

# our responsibility

ARLA FOODS' CORPORATE SOCIAL RESPONSIBILITY

## REPORT 2008





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Unless otherwise indicated, the facts and figures in this report cover Arla Foods' fully owned dairy companies in 2008. Some cases from fully owned subsidiaries and joint venture dairy companies are also included.

The structure of the report follows *Arla Foods' Corporate Social Responsibility Code of Conduct*, which was published in the spring of 2008.

More information is available at [www.arla.com](http://www.arla.com)

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## being responsible means taking action

**ARLA FOODS' MISSION** is to provide modern consumers with natural milk-based products that create inspiration, confidence and well-being. I firmly believe that we can only achieve this by taking our corporate social responsibility seriously and adhering to our principles of ethics and sustainable development. These principles are presented in our document *Our responsibility – Arla Foods' Code of Conduct*, which can be downloaded at [www.arla.com](http://www.arla.com).

### **We support Global Compact**

In January 2008 Arla signed up to the United Nations Global Compact, an initiative to promote ethical business practices. By accepting this commitment we will report our progress on an annual basis and communicate openly and honestly about how well we are living up to our Code of Conduct.

This report is one way to keep the dialogue about ethics and sustainability alive and our continual efforts in this area strengthen the company and help us to prepare for the future. All decisions, large and small, must be based on our philosophy of sustainability and ethical responsibility. The business strategy that we presented in November 2008 is an example of this, as is the climate goal we have set ourselves.

### **Our Code of Conduct shows the way**

During the year we have made considerable progress towards our Corporate Social Responsibility (CSR) commitments. For instance, the results of our employee survey show greater job satisfaction, mainly due to improved leadership, greater clarity

and reduced stress. Another improvement is our success in reducing consumption of energy and water. But we have also been forced to deal with difficult situations such as the melamine issue in China and redundancies. Irrespective of whether events are positive or negative, I believe our Code of Conduct can be used by all colleagues to guide their work and as a tool on which to base their decisions.

During the coming year we will increase the number of supplier audits we carry out, continue to decrease our environmental impact and put extra focus on reducing accidents at work. We will also continue our work with CSR training and communication about this in the company. The further we embed the Code in the business, the greater our potential for developing and improving our CSR credentials.

### **Join us in our efforts**

Millions of consumers are in daily contact with our products and Arla has relationships with stakeholders at all levels across the globe. It is our intention that this report will encourage consumers, customers, suppliers, employees and our owners to join us as we endeavour to become a more sustainable and responsible company.

Viby, March 2009



*Peder Tuborgh, CEO*



## ARLA IN BRIEF 2008

### OWNERS

Arla Foods is an agricultural cooperative owned by 7,996 dairy farmers – 3,906 in Denmark and 4,090 in Sweden.

### NUMBER OF EMPLOYEES

Denmark	7,329
Sweden	3,264
UK	3,059
Finland	457
Other countries	1,818
Total	15,927

### TURNOVER

DKK 49.5 billion; approximately 70 per cent in Denmark, Sweden, the UK and Finland.

### NET RESULTS

DKK 556 million. During 2008 we have paid 2.5 billion more to our cooperative members than during 2007.

### RAW MILK IN MILLIONS OF KILOS

Denmark	3,911
Sweden	1,943
UK	1,958
Finland	189
Other countries	242
Total	8,243

### MANAGEMENT

Chairman: Ove Møberg  
Vice-chairman: Åke Hantoft  
CEO: Peder Tuborgh  
Vice CEOs: Povl Krogsgaard and Andreas Lundby

\* Due to the global economic situation, the time frame for the turnover target has been extended to 2015, following a decision made by the Board of Directors in March 2009.

## about Arla

Arla Foods is a global dairy company and cooperative owned by Danish and Swedish dairy farmers. Our products are sold under well-known brands in more than 100 countries. We have production facilities in 12 countries and sales offices in another 20. Arla is also the world's largest producer of organic dairy products.

### Change in strategy

During the autumn the Board of Directors announced a change to the company's strategy for the upcoming five-year period. According to the new strategy we will reduce the number of brands we have and prioritise markets where we are already strong. We will also expand production of added-value whey protein. Our goal is to achieve DKK 75 billion in turnover in five\* years, which corresponds to an increase of approximately 50 per cent.

Along with our change in strategy we also presented our new brand, including a new logo and imagery. With the launch of Closer to Nature™ we want to position ourselves as the dairy company that offers the most natural products. Closer to Nature™ is also the main driver for new product development, in which we are significantly increasing investment.

### New climate goal reduces emissions

The climate goal that we presented at the beginning of the year is also in line with Closer to Nature™. Our goal is to achieve a 25 per cent reduction in greenhouse gas emissions from transport, production and packaging by 2020, compared with our emissions in 2005. We see this as a way of developing sustainable activities for the long term and we have increased the 2009 budget for environmental-related activities.

### Expanded core markets and continued investment

During the year we continued working on the expansion of our

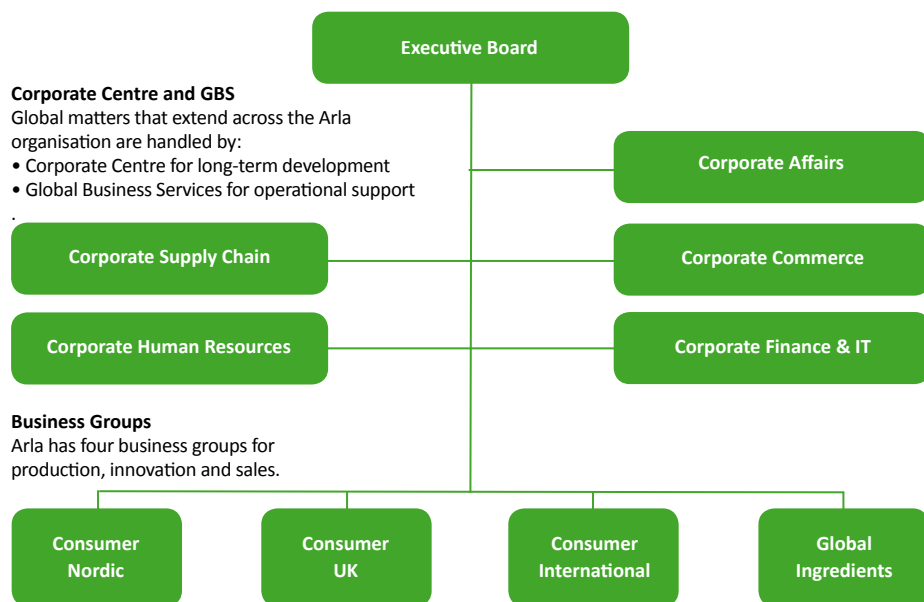
core markets, while fostering ownership in a number of companies. In August we acquired the remaining 70 per cent of Arla Ingman Oy Ab in Finland. As part of the new strategy we aim to continue to be the market leader in Denmark and Sweden and to be number two in Finland. In the UK we strive to be the number one dairy company. In our new core markets, Germany and Poland, we will be among the top three dairy companies. We are also dedicating resources to our seed markets in Russia, China and the United States.

During the year a joint venture was created between Arla Foods amba and the members of Arla Foods Milk Partnership (AFMP) in the UK. The purpose of the joint venture is to give UK milk suppliers insight into the company and ensure the supply of raw milk in the UK. Since Arla Ingman became a wholly owned subsidiary, discussions are underway to determine how we can collaborate more closely with the Finnish milk producers.

### Large fluctuations in milk prices

Towards the end of 2008, the supply of milk on the global market increased at the same time as demand weakened due to rising prices for dairy products and the economic downturn. The price paid to members for their milk fell by approximately 15 per cent in 2008, although payments for the twelve-month period were still significantly higher than the previous year. The supplement for organic milk also increased. Although we always endeavour to offer a competitive milk price to our members, it is difficult to anticipate developments in the rapidly changing global market.

## ORGANISATION OF THE ARLA GROUP



## CORPORATE CENTRE AND GLOBAL BUSINESS SERVICES

**Corporate Affairs** – comprises communication and group development under the management of Peder Tuborgh.

**Corporate Supply Chain** – handles milk supply, contact with owners, technical issues, quality, environment, global procurement and investment under the management of Povl Krogsgaard.

**Corporate Commerce** – responsible for group marketing and multi-disciplinary research and development under the management of Andreas Lundby.

**Corporate Human Resources** – handles employee training and organisational development issues for the whole group under the management of Ola Arvidsson.

**Corporate Finance & IT** – handles finance, IT and law under the management of Jørn Wendel Andersen.

## BUSINESS GROUPS

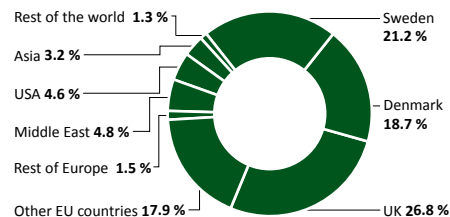
**Consumer Nordic** – fresh products, cheese and butter for the Nordic market under the management of Hans-Åke Hammarström.

**Consumer UK** – fresh products, cheese and butter for the UK market under the management of Peter Lauritzen.

**Consumer International** – cheese, butter and spreads for all markets under the management of Tim Ørting Jørgensen.

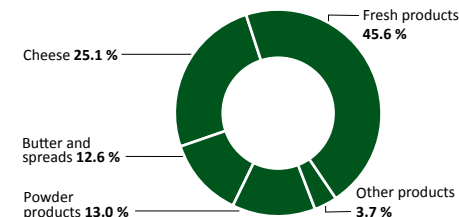
**Global Ingredients** – milk powder and milk-based ingredients for all markets under the management of Jais Valeur.

## NET TURNOVER BY MARKET



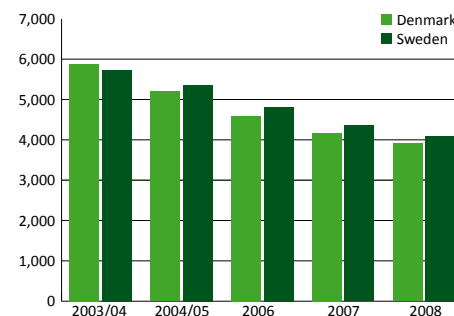
Arla's strategy is to be a market leader and to grow in selected markets. In 2008 Arla expanded its operations while streamlining ownership in a number of subsidiaries.

## NET TURNOVER BY PRODUCT GROUP



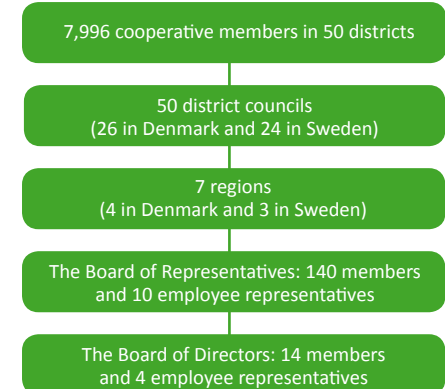
To date our product categories have included many different brands. With the change in strategy adopted in 2008 Arla will now focus on three global brands: Arla®, Lurpak® and Castello®.

## NUMBER OF MEMBERS IN DENMARK AND SWEDEN



In 2008 the number of members decreased by six per cent, while the quantity of milk from milk producers in Denmark and Sweden decreased by one per cent, since many of the farmers decided to expand production.

## MEMBER AND OWNER DEMOCRACY



The Board of Representatives is Arla's top decision-making body. Arla's Board of Directors is elected by the regions and the Board of Representatives. All elections and polls are held according to the 'one member, one vote' principle.

For more information about Arla, see [www.arla.com](http://www.arla.com)

We act credibly and with integrity in all of our operations.

*From: Our responsibility  
– Arla Foods' Code of Conduct*

## business principles

Arla is an international business as well as an agricultural cooperative owned by Danish and Swedish farmers. We comply with local legislation in all the countries in which we work. We are also committed to the principles contained within our Code of Conduct, enabling us to act credibly and with integrity and which set a good example of responsible business conduct.

