FINANCIAL AND SUSTAINABILITY

ANNUAL REPORT 2022

Our report is our detailed annual account of the company's financial and sustainability performance, risks, strategy and governance. It includes our consolidated financial statements and our externally audited ESG figures. Also, it describes how we are working towards reaching our science-based and other environmental targets as well as our health and social ambitions. From 2022, we disclose our climate risks and opportunities according to TCFD's recommendation. This report serves as our annual communication on our progress towards the UN Social Development Goals, and the statutory statement on CSR in accordance with section 99a and 99b of the Danish Financial Statements Act.

See our statutory reporting on §99a on page 9 (business model), page 29-32 (climate-related risks), page 33-65 (policies, actions, management systems and expectations for future), page 128-145 (ESG key figures). See our statutory reporting on §99b on page 137 and 140.

www.arla.com

On the frontpage
Claus Fenger

VEJLSKOVGAARD FARM IN ODDER, DENMARK

Claus Fenger, one of our 8,492 farmer owners, is at the forefront of transforming dairy production to be more sustainable and climate-friendly. His 500 Holstein cows are closely monitored for all aspects of their health, well-being and efficiency. He milks them with milking robots, follows their feeding patterns with 3D cameras and measures their individual methane emissions with a special hose. Together with researchers from Aarhus University, he uses all the data he collects to find the cows who are the most climate-efficient and breed them. In the future, all Arla owners will be able to benefit from the result of this research, as they work on becoming more and more sustainable.

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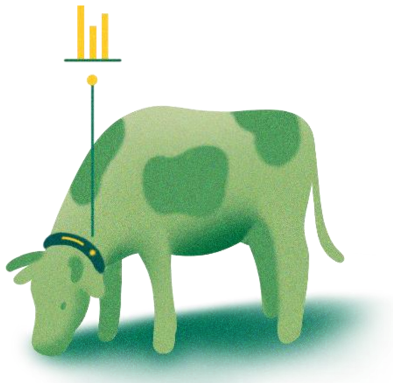

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HOW WE CREATE THE FUTURE OF DAIRY

ARLA® SKYR

Arla® Skyr is a traditional Icelandic yoghurt that is thick, creamy and high in protein. Perfect for those looking for a healthier yoghurt option with lower sugar and fat content

JAN TOFT NØRGAARD

Chairman of the Board of Directors

CONTINUING OUR SUSTAINABILITY TRANSITION IN A VOLATILE YEAR

For Arla and our 8,492 farmer owners, 2022 was a year dominated by inflation and uncertainty, yet despite this challenging environment, we delivered solid results while taking important strides forward on sustainability.

As well as causing humanitarian tragedy, Russia's invasion of Ukraine exacerbated the existing pressure on global markets and supply chains. This created a highly inflationary and volatile environment for both company and farmers.

Thanks to strong execution by employees and management, Arla once again proved agile in navigating these difficult conditions. Coupled with a decline in global milk production which drove commodity prices upwards, this enabled a higher return to our farmer owners.

The average prepaid milk price in 2022 was 52.0 EUR-cent/kg, 40.5 per cent higher than the previous year. The financial performance allowed for supplementary payment of EUR 269 million, corresponding to 2.2 EUR-cent per kg owner milk, above the level set in Arla's retainment policy. As EUR 61 million was paid out in September, the remaining amount of EUR 208 million will be paid out in March.

The higher returns helped alleviate pressure on farmers, who particularly in the first half of the year faced soaring production cost as prices on feed, fertilizer and energy reached unprecedented levels. It also supported them in making investments required to continue their transition to more sustainable dairy production and meet our on-farm target of reducing CO_2e emissions by 30 per cent by 2030.

As a cooperative, we took a historic step in this transition in 2022 with the decision to introduce a sustainability incentive for our farmers. Showing our ambition to be at the forefront of sustainable dairy farming, it ties for the first time the individual farmers' milk price to sustainability activities and performance. When the incentive comes into effect in 2023, the point-based system will reward past sustainability actions as well as encourage future improvements.

Arla's Board of Directors was closely involved in the development of the model, and the proposal was later discussed broadly in Arla's farmer community. The engagement and support our owners have shown in financially incentivising sustainability action, even at a time of great uncertainty, is a testament to our commitment to set the standard in our sector.

The incentive model builds on the same data-led and scientific approach to continuous improvements that is well established through our Climate Check programme. The 2022 results show average CO_2e emissions on owner milk reduced to 1.12 per kg of milk from 1.15 the year before – displaying the effectiveness of our approach and determination to continue to be a leader in value creation and sustainability.

FIRM NAVIGATION THROUGH THE INFLATION TO SECURE A COMPETITIVE MILK PRICE

Major global disruptions with widespread ramifications across societies and economies characterised yet another year. Inflation, which was further fuelled by Russia's invasion of Ukraine and the ensuing energy crisis, made the year even more difficult for Arla to navigate than the previous two. However, with agile and firm execution we managed the volatile environment, securing consecutive price increases across our four business segments throughout the year.

Our performance price was 38.8 per cent above the 2021 level, up from 39.7 EUR-cent to 55.1 EUR-cent per kg. Our revenue reached EUR 13.8 billion, up from EUR 11.2 billion in 2021, while the profit share was 2.8 per cent, within our target range.

The extraordinarily high returns throughout the year supported our owners in a year dominated by extraordinary feed, fertiliser and energy costs.

As the cost-of-living crisis gained momentum, we saw a significant downwards trend in consumer spending, particularly in Europe and Africa. People continued to trade down to cheaper products and consume less. By the end of 2022, the European dairy category consumption in retail was down by around 4-5 per cent, compared to 2021.

As a result, our branded volumes across our Europe and International segments declined by 4.2 and 1.2 per cent, respectively. Still, volumes remained above 2019 level as our brands were able to sustain parts of the exceptional strong growth created in two years of lockdowns.

Arla Foods Ingredients continued to deliver strong performance and Global Industry Sales grew, strongly driven by high commodity prices.

Even in volatile times, our commitment to lead sustainable dairy stands strong. A monumental proof point was our Board of Directors' historic decision to introduce a new Sustainability Incentive model. Up to 4 EUR-cent[1] per kg milk, corresponding to an annual EUR 500 million will be allocated to motivate and reward our members' individual climate and biodiversity actions.

We are very pleased to see that Arla farmers have resumed their reductions after a flat development in the past four years. With the launch of the Sustainability Incentive in 2023, we aim to accelerate our scope 3 reductions in the years to come, and look forward to working with our customers on offering more sustainable dairy products.

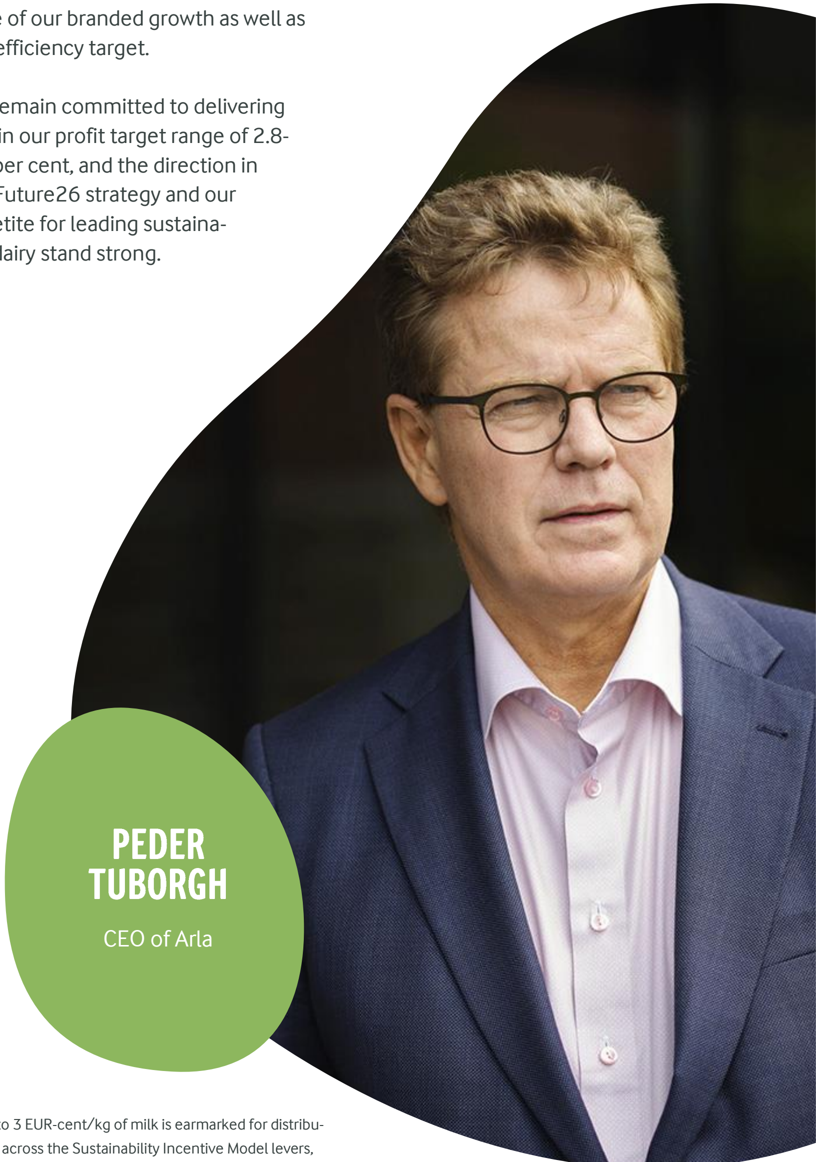
In scope 1+2, we achieved further reductions, bringing us to 29 per cent on our 63 per cent reduction journey towards 2030.

2023 will undoubtedly be another difficult year to navigate with the challenging economic environment globally and the ongoing effects of the war in Ukraine continuing to impact the energy market and supply chains.

We expect the supply and demand balance to be restored on the dairy market over the course of 2023. Commodity prices, on the other hand, already towards the end of 2022 started to sharply decline. Our expectation for 2023 is further decrease on the commodity markets.

The cost-of-living crisis will continue to challenge brands across categories. We have therefore made a slight adjustment to our expectations regarding the pace of our branded growth as well as our efficiency target.

We remain committed to delivering within our profit target range of 2.8-3.2 per cent, and the direction in our Future26 strategy and our appetite for leading sustainable dairy stand strong.



PEDER TUBORGH
CEO of Arla

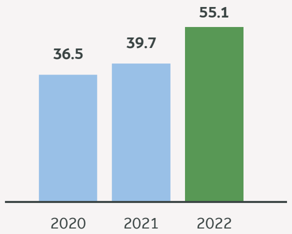
[1] Up to 3 EUR-cent/kg of milk is earmarked for distribution across the Sustainability Incentive Model levers, and farmers will receive 1 EUR-cent/kg of milk for submitting their Climate Check data.

2022 PERFORMANCE AT A GLANCE

F26
Competitive milk price

55.1

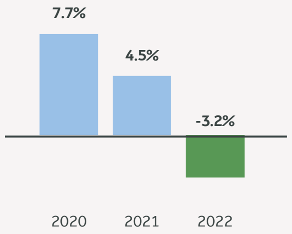
PERFORMANCE PRICE
EUR-CENT/KG



F26
Scale to grow

-3.2%

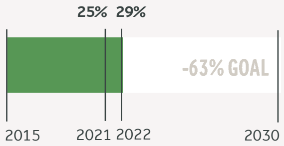
STRATEGIC BRANDED VOLUME DRIVEN REVENUE GROWTH



F26
Lead sustainable dairy

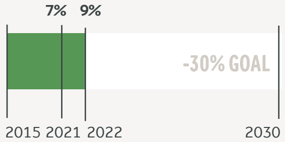
4%p

SCOPE 1+2 EMISSIONS
REDUCTION IN 2022
PERCENTAGE POINTS



2%p

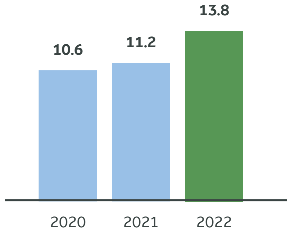
SCOPE 3 EMISSIONS[1]
REDUCTION IN 2022
PERCENTAGE POINTS



F26
Read more about our strategy on page 10 and 26.

