our success is dependent on their efforts and investment into our people creates a culture that allows our business to thrive. 2020 brought new unprecedented challenges to our colleagues, and safeguarding our employees was of paramount importance throughout, whilst providing support during ever changing circumstances.

WHY WE ENGAGE OUR COLLEAGUES

The Board holds the strong belief that engaging with our people is of key importance to successfully implementing its long-term strategies, which is aligned with the Group. Investing in our people is protecting our future and promoting our success. We want Arla to be a great, safe place for all our colleagues. Our people are our ambassadors, and our goal is for a proud and empowered workforce. Exciting our colleagues about our strategy beyond 2020 and improving employee engagement are essential business priorities for the Group in 2021.

HOW WE ENGAGE OUR COLLEAGUES

The Group policies and practices are applied at a local level. Our commitment to development of people is achieved through the Annual People Calendar. Our colleagues have set meaningful objectives and held regular dialogue meetings during the year to ensure focus on the most appropriate development areas and personal growth. Ongoing dialogue between managers and teams throughout the calendar year is proactively encouraged. Dialogue meetings are guided and structured in a way that achieves the best outcomes for all. Our dedicated people section of the intranet contains a vast amount of resources to support these activities.

Our Annual colleague survey “Barometer” gives our colleagues a voice within Arla. Barometer shapes the future direction of the Group, creating strong foundations for future growth, and ensures continuous improvement by acting on the opinions of our people. Results sharing and action planning based on the outcome of the survey is built into the People Calendar.

The survey results have been communicated to the Board and are viewed with importance in assessing levels of engagement, optimism and shaping the future to ensure opportunities for our people.

All our colleagues agree to follow the dedicated UK employee handbook which includes all our related policies. If breaches of policy occur, a whistle blower hotline is available for anonymous reporting.

We are committed to continual investment in our relationship with our colleagues. Our colleagues wellbeing has been even more of a focus during the past year, whilst people adapted to changing circumstances and working from home situations. During the year we have provided wellbeing initiatives, hosted an extensive virtual mental health awareness week, continued to champion the importance of well-being, enabled access to a free-to-use wellbeing app, increased levels and lines of communication across the Group and invested in our facilities at all of our sites to ensure Covid-19 secure working environments, where applicable and possible. Internal IT resources have been shaped and improved to encourage even further collaboration, sharing of best practices, engagement and celebration of successes.

We take pride in our rapid and diligent response in relation to our people when the pandemic materialised. Covid secure measures were introduced at a very early stage with risk assessments in place throughout 2020. A culture of best practice sharing and innovation led to enhancement of our controls and response plans. Colleague support was provided in the form of welfare calls and support for those individuals shielding. Frequent internal communication to our workforce from our senior leadership team became a priority and this comprised of regular internal communications, including comprehensive questions and answer packs and weekly briefings.

Meanwhile the Change Leadership Forum continued to drive the UK strategy via the leadership community across the business. Key messages are taken from these quarterly meetings and delivered to teams across the business. The forum is also used to discuss future strategic and local initiatives and develop solutions as a community. Members of the Board regularly attend and input into the forum.

The Board's monthly "Business & Talk" sessions continued, at which the Directors update our colleagues on the most significant recent developments in the business and introduce future strategic changes. Interactivity with leadership at all levels of seniority is continually encouraged at the sessions which always include opportunities for questions from around the business. In addition to these sessions hosted by UK management, colleagues within each function will typically be party to a Group level functional update that occurs on a bi-monthly basis, or more frequently if circumstances dictate a need.

The Company publishes Gender Pay Gap Reporting externally on its website. The analysis and results of the reporting highlighted areas that informs our internal strategies with regards to gender pay equality. The publishing of this information is part of the Board commitment to improving engagement with stakeholders.

In addition to our local initiatives, the Group maintains a set of principles in relation to diversity and inclusion which are applied on a global level. For example, colleagues dedicated to creating a more diverse and inclusive workplace maintain a global employee resource group, the Arla Diversity & Inclusion Network. Further information about the Group approach to Diversity and Inclusion can be found in the Arla Consolidated Annual Report 2020.