- **CSR COMMITTEE.** A team of senior managers, including Arla's CEO, meets regularly to ensure that our Code of Conduct is embedded in our business.
- **PROTECTING INTELLECTUAL PROPERTY.** In 2008, we published our first Global Intellectual Property policy. As well as defining the principles to which we will adhere, it details the operational procedures that we follow in order to comply with the policy.
- **FAIR COMPETITION.** Our Competition Compliance Programme ensures that we comply with the competition laws in the countries in which we operate. In line with this we supported the Danish competition authorities during their investigation into increased food prices.

## Our Responsibility – Arla Foods’ Code of Conduct

Since 2007 we have increased our focus on Corporate Social Responsibility (CSR) and have initiated a number of internal activities within the organisation to support the group’s position on ethical, social and environmental issues. This work is overseen by a cross company CSR committee, of which Arla’s CEO is chairman. Progress relating to the Code of Conduct is monitored as it continues to be embedded in the business and this report describes Arla’s advances in this area.

### Standardised financial reporting

Arla has subsidiaries in 21 countries and co-owns associated companies in 11. In order to ensure that we are consistent and transparent in our financial reporting, all key subsidiaries in the group are audited by one international firm of auditors. Some associated companies however are audited by other international auditing firms. All companies are required to comply with each individual country’s statutory provisions when preparing annual reports. All accounts are approved by auditors and give a true and fair view of the company’s accounts.

Arla’s annual report is prepared in accordance with the Danish Financial Statements Act which only differs slightly from International Accounting Standards.

### Compliance with competition laws

We have an ambitious growth strategy. To prevent us from abusing our position as a strong player in certain markets, a Competition Compliance Programme has been developed to ensure we comply with the competition laws in the countries in which we operate.

In 2007, the Danish competition authorities began an investigation to uncover the extent of, and the reasons for, the increased prices for food products, including dairy products, during that year. Arla took part in this investigation, delivering exhaustive and detailed information to the competition authorities. In October 2008 the findings were published, concluding that the prices for dairy products had increased, along with other food products, for a number of reasons. There was no suggestion that Arla has charged excessive prices.

Other competition authorities also initiated investigations in respect of food prices, including the Greek competition authorities, with which Arla has cooperated. No report has, as yet, been published in Greece.

### INTELLECTUAL PROPERTY RIGHTS

Arla is the owner of numerous intellectual property rights which are valuable assets. In 2008, Arla published its first Global Intellectual Property policy. The policy defines the principles to which Arla will adhere in its management and proactive use of intellectual property to ensure the best possible business position for the company. The policy is divided into three main areas; protection of Arla’s own intellectual property, minimising the risk of Arla infringing third party intellectual property and active intellectual property portfolio management.

Two documents support the policy. The first outlines the new intellectual property organisation within Arla, including a clear description of accountability. The second, a manual, contains guidelines on how to implement and comply with the policy.

During the last year, colleagues have been educated in the new Global Intellectual Property policy and an indepth basic patent course has also been introduced covering two main areas, obtaining patents and how to operate both from a legal and a strategic point of view.

### GLOBAL COMPACT

In January 2008 Arla was accepted as a member of Global Compact, the UN initiative for ethical business conduct, and as such, committed to producing an annual Communication on Progress. We now submit our reports, along with our Code of Conduct, to Global Compact and they can be found in the networks section of the Global Compact website, [www.unglobalcompact.org](http://www.unglobalcompact.org).

### COURT PROCEEDINGS

During 2008 a number of court proceedings were instigated by Arla or against Arla in relation to intellectual property rights. Below we report on two of these:

- **Fermigel AB, Sweden.** The dispute, reported in Arla Foods’ CSR Report 2007, relating to an alleged infringement by Arla of Fermigel AB’s trade secrets in relation to low fat crème fraîche has now been resolved. An out-of-court settlement was reached in September 2008 and both parties have agreed that the details of the settlement will remain confidential.
- **Promasidor Ltd, Nigeria.** Promasidor Ltd has accused Arla of infringing its intellectual property rights in relation to a packaging design. A preliminary injunction prohibiting the continued sale of Arla’s Dano Power Cow® milk powder product in Nigerian territory was issued by the Nigerian courts in August 2008. Arla has, together with its Nigerian partner challenged this decision, as Arla firmly believes that its packaging design does not constitute an infringement of third party’s intellectual property rights. The outcome of this challenge is expected in March 2009.

### OPERATING IN DIFFICULT MARKETS

As a global company, Arla is exposed to many cultures, each with differing attitudes towards bribes or other improper payments for business benefit and/or financial gain. As expressed in our Code of Conduct, we pride ourselves on acting credibly and with integrity in all of our operations and we do not accept or offer bribes.



We manage our business in a good cooperative spirit that promotes the financial interests of our owners.

*From: Our responsibility  
– Arla Foods' Code of Conduct*

## operational principles

Arla is a democratically managed producer cooperative that aims to create value for its cooperative members – Danish and Swedish dairy farmers. All cooperative members have an opportunity to influence significant decisions. Cooperative members elect representatives to the company's governing body. The Board of Directors is responsible for making decisions about the company's general strategies and for ensuring that the company is managed with the cooperative members' best interests in mind.

- **STRATEGY 2013.** The Board of Directors has announced a change in the company's strategy for the next five years. The next step is for the members to consider how to finance the growth of the business.
- **THE NEW ARLA.** During the year Arla implemented several changes relating to payments, contracts and democracy, and further proposals are under consideration.
- **LARGE FLUCTUATIONS IN MILK PRICES.** In 2008 the supply of milk on the global market increased at the same time as demand slowed, due to retail price increases and the downturn in the economy. The milk price for members fell by about 15 per cent during the year, and decreased further at the beginning of 2009.

## Members engaged in the decision on the strategy

In October 2008 the Board of Directors agreed comprehensive changes to our strategy for the company's development over the next five years. Prior to the decision being taken, the proposal for the changes was addressed at meetings with elected representatives in regional boards and district councils. Read more about our strategy in the Market Conduct section on page 28.

The Board of Directors also presented a solution for how to finance the company's strategic growth objectives. The Board of Representatives has confirmed that it wants to discuss both the corporate structure and co-financing from external stakeholders. Members and elected representatives will discuss the proposal at meetings prior to the Board of Representatives addressing the issue during the spring of 2009.

## The New Arla emerges

Arla's objective is to continue to promote the long-term financial interests of its cooperative members and to build markets for the raw milk they supply. The turbulence relating to the increase in demand for raw milk in 2007 accelerated the extensive evolution of the group, called The New Arla, which was carried out during 2008. Several of the implemented changes aim to ensure long-term access to raw milk and encourage increased production. Moreover, communication about the exact payment for milk, 'the Arla Quotation' has improved and prices have been adjusted faster than in the past. Additional proposals for changes are under consideration, such as more flexible rules for withdrawal from and re-entry into the cooperative.

## Closer association with UK farmers

Arla Foods Milk Partnership (AFMP) is an organisation made up of around 1,400 UK farmers who deliver all of their milk to Arla UK. During 2008, Arla Foods amba and AFMP members, through AFMP's investment arm, Milk Partnership Limited, united in a joint venture. The purpose of the joint company is to give UK milk suppliers an insight into the business and secure the supply of raw milk in the UK. It is still too early to comment on the effectiveness of the new joint venture.

After Arla Ingman, in Finland, became a wholly owned subsidiary, Arla is considering ways to increase collaboration with Finnish milk producers.

## MEMBER AND OWNER DEMOCRACY

The Board of Representatives is Arla's top decision-making body. Local district meetings are held at which members elect representatives to district councils and the Board of Representatives. The mandate period for all elections is two years. Arla's Board of Directors is elected by the regions and the Board of Representatives. All elections and polls are held according to the 'one member, one vote' principle, also see the organisational chart on page 5.

## ENSURED EQUAL TREATMENT

The Appeal Board for Quality and Ecology is the body to which members in Denmark and Sweden may turn to appeal against the company's decisions relating to the Arlagården quality assurance programme and handling of ecological regulations. The Appeal Board deals with issues such as the application of measurable quality parameters, for example, analysis results, milk collection conditions, as well as other requirements and recommendations. In 2008, 66 appeals were addressed, compared with 77 last year and 51 in 2006. Farmers in the UK and Finland also have the corresponding opportunity to appeal against the application or interpretation of their quality assurance programmes.

## MEMBER INFLUENCE

Well-informed members and knowledgeable elected representatives are vital for membership democracy and the opportunity for cooperative members to influence decisions. Cooperative members can participate at meetings or as elected representatives. They can also submit motions at district meetings and, after these are considered, the districts can choose to forward proposals to the Board of Representatives.

In May 2008, eight motions were addressed at the Board of Representatives meeting, compared with nine the previous year. The motions involved issues such as the logistics supplement, calculation of member-dependent costs and the member organisation. The suggestions in the motions will be included in continued initiatives associated with these issues.

## ENTRIES AND WITHDRAWALS IN 2008

At the end of 2008 the number of members was 7,996, a reduction of 526 compared to last year, mainly due to farmers ceasing milk production. During 2008, 42 members decided to leave Arla for other cooperatives. The majority of the 187 members who left during 2007 have now returned to Arla. Additionally, during 2008 the two Danish cooperatives – Borup and Hirtshals – whose combined membership totals 74, wanted to merge with Arla. The mergers were completed during 2008.

## MEMBERS' SURVEY

Arla regularly conducts a survey of its cooperative members' views of the company. The 2007 members' survey showed dissatisfaction, even though the results were no worse than in the previous survey. During the year we improved communication and the democratic process among members, which we hope will have a positive effect on the results of the next survey in 2010.

A similar survey is also conducted in the UK, which in 2008 showed improved satisfaction levels over the previous year.

## INFORMATION TO MEMBERS

Cooperative members receive information about Arla's activities on an ongoing basis, via newsletters and our website, along with the option of SMS text messaging. Another way to gain insight into the company is to participate in seminars held for cooperative members. In 2008 around 900 members participated in seminars, which was 30 per cent more than in 2007.

Arla has an education policy and a training programme for elected representatives. Introductory programmes are held for positions at every level and during the past year the Board of Representatives ran a pilot mentor programme for newly elected members. In 2009 all newly elected members will be offered a mentor.

We meet consumer demand for safe dairy products.

*From: Our responsibility  
– Arla Foods' Code of Conduct*



## food safety

As a responsible food manufacturer we have an obligation that eating and drinking our products does not cause illness or injury. We make every effort to ensure that our processes are safe and that high quality standards are maintained throughout the entire supply chain, from the raw material to the finished product. In the event of an issue we have full traceability of our raw materials, ingredients and end products enabling us to take immediate action.

- **CONSUMER SAFETY.** The safety and quality of our products is our key priority and in 2008 we have focused on the controls we have in place to prevent contamination of our products.
- **EXTENDED SHELF LIFE PRODUCTS.** The introduction of new types of extended shelf life (ESL) products in 2008 resulted in us developing and adapting our food safety procedures.
- **EDUCATION AND RESOURCES.** We invest in educating our employees about food safety and provide a wide range of courses and practical training. In 2008, we have increased the number of food safety specialists in the business.

## Food safety in focus

Guaranteeing the safety and quality of our products is a key priority for Arla and for our consumers. In order to deliver safe products we set stringent standards as well as complying with the requirements of our customers, the EU and the authorities in the countries in which we operate.

Customers regularly audit our sites and this year they have focused on the tests we have in place to detect contamination of our products by glass, wood and metal, in addition to bacteria that can cause disease (pathogens). These are areas that Arla proactively reviews and which form part of our hazard analysis programme. We have taken specific measures to prevent contamination including investment in metal detectors and other equipment. In addition, we continually review and upgrade procedures for foreign body and pathogen control.

We expect our suppliers to take the same stance we do on food safety. In order to ensure they adhere to our requirements we have procedures for approving, auditing and evaluating our suppliers. We focus on the processes they have in place for allergen and foreign body control as well as good manufacturing practice, including personal hygiene and product quality.