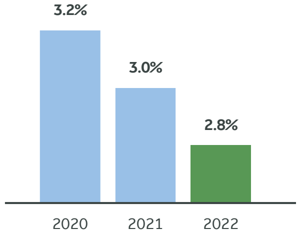
13.8

REVENUE
BILLION EUR



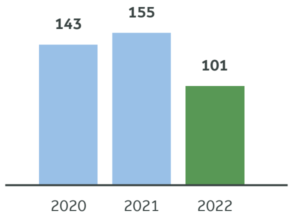
2.8%

PROFIT SHARE[2]
OF REVENUE



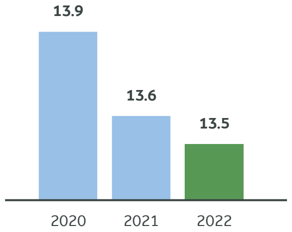
101

NET EFFICIENCIES[3]
MILLION EUR



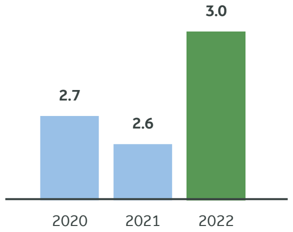
13.5

MILK VOLUME
BILLION KG



3.0

LEVERAGE



● Within guidance ○ Outside guidance

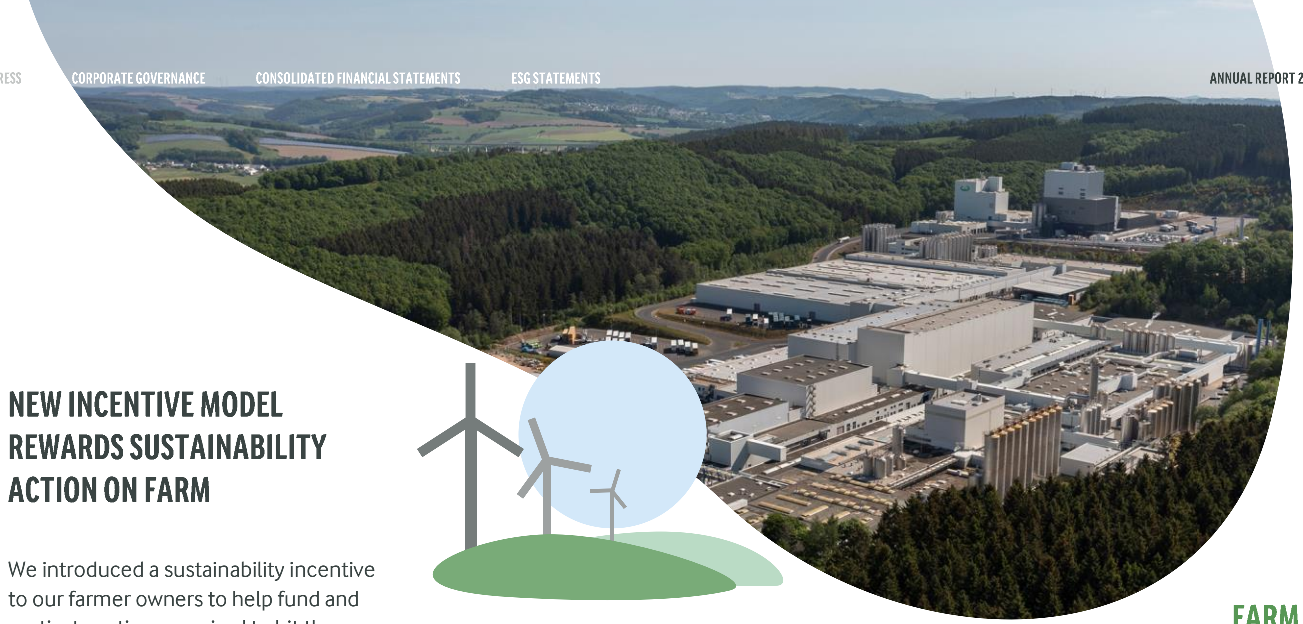
[1] Per kg of milk and whey.
[2] Based on profit allocated to owners of Arla Foods amba.
[3] Between 2021 and 2022 we altered the methods of creating efficiencies, due to the start of our new strategy period. With the new strategy we launched our new efficiency programme, Fund our Future. 2022 numbers are therefore not fully comparable with historic numbers, related to our previous efficiency programme, Calcium.

FIVE-YEAR OVERVIEW

Financial key figures (EURm)	2022	2021	2020	2019	2018
Performance price					
EUR-cent/kg owner milk	55.1	39.7	36.5	36.3	36.0
Income statement					
Revenue	13,793	11,202	10,644	10,527	10,425
EBITDA	1,001	948	909	837	767
EBIT	529	468	458	406	404
Net financials	-80	-61	-72	-59	-62
Profit for the year	400	346	352	323	301
Profit appropriation for the year					
Individual capital	39	42	41	61	-
Common capital	74	83	81	123	-
Supplementary payment	269	207	223	127	290
Balance sheet					
Total assets	8,746	7,813	7,331	7,106	6,635
Non-current assets	4,611	4,668	4,413	4,243	3,697
Current assets	4,135	3,145	2,918	2,863	2,938
Equity	3,168	2,910	2,639	2,494	2,519
Non-current liabilities	2,915	2,446	2,296	2,304	1,694
Current liabilities	2,663	2,457	2,396	2,308	2,422
Net interest-bearing debt including pension liabilities	2,986	2,466	2,427	2,362	1,867
Net working capital	1,442	810	679	823	894
Cash flows					
Cash flow from operating activities	184	780	731	773	649
Cash flow from investing activities	-443	-482	-488	-571	-432
Free cash flow	-259	298	243	202	217
Cash flow from financing activities	269	-330	-293	-136	-191
Investments in property, plant and equipment	-373	-452	-478	-425	-383
Purchase of enterprises	-	-	-	-168	-51

Financial key figures (EURm)	2022	2021	2020	2019	2018
Financial ratios					
Profit share	2.8%	3.0%	3.2%	3.0%	2.8%
EBIT margin	3.8%	4.2%	4.3%	3.9%	3.9%
Leverage	3.0	2.6	2.7	2.8	2.4
Interest cover	19.6	23.7	16.8	12.0	14.9
Equity ratio	35%	37%	35%	34%	37%
Inflow of raw milk (mkg)					
Inflow from owners in Denmark	4,945	4,952	5,011	4,988	4,986
Inflow from owners in the UK	3,305	3,306	3,303	3,261	3,227
Inflow from owners in Sweden	1,822	1,838	1,844	1,806	1,844
Inflow from owners in Germany	1,663	1,681	1,731	1,717	1,779
Inflow from owners in Netherlands, Belgium and Luxembourg	759	741	749	731	732
Inflow from others	961	1,128	1,231	1,323	1,457
Total inflow of raw milk	13,455	13,646	13,869	13,826	14,025
Number of owners					
Owners in Sweden	2,108	2,236	2,374	2,497	2,630
Owners in Denmark	2,105	2,274	2,357	2,436	2,593
Owners in Germany	1,429	1,497	1,576	1,731	1,841
Owners in the UK	2,053	2,127	2,241	2,190	2,289
Owners in Netherlands, Belgium and Luxem-bourg	797	822	858	905	966
Total number of owners	8,492	8,956	9,406	9,759	10,319
Environmental, social and governance					
Progress towards 2030 CO_2e reduction (scope 1 and 2) market-based	-29%	-25%	-24%	-12%	-4%
CO_2e scope 3 from owner milk (kg)	1.12	1.15	1.15	1.15	1.14
CO_2e scope 3 per kg of milk and whey (kg)	1.18	1.20	1.21	1.21	1.20
Progress towards 2030 CO_2e reduction target (scope 3 per kg milk and whey)	-9%	-7%	-7%	-7%	-7%
Average number of full-time employees	20,907	20,617	20,020	19,174	19,190
Gender diversity board	25%	13%	13%	13%	12%

HIGHLIGHTS 2022



2022 WAS DOMINATED BY INFLATION, UNCERTAINTY AND TRAGIC GEOPOLITICAL EVENTS, SUCH AS THE WAR IN UKRAINE. WE DID NOT STAND STILL IN THE STORM, BUT WORKED HARD TO ADJUST, AND TO KEEP UP THE PACE OF OUR SUSTAINABLE TRANSFORMATION.

ARLA PROTEIN GROWTH IN CHALLENGING MARKET CONDITIONS

Natural, high in protein and low in sugar and fat, Arla Protein is a success story in 2022. Arla Protein have not targeted the professional or hardcore gym goers but all consumers living an active lifestyle and championing all shapes, sizes and backgrounds. By focusing on the fuelling power of protein alongside delicious products, such as milk-based beverages and puddings, Arla Protein has resonated with consumers and delivered 48.9 per cent volume growth in 2022.

ARLA INCREASES THE MILK PRICE TO FARMERS THROUGHOUT 2022

In an exceptionally difficult year for dairy farming, we managed to increase the milk price paid for our farmer owners for 10 months in 2022. The average prepaid milk price was 52.0 EUR-cent/kg of milk in 2022 compared to 37.0 EURcent/ kg in 2021. Our performance price, which measures the value we add to our owners' milk, increased to 55.1. EUR-cent/kg of milk compared to 39.7 EUR-cent/kg in 2021. The unprecedented increases were primarily driven by price increases both in commodities and branded products. In the mean-time, production costs on farms also significantly increased, putting our farmers' margins under pressure.

52.0

EUR-CENT/KG

Average prepaid milk price

Read more on page 15.

NEW INCENTIVE MODEL REWARDS SUSTAINABILITY ACTION ON FARM

We introduced a sustainability incentive to our farmer owners to help fund and motivate actions required to hit the 2030 emission reduction target on farm. We earmarked up to 3 EUR-cent per kg of milk for present and future sustainability activities in addition to the existing 1 EUR-cent for submitting Climate Check data. Based on our current milk volume, this corresponds to EUR 500 million annually. The model is a point-based system, in which the farmers can collect points based on their activities on the model's 19 different levers.

Read more on page 35.

ARLA SIGNS 10-YEAR WIND POWER PURCHASE AGREEMENT

In January, Arla presented an ambitious target of using 100 per cent green electricity in Europe by the end of 2025. By September, we secured to reach this target in Denmark with, amongst other things, a 10-year power purchase agreement signed. Over the course of the 10-year agreement, the green energy from the turbines will provide an annual saving of 58,000 tonnes of CO_2e, which corresponds to 8 per cent of our total CO_2e footprint for scope 1+2.

Read more on page 41.

OPENING OF ARLA'S BIGGEST DAIRY INVESTMENT – THE PRONSFELD POWDER TOWER

In 2022, we officially inaugurated a new production plant at Pronsfeld dairy in Germany. The expansion is our biggest dairy investment to date and a key driver to meet the growing international demand for sustainable, affordable and nutritious dairy products.
Arla invested EUR 190 million in the expansion of the Pronsfeld dairy to increase the production of primarily milk powder. The expansion will support the expected annual branded volume growth in Arla's international business, in line with our five-year strategy called Future26.

Read more on page 16.

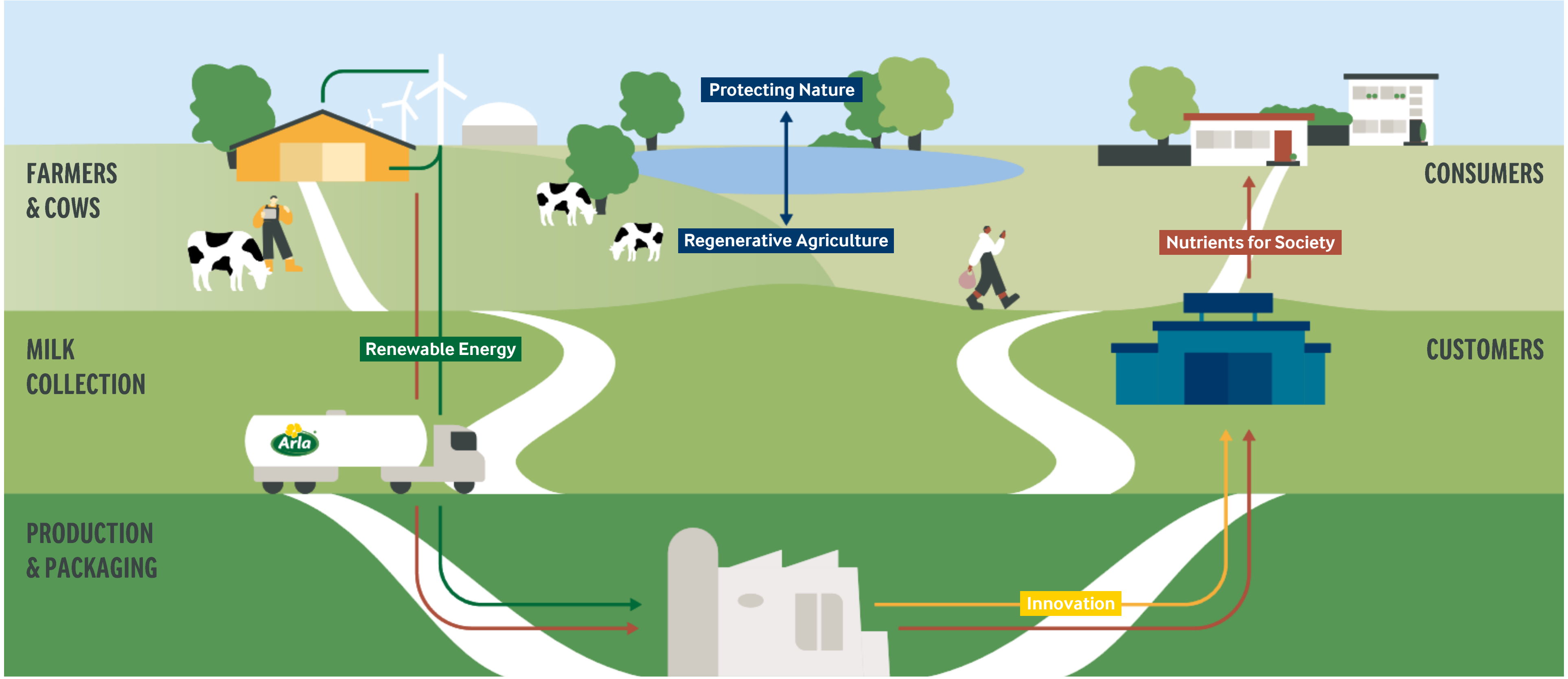
FARM CO_2e REDUCTIONS

In the past few years, we have accelerated our sustainability action to reach our target of 30%[1] scope 3 CO_2e emissions reduction by 2030. In 2022, we started to see the results as we managed to lower scope 3 emissions by 2 percentage points in the year and in total 9% compared to our 2015 baseline.