The Company maintains an active and open relationship with workers unions. The Company recognises Unite, USDAW and GMB for collective bargaining purposes. The Company believes in the benefits of positive trade union relationships and we are working openly, honestly and constructively with our trade unions towards industry-leading relations and a successful business. The discussions and collaboration that we have with our trade unions influences the decisions that the Board takes on future policies and strategy.

The Company's defined benefit pension scheme trustees are an employee related stakeholder. The trustees of the schemes (of which Arla appoints the majority) set the investment strategy and have established a policy on asset allocation to best match the assets to the liabilities of the schemes.

The trustees appoint an independent external advisor to the schemes who is responsible for advising on the investment strategy and investing the assets. The Company relationship with the external advisor is key in ensuring the Company continues to act in the best interests of all related stakeholders.

CUSTOMERS & CONSUMERS

The majority of our customer sales are to large UK based household name grocer retailers, who on sell to retail customers & consumers. Most of our customer sales are based on long-term relationships and long-term contractual agreements. We sell a mixture of branded and retailer own label products. Our food service channel including our Arla Pro® offering, has been a high growth area during the year for the Company. Our consumers are the end users of our products and services and continued engagement remains at the forefront of our strategic decisions.

WHY WE ENGAGE OUR CUSTOMERS & CONSUMERS

Our customers are essential to our business. Working with transparency and openness fosters our long-term customer relationships, and understanding our customers wants and needs informs our business decisions and priorities. We build trust with our customers through acting with integrity, honesty and promoting effective communication. Our customers are interested in our long-term trading position as they seek guarantee of supply and consistency of product and pricing. Our sustainability strategy is important for our customers who seek to identify and minimise the environmental impact of their supply chain. Our customers are interested in our safety standards and our compliance with regulations.

Consumer trends define our strategic decisions. Ensuring we identify and embrace changing trends, responding in a timely and effective way, is key to our continued engagement with our consumers and ultimately our commercial success.

HOW WE ENGAGE OUR CUSTOMERS & CONSUMERS

We hold regular meetings with all our customers at all levels within our business and across all departments, from Supply Chain through to our Commercial teams. Directors are involved directly in these meetings where possible, and if not in attendance, outcomes are covered in regular meetings involving Directors specifically. Each customer has a dedicated manager responsible for the relationship.

We monitor our customer interactions, obtain regular feedback and analyse customer complaints. We conduct customer research to understand the needs and wants of our customers. The Arla Consolidated Annual Report 2020 provides our customers with important perspective on the performance of the Group as a whole and details on our overall strategy and business model. Our corporate website provides a wealth of important information on the activities of the Group including UK specific activities on our UK website.

Our key topics of engagement during the year were in relation to product listings and distribution, promotional plans, pricing levels, and our joint business planning. We engage with our consumers through our digital channels such as our social media platforms, websites and e-commerce platforms.

We perform extensive levels of consumer research to understand the needs of our consumers, and always have consumer needs in mind when making the important choices.

**FARMER
OWNERS
& SUPPLIERS**

FARMER OWNERS & SUPPLIERS

Arla is a farmer owned cooperative as described in the Governance section. Our farmers are also our primary supplier of raw ingredients. Because our owners are also our suppliers, earnings do not accrue in the Group but go back to the owners in the form of the highest possible milk performance price.

WHY WE ENGAGE OUR FARMER OWNERS & SUPPLIERS

Our farmers are our owners and without them we would not exist as an entity. The strategies of the Group are defined by our farmers through our cooperative governance model. Our farmers are one of most significant stakeholders, as both owners and suppliers to the Arla business. Owners are interested in ensuring the Company continues to fulfil its obligation to purchase every litre of milk produced by each and every member, at the same time paying an optimised performance price, maximising sustainable long term returns for owners.

HOW WE ENGAGE OUR FARMER OWNERS & SUPPLIERS

Engagement with our farmers is achieved in a variety of ways. Each farmer will have their own agricultural manager and each manager has around 350 farmers each. The Company operates a dedicated Member Relations team within which the agricultural managers sit. Contact levels depend on the needs of the farmers and vary from phone and physical visit. There are also regular meetings each year where each farmer is invited to discuss Arla in general and how they feel about the business. The Arla Member Service will also send text reminders and emails each month on certain topics such as the latest milk price. The Member Service website is updated with latest news articles and gives our farmers another option to log any issues they may have.