## New production methods and food safety

During 2008, Arla introduced new technology to produce new types of extended shelf life (ESL) products and invested in new equipment. Examples of our new ESL products are soups and sauces which contain pieces of meat, vegetables and spices. This new technology has required us to adopt additional food safety procedures and set up new control programmes.

New hazard analysis programmes have also been developed, with input from our innovation and process development departments.

## Increased education and resources

The expertise and knowledge of our colleagues is essential in ensuring the quality and safety of our products which is why we invest in food safety education. As well as basic, intermediate and advanced food hygiene courses we also provide ISO 22000 training which is delivered by both internal and external training providers.

During the last year, our focus on food safety has been further strengthened by the increased number of food safety specialists in the business.

## PRODUCT RECALLS

In the event of us having to recall a product from the market, or withdraw a product from a customer, the processes we have in place enable us to react immediately. The number of recalls, by Arla, over the last four years, are reported below.

Year	2005	2006	2007	2008
Recalls	1	4	7	2

The two recalls carried out in 2008 in Denmark and Sweden were due to:

- Product in the wrong packaging.
- Leaking packaging.

When Arla's joint venture partner in China, Mengniu Dairy was named as one of the 22 dairies whose milk had tested positive for melamine, affected products were immediately recalled. As a precaution, similar products from our joint venture were withdrawn, production was suspended and an investigation launched. Read more in the interview on page 12.

## FOOD SAFETY CERTIFICATION

All of our sites in Denmark and Sweden have ISO 22000 food safety certification and during 2008 were all audited and recertified according to this standard. In the UK, four sites gained certification in 2008. Three of the remaining four sites will be audited in 2009 and the last one in 2010. Our sites in Poland already have ISO 22000 and we are working towards gaining this certification in Finland and Argentina. The ongoing introduction of ISO 22000 brings even more awareness of food safety into the business.

## TRACEABILITY

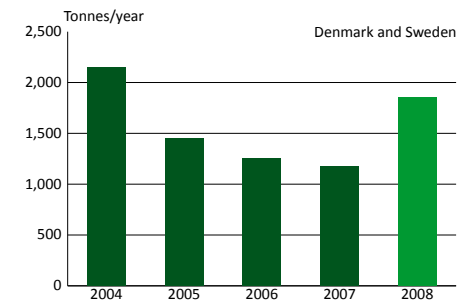
In all of the markets in which we operate we are able to trace our raw materials and ingredients back to the supplier and can trace products from our dairies to our customers. Traceability of our supply chain enables us to identify and immediately react to a food safety issue, should one occur. Our traceability procedures are continually reviewed and refined to allow us to take action in the shortest time possible.

## MANAGING ALLERGENS

In order to guarantee that our products are not contaminated by allergens we have a database of ingredients which we continually update according to the EU allergen directive. We also place clear demands on our suppliers, requesting that they complete allergy declarations and we carry out audits where appropriate. We have strict standards on how to manage allergens in our supply chain, from the development of products through to the storage of finished products.

Despite our best efforts to ensure the safety of our products, if we are in any doubt as to whether a product may contain even a trace of an allergen we ensure our consumers are aware by clearly stating this on the packaging.

## DISCARDED MILK WITH ANTIBIOTICS



Unwell animals are sometimes treated with antibiotics. During the period the cow is being treated with medicine and for a period afterwards, the milk is discarded and cannot be delivered to the dairy until it is free from medicine residues. To ensure that no antibiotics remain in the milk, we carry out checks at several stages. If milk shows traces of antibiotics when it is checked it is discarded. During 2008 the amount of milk discarded by our dairies in Denmark and Sweden, because it contained antibiotics, increased, especially in Denmark. There was no change to our control procedures in 2008 but we are now increasing our efforts to improve preventive measures at farm level.



“It gave me peace of mind to read at the top of my notebook: ‘Do the right thing’.”

**FREDE JUULSEN** will never forget the day when he first heard about melamine-contaminated milk powder. On the same day he was scheduled to leave for Asia with Arla’s Executive Management and a group of journalists. Four days later, they were due to attend the official opening of the milk powder factory in Hohhot, China, which Arla had built in partnership with China’s Mengniu Dairy. Over the following days, however, it emerged that a large number of children had been taken ill as a result of consuming milk powder from a competitor. At this stage, everyone still believed that the problem was limited to this single source. Out of respect for the situation Arla decided to cancel the opening celebration and only offer a tour of the Hohhot factory for guests and journalists.

abruptly and we returned to our hotel where we logged onto our computers to find out what was happening and decide how to respond to the many questions that were beginning to pile up.

**What went through your mind?**

My immediate reaction was: Could we have made products that might have made children ill? It was extremely upsetting and everyone realised that this was critical. As a food producer there is nothing worse than possibly having products that could harm consumers. Initially I thought ‘How is our company even going to get through this?’.

**What difference did it make that the top leadership was in China at the time?**

It was a huge benefit. Normally a crisis response team has to be gathered together, but it wasn’t necessary because we were all present. Our CEO, Peder Tuborgh, took the lead immediately and assigned responsibility, making it clear that consumers were our prime consideration and that we had to operate with complete transparency. It gave me peace of mind to read at the top of my notebook: ‘Do the right thing’.

**When did you realise that the melamine crisis had impacted on the Mengniu Arla joint venture?**

In the evening after the factory tour we attended an official dinner with local politicians and authorities. As is the tradition in China, we were seated around a large round table when we began to sense some unease. People began to receive messages and at one stage the head of Mengniu excused himself and left. I sensed something was wrong.

It emerged that China’s official television channel had announced that 22 dairies were involved in the crisis and that Mengniu was one of the dairies mentioned. The dinner ended

**Frede Juulsen** is Senior Vice President, Milk Powder.

Frede Juulsen has responsibility for the production and sale of milk powder for consumers. He has the whole world as his work place. What he likes best about his job is the broad cultural interface and the opportunities to develop the business alongside skilled and enthusiastic colleagues.

### How did the fact that Mengniu Arla is a joint venture affect the way the crisis was handled?

Since it is a joint company, we have to agree. That night we agreed with our Chinese partners how the situation should be handled. It was emphasised that our focus would be on consumers, that the products had to be recalled and that production would stop until we were able to conduct tests for melamine. No compromises were to be made. Our partner also decided to pay double compensation to anyone who had been harmed by its products.

The joint plan enabled us to communicate openly and clearly to the journalists waiting outside the door.

It was a great advantage having a local partner that understands the local culture and language, particularly during the recall, which was a logistical challenge in a huge country like China.

### What was it like being in a foreign country with a different culture at the time of the crisis?

Chinese society focuses a great deal on protecting China. Often the nation is put before the individual. Also it doesn't have the same tradition for openness or a free press. Our partners showed a modern Chinese side, and this is not always the case in China.

This is the reason why, right from the start of the joint venture, it has been so important for us to find a partner that shares our ethical and moral standards despite our cultural, political and commercial differences. In a globalised world, there is no hiding place and the objective is to always follow the same principles and standards everywhere, regardless of whether we're talking about a core market or somewhere 10,000km away. Often transferring standards from one continent to another is easier said than done. But those are our principles.

### Is it right for Arla to continue producing a sensitive product like infant formula in a market where something like this can happen?

Yes, because it centres on setting up good control systems. We maintain very high standards and we can trace our products all the way back through the production chain. We also check that our suppliers meet international quality control standards. Having said that, someone with bad intent can always appear unexpectedly, as we saw with the melamine crisis.

The alternative is to become a niche business and that's not the way for Arla. I'm a strong believer in trading as a way of raising global living standards. We also have a long tradition of exporting dairy products and I'm sure that a hundred years ago it seemed just as exotic to sell butter to England as building a powder factory in China is today. However, if we hadn't exported butter then Denmark might not have had a dairy industry today.

### What insights have you gained from all of this?

I have learnt that I can cope and remain calm in a crisis and I've learnt that it's extremely important to draw upon the skills of the many excellent experts we employ across the organisation. Just as we did when we flew Danish laboratory technicians to China to install the testing equipment. You feel safe when you have credible specialists working alongside you when things really start hotting up.


### MELAMINE ISSUE, DAY BY DAY

In the text below the following company names are used:

**Mengniu** – the Chinese dairy company which is Arla's partner in the joint venture Mengniu Arla.

**Mengniu Arla** – the joint venture between Mengniu (51 per cent ownership) and Arla (49 per cent ownership).

- **Sept 12** The first media report about a melamine recall from a Chinese dairy company.
- **Sept 13** The Chinese government introduces melamine tests at dairy companies which produce milk powder. Mengniu Arla's complaint database shows no registered consumer complaints regarding kidney issues.
- **Sept 16** Chinese national television announces that 22 milk powder brands, including three Mengniu products, have been found to contain melamine during government tests.
- **Sept 17** The Chinese government orders all dairy products to be inspected. Mengniu initiates a recall of all contaminated Mengniu powders. As a precaution, Mengniu Arla stops production and withdraws Mengniu Arla products. A melamine analysis programme, in cooperation with Mengniu, commences at Mengniu Arla.
- **Sept 18** Government tests find melamine in 10–20 per cent of all dairy products (milk, ice cream, yogurt) from all major Chinese dairy companies, including Mengniu.
- **Sept 24** Melamine is found widely in dairy products on export markets, mainly in Asia. A Danish group of laboratory technicians arrives at Mengniu Arla to assist with analysing and to help register consumer complaints.
- **Early Oct** Mengniu Arla releases its first products once authorities have confirmed they are negative or the Mengniu Arla test is negative.
- **Mid Oct** Mengniu Arla resumes full production and distribution to the market.



We meet consumer demand for healthy products and nutritional information about products.

*From: Our responsibility  
– Arla Foods' Code of Conduct*

## food and health

Arla is committed to meeting consumer demand for healthy products and reliable nutritional information. We inform our consumers about the ingredients in our wide range of products so they can choose those that best suit their tastes and fulfil their needs. Through research, we aim to increase our understanding of the role of dairy products in a balanced diet.

- **CENTRES OF EXCELLENCE.** As a global food manufacturer Arla is dedicated to increasing world-class knowledge of the relationship between food and health. In 2008 three Centres of Excellence were created, dedicated to researching selected areas, one of which focuses on nutrition and health.
- **POLICY FOR INFANT NUTRITION.** As a leading supplier of milk powder, Arla fully supports, and is committed to, the World Health Organisation's code for the marketing of breast milk substitutes and has developed an internal policy to ensure compliance with this code.
- **LESS SALT IN OUR PRODUCTS.** Too much salt in the diet has a negative impact on health. This is why we are committed to reducing the salt levels in our products. We have made good progress during 2008 on soft cheese, butter, soups and sauces and are confident of reaching our 2010 targets for these products.

## Research into health products

Research into the health effects of dairy products and ingredients allows us to make informed decisions when developing new products. It also ensures those in our portfolio add value by delivering improved health benefits for consumers. Arla does not carry out clinical studies or intervention studies internally, instead these are conducted in collaboration with recognised scientific institutions to ensure the objectivity of the results.

To facilitate effective prioritisation and sharing of results, six research platforms have been created and are represented by employees from all our business groups. These are milk composition, food safety, process development and control, flavour and functionality, consumer preferences and wellbeing.

## Centres of Excellence

Three Centres of Excellence (CoE) were established in early 2008 each with the aim of generating world-class knowledge within selected areas of importance for Arla's future business. They will also enable us to develop working relationships with world-class public institutions and universities. The CoE for nutrition and health, based in Stockholm, Sweden, is currently looking into how different milk components affect the immune system and mental performance. The CoE for structure, based at Brabrand, Denmark, is responsible for research activities aimed at strengthening Arla's competences and knowledge on the relationship between processing conditions and product properties. The third CoE, the CoE for separation, is dedicated to researching the separation and recombination of components from raw milk and whey and is based in Nr Vium, Denmark.