[1] Per kg of milk and whey

HOW WE CREATE VALUE

OUR BUSINESS MODEL



Farmers and cows

We have 8,492 farmer owners, who are responsible for over 1.5 million cows, and who are thriving to produce dairy in a sustainable way while protecting the welfare of the cows and nature around them. Our farmers are now also financially incentivised to reduce their climate footprint.
Read more on page 35.

Milk collection

We collect around 13.5 billion kg of raw milk each year, mainly from our owners in seven countries. We add value to our owners' milk through innovation, branding and marketing. The profit is shared among the owners though the milk payment.

Production & Packaging

We process milk at our 60 sites. We produce 6.8 billion kg of nutritious dairy products each year. Our production and packaging sites also create jobs across several countries in the world. We provide our workers with safe working conditions and fair pay. Our sites reduced their emissions each year since 2015, and our branded packaging is 93 per cent designed for recycling.
Read more on page 43.

Customers

We sell our products in 144 countries to hundreds of different customers, mostly supermarket chains. Good cooperation and working towards the common goal of providing excellent service to the consumers while lowering the environmental footprint of shopping is key to our success.

Consumers

We provide nutrition for millions of people. Our health strategy focuses on healthy innovations, inspiring good food habits and improving access to affordable nutrition for low-income consumers.

FUTURE 26– OUR STRATEGY

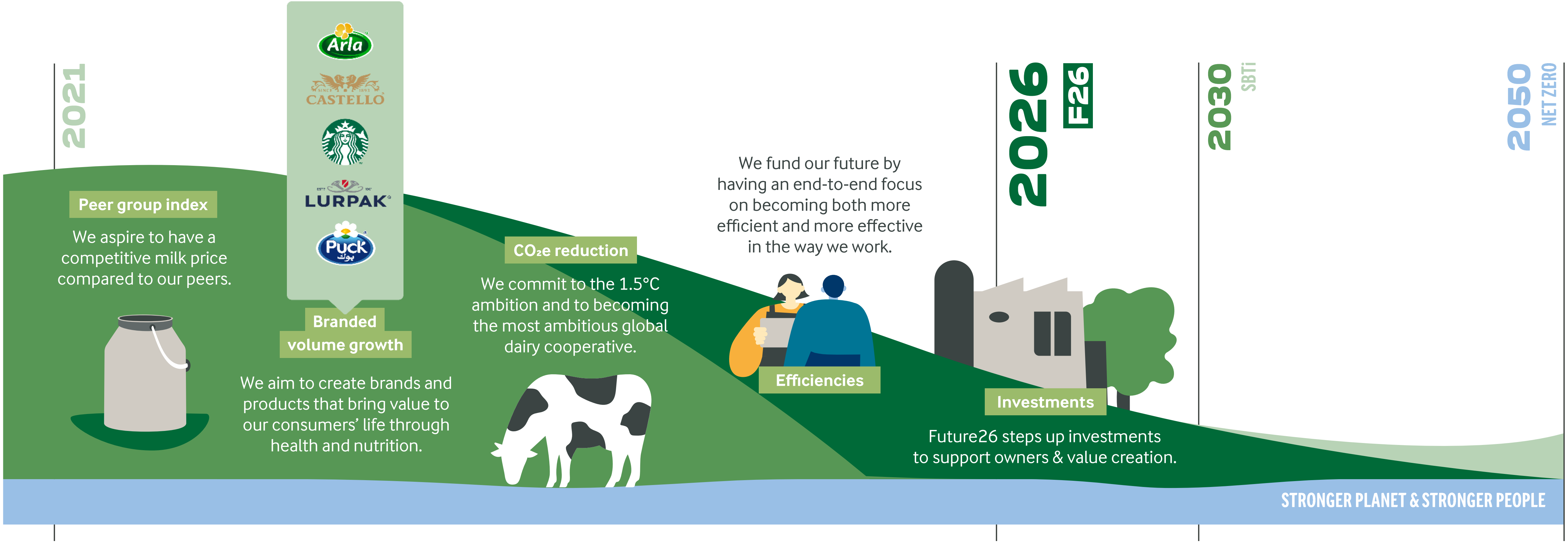
BRINGING HEALTH AND INSPIRATION TO THE WORLD, NATURALLY

Creating the future of dairy
Dairy is at a defining moment. Globally, the demand for dairy is increasing, but it's also changing. Food choices are being shaped by the desire for sustainability, while there also needs to be a step change to halt poor diets and malnutrition. Our food system requires re-thinking and with our Future26 strategy we aim to secure our place as part of the solution.

2026 Our new strategy aims at providing answers on how to ensure a healthy, sustainable growth for our business. In the first year of our Future26 strategy we made good progress on our aims. Significant steps on our sustainability journey included accelerating our transition to green electricity in our European production sites and the development of our Sustainability Incentive Model. On value creation, we delivered strong performance in a number of our priority growth markets, as well as in our food service and ingredients businesses (AFI). Branded volumes, however, were impacted, particularly in Europe, by the severity of the cost-of-living crisis.

2030 Together with our 8,492 farmer owners, we committed ourselves to contribute to the Paris agreement's target of limiting global warming to 1.5°C. Our 2030 emission reduction targets are approved by the Science Based Target initiative as aligned with climate science. Read more on page 34.

2050 Our ambition is becoming carbon net zero across our value chain.



PERFORMANCE REVIEW

ARLA® PROTEIN

Despite price increases, our sub-brand Arla® Protein experienced exceptional volume growth of 48.9 per cent in 2022.

AGILE ADAPTION TO NAVIGATE IN A VOLATILE MARKET

TORBEN DAHL NYHOLM

CFO of Arla

Inflation and volatility throughout the dairy supply chain dominated 2022. Stagnating global milk supply coupled with steady demand drove prices to record heights. The war in Ukraine accelerated the inflationary pressures from the second quarter and added significant volatility and uncertainty to the markets, fuelling further cost increases both on farm, in production and in logistics. In the meantime, consumer habits returned to the pre-pandemic normal, with less in-home consumption, suppressing our branded volumes in retail, but accelerating branded volume growth in food service.

We navigated the challenges with firm execution and agile adaptation to changing market realities. As a result, our average pre-paid milk price increased by 40.5 per cent compared to 2021, from 37.0 EUR-cent/kg to 52.0 EUR-cent/kg – much needed support for our farmers in times of soaring feed, fertiliser and energy costs. Our revenue reached EUR 13.8 billion, up from EUR 11.2 billion in 2021. The increase was primarily driven by prices.

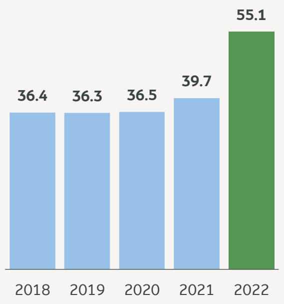
In 2022, earnings were driven by unprecedented high margins on commodity products which, together with high production costs, put retail and food service margins under pressure.

In 2022, certain negative economic and societal changes started that will determine the development of our industry in the coming years. Economic slowdown, and especially decreased purchasing power could negatively impact category growth in retail

and also commodity prices. Therefore, we expect 2023 and 2024 to be difficult years yet again.We are confident that the direction we set out in our Future26 strategy is the right one for us, and we are pursuing our strategic aspirations with all our efforts. Nevertheless, to ensure the success of our strategy we need to be able to adapt flexibly to external trends. Therefore, we readjusted our strategic expectations regarding the pace of our branded volume growth and efficiencies; however, we expect the growth pace to pick back up again from 2024. Read more on page 25.

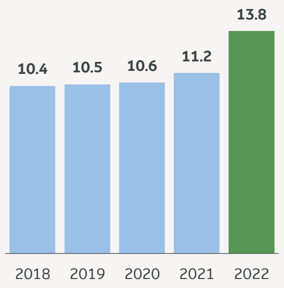
55.1

PERFORMANCE PRICE EUR-CENT/KG



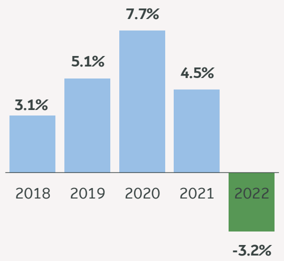
13.8

REVENUE EURb



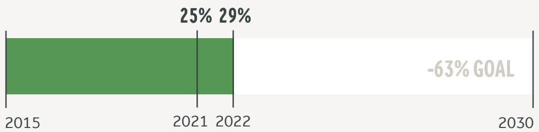
-3.2%

STRATEGIC BRANDED VOLUME-DRIVEN REVENUE GROWTH



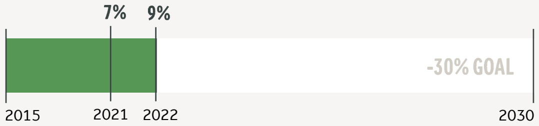
4%p

SCOPE 1+2 EMISSIONS REDUCTION IN 2022



2%p

SCOPE 3 EMISSIONS REDUCTION IN 2022



EXTERNAL MARKET OVERVIEW

AS A GLOBAL BUSINESS, ARLA IS IMPACTED BY THE VOLATILITY OF THE EXTERNAL MARKET. BELOW WE SUMMARISE HOW EXTERNAL FORCES SHAPED THE MARKET WE OPERATE IN.

Several trends and factors exacerbated inflation

The war in Ukraine, rising energy and food prices, supply-demand imbalances on the back of Covid-19 resulted in the highest inflation rates in decades. Covid-19 restrictions were lifted in most of the world; however, the Chinese economy still suffered under the country's strict "zero-Covid" policy, which was lifted in early 2023.

Europe, where inflation was mostly driven by challenged supply chains and high energy prices due to the war in Ukraine, was hit hardest by raising prices. On markets outside Europe, inflation was more driven by the still rising demand on the back of the economic rebound after Covid-19, and supply struggling to cover this increased demand. The effect of these trends on prices was less dramatic.

Europe was hit hardest by inflation

In Europe, as the war was causing tragic suffering and destruction in Ukraine, it also had grave economic reverberations across the whole region. The EU is among the economies most exposed to the war due to its geographical proximity to Ukraine and heavy reliance on imports of fossil fuels from Russia and Ukrainian agricultural products. Sanctions to halt Russian aggression caused a sharp rise in energy prices, which exacerbated inflation, already on an upward trend due to heightened economic activity after Covid-19 restrictions were lifted.

Inflation in the euro zone increased by 9.2 per cent in 2022. However, the increase started to slow down towards the end of the year, as a result of energy markets calming down when gas reserves across Europe proved to be sufficient to keep production going. The increase in food and agricultural product prices was only somewhat slowed by the opening of the safe grain corridor in the Black Sea, and the record high yields over the summer.

Production costs at European dairy sites were also affected by inflation and shortages, driving up prices for packaging and ingredients, but especially energy (on average natural gas prices increased by 143 per cent compared to 2021).

Economic slowdown on the horizon

To slow down inflation, central banks across the globe raised interest rates during 2022. These developments led to a slowdown of economic activity, accelerating towards the end of the year. Consequently, household purchasing power declined in economies globally. Global GDP growth contracted from 6.0 per cent in 2021 to 3.4 per cent in 2022.

Inflation impacted demand for premium food products

Inflation hit consumers with a lag compared to businesses directly exposed to the effect of inflation, therefore in the first three quarters of 2022 grocery shopping budgets did not shrink significantly. However, more price-sensitive buyers started to change their shopping habits, and traded down to cheaper products from the second half of the year. This trend accelerated towards the end of the year.

The slowly materialising effects of inflation in the retail market were coupled with the normalisation of consumption in Europe after Covid-19, leading to a year-on-year decline of around 4-5 per cent in dairy consumption in retail. Butter and spreadables, which were in high demand during the home-cooking trend of the Covid-19 pandemic, were hit hardest and declined by 7.0 per cent compared to 2021.

On the flip side, the food service segment bounced back as consumers once again started to spend on eating out. As a result, consumption approximated pre-pandemic levels in 2022, with a slight slowdown in the last quarter.