Engagement with our farmer owners is achieved through regular and transparent internal reporting of our financial performance through to the EMT, Group BoD and BoR. The Company achieves this through our regular reporting to our Group owners, who then relay this information to the farmers through the Cooperative governance structure. When it comes to the supply of milk, we engage with our UK farmer members through our milk intake and the on-account milk price they receive, which represents the average payment farmer owners receive per kilogram of milk delivered during the settlement period. Our ongoing Calcium strategy contributes to the ability to pay a sustainable higher milk price.

We engage with our farmers over sustainability, and 2020 brought growth of our industry leading climate check initiative, and through 2021 this will take place across all our UK farms. The Arla UK 360 programme described in the Strategic report continues to bring vast benefits to our farmers. We continue to support the forging of stronger links between society and our farmers through initiatives such as Open Farm Sundays.

EXTERNAL SUPPLIERS

OUR EXTERNAL SUPPLIERS

The Board recognises the key role that our external suppliers of everything else excluding milk, play in ensuring the reliable delivery of products to our customers. From stationery, to machinery, to external advisory services, Group policies are applied in our selection of suppliers, and the business aims to only use Arla approved suppliers who are compliant with the Arla Code of Conduct, which gives confidence over our suppliers' practices. This all lends itself to more efficient relationships with our suppliers in terms of delivery, prompt payments and effective consolidation of ordering.

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HOW WE ENGAGE OUR EXTERNAL SUPPLIERS

We proactively manage our key supplier relationships and hold regular meetings to provide opportunity for hearing from our strategic partners first-hand on what challenges they face and understanding ways we can collaborate towards solutions. We ensure our suppliers are clear on our expectations and Code of Conduct requirements and our terms and conditions and payments policies are published on our website at www.arla.com/legal-information/payment-policy. The Board engages where necessary in terms of matters of external suppliers, be it a decision over which supplier to use, or discussions of any significant issues or disputes that may arise. Again, such matters form part of the regular market review meetings taking place involving the Directors.

**GOVERNMENT
& INDUSTRY
GROUPS**

OUR EXTERNAL SUPPLIERS

The Board aims for an open and transparent dialogue with the regulatory and industry bodies we collaborate with. We aim to maintain public trust in our industry through raising industry standards, for example with regards to climate change. We pride ourselves on our transparent relationship with HMRC and on maintaining our low risk tax status over several years. Our Group structure allows us to call on expertise on a global scale to ensure a valuable level of input is possible.

WHY WE ENGAGE WITH GOVERNMENT AND INDUSTRY GROUPS

We engage with Government bodies and industry groups to ensure industry standards are constantly improved to ensure trust is maintained across our customer base. We ensure our own practices are compliant with the most up to date operating legislation to provide our customers with a trust in our food safety and quality. We actively engage with tax authorities to ensure good tax governance and compliance with tax legislation.

The past year has seen us engage with Government regarding multiple key issues, including the impact of the pandemic on the dairy industry as a whole, the ongoing impacts of Brexit on our industry and sustainability.

HOW WE ENGAGE WITH GOVERNMENT AND INDUSTRY GROUPS

We collaborate with industry groups to provide input and perspectives from our business that leads to actions and decisions to continually improve the standards and practices in our industry. We innovate with new policies that lead the way in terms of innovation. The Board takes proactive steps to inform Government tax authorities of our planned actions within the UK and maintains transparency of its activities. Our UK tax team is globally integrated to ensure transparent dialogues are maintained globally. We approach our interactions with a view to minimise negative impacts that may occur due to changing policies.

EXTERNAL ENVIRONMENT

Sustainability is a cornerstone of Arla's strategy. Arla aims at delivering healthy and nutritional dairy products to consumers globally and the Group is committed to do so with a constantly reducing environmental impact. Achieving its mission to secure the highest value for the farmer owner's milk while creating opportunities for their growth, requires delivering on environmental and social performance. To signify commitment to the sustainability agenda and to increase accountability towards the goals set, the Group presents its Environmental, Social and Governance performance within the Group Consolidated Annual Report. The Group approach to sustainability, and how this shapes the Company strategies is discussed in more detail in the Purpose & Leadership section above. Further information can be found in the sustainability section of the Company website at www.arlafoods.co.uk.