## Dairy products for lactose intolerance

Arla is committed to making dairy products available to everyone, including those with an intolerance to lactose. As well as milk, cream and yogurts Arla has introduced three lactose-reduced cheeses. During 2008, we increased the number of lactose-reduced products available to consumers in Sweden, Finland and the UK. In the UK, lactose-reduced products are marketed under the Lactofree® brand and Lactofree® milk is the third largest growing milk brand.

## NATURAL INGREDIENTS

As part of our commitment to get Closer to Nature™, all of Arla's products are being reviewed and it is our long-term ambition that all Arla products contain the most natural ingredients and no artificial colours or preservatives. Read more in the interview on page 16.

## CONSUMER ATTITUDES

During 2008, Arla worked with several research and industry bodies on health related projects. One project studied consumers' understanding of product health claims in the Nordic countries. It revealed that a large group of consumers avoid food products with health claims, because they perceive these products to be more artificial than products without a claim.

An ongoing research project is investigating the attitudes of young people towards healthy eating. This research, which is being conducted in collaboration with the University of Århus and the University of Copenhagen has revealed that many young people do not consider it 'cool' to be healthy.

We will use the results from both sets of research to understand the most effective way to communicate health messages to consumers.

## INFANT NUTRITION POLICY

Arla is aware that marketing and promoting breast milk substitutes can have a negative affect on breastfeeding. A special policy regarding our breast milk substitutes has been developed to ensure that these products are marketed in an ethically correct way. We actively support the fact that breastfeeding is the unique biological and emotional basis for the health of both mother and child and is the unequalled way of providing ideal food for the healthy growth and development of infants. The policy is based on the International Code of Marketing of Breast Milk Substitutes from the World Health Organisation (the WHO Code). Where the regulations of specific countries are stricter than the WHO Code, these are fully supported.

## REDUCING SALT IN OUR PRODUCTS

Recognising that too much salt in the diet has a negative impact on health, we are committed to reducing the salt content, where possible, in all of our products. In the UK, the Food Standards Agency, a government body, has given companies until December 2010 to reduce salt levels to within its guidelines, a target which Arla has already met for soft cheese and butter. As well as reducing the salt content, Arla also took the opportunity to reduce the amount of fat in its soft cheese.

In the Nordic countries, Arla aims to reduce the content of salt in soups and sauces to one per cent by 2010. To date, the salt content in soups has been reduced to 1.1 per cent and 1.2 per cent on sauces. We have prioritised soups as they are consumed in greater quantities than sauces.

## MILK TO STRENGTHEN THE IMMUNE SYSTEM

In 2008, Arla launched Milex® Kinder Gold in the Dominican Republic. The milk, developed specifically for children aged between one and eight, contains prebiotics and probiotics (healthy bacteria) which can aid the development of the immune system. The introduction of this milk is in response to increased demand for added value milk powder with specific nutritional properties for children of different ages.

## PROTECTING CHILDREN

In response to the growth of childhood obesity in the UK, strict guidelines have been introduced by the government regarding the promotion of food products that are high in fat, salt and sugar, to children, in the media. These restrictions have impacted on our marketing strategies in terms of the timing of television advertisements for butters and spreadables.



a few dairies. The products then have to be able to withstand distribution.

Fat reduced products are another challenge. For example, reduced fat crème fraîche cannot be used for cooking in the same way as crème fraîche with a higher fat content. However, because consumers expect it to, we adjust consistency so that it behaves in the same way. In fact, it is quite possible to use reduced fat products for cooking if you are very skilled at it. But not all consumers are, and not everybody wants to spend the extra time it takes.

It's all a matter of balance. We can make products so rigidly natural that people won't buy them because they're simply too difficult to deal with or cannot be kept for long enough. This is why we have to look at each product separately.

#### **Can you mention some ingredients currently under review?**

Modified starch is one. It has been treated in order for it to better retain its properties after, for example, heat treatment. We use it to adjust consistency and it's incredibly hard to find an unmodified starch that we can use at the dairies. You can easily use other starches at home but they would never work with the heat treatment we apply at the dairies for our food safety requirements. We, as well as other companies, are working to find a substitute, but this is easier said than done.

#### **How has Closer to Nature™ been received by your colleagues?**

Very positively. My colleagues and I see this as an interesting challenge. It feels great to make products that are even Closer to Nature™. It's more like something you could make at home. So it's nice to work in this area because we will deliver products that we can be even more proud of. It would be good to make a sauce without modified starch which could keep for a long time without separating.

#### **Is Closer to Nature™ a challenge in relation to new product development?**

In a way, yes. Because we only want to use natural flavours, for example, it means that we have fewer fruit flavours to choose from. We have to combine the various fruit flavours in new ways to get a spectrum of tastes. When we voluntarily restrict ourselves then, of course, it becomes more difficult, but I'm sure that we'll rise to the challenge.

The complexity differs from product to product. At the end of the day, the consumer is always the one who decides what products will be made, and our consumer surveys show that natural products are sought after. If we can demonstrate to the consumer that our products are Closer to Nature™ it will be an advantage for us. I hope, and indeed it is my firm belief, that consumers will value the fact that our products are more natural.

#### **R&I ORGANISATION**

Arla's research and innovation activities are performed in collaboration with marketing, sales and production units within the company as well as in collaboration with external, private and public partners. The activities are carried out at our three major innovation centres in Denmark and Sweden and two innovation satellite centres in the UK and Finland.

- **Consumer Nordic R&I, Stockholm, Sweden:** Milk, yogurt, desserts, cooking products and processing.
- **Consumer International R&I, Brabrand, Denmark:** Yellow, white, mould and cream cheeses, butter and spreads and processing.
- **Global Ingredients R&I, Nr Vium, Denmark:** Milk-based ingredients, retail and contract manufacturing products and new production processes.
- **Consumer UK R&I, Leeds, UK:** Fresh dairy products and dairy processing.
- **Consumer Nordic R&I Finland, Sibbo, Finland:** Fresh milk, yogurt, cheese, butter and dairy processing.

#### **CLOSER TO NATURE™**

To get closer to nature we will:

- Only use food ingredients from natural sources that have not been excessively processed.
- Make products free from artificial colouring and flavouring and limit our use of additives.
- Show respect for nature and the environment – on farm, at our dairies and during the transport of our products to customers.
- Offer user-friendly packaging which respects the environment.
- Strive to cut our emissions of greenhouse gases and waste.

We continually improve our environmental performance by applying sound and sustainable principles – from cow to consumer.

*From: Our responsibility  
– Arla Foods' Code of Conduct*



## environment and climate

The production of food and the transportation of products invariably affect the environment by discharging substances into the air, the ground and the water. It is therefore our ambition to minimise the negative environmental effect of our production and distribution operations. By continually reducing the environmental impact of processes throughout our entire supply chain, we are working to contribute to sustainable development.

- **CALCULATING OUR CARBON FOOTPRINT.** Arla is developing a model to calculate greenhouse gas emissions from cow to consumer.
- **RESEARCH INTO EMISSIONS.** We have initiated a study into the environmental impact of milk production in order to support milk producers to reduce greenhouse gas emissions on farm.
- **REDUCING ENERGY AND WATER USAGE.** We continue to improve our environmental performance and during 2008 we have made gains in both areas due to a focus on education and investment in utilities monitoring programmes.

## Carbon footprint model

Following our commitment to reduce the direct and indirect emissions of greenhouse gases by 25 per cent by 2020 compared with 2005, we are developing a model which will provide a systematic overview of greenhouse gas emissions throughout our supply chain. Arla's carbon footprint model is based on the international standards The Greenhouse Gas Protocol and PAS 2050.

We are also looking at the carbon footprint of our packaging. A tool will be introduced during 2009 to support the selection of new packaging and optimising existing designs.

Reducing our climate change impact while, at the same time, fulfilling demand for more refined and convenient products, with an extended shelf life, is a real challenge to the whole organisation. Today's demands and market trends often result in an increase in energy, water and packaging consumption.

## Research into the impact of our supply chain

Approximately 16 per cent of the total greenhouse gas emissions from our supply chain come from our dairy operations, the remaining impact comes from the farms and the cows that supply our milk. To gain more knowledge in this area, we have commissioned a PhD research study which will investigate whether one milk production system is preferable to another from an environmental point of view. We will also analyse how Arla's contribution to global warming can be reduced most effectively.

## Energy and water use

We continuously work to reduce our energy consumption in order to meet our target of a five per cent reduction by 2010. Jönköping dairy in Sweden has reduced the amount of energy it consumes, and increased its cooling capacity, by installing a heat pump that recovers energy from the water that is used for cooling. Linköping dairy in Sweden has increased production of extended shelf life products, which require a more energy demanding process, without increasing energy consumption per kg of product. One way this was achieved was by using the water that cools heat-treated milk to heat offices at the site.

Water saving activities at the dairies have successfully decreased total water consumption. During 2008 we used a total of 13.5 million m<sup>3</sup> water in Arla. This is an 8.7 per cent decrease since 2005 and already exceeds our target of a five per cent reduction between 2005 and 2010. Water in our dairies is mainly used for cleaning and cooling and we continually strive to reuse it wherever possible.

## REDUCING PACKAGING

Reducing the amount of product packaging we use can deliver significant environmental returns. In the UK, this has been and continues to be a focus area. In 2008, we have used 184 tonnes less packaging by, for example, reducing the weight of plastic bottles and removing shrink-wrap where possible. Handleless one pint and two pint milk bottles have also been trialled which use significantly less material than regular plastic bottles.

## EDUCATION AND TRAINING

Our environmental performance, to a large extent, is in the hands of our colleagues which is why we provide education in environmentally-sound practices. In Poland, 200 colleagues have been educated in waste segregation in order that it can be reused, reclaimed or recycled and environmental workshops are held at UK sites.

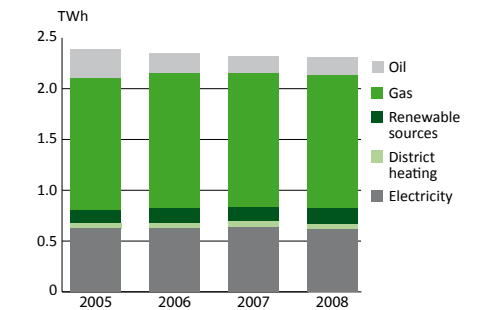
At many sites drivers are trained in fuel-efficient driving and attend refresher courses frequently. All drivers in the UK take part in a course, conducted by internal driver trainers, which is accredited to the Road Transport Industry Training Board Standard.

## IMPROVED TRANSPORT EFFICIENCY

We endeavour to ensure our collection and delivery routes are as efficient as possible and that our vehicles carry the maximum load. In Canada, through a new planning system we expect to reduce the number of kilometres travelled in Toronto and Montreal by 10 per cent.

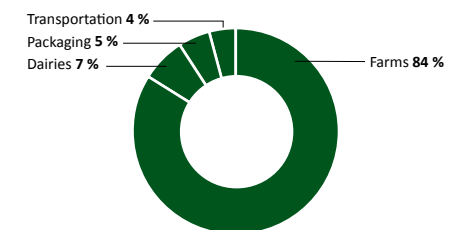
The rationalisation of the dairy supply chain, while leading to overall reductions in greenhouse gas emissions, has resulted in an increase in the kilometres travelled by our distribution fleet. Improvements in fuel efficiency have meant that the UK distribution fleet has been able to travel additional kilometres without increasing fuel consumption. Careful management of the distribution supply chain has increased load densities and resulted in an increase in the amount of milk carried per litre of fuel consumed.

## TOTAL ENERGY CONSUMPTION AT DAIRIES



Energy saving activities continue to decrease energy consumption at our dairies. In 2008, the decrease in the amount consumed was lower than in previous years, partly due to increased milk powder production.

## CARBON FOOTPRINT CALCULATION



Emissions from our dairies, transport, packaging and from farms are estimated to be 10.2 million tonnes CO<sub>2</sub>-equivalents, based on 2007 data.