9.2%

Average inflation in the euro zone

2021: 5.0%

Source: Eurostat

Stagnating supply drove up dairy commodity prices

While demand for dairy products in general remained firm globally throughout most of 2022, major dairy producing regions across Europe, Oceania and South America were struggling with high input costs, poor weather and margin erosions, resulting in stagnating milk supply.

As supply did not grow as expected compared to 2021, commodity prices steeply increased during the first half of 2022, the trend slowly turning back during the second half, as demand subdued and we saw the first signs of production uplift. In Europe, gouda prices increased by 47.2 per cent and SMP prices increased by 37.5 per cent compared to 2021.

Significantly increased farm and production costs

All key milk production inputs – feed, fertilizer, fuel and energy – saw record high prices in 2022, putting pressure on farmers' margins. Prices peaked during the third quarter and began to fall slightly as Russia granted safe passage to agricultural products from Ukraine through the Black Sea. However, uncertainty around access to agricultural products and the risk of energy shortages or further price increases remained high.

Dairy farmers across the globe are also facing growing uncertainty about potential climate-related regulations targeting emissions from agricultural activities. Many farmers, especially in Europe, have proactively already begun their sustainable transformation, which further adds to the growing cost base on farms, as sustainability initiatives, although creating financial efficiencies in the long run, come with investment costs.

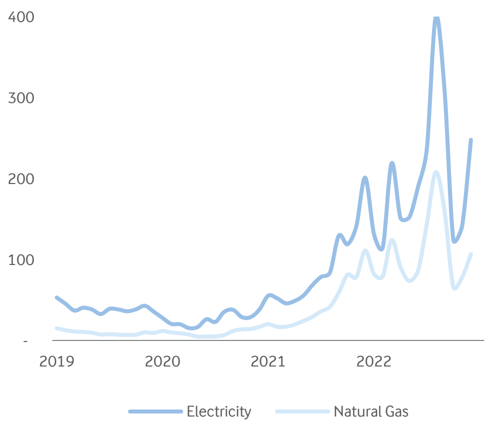
Farmgate milk prices compensated for higher costs

Driven by the supply and demand imbalance in dairy, farmgate milk prices increased significantly across all major dairy producing regions during 2022.

In the EU-27, average farmgate milk prices gained 40.2 per cent compared to 2021. Higher milk prices helped to offset cost increases for farmers, and led to a slow uplift in milk supply towards the end of the year.

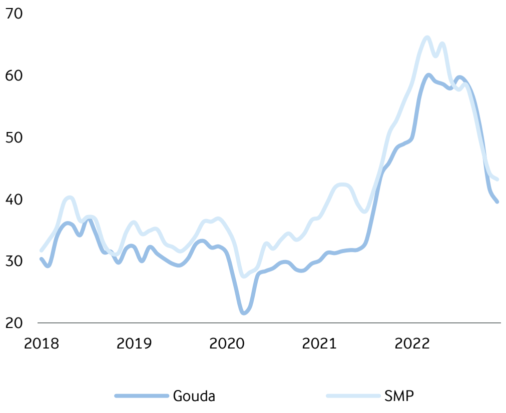
From an Arla point of view, total milk decreased, from 13.6 to 13.5 billion kg. The decrease came from both owner and contract milk. The largest decrease, 14.8 per cent, was seen in non-owner milk volumes, driven by declining intake in the UK and the Netherlands. From our owner countries, milk volumes declined the most in Germany, by 1.1 per cent, and in Sweden, by 0.8 per cent.

Natural gas and electricity prices
EUR per MWh

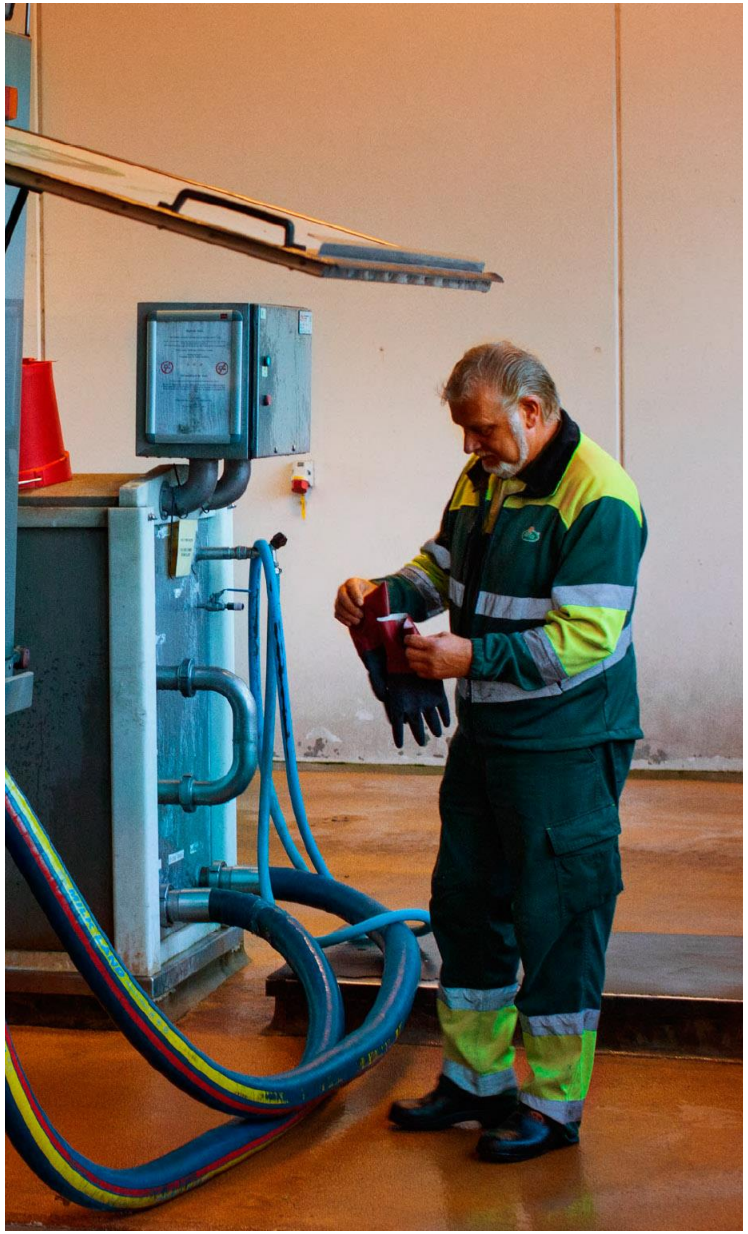


Source: Nord Pool Group

Commodity prices
(EUR-cent/kg, Milk Utilisation Equivalent)



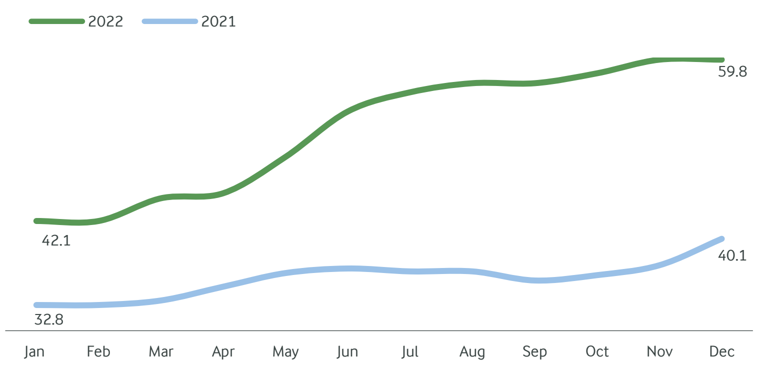
Source: GDT



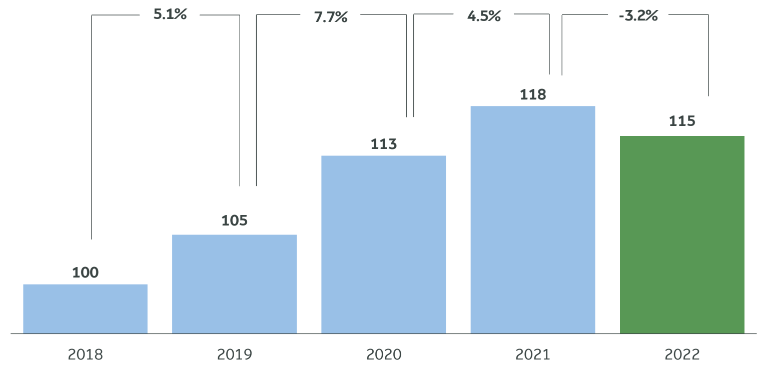
PERFORMANCE OVERVIEW

ARLA'S MISSION IS TO SECURE THE HIGHEST VALUE FOR OUR FARMERS' MILK WHILE CREATING OPPORTUNITIES FOR THEIR CONTINUED GROWTH. OUR COMMITMENT TO MAXIMISE BOTH SHORT- AND LONG-TERM VALUE FOR OUR OWNERS REQUIRES STRONG COMMERCIAL EXECUTION ON ALL LEVELS OF THE BUSINESS.

Average pre-paid milk price for our owners
EUR-cent/kg milk



F26 Strategic branded volume-driven revenue growth, indexed to 2018
(Per cent)



Significant milk price increase driven by commodity prices and firm business execution

Arla's average pre-paid milk price increased to 52.0 EUR-cent/kg in 2022 compared to 37.0 EUR-cent/kg last year, which constitutes a 40.5 per cent increase. Our average performance price, which measures the value Arla adds to each kg of our owner's milk, was 55.1 EUR-cent/kg, a 38.8 per cent increase compared to 2021 (from 39.7 EUR-cent/kg).

These unprecedented increases were mainly driven by the commodity price rallies and firm execution of price increases across channels to regain margins.

Price increases were necessary to compensate our farmer owners for their soaring production costs and ensure that they can invest in a sustainable transformation.

Our operational costs excluding raw milk also increased, from EUR 5,599 million in 2021 to EUR 6,175 million, driven by inflation in energy prices, ingredients and packaging.

Our transformation and efficiency programme, Fund our Future, also contributed to the performance price, with EUR 101 million net savings.

Revenue growth driven by prices

During 2022, revenue increased by 23 per cent to EUR 13.8 billion compared to EUR 11.2 billion in 2021, with much of the increase occurring in the second half of the year. Revenue growth was almost exclusively driven by increased prices. Low supply and steady demand drove up commodity prices, while retail price increases were driven by inflation and increased production costs.

Prices contributed positively to the revenue increase by EUR 2,713 million. Slightly decreasing branded volumes impacted revenue negatively by EUR 281 million, while the effect from currencies contributed positively by EUR 159 million.

Market conditions put pressure on retail margins

In the past few years of nearly constant crisis management, Arla showed that our diverse and balanced portfolio makes us ready to navigate a volatile market. Whereas during the Covid-19 pandemic consumption of branded products increased significantly fuelling our branded volume growth, in the current market situation dairy commodity markets are putting pressure on retail margins and sales volumes due to higher retail prices. This was mainly driven by the increased costs related to milk, and general global inflation raising the cost of energy, ingredients and packaging.

Our branded volumes sold through retail also came under pressure during 2022, declining by 3.2 per cent (see details on page 17). Retail volumes declined by 7.4 per cent, while branded retail revenue increased by 11.4 per cent.

2022 was a challenging year for grocery e-commerce across Europe; however, we managed to grow revenue by 1.5 per cent in line with expectations. In the meantime, volumes sold through e-commerce declined, driven by shoppers buying less and some penetration losses.

Our food service channel bounced back after Covid-19

After more than two years of the Covid-19 pandemic restricting access to restaurants and cafes, our food service business was thriving again in the re-opened eating-out scene. We captured business opportunities in a rising market through strong delivery, key account management and agility. Our food service business delivered 9.2 per cent branded volume growth compared to 8.0 per cent in 2021. Revenue grew by 31.5 per cent.

Fund our Future savings on target

The volatility of the external environment, especially the swings in raw milk availability put pressure on our transformation and efficiency programme, Fund our Future. However, we reached the expected net savings of EUR 101 million, primarily delivered by overperformance in commercial efficiencies and international supply chain productivity, and a lower marketing spend.

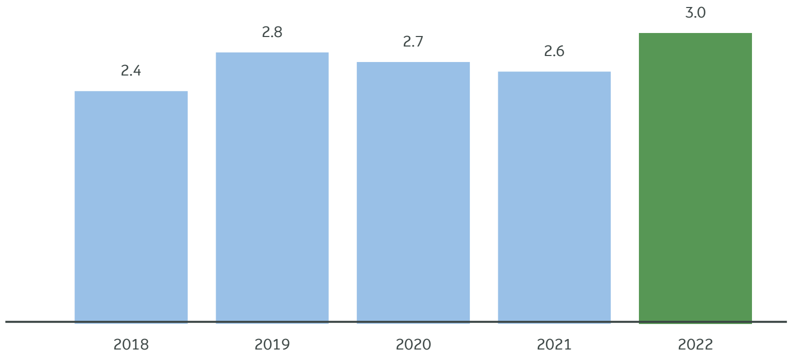
Emission reductions on track

Our emission reduction programmes delivered the expected reductions in 2022.