The Company is aligned on the importance of sustainability and it forms a crucial part of strategy. The Board therefore considers the external environment in several ways; We are constantly taking steps to achieve our goals, from reducing on-farm carbon emissions and supporting natural eco-systems, improving energy efficiency in the supply chain, reducing the environmental impact of our packaging, to reducing food waste and bringing our customers the positivity of dairy through nutritious products and education programmes.

We are aligned with the Group target of Carbon Net Zero in all our operations, from physical factories to trucks on the road, by 2050. This is achieved through effective route planning for example, or through ensuring our factories are as energy efficient as possible, including our new site development in Settle.

In addition to our commitment to environmental sustainability, the Company is committed to giving back to society through its charitable activities. We support local charities through our donations and fundraising opportunities. As mentioned in the Strategic report, the Company has supported our nation

during the Covid-19 pandemic through several initiatives aimed at feeding the nation and supporting our key workers and the most vulnerable in the community.

We are proud of our continued longstanding partnership with FareShare, which has continued to develop during recent times. Our food donations represent the largest by any UK food manufacturer. Another example is our annual participation in the 'Mission Christmas' scheme donating gifts at Christmas time to Cash for Kids, a charity for disadvantaged children. We are also an active support of Grocery Aid, a charity supporting the wider Grocery industry on a national scale. The Company recently supported the launch of the 'Milk Your Moments' campaign by UK dairy workers and farmers in support of mental health charity, Mind.

DECISION MAKING

The Board has made numerous key decisions during the year, be it directly through its Board meetings or via delegation to a committee. The Board has remained mindful of the potential impacts on key stakeholders and factored their needs and concerns into all discussions and decision making in accordance with s172 of the Companies Act 2006.

Not all stakeholders are impacted by all decisions. Some decisions may result in conflicting needs of stakeholders, and the Board has ensured fairness in its decision making. The Group also has involvement in decisions that carry material impact at a Group level, as appropriate. Major decisions, actions and considerations during 2020 include the following (not ranked):

- Approved the 2019 Annual accounts and financial statements;
- Approved the UK tax strategy, the UK annual tax report and received updates on key tax topics including our low risk status with HMRC;
- Participated in Brexit planning and contributed to the long-term Brexit strategy and impact assessment;
- Lobbied for Government to strongly consider the requirements of the dairy industry in its decision making, including Brexit;

- Reviewed detailed analysis of costs, benefits, timelines and budgets of future projects and approved projects that will promote the future of the Company;
- Updated the Arla UK defined benefit pension plan trustees regarding the Company's performance;
- Agreed on actions resulting from the changing dynamics caused by the pandemic such as how best to protect the workforce whilst maintaining operations, make decisions on SKU rationalisation and collaborate with Government; and related periods of lockdown.

The following pages describes how principle decisions during the year have been made by the Board and how consideration has been given to the key stakeholders affected.

PRINCIPLE DECISIONS

APPROVAL OF THE COMPANY'S 2021 BUSINESS PLAN AND FORECASTS

The Board discussed the foundations for the plans of the Company at a Group level initially, before building up the plan with involvement of the UK CLF, in order to ensure the key outcomes considered the needs of all functional departments. Collaboration with Group is maintained throughout the process. The process involved identification of our key external stakeholders' needs including our farmer owners, customers and consumers, our workforce needs, Group strategic aims including long term sustainability ambition, and developing into our key strategic goals.

Stakeholder groups and other section 172 duties considered with this decision:

- Colleagues
- Group
- Customers
- Consumers
- Farmers
- Long-term success.

COVID RESPONSES & SAFETY OF THE WORKFORCE

Global Arla guidelines and UK government guidance was followed at all times during the pandemic. The decision to mandate our office based work force to working from home during first national lockdown was taken one week ahead of formal Government guidance to ensure the welfare and safeguarding of our workforce. Office equipment was issued to our workforce as required on request to ensure the ability of our workforce to transition to remote working and make this sustainable. Levels of leadership communications were increased to bi-weekly to ensure our work force was fully informed and reassured.