In our supply chain, from cow to consumer, 94 per cent of emissions are from sources neither owned or directly controlled by Arla, for example, outsourced distribution, packaging and raw materials such as raw milk and ingredients. This emphasises that close cooperation with our suppliers is essential to meet our climate targets.

We support sustainable agriculture.

*From: Our responsibility  
– Arla Foods' Code of Conduct*



## agriculture

We want to ensure that farms which supply milk to Arla operate in a way that shows respect for high product quality, animal welfare and the environment. Our milk suppliers must therefore adhere to our high standards when it comes to milk production, animal health and feed quality. Our milk suppliers in Denmark, Sweden, the UK and Finland are audited to ensure that they adhere to quality assurance programmes. We also ensure compliance with national regulations for milk quality in the other countries in which we purchase milk.

- **QUALITY CONTROL ON FARMS.** Dairy farms in Denmark, Sweden, the UK and Finland are regularly visited to ensure that they meet quality assurance standards. While we support farmers to meet these, failure to do so could result in their milk not being collected.
- **IMPROVED MILK QUALITY.** We work with the dairy industry and manufacturers of equipment for milking and handling milk on farm to ensure that new equipment maintains the highest standards of milk quality and facilitates ease of collection.
- **NICHE MILK INCREASES IN POPULARITY.** Consumer demand for value added milk, such as organic or locally produced has risen. In Denmark, cows that provide milk for the 'Laerkevang®' brand are given special feed and in Sweden, 'Västkostmjölk' comes only from cows on the Swedish west coast.

### Quality assurance programmes for work on farm

In Denmark and Sweden dairy farmers comply with the quality programme, Arlagården, which sets out guidelines for standards on farm. In the UK all milk producers comply with the Assured Dairy Farms scheme. Some farms in the UK also meet special requirements from our retail customers, for which they are paid a supplement. Farmers in Finland comply with the dairy industry's national quality control model. These quality assurance programmes are very similar to one another but vary according to the legislation and conditions of each specific country.

In 2008 we began to revise the content of Arlagården to improve its flexibility and suitability. We will also review the system for dealing with farms that do not comply with the programme. Arlagården is published in Danish, Swedish and English. A summary of the programme and certain procedures have now been translated into Russian and Polish, for the benefit of farm workers who speak these languages.

In other countries, where we purchase milk, we are working to establish a regulatory framework that clarifies the responsibility for milk quality and animal welfare.

### New technology for high quality milk

In order to maintain high quality milk in the future, Arla has taken the lead by developing a partnership with suppliers of technical equipment for milking, cooling and storing milk on farm. The goal is to safeguard the quality of the milk as well as ensuring that milk collection is as efficient and convenient as possible and protects the raw milk. The first step has been the creation of a checklist to enable farmers to purchase equipment, most suited for future quality standards.

In another project, aimed at increasing milk quality and improving the support Arla provides to farmers, during 2008, we analysed the presence of heat resistant (thermoduric) bacteria in the milk from all farms in Denmark, Sweden and the UK. The results show that changes to washing procedures and systems can, in many cases, reduce the incidence of these bacteria. The results will be used to provide targeted advisory services to farmers.

### Recruitment of organic farmers

Our goal for 2011 is for organic milk to account for 11 per cent of production in Denmark and Sweden. To achieve this we have introduced various incentives to encourage milk producers to convert to organic production, for example a higher milk price during part of the conversion period.

### ORGANIC FARMERS

Interest in organic products continues to rise among consumers in the Nordic countries and organic milk currently accounts for 7.4 per cent of total milk production at Arla. Organic farmers use neither pesticides nor chemical fertilisers, and their animals are only fed organic feed. Organic production of milk requires more land, which may prevent some farms converting to organic milk production.

### CORNERSTONES OF THE QUALITY ASSURANCE PROGRAMMES

Arlagården contains legal requirements and industry policies as well as Arla's own requirements and recommendations for milk composition, food safety, animal welfare, respect for the environment and traceability. The programmes in other countries are very similar, but the details vary.

The most common issues during audits in Denmark and Sweden have been due to farmers providing insufficient documentation about the following:

- Installation of an electrical connection for a standby generator to use in cases of a power failure.
- The routines for the separation of milk from cows being treated with medicine.
- The hygiene and maintenance of the milk storage room.
- Correct pharmaceutical record for the herd.

In addition, separate audits focusing on fulfilling the demand for cows to graze in Sweden and organic farms in Denmark, were carried out during the summer of 2008.

### BLUETONGUE DISEASE

In 2008, cows in Denmark and Sweden were affected by Bluetongue, an insect-borne viral disease that affects ruminants. The virus does not carry through into milk, but the disease causes a sharp decline in the animal's health and consequently milk yield. Arla helped the authorities to trace the affected herds allowing vaccination and control measures to be initiated at an early stage, which may have helped to limit the extent of the outbreak.

### HIGH QUALITY INCREASES FARMERS' INCOME

Farmers are paid according to the quality of the milk they deliver and the support Arla provides contributes to ensuring high quality milk.

Milk producers are responsible for ensuring that their milk meets the standards outlined in our quality programmes, but we have a responsibility to customers and consumers to ensure that all milk lives up to the company's quality standards. We therefore take samples when we collect milk from farms. Test results are also used to advise and inform producers about quality issues.

Milk producers who have milk quality issues are offered advisory services. We commission the Danish Cattle Federation in Denmark and the Livestock Cooperatives in Sweden to provide advisory services. Producers in the UK and Finland have access to similar services.

### ARLA'S MILK SUPPLIERS

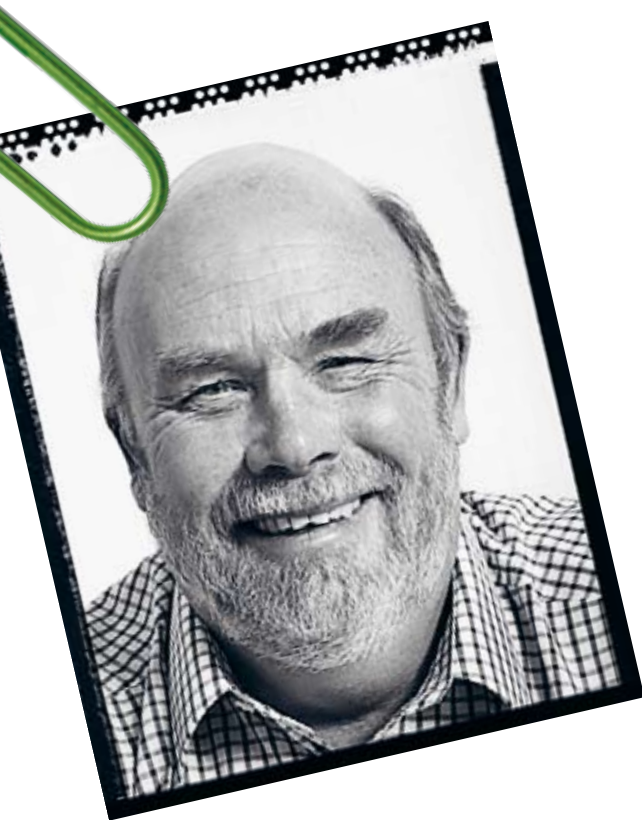
Approximately 11,000 farms supply milk to Arla in Denmark, Sweden, the UK and Finland, which accounts for about 90 per cent of the group's total volume. In these and other markets we also buy milk from other local suppliers who meet our quality standards.

### AVERAGE NUMBER OF COWS PER FARM

	2007	2008
Denmark	105	115
Sweden	51	54
UK	98	100
Finland	21	22

The number of cows per farm is a calculated average which includes all milk producers, including those who supply to Arla, in each country. The figures are provided by national industry organisations.

# “A happy cow is a productive cow, and that’s what the farmer needs.”



*IAN CAMERON and his nine-strong team offer advice and support to members of Arla Foods Milk Partnership (AFMP). The nature of his job takes Ian all over the UK and although he says he is seldom seen wearing a pair of Wellington boots, he makes sure he visits a farmer at least once a month.*

### **How does Arla in the UK work with animal welfare?**

All our farmers have to comply with the requirements of the Assured Dairy Farms scheme to enable the company to sell milk under the Red Tractor logo. The scheme is very comprehensive and means that we do not have to place additional requirements on our farmers. Prior to the national scheme being introduced we had our own scheme and so did some of our retailer customers. The potential danger was that we would be unable to effectively manage more than one scheme which is why we took the decision to work with a single scheme that ensures high standards for animal welfare and food safety.

### **What is Arla’s focus on animal welfare?**

Arla, in association with some of our retail costumers, is leading the way in helping farms improve animal welfare, particularly in relation to preventing lameness and mastitis. Working with specialist consultants and vets we invite farmers to workshops where we share information about the preventative measures

farmers can take. For example, regularly checking cows’ feet and introducing a footbath at the exit of the milking parlour can help to minimise the incidence of lameness. To help reduce mastitis we recommend that farmers establish a good milking regime including udder preparation. The healthier the cows’ udders, the healthier the cow and the better the quality of milk, which in turn delivers an opportunity for the farmer to maximise his milk price.

### **How does Arla make sure the standards of the Assured Dairy Farms scheme are being met?**

We employ a third party company to audit each farm every 17 months. Furthermore, my team of partnership support managers are on farm on a regular basis providing support and advice to farmers, which auditors aren’t allowed to do. Farmers frequently call their support manager prior to an audit and ask them to check their farm to ensure everything is in order, ready for the official audit. These farmers are determined to pass first time.

### **How do farmers feel about having to adhere to a scheme and being audited?**

We’ve had our difficulties. We did experience a lot of resistance in the beginning with people saying: “I’m not checking on you, so why are you checking on me?” But as time has progressed there has been a general acceptance. If a farmer does not adhere to the

**Ian Cameron is Farm Services Director in the UK.**

Ian Cameron is responsible for all of the UK farmers who supply milk directly to Arla through Arla Foods Milk Partnership.

scheme, we can not collect the milk.

The benefit of having farm audits is complete traceability. Because farmers are obliged to maintain appropriate records Arla can guarantee totally safe products and complete transparency.

### **How do standards on Arla Foods Milk Partnership farms compare to national levels?**

Arla UK farmers have an excellent ‘first visit’ pass rate. Statistics show that Arla UK’s farmers are more compliant than the national average and I am convinced that this is because Arla has a dedicated farmer support team.

### **Is animal welfare expensive for farmers?**

Not if the farmer is being sensible and his cows are in good condition and properly looked after, because these cows will actually produce more milk. A happy cow is a productive cow, and that’s what the farmer needs.

### **Milk price is an ongoing concern for farmers. Does Arla use milk price as an incentive for the farmer to improve animal welfare?**

No. Animal welfare should be a given. To put a price on animal welfare would be disrespectful to the cows as well as to the company.

### **Has the industry acknowledged Arla’s work on animal welfare?**

We have won a number of awards recently. One was the Royal Society for the Prevention of Cruelty to Animals (RSPCA) innovation award in the food category, which we were awarded in association with one of our retail customers, for our work with farmers to deliver a practical and sustainable scheme to significantly improve the welfare of dairy cows. This award recognised the working groups we have established that have brought about significant improvements on subjects such as lameness, mastitis and housing.

### **Why do you think Arla has been able to win a number of animal welfare awards?**

I think it is because we recognise the requirements of both our customers and farmers in terms of animal welfare. We identify the issues and are prepared to address them and work with our customers and farmers to achieve common goals. We are seen as being proactive because we take ideas and recommendations to our customers, rather than them having to come to us. Our opinions are accepted because we are seen as the dairy farming experts.

### **How does Arla identify animal welfare issues of common interest to the farmers and the industry?**

Our farmer support team makes all the difference. In fact, our team of advisers is unique in the industry. No other dairy company in the UK has a farmer support team like ours. Through their daily contact with the farmers they gather valuable information which makes them experts in their field. They are the ones who come to me or go to the retailer they work with and make suggestions. In the retail industry the word is that if you want to know about dairy farming you talk to Arla because we have the right people in place.