Our scope 1 and 2 emissions lowered by 4 percentage points in 2022, and in total by 29 per cent compared to our 2015 baseline. Our site sustainability programme offered our 60 sites and logistics centres a supplier-driven assessment to find out how to prioritise and execute some quick wins in 2022, such as insulating pipes, replacing and upgrading pumps and replacing light bulbs with LED lamps. These initiatives saved both CO_2e and contributed to more efficient energy usage. Read more on page 41.

Our scope 3 emissions were reduced by 2 percentage points per kg of milk and whey, and in total by 9 per cent compared to our 2015 baseline. The reduction is a result of our farmers consistently accelerating sustainability actions on farm. Read more about how our farmers reduce their emissions on page 36. In 2022, we made a bold step to encourage even more tangible action on farm when we announced our Sustainability Incentive Model, which rewards farmers for their sustainability actions across 19 levers with up to 3 EUR-cent/kg of milk. Read more on page 35.

Financial leverage development
Target range: 2.8-3.4



Net profit within target range

In 2022, Arla achieved a net profit[1] of EUR 382 million, or 2.8 per cent of revenue, which is at the bottom end of our target range of 2.8-3.2 per cent. Profit was driven by unprecedented high margins on commodity products, which, together with high production costs, put retail and food service margins under pressure.

Other comprehensive income impacted by interest rates and energy prices

Other comprehensive income was EUR 156 million compared to EUR 171 million last year. The income of EUR 156 million consisted of positive value adjustments of hedge instruments amounting to EUR 225 million, partly offset by negative value adjustments on net assets measured in foreign currencies (translation effect) amounting to EUR 48 million. The increased value of our hedge instruments, which secure our future interest and energy costs at a certain level, was due to significant increases in the general interest level and in the market cost for energy.

Robust financial position

In 2022, Arla stood strong and we kept our robust financial position in a volatile market. Our leverage landed at 3.0. Although higher than last year (2.6), it is still comfortably within our target range of 2.8-3.4. This was primarily due to a higher level of net interest-bearing debt driven by increased funds tied up in net working capital, while EBITDA was on the same level.

The increased interest rate level resulted in a higher value of interest swap instruments. It also led to lower calculated headroom for performed goodwill impairment tests. With lower headroom, our goodwill positions were carefully monitored and supporting business cases assessed throughout 2022 not leading to any impairment. Finally, the increased interest rate led to lower present value of gross pension liabilities. As the majority of our pension liabilities are hedged by corresponding pensions assets with similar risk profiles, our net pension liabilities landed at the same level as last year.

Cash flow challenged due to high net working capital

Net working capital increased from EUR 810 million last year to EUR 1,442 million, representing an increase of 78 per cent primarily due to higher milk prices for our farmer owners and increased costs especially within production (packaging, ingredients, energy), largely driven by inflation.

This increase affected both our operating cash flow and our net interest-bearing debt negatively. Cash flow from operating activities decreased to EUR 184 million compared to EUR 780 million in 2021. Correspondingly, our net interest-bearing debt increased to EUR 2,986 million compared to EUR 2,466 million in 2021.

Our biggest recent investment projects were finalised

In 2022, some of our main CAPEX investment projects from the past years, such as the powder tower in Pronsfeld, Germany, investments in the production facilities in Bahrain and expansion of the mozzarella production in Denmark were finalised or came close to finalisation. Cash flow from investing activities amounted to EUR 443 million compared to EUR 482 million in 2021.

We also entered significant agreements supporting our green transition. We signed several power purchase agreements in our core markets. These agreements ensure that we reach our goal of running our production exclusively on green energy in Europe from 2025.

Divestment of our Russian business

Due to Russia's invasion of Ukraine in February 2022 we decided to divest our Russian business, and sold it to local management who will continue to run the business completely unrelated from Arla. We also fully stopped exporting products to Russia.

As exports were already much reduced to Russia since the 2014 embargo, our Russian business contributed EUR 56 million, or 0.5 per cent, to our revenue in 2021. The divestment process led to a net loss of EUR 19 million recognised within other operating costs.

1 Excluding non-controlling interests' share of profit

GLOBAL BRANDS

OUR STRATEGIC GLOBAL BRANDS ARE AT THE HEART OF OUR BUSINESS AND THEY DRIVE THE MAJORITY OF ARLA'S VALUE CREATION.

OUR GLOBAL BRANDS

F26 Strategic branded volume-driven revenue growth

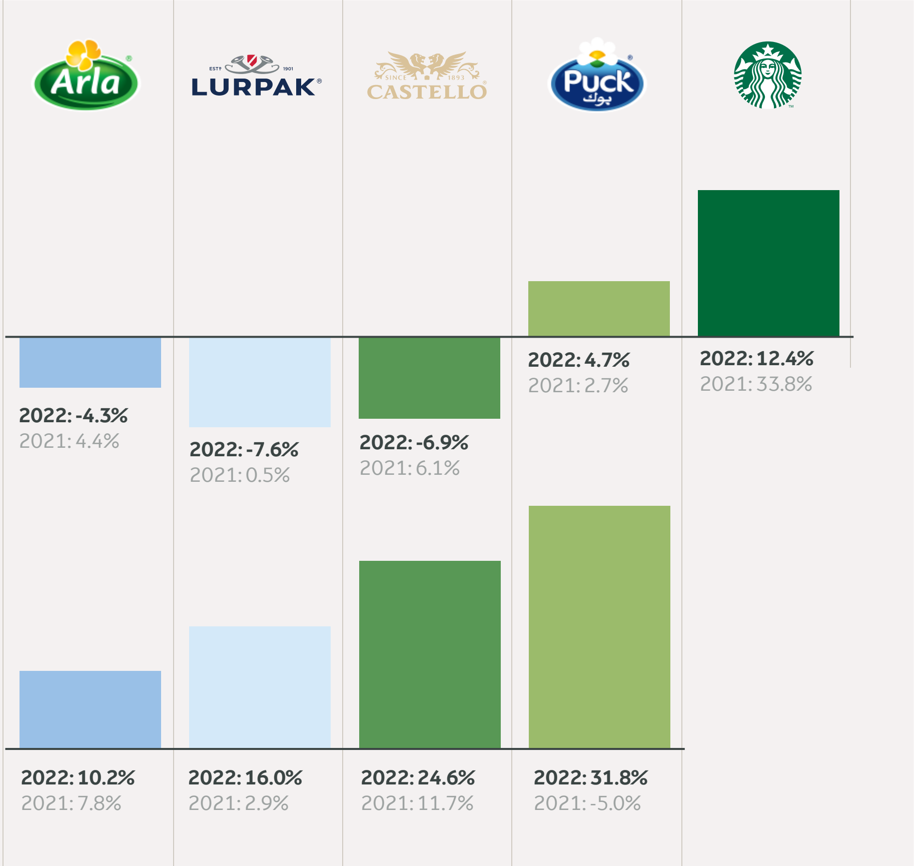
-3.2%

2021: 4.5%

F26 Strategic branded net revenue growth

14.2%

2021: 5.7%



Following two years of exceptional strategic branded volume growth in retail during the Covid-19 pandemic, our volumes declined by 3.2 per cent in 2022. The key reason for the decline is the irregular pace of development in the past two years, price increases and general inflation. Even in the current difficult market, where dairy categories declined in general, our brands showed their power to generate value. Our branded revenue increased by 14.2 per cent to EUR 6,294 million in 2022.

Arla® brand

The Arla® brand, our umbrella brand with various successful sub-brands covering multiple categories such as milk, yoghurt, cream, powder and cheese was generally challenged in 2022. Consumers reacted to higher retail prices by buying less and trading down; however, after the Covid-19 lockdowns were lifted, they started to eat out more, lifting our food service volumes. Branded volumes declined by 4.3 per cent compared to 2021; however, we retained our value market share in our core markets. Revenue increased by 10.2 per cent to EUR 3,702 million from EUR 3,359 million in 2021. Some of our sub-brands experienced exceptional volume growth despite price increases. Arla® Protein grew volumes by 48.9 per cent, and our food service brand, Arla® Pro, by 20.4 per cent. From a market perspective, the Netherlands performed well, almost at 2021 volumes, with a slight decline of 0.8 per cent, despite market developments.

Lurpak®

Lurpak® experienced a volume decline of 7.6 per cent compared to 2021, but volumes sold were still higher than before Covid-19, successfully managing to keep consumer interest that peaked during the pandemic. The volume decline was driven by price increases, and an overall category decline. Revenue grew by 16 per cent to EUR 750 million from EUR 646 million in 2021. Performance was most heavily impacted by external market trends in the UK, where Lurpak® still kept its leading position in our branded business, but due to increased prices, consumers started to trade down to private label products. Lurpak®'s position also strengthened in the Netherlands, with 21.2 per cent volume growth in 2022. Lurpak® also delivered strong branded volume growth in our international markets, most notably in MENA and Rest of the world, by 3.6 and 9.0 per cent, respectively.

11.3%

Starbucks™ volume growth in the UK

2021: 33.6%

STARBUCKS™ CHILLED COFFEE

In the difficult market of 2022, our Starbucks™ ready-to-go coffee drinks managed to grow volumes on virtually all markets, and in total by 12.4 per cent.

Castello®

Our speciality cheese brand, Castello, lost 6.9 per cent in volumes compared to 2021, driven by consumers trading down to cheaper products and in general buying less cheese due to inflation-driven price increases. This also resulted in our market share being under pressure. However, due to the heavy price increases, revenue improved by 24.4 per cent to EUR 239 million from EUR 192 million in 2021. To counter the trend of consumers dropping out of the category as they shop for fewer ingredients and simpler meals as a means of saving money, we worked in 2022 on a new creative toolkit to position Castello as an affordable delight.

Puck®

Puck®, our leading brand in MENA, overall grew volumes at 4.7 per cent, ahead of the 2021 growth of 3.2 per cent. Puck® managed to keep its leading position as the number one spreadable cheese brand in the region during 2022, and gained further market share. Revenue grew by 31.8 per cent to EUR 504 million, from EUR 383 million in 2021. Performance was largely driven by our core products in the region, Puck processed cream cheese jars, which grew volume-driven revenue at 6.7 per cent. Puck shredded cheese also increased volume-driven revenue by 13.3 per cent, mostly due to the economic market recovery in Lebanon, a key market for shredded cheese.

Starbucks™

Our Starbucks™ ready-to-drink (RTD) coffee assortment, available in more than 50 countries in the EMEA region, delivered 12.4 per cent volume growth in 2022, despite price increases across the portfolio. All markets have contributed to the strong growth momentum with the largest absolute contribution coming from our biggest Starbucks™ RTD market, the UK, growing 11.3 per cent in volume and the highest percentage growth coming from the Netherlands with a volume growth of 30.4 per cent. The majority of this volume growth was driven by an increasing rate of sale in our portfolio in existing markets. On top of growing existing markets, we have opened several new markets, most notably South Africa. The most important innovation of the year was the launch of Starbucks™ Multiserve – a 0.75 litre chilled coffee in a reclosable carton – successfully opening the Starbucks™ brand to in-home usage occasions.

EUROPE

OUR EUROPEAN COMMERCIAL ZONE ENCOMPASSES NINE COUNTRIES IN NORTHERN AND WESTERN EUROPE. WE ARE IN MATURE MARKETS HERE, YET WE ARE CREATING VALUE FOR OUR OWNERS YEAR BY YEAR, DRIVEN BY STRONG BRANDS SUCH AS LURPAK®, THE ARLA® BRAND AND STARBUCKS™.

Historically high inflation led to significant price increases across our Europe segment. Revenue increased by 17.4 per cent to EUR 7,771 million compared to EUR 6,621 million in 2021. Branded volumes declined by 4.2 per cent as consumers traded down to cheaper options. Some product categories and brands saw significant volume decreases in line with general market category decline. Such an example is Lurpak® and the whole butter and spreadable category, where volumes declined by 12.3 per cent.

Despite the challenges, our Netherlands/France/Belgium cluster achieved 1.3 percent branded growth. Starbucks™ delivered growth of 12.5 per cent, Arla® Protein grew by 48.9 per cent and our food service segment grew by 9.2 per cent.

ARLA® PRO

Arla Pro Slower Melt Soft Serve Mix is one of our many popular food service products. Arla Pro delivered 20.5 per cent volume growth in 2022.

Strategic branded volume-driven revenue growth

-4.2%

2021: 2.3%

Revenue, EURm

7,771

2021: 6,621

Revenue growth

17.4%

2021: 3.2%

Share of total Arla revenue

56%

2021: 59%

UK

Strategic branded volume-driven revenue growth 2022

-7.3%
2021: 3.8%

Revenue growth

18.3%
2021: 6.1%

Similar to other markets, the UK experienced sustained exceptional inflationary pressure throughout 2022. Revenue grew by 18.3 per cent to EUR 2,989 million compared to EUR 2,526 million in 2021, driven largely by necessary price increases. At the same time, volumes in our branded business declined by 7.3 per cent, as shoppers adjusted their consumption behaviours in the face of unprecedented inflation. Our butter brand Lurpak®, a key product in the UK, was hit especially hard by this trend, and reduced volumes at 15.5 per cent. Challenged growth in retail branded volumes was partially offset by continued positive momentum in our food service channel, which achieved 12 per cent branded volume growth.