On all of our sites, where we operate to the highest standards already as one of Britains biggest food suppliers, social distancing measures were rapidly introduced along with personal protective equipment becoming mandatory, and laundered on site. Hand washing and sanitising stations were established. Our social areas were adapted to enable continuity of our critical business processes. Ensuring the continuity of our production lines and the safety of our products was given top priority.

Open lines of communication were established between the workforce and the BoD. Free form Q&A sessions were setup to allow colleagues to raise questions that were directly addressed. We surveyed our colleagues to identify issues as they arose from the shifting circumstances.

Social distancing measures similar to those introduced at sites were implemented at head office ahead of a phased return. These included the introduction of hand sanitizer stations, signposting, seating policies including distancing and regular cleaning, guidelines on meeting rooms, guidance on use of facemasks, procedures in the car park, and sign in/out policies. External visitors were no longer permitted.

At head office, first phased return after the first lockdown in summer was 30% capacity over three shifts, and there was no mandated return to work. This would ensure traceability of any cases and minimise risk of spreading the virus. We introduced Covid-19 agile working principles. The safety of our colleagues re-mained our number one priority throughout. We monitored office utilisation.

From early September, in response to reducing numbers of national infection rates and an improvement in the mortality rate, the decision was taken to move to a 50% capacity model and reduced shifts to two groups. We increased the capacity to use meeting rooms and introduced guidelines for safe working.

We responded to the second lockdown by ensuring our office was available for those where it is critical for performing a role. Utilisation remained at low levels deemed safe in the period up to the second lockdown. All measures previously introduced were continued.

Throughout the pandemic, the welfare of our colleagues has remained the number one priority. This extends far beyond the ability to perform roles, to the mental and physical welfare of our people. We benefited from the strength of our existing initiatives, and ensured their availability and awareness was given highest priority. The wider Group also provided support across the board to ensure teams were adapting to the conditions brought about by the pandemic.

Stakeholder groups and other section s172 duties considered with this decision:

- Colleagues
- Reputation impact
- Long-term impact

COVID RESPONSES & PRODUCTION; DECISIONS ON PRODUCTION STRATEGIES

Rationalisation of product lines towards our most in demand products and ensuring that we could continue to meet the spikes in demand during unprecedented turbulence.

Diversion of products away from the closed foodservice sector during lockdown and towards those in need, as described in the next section.

Increased levels of production in response to the increased levels of demand, to ensure that we could continue to provide food to Britains communities.

Stakeholder groups and other section s172 duties considered with this decision:

- Customers & consumers
- Financial impact
- Long-term impact
- Reputational impact

COVID RESPONSE & NATIONAL EFFORTS AND SUPPORT

The decision was taken to support our community in the times of need. We built on our existing community initiatives and pledged donations of our products to our NHS key workers and most vulnerable people in our society during the first peak of the pandemic.

Butter, cheese, yogurt and milk that would have been destined for Britain's cafes and restaurants was diverted into homes of some of the most vulnerable families in the country. Partnerships with FareShare, Food4Heroes and Magic Breakfast were established. Arla's products provided enough dairy for 4 million slices of Lurpak toast and 1.4 million slices of pizza thanks to Arla Pro mozzarella.

The Company contribution of dairy products included:

- 40,000 bottles of Cravendale a week for twelve weeks, through the Magic Breakfast schools part-nership which focuses on providing children a healthy start to their school day (even while they are currently at home);
- 838 tonnes of Milk, cheese, yogurts and butter to Fareshare which redistributes to charities and community groups helping the most vulnerable at this time;
- Butter, cheese and other dairy items to Food4Heroes, setup to ensure our NHS workers could ac-cess ingredients for nutritious home cooked food;
- 175,000 pints of Organic Milk shared via FareShare and other charity organisations; and
- 110,000 cans of Starbucks Doubleshot and 15,000 bottles of Arla Protein sent to hospitals for NHS key workers.

Stakeholder groups and other section s172 duties considered with this decision:

- External environment
- Financial impact
- Reputational impact

Approval by the Board on 30 June 2021 and signed on behalf of the Board by:



SKM Ho
Director, Arla Foods Limited, Arla Foods UK Holding Limited
and Arla Foods UK PLC
Registered number: 02143253, 04659433, 03487778.



**STRENGTH COMES
FROM WITHIN**