### **So, what are the future issues?**

Certainly lameness in dairy cows is an issue that needs addressing and one that we are aiming to reduce in cooperation with our retailers. Another example is the environment and a member of my team has been appointed as our environmental manager. One of his tasks is to look specifically at nitrate vulnerable zones. This is an issue that could potentially drive a number of producers out of dairy farming because farmers need to provide larger storage facilities for slurry or reduce cow numbers in order to comply with the new regulations. We will be ensuring that our farmers are provided with the best quality advice so that they can make an informed business decision.

### **ASSURED DAIRY FARMS SCHEME**

Arla UK joined the former National Dairy Farm Assured scheme in 1999 and has been involved with the welfare standards that have been set by the scheme ever since. Assured Dairy Farms legislation relates to quality, traceability, hygiene and animal welfare. The production standards addressed include:

- Hygiene and food safety.
- Housing.
- Plant and equipment.
- Feedstuffs and water.
- Stockmanship and training.
- Contingency procedures.
- Environmental protection and security.

### **ARLA FOODS MILK PARTNERSHIP**

Arla UK purchases the majority of its milk from Arla Foods Milk Partnership (AFMP).

- AFMP has over 1,400 members supplying around 1.6 billion litres of milk annually to Arla, making it one of the largest direct supply groups in the UK.
- AFMP currently supplies approximately 80 per cent of the raw milk requirements in the UK.
- AFMP producers have been recruited to supply milk to the company because they adhere to high standards in terms of milk production, farm assurance and animal welfare through the Assured Dairy Farms scheme. Another factor includes their proximity to Arla dairies across the UK.
- Every Partnership member benefits from a dedicated partnership support manager, who acts as the link between the farmer and the company. Their role is to give day-to-day support to farmers on a range of issues such as milk collection and production. They also organise producer meetings, farm walks and site visits.



We challenge and encourage our suppliers to support us in our commitment to abide by our Code of Conduct.

*From: Our responsibility  
– Arla Foods' Code of Conduct*

## procurement

Arla sources goods and services across the world. Our ambition is for our suppliers to meet our code of conduct for suppliers, which governs ethical, social and environmental responsibilities. We encourage them to help us meet our aim of purchasing goods and services in a sustainable way.

- **ETHICAL GUIDELINES FOR PROCUREMENT.** We have a set of ethical guidelines for all colleagues who have external supplier relationships. These guidelines cover areas such as conflicts of interest, ethics, confidentiality and gifts.
- **ETHICAL PURCHASE OF PALM OIL.** Recognising that the uncontrolled production of palm oil has a negative impact on rainforests and can contribute to global warming, we only purchase palm oil from producers who are members of the Roundtable on Sustainable Palm Oil.
- **EVALUATING OUR SUPPLIERS.** We are committed to our suppliers signing our code of conduct for suppliers and we are going to evaluate adherence based on a risk assessment of the individual supplier.

### Working in a uniform way

In 2008, we revised our definition of a supplier, to include only those from whom we make purchases of over DKK 10,000 annually. Under this new definition, last year we worked with approximately 7,500 suppliers globally, an equivalent number to 2007. Our Global Procurement department controls approximately 50 per cent of all external spend as it handles about 1,000 suppliers. During 2008 we have continued to roll out procurement practices and harmonised documents across the group, for example, supplier selection, evaluation, audit and control, requirements and contract models.

### Suppliers' acceptance of the code of conduct

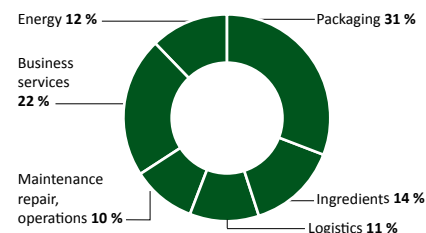
The code of conduct for suppliers has been signed by 360 suppliers, which account for 70 per cent of the total spend controlled by Global Procurement. All main suppliers are evaluated on an annual basis, some of whom are assessed in more detail by an audit. In 2008 we focused on ingredients and packaging materials procurement and conducted 14 audits in these areas. Increasing the number of supplier audits is a focus area for 2009.

Going forward we will sign up more suppliers to our code of conduct for suppliers. Furthermore, we are developing a way of evaluating our key suppliers against our code of conduct for suppliers based on a risk assessment and are currently undertaking a pilot project to investigate the most effective way to do this. We have chosen to study cocoa bean supply from the Ivory Coast, as this is a complex supply chain, which involves many stakeholders and is therefore vulnerable to violations of our code of conduct for suppliers. We are beginning a dialogue with stakeholders within this supply chain and our learnings will provide a formula for evaluating suppliers in the future.

### A focus on responsible procurement

In the last year we have taken further steps to strengthen our procurement practices, focusing on quality, environment and social responsibility, in relation to the sourcing of goods and services. We have created a new management position which has responsibility for building a global governance model and developing procurement standards and specifications. This is to ensure Arla selects suppliers, not only on the basis of them adhering to our code of conduct for suppliers, but also that they fulfil required quality, environmental and health and safety standards.

### GLOBAL CONTRACTS



The diagram shows the external spend handled by Arla's Global Procurement department distributed across different product and service categories. The split of cost into categories is quite similar to 2007.

### TOP 10

Our 10 largest suppliers account for 21 per cent (17 per cent in 2007) of our total external spend. In 2008, the following companies were our largest suppliers in order of size:

- Tetra Pak – packaging materials, processing and packaging machinery.
- IBM – IT services.
- Carat – media.
- Nampak – packaging materials.
- Logoplaste – packaging materials.
- EnergiDanmark – energy.
- Statoil Gazelle – natural gas.
- SCA – packaging materials and machinery.
- Elopak – packaging materials and machinery.
- Promens – packaging materials.

### PURCHASE OF FRUIT

The majority of the fruit and fruit-based products sourced by our subsidiary, Rynkeby Foods, are from suppliers who are members of SGF (Sure Global Fair) which audits them at least once a year. Very occasionally, when there is no alternative, fruit is bought elsewhere and Rynkeby Foods carries out rigorous checks on the supplier.

Dairy Fruit sources fruit from suppliers globally. Annually, around 60 suppliers are audited during the harvesting season. Areas of special interest include

overall conditions at the fruit grower, the whole chain from picking to freezing and the processing of the fruit. Quality management and development possibilities are other focus areas.

### SOURCING OF PALM OIL

Palm oil is extracted from the fruits of palms, predominately grown in Malaysia and Indonesia. The production of palm oil is heavily criticised due to it contributing to the logging of rainforests and its impact on global warming. As well as depleting an important global resource, clearing rainforests for palm oil destroys the habitats of endangered species, which cannot survive in plantations. In addition, the loss of the rainforest affects the livelihoods of the native population. Arla only purchases palm oil from producers who are members of the Roundtable on Sustainable Palm Oil (RSPO). The organisation has been established to impose standards for the sustainable production of palm oil and it has introduced a process for certifying farmers and producers which adhere to strict requirements.


### MILK SOURCING

For more information about milk sourcing see our Agriculture section on page 20.

### INVESTIGATING VIOLATIONS OF THE CODE OF CONDUCT

We take any suspected breaches of Arla Foods' Code of Conduct very seriously. When we received an anonymous tip off that a supplier in Sweden was suspected of using illegal labour and not conforming to the country's tax legislation, we acted immediately. The supplier was asked to provide documentation to demonstrate that it was acting lawfully, which it was able to do.

This case prompted us to conduct a thorough risk assessment of all other similar suppliers, all of which were found to conform to the necessary legislation.



We have competent and committed employees, and provide safe and healthy working conditions.

*From: Our responsibility  
– Arla Foods' Code of Conduct*

## workplace

Arla has 16,000 employees in 32 countries throughout the world. We strive to continually improve our work environment. We also aim to strengthen and implement a shared company culture, Our Character, which will help us to treat all colleagues equally, regardless of culture, history and tradition. If all colleagues have good working conditions and are engaged in their work, together we can do the best job possible.

- **'BAROMETER' SHOWS PROGRESS.** The results from the 2008 employee survey were positive and the overall opinion of the workplace index has increased from 64 to 71 out of 100.
- **EDUCATION INITIATIVE.** During the year we strengthened our initiatives to provide our colleagues with continuing education and growth opportunities. For example, we have employed people to develop internal training and have begun both a leadership development programme and a graduate trainee programme.
- **REDUCED WORKFORCE.** Due to the restructuring of production and closing of plants nearly 1,000 jobs were made redundant during the year, however, as we have also made some acquisitions the total number of Arla employees is 600 less than in 2007.

## Employee survey shows positive development

'Barometer', our employee survey, was carried out in November 2008 in 26 countries, involving more colleagues and produced in more languages than ever before. Approximately 13,200 people responded to the survey and the response rate was 91 per cent. Colleagues with literacy difficulties were offered help to complete the survey.

The overall results show an impressive improvement. 82 per cent of employees are positive about their workplace, compared to 76 per cent last year, and 73 per cent are proud of working for Arla, compared to 63 per cent the year before. In addition, all business groups saw improvements in better leadership, more clarity and less stress and we believe Arla's values – Lead, Sense, Create – have had significant influence. Focus areas for the future are further leadership training and development and the roll out of personal development plans.

As a result of initiatives based on a previous survey, our distribution centre in Vestjylland, Denmark, in just one year, has gone from having one of the lowest scores in the company to one of the highest in terms of job satisfaction. The distribution centre's targeted efforts gained it the 2008 Danish Work Environment Prize in the psychological workplace environment category.

## Support for employees whose job is redundant

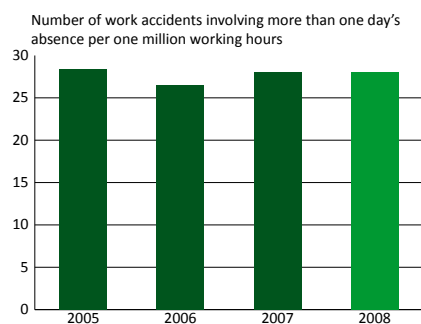
Arla continued to implement efficiency measures during the year, transferring production, which resulted in redundancies. In most cases we have been unable to offer alternative employment within the company; we have however worked in cooperation with the local employment agencies or established negotiation committees to help affected employees find other jobs or education programmes.

## Improved safety awareness

We constantly endeavour to prevent and reduce the number of accidents at work. Unfortunately, despite our efforts, we have not succeeded in decreasing the number of work accidents during 2008, which is very disappointing. Consequently we will significantly increase our focus on this area in 2009.

In recent years we have conducted several projects aimed at improving safety at work by encouraging employees to take greater responsibility for their own, and their colleagues', safety. Several new projects began in 2008 and more are planned for 2009. For example, at Korsvej dairy in Denmark we have successfully improved safety after carrying out an initiative that involved the entire dairy, aimed at developing both the site's systems and its culture.

## WORK ACCIDENTS IN TOTAL



While the total number of work accidents across the business has not decreased during the year, in some countries, like Canada and Brazil, the number of accidents at work has sharply reduced. In Denmark, Bislev dairy has reduced its work accidents from 80 to 13, due to different initiatives and increased management focus in this area. In Finland many colleagues have taken part in certified training in workplace safety and communication about both accidents and incidents has increased. In the UK, all sites are certified according to the international health and safety standard OHSAS 18001.

## ORGANISATIONAL CHANGES

Approximately 1,000 jobs at Arla were made redundant during the year:

- Moving juice production from **Alingsås** in Sweden to the subsidiary **Rynkeby Foods** in Denmark affected 126 jobs.
- In June **Sheffield Park** distribution centre in the UK closed, resulting in the loss of 90 jobs.
- Our dairy in **Manchester**, UK, closed in January 2009 affecting 300 jobs.
- Due to changes of the organisation in the Middle East, 270 jobs in **Denmark** and the **Middle East** were made redundant.
- In April 2008 Arla announced the creation of a new global finance service centre in **Gdansk**, Poland, which will employ 140 people, resulting in the loss of the same number of positions in Denmark, the UK and Sweden.