Sweden

Strategic branded volume-driven revenue growth 2022

-3.9%
2021: 0.8%

Revenue growth

11.4%
2021: 5.1%

2022 was a year characterised by steeply increasing dairy commodity prices, price increases towards consumers and a declining SEK. As a result, Arla Sweden grew revenue by 11.4 per cent to EUR 1,594 million from EUR 1,431 million in 2021, slightly negatively affected by the weakening SEK. However, volumes and market share declined, particularly in the milk and organic segments, as consumer behaviour responded to the pressure on household budgets. Branded volumes declined by 3.9 per cent; however, Starbucks™ delivered growth of 3.8 per cent.

Denmark

Strategic branded volume-driven revenue growth 2022

-1.1%
2021: 2.2%

Revenue growth

20.3%
2021: 0.6%

In Denmark, revenue grew by 20.3 per cent to EUR 1,208 million from EUR 1,004 million in 2021, driven by price increases. Price increases, however, impacted branded volumes negatively, as consumers preferred lower priced products. Thus, volumes declined by 1.1 per cent. Despite this, our brands performed relatively strong with market share roughly on the same level as in 2021. Lurpak® did exceptionally well by maintaining 2021 volumes with a slight decline of 0.4 per cent, and was rated by consumers as the most trusted food brand.

Germany

Strategic branded volume-driven revenue growth 2022

-7.7%
2021: 1.7%

Revenue growth

20.9%
2021: -3.2%

Unprecedented cost inflation triggered multiple price increases across our portfolio in Germany in 2022. Total revenue increased by 20.9 per cent to EUR 1,198 million from EUR 991 million in 2021, driven by price increases. Private label revenue increased, benefitting from milk scarcity in the first half as well as consumer shifts towards lower priced products. Branded volumes declined by 7.7 per cent due to consumers shifting to cheaper offerings. However, the strong volume growth of Starbucks™ continued at 8.2 per cent, and our food service business rebounded with 19.4 per cent volume growth after some difficult years during Covid-19.

The Netherlands, Belgium and France

Strategic branded volume-driven revenue growth 2022

1.3%
2021: 8.4%

Revenue growth

23.1%
2021: 7.1%

Our Netherlands, Belgium and France cluster put forward historical high price increases in 2022, as production costs and dairy commodity prices significantly increased. As a result, revenue increased to EUR 443 million from EUR 360 million in 2021. Despite production challenges, we managed to continue to grow our brands and gain market share. Melkunie PROTEIN, Starbucks™, Lurpak® and Arla® Pro continued to deliver impressive double-digit growth of 49.7, 30.4, 15.0 and 15.7 per cent, respectively, in revenue to EUR 443 million, from EUR 360 million in 2021. In 2022, our retail customers again rated us the number one supplier in the dairy category.

Finland

Strategic branded volume-driven revenue growth 2022

-1.8%
2021: 0.2%

Revenue growth

9.7%
2021: -1.9%

2022 was another year full of disruptions with inflation significantly pushing up costs. Our revenue grew to EUR 339 million compared to EUR 309 million in 2021, driven by price increases. Our branded volumes in our retail segment declined by 1.8 per cent. Selected brands did very well despite the challenging market conditions. Starbucks and Arla Pro, for example, both grew volumes in 2022 by 29.9 and 12.8 per cent, respectively. Our food service channel also delivered volume growth at 2.7 per cent after a few challenging years due to Covid-19. Again in 2022, we focused on delivering world-class innovations across our portfolio, such as launching a probiotic quark range in a sustainable fibre cup and using personalised lids from consumers in our Luonto+ yoghurt cup range.

INTERNATIONAL

OUR INTERNATIONAL COMMERCIAL ZONE ENCOMPASSES AROUND 140 COUNTRIES ON FIVE CONTINENTS. IN GENERAL, THESE ARE THE REGIONS WHERE WE EXPERIENCE THE STEEPEST VOLUME GROWTH. OUR KEY BRANDS IN THE ZONE INCLUDE PUCK®, ARLA® DANO, LURPAK®, CASTELLO® AND STARBUCKS™.

Our international business grew revenue by 17.2 per cent to EUR 2,463 million from EUR 2,101 in 2021. The majority of the development is related to price increases, which were necessary to offset the increasing production costs. Branded volumes were under pressure as a result of price increases, and the divestment of our Russian business due to the war in Ukraine also impacted overall volume growth negatively, which landed at -1.2 per cent (or 0.9 per cent, excluding Russia).

Despite higher prices and declining demand, we also achieved record branded volume growth in our largest regions, namely the Middle East and North Africa (MENA), Rest of the world and South-East Asia (SEA), where volumes grew by 4.3, 8.6 and 21.3 per cent, respectively. Our Chinese business, however, struggled in 2022, as local raw milk prices slightly declined, whereas European milk prices significantly increased, resulting in reduced competitiveness for European products in China.

PUCK® CREAM CHEESE

Puck® is the number one spreadable cheese brand in MENA. In 2022, Puck delivered 4.7 per cent volume growth.

Strategic branded volume-driven revenue growth

-1.2%

2021: 9.4%

Revenue, EURm

2,463

2021: 2,101

Revenue growth

17.2%

2021: 6.4%

Share of total Arla revenue

18%

2021: 19%

Middle East and North Africa

Strategic branded volume-driven revenue growth 2022

4.3%

2021: 5.2%

Revenue growth

31.3%

2021: -1.9%

Our business in MENA delivered strong growth in 2022, with revenue increasing to EUR 964 million from EUR 734 million in 2021, driven by price increases. Despite heightened prices, the MENA region delivered branded volume growth of 4.3 per cent. The positive momentum in winning retail market share continued; however, with some categories decreasing due to pressure on household budgets. Food service in the region had another strong year with significant branded volume growth of 31.7 per cent.

North America

Strategic branded volume-driven revenue growth 2022

-0.6%

2021: 8.3%

Revenue growth

20.1%

2021: 7.0%

In North America, overall revenue increased by 20.1 per cent to EUR 347 million from EUR 289 million in 2021, driven by price increases and favourable foreign exchange rates. Where our US business was able to achieve minor branded growth of 1.4 per cent, Canada was able to maintain their strong market positions in an environment with declining categories and consumers trading down. Demand in the food service sector rebounded similarly to other markets; however, our business in North America is more focused on retail, therefore the food service rebound did not significantly impact our performance.

South-East Asia

Strategic branded volume-driven revenue growth 2022

21.3%

2021: 27.1%

Revenue growth

49.4%

2021: 5.3%

In our SEA region we also delivered on our growth ambitions during a turbulent year of inflation and currency challenges. We grew our revenue by 49.4 per cent to EUR 269 million from EUR 180 million in 2021 through price increases and 21.3 per cent branded volume growth. Arla® Dano in Bangladesh continued to show strong branded growth of 18.0 per cent despite price increases. The Philippines, and especially our food service segment in the Philippines, performed exceptionally well, with branded volume growth of 41.7 per cent. Our food service business grew volumes by 29.9 per cent across SEA.

West Africa

Strategic branded volume-driven revenue growth 2022

-17.8%

2021: 13.3%

Revenue growth

1.3%

2021: 16.5%

In spite of a challenging macroeconomic environment in the West African markets with declining dairy categories, high inflation and currency challenges, we delivered satisfying growth through agile price management. Revenue grew by 1.3 percent from EUR 155 million in 2021 to EUR 157 million in 2022, driven by price increases across markets. However, the West African markets were challenged by a decline in consumption, which led to a branded volume decline of 17.8 per cent. To address the lower disposable incomes of our consumers, we launched a new affordable product – Dano Sabi in Nigeria and Hye Me Ma in Ghana. The establishment of a farm in Kaduna state in Nigeria is progressing well and is expected to be operational during the first half of 2023.

China

Strategic branded volume-driven revenue growth 2022

-44.1%

2021: 12.4%

Revenue growth

-44.3%

2021: 23.7%

Our branded volumes in China declined by 46 per cent, mainly due to increasing European milk prices, which challenged Arla's competitiveness in the Chinese market. The challenge mostly impacted our UHT and cheese businesses, whereas the early life nutrition segment was less impacted. Also, we successfully took control over the ELN business, which previously was operated by Yashili. Total revenue declined by 44.3 per cent to EUR 131 million from EUR 235 million in 2021. In 2022, UHT milk continued to make up the biggest share of our business in China.

Rest of the world

Strategic branded volume-driven revenue growth 2022

-2.0%

2021: 8.5%

Revenue growth

12.0%

2021: 9.7%

We exited our Russia business and divested our Russian subsidiary, formerly part of the Rest of the world organisation. This in isolation reduced revenue by EUR 30 million compared to 2021. The remaining Rest of the world, now including Australia, European subsidiaries and Distributor Sales, delivered volume-driven growth of 8.6 per cent, and total revenue of EUR 569 million in 2022, significantly driven by price increases. Key drivers of the branded volume growth were StarbucksTM, Lurpak® and Milex early life nutrition with 24, 9 and 16 per cent of growth, respectively. A continued focus and investments in the food service channel delivered branded volume growth of 29.2 per cent. Despite shoppers trading down and many categories declining due to inflation most markets contributed to the growth.

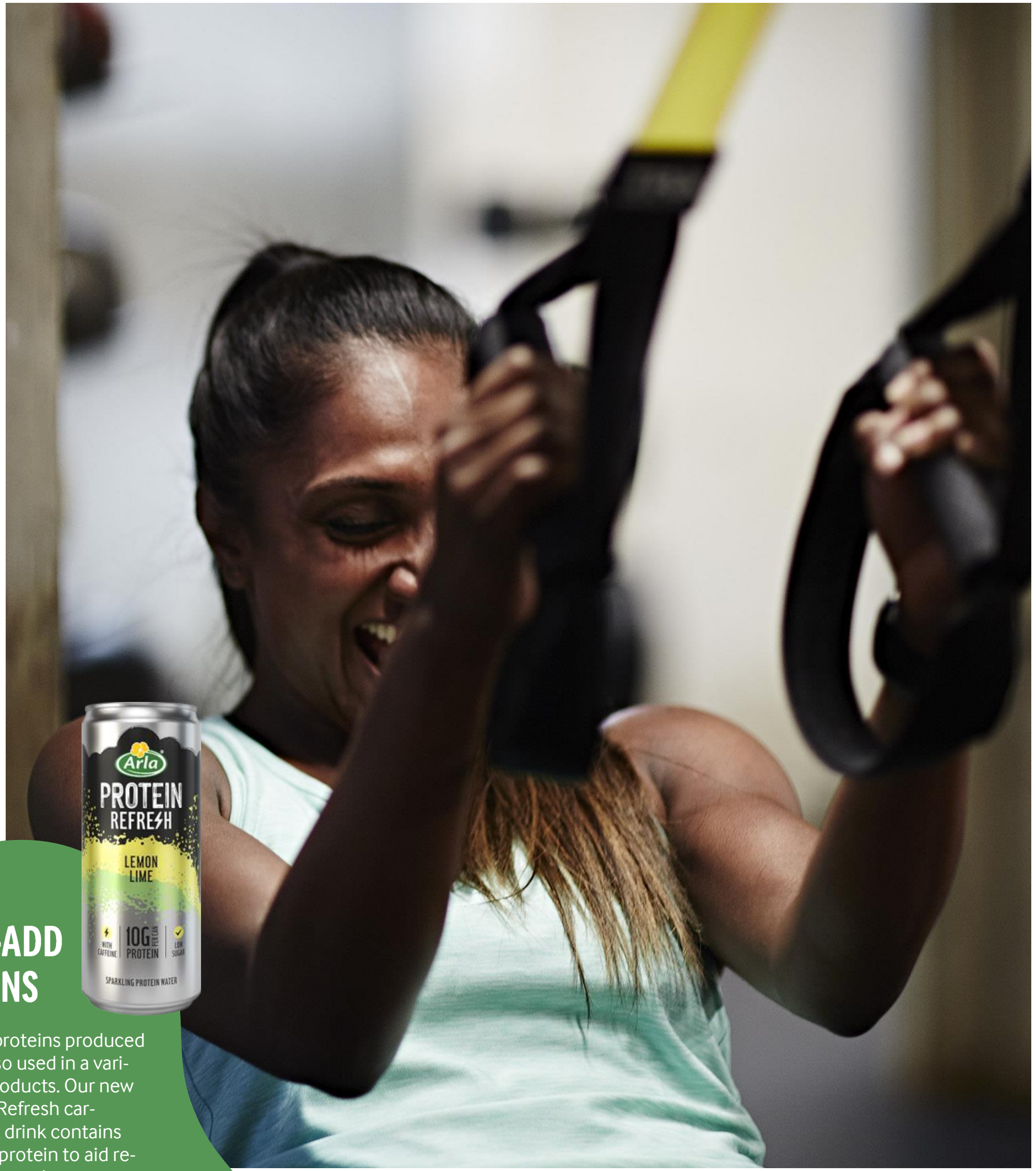
ARLA FOODS INGREDIENTS

ARLA FOODS INGREDIENTS (AFI) IS A GLOBAL LEADER IN WHEY-BASED INGREDIENTS THAT ARE USED IN A WIDE RANGE OF CATEGORIES FROM INFANT, CLINICAL AND SPORTS NUTRITION TO DAIRY AND BAKERY. IN ADDITION, WE MANUFACTURE CHILD NUTRITION PRODUCTS FOR THIRD PARTIES. AFI IS A 100 PER CENT OWNED SUBSIDIARY OF ARLA.

In 2022, AFI faced a very dynamic market environment and was subject to record-high energy and raw material prices. However, strong demand for our specialised whey protein and lactose products allowed us to protect our - margins.

AFI's 2022 performance was driven by a continuous effort to produce new innovations and despite inflationary pressure on raw materials and energy, our highly specialised whey protein and lactose products kept the strong momentum during 2022. We continued to deliver improvements in our underlying product mix and our pricing followed market developments. This resulted in revenue growth of 29.5 per cent to EUR 1,028 million compared to EUR 794 million in the same period last year. '

The value-added protein volumes grew by 6.8 per cent to a total value-add share of 80.4 per cent compared to 74.0 per cent in the same period last year. The Advanced Nutrition business, primarily producing early life nutrition products, was challenged during 2022 following rising production costs and strategic customers facing difficult market conditions in China. However, we also successfully secured new customers during 2022 and our outlook for the business remains positive.



VALUE-ADD PROTEINS

Specialised proteins produced by AFI are also used in a variety of Arla products. Our new Arla Protein Refresh carbonated soft drink contains 10 grams of protein to aid recovery after a workout.

Growth of the value-add segment

6.8%

2021: 14.5%

Value-add share

80.4%

2021: 74.0%

Revenue, EURm

1,028

2021: 794

Share of total Arla revenue

8%

2021: 7%

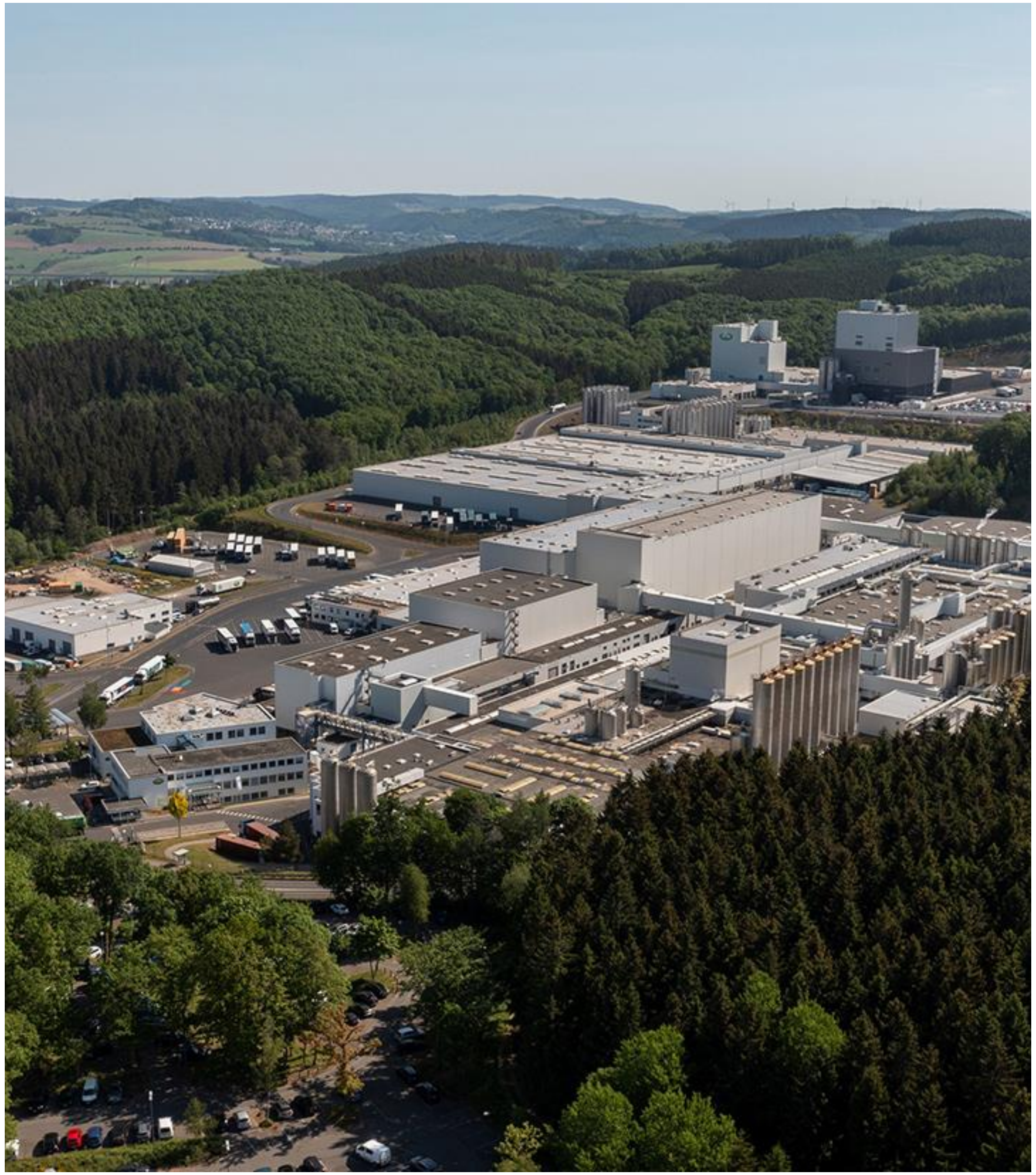
GLOBAL INDUSTRY SALES

IN ADDITION TO OUR RETAIL CHANNELS, WE CONDUCT BUSINESS-TO-BUSINESS SALES OF CHEESE, MILK POWDER AND BUTTER TO OTHER COMPANIES TO USE AS INGREDIENTS IN THEIR PRODUCTION. FURTHER, OUR GLOBAL INDUSTRY SALES BUSINESS MODEL ALLOWS US TO MANAGE SEASONAL AND REGIONAL VARIABILITY IN OWNER MILK PRODUCTION AND BALANCE OUR MILK THROUGHOUT THE YEAR.

The flexibility of our Global Industry Sales (GIS) business model enabled us to shift milk volumes throughout the year, as the effects of inflation changed demand between retail and commodity markets.

European and global dairy commodity market prices increased significantly during the year, with an unprecedented acceleration during the first half of the year. The price increases were driven globally by stagnating milk production due to higher production costs both on farm and in the dairies, combined with high demand in the industrial sector.

The overall share of milk solids sold by our Global Industry Sales rose to 23.6 per cent compared to 22.1 per cent last year. GIS revenue increased by 50.1 per cent to EUR 2,531 million from EUR 1,686 million in 2021 as a result of commodity price increases. The strong results of our Industry Sales were a key driver behind the competitive milk price to our farmer owners.



Our newly inaugurated Pronsfeld powder tower significantly increased our capacity to serve the growing industrial demand for milk powder.

Share of milk solids sold through Global Industry Sales

23.6%

2021 22.1%

Revenue, EURm

2,531

2021: 1,686

Revenue growth

50.1%

2021: 9.4

Share of total Arla revenue

18%

2021: 15%

2023 OUTLOOK

WE EXPECT 2023 TO BE ANOTHER CHALLENGING YEAR, WITH VOLATILE MARKET CONDITIONS, CONTINUED HIGH INFLATION, DECLINING COMMODITY PRICES AND A SLOWDOWN IN ECONOMIC ACTIVITY.

Recession on the horizon

2023 will undoubtedly be another difficult year with the challenging global economic environment and the ongoing effects of the war in Ukraine continuing to impact the energy market and supply chains. Global GDP growth is forecasted to be lower than in 2022 at 2.7 per cent.

Towards the end of the year, we saw a downward turn in feed and fertilizer prices, and as a result of easing cost pressures on farmers a slight uptake in milk supply. We expect the supply and demand balance to be restored on the dairy market over the course of 2023. As a result, commodity prices began to sharply decline during the fourth quarter of 2022, and returned to 2022 January levels.

We expect to see a continued slowdown in branded growth due to the reduced buying power of consumers and fear of recession. As we see it now, our branded volumes will decline by 3.5 to 1.5 per cent. We, however, expect the growth pace to pick back up again from 2024. See how we adjusted our strategic expectations to the changing external market on the next page.

Our revenue is expected to be in the range of EUR 13.6-14.2 billion. The profit share is expected to be between 2.8 and 3.2 per cent, and leverage between 2.4 and 2.8. We expect to save EUR 55-85 million through our efficiency programme.

Our target to further reduce our emissions in our production and on farm remains unchanged.

		Outlook 2022[1]	Results 2022	Outlook 2023
F26	STRATEGIC BRANDED VOLUME-DRIVEN REVENUE GROWTH PER CENT	-3.0~-2.0	-3.2	-3.5~-1.5
	REVENUE BILLION EUR	13.5-14.0	13.8	13.6-14.2
	PROFIT SHARE PER CENT	2.8-3.0	2.8	2.8-3.2
F26	EFFICIENCIES MILLION EUR	70-100	101	55-85
	LEVERAGE	2.7-3.1	3.0	2.4-2.8
F26	CO_2e EMISSIONS SCOPES 1+2 PERCENTAGE POINTS	EMISSIONS REDUCTION	-4	EMISSIONS REDUCTION
F26	CO_2e EMISSIONS SCOPE 3 PER KG OF MILK AND WHEY PERCENTAGE POINTS	EMISSIONS REDUCTION	-2	EMISSIONS REDUCTION

[1] As announced in H1 2022

AGILE RESPONSE TO GLOBAL CHALLENGES

In the first year of our Future26 strategy, we made progress on our targets of driving value creation in the global dairy category and being a leader in the transition to a more sustainable production to help address the twin challenges of climate change and providing access to nutrition to a rapidly growing world population.

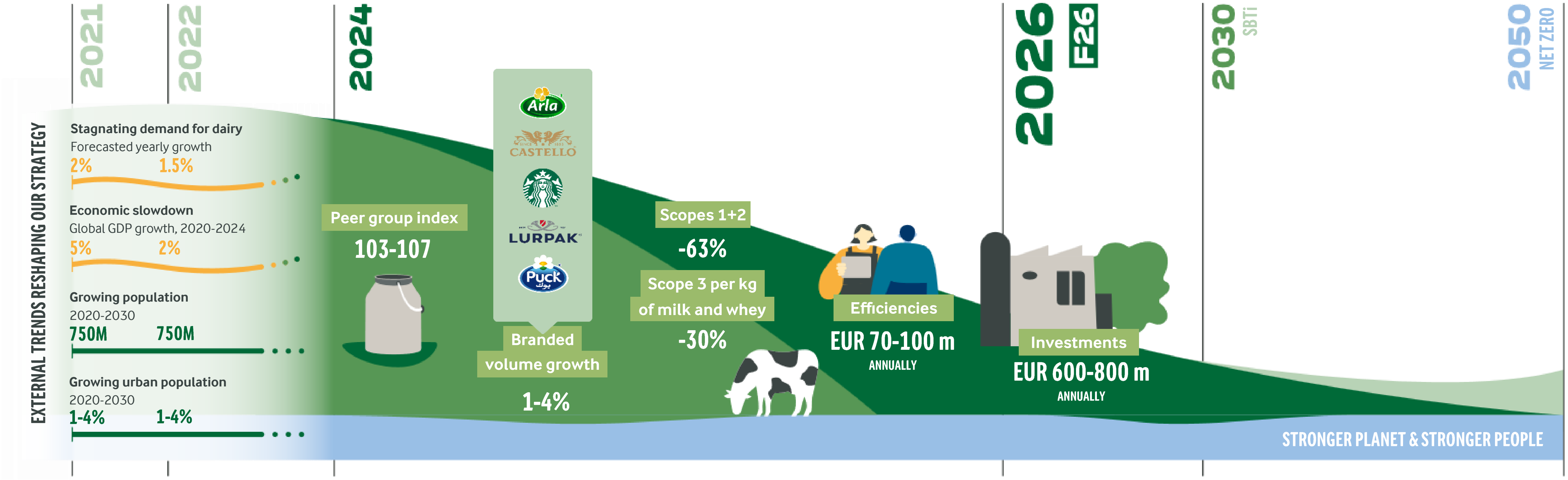
Significant steps on our sustainability journey included accelerating our transition to green electricity at our European production sites and the development of our Sustainability Incentive Model (see page 35).