## DIVERSITY IN PRACTICE

At Kruså dairy in southern Denmark employees from eleven different nationalities work at the site, which means that employment interviews are held in Danish, English and German. New colleagues always have a personal contact at the site who speaks their native language and everyone is offered language courses in Danish. Language differences have, however, proved to be less of a challenge than cultural differences.


## ABSENCE DUE TO ILLNESS

In 2008 there was an overall decline in absence due to illness. This is a result of many ongoing activities aimed at reducing this kind of absence. For example, at Oakthorpe and Hatfield Peveler dairies in the UK, workshops about absence management were introduced in 2008, and in Denmark the Hoco management has dedicated attention to solving long-term absence through individual dialogue and personal plans for how to return to work.

## IMPROVED WORKPLACE ENVIRONMENT

Examples of projects initiated in 2008 aimed at improving the workplace environment, include:

- **Job satisfaction.** Colleagues at Danish Christiansfeld dairy and Danmark Protein have set up groups aimed at improving job satisfaction while preventing stress.
- **Leadership.** Arla's top 300 leaders have begun a leadership training programme, Ulysses, in which all leaders in the group will eventually participate.
- **Team building.** Several dairies in Denmark, Sweden and the UK have carried out team development activities.
- **Ergonomics.** In Denmark and Sweden ergonomic assessments have been carried out as part of office remodelling projects to prevent risks. In Sibbo dairy in Finland new equipment was installed in order to minimise heavy lifting. Similar initiatives were carried out at several other dairies in Denmark and Sweden.
- **Communications.** In Finland and the UK information to, and dialogue with, operational colleagues improved.



We have good, honest relationships with all of our stakeholders.

*From: Our responsibility  
– Arla Foods' Code of Conduct*

## market conduct

It is essential that consumers trust us if we are to sell our products. By acting responsibly, communicating openly and maintaining an ongoing dialogue with customers and consumers, we create the right conditions for trust. At the same time we must constantly adapt to the increasingly competitive, fast moving and international market. In the markets in which we are a major player, we have the added responsibility of not abusing our position.

- **NEW STRATEGY.** To deal with the continued intense competition among dairy companies, Arla adopted a new strategy for the company's brands, high-priority markets and growth. The new strategy clarifies the company's priorities.
- **CONTACT WITH CONSUMERS.** We are proud of our dialogue with our consumers and we strive to develop this relationship using new tools such as blogs and recipes sent to mobile phones, in certain markets.
- **CLOSER TO NATURE™.** As part of our new focus, which will influence the development of new and existing products as we move forward, we will promote our policy of working with natural ingredients and offering natural products.

## Continued intense competition

Competition in our markets is intensifying, mainly from other dairies, international food companies and dairy products from discount retail chains. We are seeing a trend towards consumers choosing lower priced products and customers' own label products. Customers are therefore becoming increasingly interested in selling our products under their own labels, including our organic products. In the UK, almost all milk is sold under retailers' own labels and 44 per cent of the milk sold to the seven biggest retailers is processed by Arla.

In Denmark our market share is above 50 per cent for Arla branded products and in Sweden around 50 per cent. As a major player, we demonstrate respect for others in the industry and invite them to participate in dialogues and partnerships. For example, in Denmark we are conducting a collaborative project with other dairy companies involving unpasteurised cheeses. However, in Sweden, our previous collaboration with other dairy companies involving distribution ended during the year resulting in an increase in competition in certain regions.

## Arla is committed to success

In autumn 2008 Arla adopted a change of strategy, Strategy 2013. Briefly, it means that we will reduce the number of brands we have, prioritise markets in which we are already strong and grow the business to increase the company's turnover. The focus will be on three brands: Arla®, Lurpak® and Castello®. We will also dedicate resources to increase production of value-added whey protein. The new focus is in response to the strong and rapid fluctuations within the international dairy market in respect of access to raw milk and competition from other dairy companies.

## Focus on nature

In addition to the changed strategy, Arla has also presented its new brand, company positioning and a new logo. Through Closer to Nature™, we want to position ourselves as the dairy company that offers the most natural products. We have taken measures to live up to this promise, such as doubling the budget for research and development and continuing to further develop our climate strategy and to minimise our environmental impact.

## Respect for the brands

While working on developing Arla's new logo we ensured that we have not infringed upon any other company's brand in any way. To clarify certain key issues we also obtained advice from external legal and branding experts.

## PERCEPTION OF ARLA

In Denmark and Sweden we measure consumer perception of Arla on an ongoing basis. In Sweden we are one of the companies that consumers find most trustworthy. Our image has improved in Denmark following a low score in 2006, which was mainly due to people being of the opinion that we took advantage of our strong position. Continuing to improve the company's reputation within the Danish market is one of the most important challenges for the organisation over the next few years. Measures we are taking include inviting consumers to visit our farms and dairies to give them the opportunity to learn more about Arla. In 2008, we conducted our consumer survey in Finland for the first time.

	2006	2007	2008
Arla in Denmark	49.9	52.2	57.6
Arla in Sweden	79.5	75.6	75.5
Arla in Finland	–	–	73.0

The table shows the total score from 0 to 100, that consumers gave Arla compared with many other companies in a survey carried out by the Reputation Institute.

## CUSTOMERS' OPINIONS ARE INVALUABLE

We regularly survey our large retail customers in our core markets to find out what they think about us as a supplier of dairy products. In **Denmark**, Arla has once again taken the lead as best supplier. We received the highest ranking for our role as a strategic partner and for our logistics operations. Arla ranks third in the industry in **Sweden**, where our marketing and development of product categories helped us to achieve high customer loyalty. In the **UK**, Arla received the best overall rating among dairy companies and we were ranked number one for the second consecutive year. Our strengths include category development, business relationships and customer support. In **Germany**, our ranking slipped to fifth out of 11, down from first place in 2006. Our ranking in **Finland** remained unchanged, at 12 out of 14. We are committed to finding ways to improve customer opinions of Arla in these markets. Identified areas for improvement include strategic

collaboration in both markets, customer service in Germany and logistics in Finland.

## CONSUMER CONTACT IMPORTANT

We conduct an extensive dialogue with our consumers in our largest markets. Some of our most important channels are:

- **Arla Forum.** We answer questions and receive suggestions and complaints from consumers by phone, email and letter. For more information see page 30.
- **Websites.** We provide information about the company and our products, as well as health, the environment and recipes. Our websites in Denmark and Sweden have approximately 16 million visitors every year, making them the most frequently visited recipe collections in the Nordic region.
- **Cookery books and recipe collections.** In Denmark and Sweden we publish cookery books and a large number of recipe collections.

To build and maintain contact with consumers, we also strive to develop new channels, such as:

- **Blogs and online seminars.** In Denmark we conduct a dialogue with consumers and those in the industry via blogs and seminars on the web.
- **Email, mobile and mp3 services.** Using new, free subscription services we make it easier for consumers in Denmark and Sweden to access recipes and culinary inspiration.
- **Web assistant.** The Swedish web service that was introduced at the end of 2007 has, during 2008, responded to about 50,000 enquiries.

## ADDITIONAL INFORMATION

For more information about competition, please see the Business Principles section, page six and for more information about our relationships with suppliers, please see the Procurement section on page 24.



# “Dialogue links us to the surrounding world.”

**MAJA MØLLER** writes her own blog ‘Omtanker’ (care and consideration) where she deals with topical issues and invites her readers to share their thoughts with her. As Senior Manager of Consumer Dialogue and Communication, Maja is tasked with developing communication with consumers in the Danish market. With a background in nutrition, a linguist and with a diploma in communication, she has a broad understanding of the issues close to the hearts of consumers.

## What was the idea behind Arla Forum in Denmark when it was set up four years ago?

Based on the experience of the Swedish Arla Forum organisation which was already in place, we wanted to create a single, central point of contact where consumers can go to regardless of their issue. Arla Forum provides the link between consumers and the rest of the organisation. We also wanted our communication to be more transparent and prove that, as an organisation, we’re keen to learn. We demonstrate this on a daily basis when we reply to people online because our response is visible to everyone.

I’ve no doubt a few people took a deep breath when we first set up Arla Forum, because it was launched at one of the most critical times in terms of Arla’s public image in Denmark. Although hardly a day went by without critical newspaper articles being published about Arla’s products and ethics, the leadership team had a firm

belief that Arla Forum was the way forward, a courageous step at that point. But Arla had the courage and it has been extremely motivating and has generated a lot of energy and enthusiasm among colleagues and consumers.

## All correspondence, positive and negative, is accessible at [www.arla.dk](http://www.arla.dk), if consumers agree. Why the openness?

It enhances our credibility as a business. We tackle important issues head on and negative opinions would be there anyway even if we didn’t publish them. When our conversations with consumers are there for everyone to see, we have an obligation to respond. I believe that because our exchanges are documented chronologically on the website, this demonstrates the responsibility we take for the dialogue.

Approximately 20 per cent of users agree to us placing their dialogue on the website. These are a representative selection of all the enquiries we receive and not all of them express criticism.

Arla Forum reflects consumers’ needs and expectations as well as their criticism and praise. Our dedicated consumer consultants listen to users every day and respond within 24 hours. This gives Arla a human dimension. We give our time and resources in order to have a fruitful consumer dialogue and, at the end of the day, this will take us forward as a company.

Maja Møller is Senior Manager of Consumer Dialogue and Communication in Denmark.

Maja Møller’s responsibility includes three different communication areas:

- ‘Arla Forum’, the Facts and Consumer Centre, where a team of consumer consultants communicates with consumers.
- ‘Visitors Forum’, that organises dairy visits and visits to farms.
- **Relations** with official Danish bodies and consumer interest organisations.

### Why is consumer involvement so important?

The good thing about consumer dialogue is that we find out what's discussed at the kitchen table. In this respect the consumer relations department is almost an intelligence service that helps the rest of the company to pinpoint areas of special interest that may have been overlooked. The dialogue links us to the surrounding world, providing invaluable knowledge and feedback from consumers.

### What changes has Arla implemented after having listened to consumers?

We have made changes at many different levels. For example, last year we received a lot of feedback that the screw lids on milk from Slagelse dairy were hard to open for people with weak fingers. So the supplier was contacted and we are working together to find a solution which we hope will be implemented by summer 2009.

We receive a lot of queries about product information which has led us to increase, and therefore improve, the information we include on packaging.

Some consumers have asked for more recipes suitable for diabetics. So, together with the Diabetics Association we invited guest chefs to develop recipes specifically for diabetics.

Of course, we have to decide whether requests from consumers result in changes. But we always pass on our knowledge to other departments so they can take it into consideration.

### Your blog doesn't shy away from difficult subjects. Why did you choose to talk about the merger with Hirtshals cooperative dairy in Denmark?

It would not be credible if I didn't. Some years ago we had a legal dispute with Hirtshals and Arla has also stated publicly that it doesn't aim to be any bigger in the Danish market. It was an obvious subject for me to address. Transparency is vital and when Arla Forum was created we decided that openness and transparency would be its guiding principles and there is no going back. With my

blog I want to show that we respect that the situation is difficult. I also think that the comments that have appeared on the blog, including one from a local farmer and one from a consumer, have given us the opportunity to clarify various aspects and present an accurate picture of the issues. I believe that readers of our blog gain insights to our company which they wouldn't have been able to through any other channel.

### Are there any restrictions as to what you can write?

The other bloggers and I are committed to stick to issues that we have a certain level of knowledge about and that relate to our area of work. Apart from this there are no restrictions. Nobody needs to check or approve what we write.

### How will the Arla Forum website look two years from now?

My guess is that we'll introduce microsites where everyone can keep track of what we have achieved within specific areas where we've made a commitment, such as health, ecology or the environment. We're also thinking about introducing a chat room in order to reach new target groups who prefer very quick and irregular contact. We're also considering making product declarations available through mobile phones. There is not enough space on packaging to include everything that's relevant about a product, so why not make the additional information accessible in a more flexible way?

### ARLA FORUM

Number of enquiries	2007	2008
Denmark	30,000	23,000
Sweden	30,000	30,000
UK	12,000	16,000
Finland	16,000	14,000

Arla Forum responds to questions from consumers within 24 hours on weekdays by post, email and phone. Over the past year, the number of questions relating to a product's ingredients has increased.

Examples of common enquiries:

- Opinions on products and requests for new products.
- Opinions on recipes.
- Complaints and quality problems.
- Opinions about packaging.

The decrease in enquiries in Denmark is due to Arla Forum no longer distributing information materials to consumers.

### OTHER DANISH ARLA BLOGS

For the past few years several Danish colleagues and farmers have been blogging on Arla's website. The blogs provide us with the opportunity to listen to consumers and maintain an open dialogue about current topics. Some examples, in addition to 'Omtanker', which is mentioned in the interview, include:

- **Kitchen blog.** About cooking and food culture.
- **Farmer blog.** Both conventional and organic farmers blog about their operations.
- **Export manager's blog.** About marketing Arla's products in countries with different cultures.
- **New employees' blog.** Talks about what it is like to be a new employee at Arla.



## community relations

We accept extensive responsibility within the framework of our core business. In addition, we endeavour to involve ourselves in wider social issues which are relevant to our business activities. We want to contribute to the growth of communities and do so by building long-term relationships with people, businesses and organisations.

- **CHILDREN FOR LIFE.** Our new aid project will provide assistance to under-privileged children in selected areas.
- **FOOD AND HEALTH RESEARCH.** As in previous years, we have been engaged in a variety of research projects and we want to contribute both to interesting research findings and to the education of skilled researchers.
- **CONTRIBUTIONS TO LOCAL ACTIVITIES.** In the UK, we have introduced Community Challenge, an initiative aimed at supporting colleagues who are engaged in volunteering, charitable work and fundraising.

We maintain good, respectful and constructive community relations.

*From: Our responsibility  
– Arla Foods' Code of Conduct*

## New aid project from Arla

In 2008 we made a commitment to an aid project, Children for Life. This will begin in 2009 and continue for three years. We will work in five selected areas together with local partners and charities, to provide support for children aged one to seven years. The primary purpose is to help children achieve a better future by providing food and supporting education. This new project is borne out of Arla's aspiration to begin working with a more long-term and structured approach on a few specially selected aid projects.

The first project will take place in the Dominican Republic in cooperation with a local partner and SOS Children's Villages. Together, we will donate milk to the children living in the village.

## Local involvement in the UK

One of our goals is to increase local participation in the areas where we have operations. In 2008 we formalised our Community Challenge initiative for all our sites in the UK. The company matches the sum of money colleagues raise for charities and also donates funds to non-profit activities in which individual colleagues are engaged in their own time. In 2008 Arla donated a total of DKK 123,000 to 40 different causes.

## Learning about food and nature

Arla offers natural products and our most important ingredient, milk, comes from nature. We offer a variety of activities in Denmark, Sweden and the UK to increase public knowledge about natural ingredients and the connection between humans, animals and nature. For instance, in Denmark and Sweden, we hold farm open days and ecological theme days and invite the public to join us when the cows are turned out to pasture in the spring. In Denmark we also offer dairy tours and this year we began to offer special themed tours with a focus on health and nutrition. During the year our dairies received a total of 20,400 visitors, which is approximately six per cent more than last year. In Sweden and Denmark we also invite children to visit our farms. In 2008 about 58,000 children visited farms, compared with 74,000 the previous year.

In Sweden we use our milk packaging as an information channel. On about half of our milk cartons we feature subjects that engage and teach fun facts to children and young people aged nine to 16. Surveys show that the information contained on the cartons is well read.

## STIMULATING GOOD FOOD CULTURE

One way of spreading information and inspiration about cooking practices and ingredients is to sponsor events such as competitions for chefs and pastry cooks. For example, we provide financial support for Swedish teams in international chef's competitions and we are one of the sponsors of the Danish international chef competition, the Nordic Challenge. In Sweden, we also have the Golden Cow award every year to reward schools, restaurants and shops that are good role models within the areas of environmental work and food culture.

## SUCCESS FOR TEAM RYNKEBY

The cycling event Team Rynkeby enabled Rynkeby Foods to contribute DKK 1.5 million to the Danish Children's Cancer Foundation. During the tour from Ringe, Denmark, to Paris, France, the team generated considerable publicity and drew attention to its fundraising. Since the first fundraising campaign seven years ago, when 11 cyclists participated, Team Rynkeby has developed into one of Denmark's most renowned charity events. This year 152 people participated in the team, which consisted of many colleagues as well as politicians.

## SUPPORT FOR RESEARCH

We support several research projects which are associated with our present and future business. During the year, we increased our cross-border collaboration with a Danish-Swedish project researching the relationship between feed and cow breeds, in relation to milk production, milk composition and factors that impact on human health. In addition, a Danish-Norwegian-Chinese project is studying the effects of dairy products on human energy balance. We are also participating in several other large research projects.

We have chosen to increase our involvement in PhD studies that could be significant to Arla's future development. In 2008 we initiated three new industrial PhD projects in cooperation with various research institutions. We also contribute financially to, and participate in, about 45 other PhD projects.

## ARLA AFFECTED BY CONFLICT

In 2005, a conflict arose between western newspapers and Muslim groups regarding the newspapers' perception of freedom of speech and the Muslim groups' definition of respect for Islam. Among other things, this resulted in a boycott of Danish products in the Middle East. In February 2008, the situation arose again. In an effort to re-establish consumer trust in our products, we are participating in various projects, including a breast cancer campaign in Saudi Arabia and sports events in Kuwait.

## WE ENCOURAGE SPORTS AND WELLNESS


We want to encourage a healthy lifestyle and sponsor, among others, the following events and activities:

- **Rugby, UK:** We support rugby activities in Leeds, which together have provided about 50,000 children and young people with the opportunity to take part in exercise and learn more about the sport.
- **Active children, Denmark:** We are the main sponsor of the Active Around Denmark campaign that encourages children to be physically active. We are also the primary sponsor for football training camps. These activities involved 130,000 young people during 2008.

## NON-PROFIT MAKING ORGANISATIONS

We contribute to several charitable initiatives worldwide. Here are some examples:

- **Children of the World, Sweden:** In cooperation with the fundraising organisation Radiohjälpen, we arrange a campaign aimed at encouraging children to think about how they could help poor children in other countries.
- **Medical conference, Dominican Republic:** In cooperation with the country's association of paediatricians, we sponsor a conference for paediatricians that, for many, is the only opportunity to continue education in this area.
- **Concert for autistic children, Bangladesh:** In cooperation with the Society for the Welfare of Autistic Children, we sponsor a concert.



We respect and support internationally recognised human rights.

*From: Our responsibility  
– Arla Foods' Code of Conduct*

## human rights

We have production facilities in many countries and our products are sold throughout the world. We therefore also operate in countries that do not yet have fully recognised human rights or that do not yet live up to them. Regardless of the country in which we have operations, we maintain a firm conviction that the human rights of every individual should be respected and upheld.

- **SAFE FOOD.** In our opinion, it is a human right that food is safe, and that value is fundamental to our work.
- **FOCUS ON DISCRIMINATION.** As a result of our employee survey we have initiated several projects aimed at eliminating any form of discrimination.
- **DIALOGUE WITHIN AMNESTY BUSINESS FORUM.** Through the dialogue with the other members of the human rights organisation's Business Forum, we discuss the dilemmas that can arise within our global operations.

## **We are a member of Amnesty Business Forum**

We participate in the Amnesty Business Forum and, as such, gain extensive insight into the difficulties global companies can face in relation to human rights. We maintain a continuous dialogue with Amnesty International, which helps us handle the different human rights issues we encounter. Occasionally we have to justify and explain our behaviour and actions; examples in the last year include our handling of the melamine issue in China (see below). There are many benefits to participating in Amnesty Business Forum, particularly the opportunity to engage in the exchange of experiences between participating companies and being able to share alternative solutions to different problems.

## **Initiatives that support human rights**

When melamine contaminated raw milk was discovered in China, it drew further attention to the necessity of food products being safe for consumers. We strongly believe that it is our responsibility to provide food products that do not cause harm and it is one of our core values. Read more about the melamine incident in the Food Safety section and in the interview on page 10.

Individuals also have the right to enough food to survive. In 2008, we developed the Children for Life aid project which will run in five countries in which we operate. Our activities will be concentrated in areas where children do not always have sufficient food. Read more about the project in the Community Relations section on page 32.

In another initiative to help children, we have donated money to give children living in poverty in New Jersey, USA, access to healthy food at weekends and during holidays.

## **Eliminating discrimination**

During the year many of our dairies have continued to ensure that no colleague is subjected to discrimination. In Canada, for example, all colleagues are introduced to an employee conduct policy, which describes what is considered acceptable behaviour in the workplace and what is not. It also includes clear guidelines on what colleagues can do if they experience a form of discrimination or have been bullied, as well as the different communication channels available to them.

In the UK, workshops have been held at Oakthorpe and Hatfield Peverel dairies to increase employee understanding of what bullying and discrimination involves, facilitate discussions around these areas and agree solutions to the issues.

## **UN CELEBRATION**

In December 2008, Arla's CEO, Peder Tuborgh, together with many other representatives of member organisations in Global Compact, signed a published statement that formed part of the 60th anniversary celebrations of the UN Declaration of Human Rights. It mirrors the pledge Arla made when it joined in order to encourage other businesses to help support human rights.

## **NEW LABOUR LAW IN CHINA**

The new labour law that came into effect in China on 1 January 2008 improves conditions for workers in many ways, for example, more holidays and increased employment security. Using a poster and email campaign, Arla informed colleagues about their new conditions, which is a requirement of the law.

## **FACILITY STOPPED IN SAUDI ARABIA**

Plans for a new packing facility in Saudi Arabia, for female colleagues only, reported in the 2007 report, are no longer being progressed due to a change in Arla's business strategy. In Saudi Arabia, men and women are not permitted to work together and the female colleague only packing facility was intended to provide women with employment opportunities within Arla.

## **IMMIGRANT WORKERS IN SAUDI ARABIA**

In Saudi Arabia, all immigrant workers are required by law to hand their passports to their employer. This creates a dilemma for Arla because this action conflicts with our Code of Conduct and violates human rights. Therefore, when an immigrant worker intends to travel, their documents are returned to them.

## **ARLA'S VIEW ON CHILD LABOUR**

Arla does not accept child labour, defined as work conducted by people under 15 years of age, or a higher age if local legislation stipulates a higher age limit and/or longer compulsory schooling.

## **ARLA ENCOURAGES OPENNESS**

With operations all over the world, over the years we have learned to respect cultural differences. In some countries, where the culture requires caution in expressing personal opinion and challenging management, we try to encourage openness. For example, in Poland, we have been working to gradually introduce our value of openness at management and intermediate leader level and encourage openness during meetings.

In Russia we carried out the Barometer employee survey for the first time in 2008. As is normal procedure when rolling out the Barometer for the first time, only management participated. This allows them to practise working with the results, before explaining the procedure and benefits to their teams.

## **SURVEY OF DISCRIMINATION**

Many workplaces constantly strive to increase employee understanding of what bullying and offensive discrimination involves and to increase respect between colleagues. In the employee survey that took place in 2008, one question related to offensive discrimination: 'In my department, no employees are subject to bullying, harassment or being ignored'. 75 per cent of the employees replied that they completely or partially agree with the statement, which is a four per cent improvement on the previous year. Thirteen per cent said that they neither agreed nor disagreed (16 per cent in 2007) and 12 per cent said that they completely or partially disagreed with the statement (12 per cent in 2007).

## **POWDERED MILK TO DISASTER VICTIMS**

On some occasions during the year we donated powdered milk to charities specifically requesting help from Arla. For instance, we helped undernourished children through a health clinic in Gaza and we distributed powdered milk to people hit by floods in Yemen and an earthquake in China.

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