In terms of value creation, we delivered strong performance in a number of our priority growth markets as well as in our food service and ingredients businesses (AFI), but were impacted, particularly in Europe, by the severity of the cost of living crisis.

The cost of living crisis, which is expected to continue to impact consumers throughout 2023, has led to downward revisions of two key economic indicators on which our Future 26 strategy was built – specifically GDP growth and global demand for dairy. As such, we undertook a review of our Future26 strategy, which concluded that while the majority of Future26 remains relevant and therefore unchanged, our branded volume growth and yearly efficiency ambitions needed to be adjusted.

The economic impact is most severe in 2022 and 2023 and we expect a return to growth conditions from 2024. Based on these assumptions, we expect a branded volume decline of 3.5-1.5 per cent for 2023 and then expect growth in the range of 1-4 per cent from 2024-2026. Our yearly efficiencies have been changed from a target of EUR 100 million annually to a range of EUR 70-100 million annually.

Our peer group index ambition of 103-107 across Future26 and our CO_2e targets for scopes 1, 2 and 3 remain unchanged, as does our ambition to become carbon net zero across our value chain by 2050.



RISKS
AND OPPORTUNITIES

CASTELLO® PINEAPPLE

Our specialty cheese brand, Castello®, offers a wide variety of exciting flavours, pineapple being one of them. This cheese is a unique blend of pineapple and soft cheese, which creates a sweet and tangy taste.

RISK GOVERNANCE

AS A GLOBAL COMPANY WITH THE AMBITION TO LEAD SUSTAINABLE DAIRY, ARLA FACES MULTIPLE RISKS AND OPPORTUNITIES. MANAGING RISKS RIGOROUSLY AND SYSTEMATICALLY IS KEY TO CREATING AND PROTECTING VALUE FOR OUR OWNERS BY SECURING OUR CURRENT ACTIVITIES AND DELIVERING ON OUR STRATEGIC ASPIRATIONS.

Risk identification, assessment and mitigation

In 2022, we further strengthened our risk management process by enhancing the approach across business units, ensuring a shared understanding and clear roles for risk identification, assessment and mitigation. Our enterprise risk management framework, which will be further rolled out in 2023, improved our risk infrastructure, communication and documentation.

Arla's risk management aims to effectively identify, assess and reduce risks and uncertainties, mitigate adverse internal and external impacts, and capture business opportunities to maximise value creation. To identify our key risks, risk owners across the organisation constantly monitor trends that could potentially have an impact on Arla in the future. These emerging risks are assessed according to a two-dimensional heat map that estimates the impact of the risk on operating profit and the likelihood of the risk materialising.

The most significant risks are regularly reviewed and assessed by the Executive Management Team (EMT) and the Board of Directors (BoD). While the BoD has the responsibility for maintaining robust risk and compliance management as well as an internal control system, the EMT is accountable for the risks, responsible for the effectiveness of the risk mitigation efforts and the identification of related opportunities. The EMT reviews our risk map and based on their review the top risks are presented to the BoD. Both the EMT and BoD take action to avoid unnecessary risks and mitigate others. The process is flexible and allows for a quick assessment of risks which might suddenly arise, as we have seen with Covid-19 and the war in Ukraine.

Climate-related risks

In 2022, we included a detailed climate-related risk assessment in our yearly risk assessment process to understand the risks and opportunities Arla is facing due to climate change and what can we do to mitigate these risks. We followed the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD) to map out and assess our key climate-related risks. Read the risk details on page 32. Our TCFD summary table is on page 143.

CORPORATE RISK MANAGEMENT

Understand

IDENTIFICATION

- Risk map or catalogue
- Classification of risk types (peripheral, market-specific, company specific risks)

EVALUATION

- Estimates of the probability of occurrence
- Assessment of risk impact

Plan

PLANNING

- Risk in operative planning
- Risk in strategic planning
- Risk in investment valuation
- Risk-return portfolio management

Act

CRISIS MANAGEMENT

- Contingency measures
- Business continuity measures
- Communication measures

RISK RESPONSE AND REPORTING

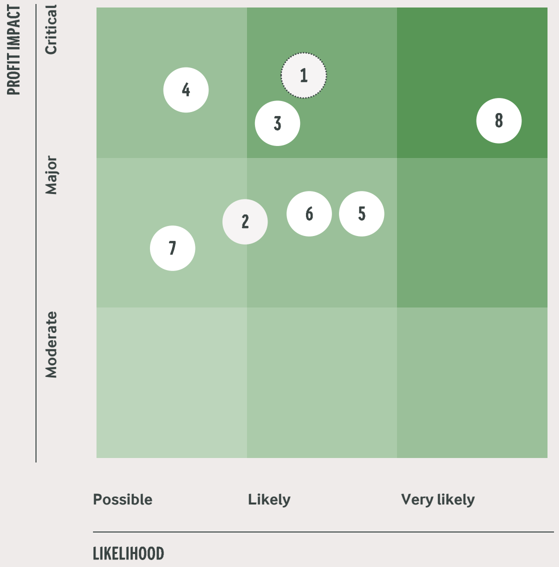
- Reporting to the EMT and BoD regularly
- Mitigating actions put in place

ARLA'S RISK POSITION

ARLA, AS EVERY BUSINESS, IS SUBJECT TO RISKS, WHICH OFTEN CAN BE TURNED INTO OPPORTUNITIES. ON THE FOLLOWING PAGES WE PRESENT THE RISKS THAT WE SEE AS MOST MATERIAL TO ARLA'S PERFORMANCE IN THE MID-TERM AND DESCRIBE OUR MITIGATION EFFORTS. IN 2022, WE SAW MANY OF OUR KEY RISKS INCREASING IN LIKELIHOOD AND IMPACT, AS THE EXTERNAL WORLD SUCCUMBED TO UNCERTAINTY AND VOLATILITY.

Key changes in Arla's risk position in 2022:

- Global political and economic instability increased, driven by Russia's invasion of Ukraine, China's Covid-19 response and political unrest in some of our international markets (see risk 2).
- The risk of our competitiveness decreasing due to looming recession and the elevated input costs in Europe also increased in 2022 (see risks 4 and 5).
- European governments became more interventionist on climate and sustainability regulation. Some initiatives supported our strategy while others created risk (see risks 1 and A, B, C).

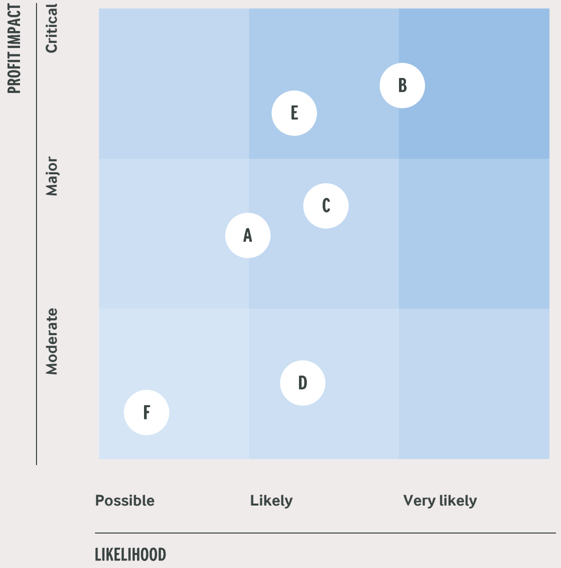


KEY RISKS

Peripheral risks
1. Climate-related regulatory changes
2. Political instability and economic turmoil

Market-specific risks
3. Transformation of consumer behaviour
4. Loss of competitiveness in branded portfolio
5. Loss of international competitiveness due to increased production costs

Company-specific risks
6. Major cyber attack
7. Major product quality and safety issues
8. Currency volatility



CLIMATE-RELATED RISKS

Transitional risks
A. Regulations to reduce emissions in production
B. Regulations to reduce emissions from agricultural activities
C. Land use regulations
D. Environmental footprint and origin labelling
E. Change in dietary guidelines and trends

Physical risks
F. Extreme weather events

Risk description

Peripheral risks: These risks are outside of our management's direct control.

Market-specific risks: These risks are considered managed within the strategic and business planning process.

Company-specific risks: These are risks Arla can directly manage and mitigate. They serve as a starting point for the development of global policies and internal control procedures.

Transitional risks: Risk stemming from societal and economic shifts towards a low-carbon and more climate-friendly future.

Physical risks: These risks relate to the physical consequences of the changing climate, such as rising temperatures, more frequent extreme weather events, floods etc.

KEY RISKS OVERVIEW

		RISK DESCRIPTION		POTENTIAL IMPACT	MITIGATING ACTIONS
1	**Climate-related regulatory changes** Read more about climate-related risks on page 32	A number of climate-related regulations that would have an impact on the dairy industry are being discussed both at EU level and in individual European countries. Denmark has proposed an emission tax on industry operations and is committed to introducing a carbon tax on methane and nitrous oxide emissions from agricultural activities.	Peripheral risk Increased	· Higher production costs on farm. · Lower milk volumes. · Reduced flexibility of operations.	· We are actively reducing our own, and our farmers' CO_2e emissions. In 2022, we introduced a Sustainability Incentive Model to drive even more climate action on farm. · We are staying alert in our supply chain for a potential reduction in milk intake.
2	**Political instability and economic turmoil**	As a global company, Arla is exposed to global political and economic instability or recession. We expect the next few years to be difficult ones in this respect.	Peripheral risk Increased	· Economic instability and recession affect demand for dairy, exchange rates and commodity prices. · Political unrest or wars can affect the global food value chain through, for example, a shortage of animal feed and disruption of logistics networks. These, in turn, could impact our milk volumes and profitability.	· Balancing our growth between higher and lower risk markets in our International segment. · Increasing the agility of our supply chain.
3	**Transformation of consumer behaviour** See more details in climate-related risks D and E on page 32	Constant transformation of consumer preferences is a given in the food industry, but the fastening pace and the volatility of these trends could significantly affect our business.	Market-specific risks Stable	· If Arla's sustainable transformation does not match the speed of changing consumer trends, we could lose market share and sales volumes.	· Understanding and closely tracking consumer needs. · Providing a wide range of options to consumers seeking more sustainable meal choices. · Ensuring consumers understand the nutritional and health benefits of our products and brands.
4	**Loss of competitiveness in branded portfolio**	In the current high inflationary environment with an economic recession on the horizon, consumers are expected to choose more low-cost alternatives.	Market-specific risks Stable	· Our brands are at the core of our value generation model. Slow development in branded revenue will impact profitability negatively. · Price pressure on our branded product could make our brands less competitive on the market.	· Keeping our branded portfolio relevant and affordable to our consumers through innovation and strong sales execution.
5	**Loss of international competitiveness due to increased production costs**	In 2022, inflation was exceptionally high globally; however, Europe was hit harder by this trend, as it was exacerbated by Russia's war on Ukraine.	Market-specific risks New, increased	· On our key growth markets in International we are in many instances competing with dairy companies based outside of Europe. These companies have a competitive edge over Arla if the current level of input costs is maintained.	· Maintaining a cost-efficient supply chain by evolving to be less dependent on our European sites by exploring possibilities in production and sourcing on our international markets where we have strategic commercial interests.

Risk category · Year-on-year movement

Year-on-year movement: We assess the year-on-year movement of each risk by evaluating shifts in the likelihood of their occurrence and their potential impact. The sum of these movements gives us the year-on-year position shift.

		RISK DESCRIPTION		POTENTIAL IMPACT	MITIGATING ACTIONS
6	**Major cyber attack**	There is a growing trend in crimeware targeting manufacturing companies, which affects our industry as well.	Company-specific risks Increased	· Potential damage to our ability to manufacture, deliver and sell our products.	· Strengthening our processes around mitigating IT security vulnerabilities.
7	**Major product quality and safety issues**	We have a complex and long value chain, with a large variety of products. Ensuring that our products are safe to consume and are appropriately labelled, and keeping our employees safe and healthy are key to the success of Arla.	Company-specific risks Stable	· Major product quality and/or food safety issues may lead to a loss of brand reputation and reduced trust in our products. · Downgrade of products may lead to financial losses.	· We are constantly improving our quality and food safety management programmes. · Food safety and compliance with health and safety regulations is a top priority across our supply chain.
8	**Currency volatility**	As a significant part of Arla's revenue is generated in currencies other than EUR or DKK, our key financial risk relates to the fluctuation of currencies in our global markets.	Company-specific risks Stable	· Currency deterioration increases sales prices in the individual markets, affects Arla's competitiveness and potentially impacts revenue and profit. · Arla has owners in several countries, including the UK and Sweden. Purchase of owner milk and operations in countries outside the euro zone means that our performance price measured in EUR is exposed to fluctuations in the GBP and SEK exchange rates.	· Centralised currency exposure management. · Reducing short-term exposure through hedging activities. Read more in Note 4 to the financial statements.

Risk category   Year-on-year movement

Year-on-year movement: We assess the year-on-year movement of each risk by evaluating shifts in the likelihood of their occurrence and their potential impact. The sum of these movements gives us the year-on-year position shift.

CLIMATE-RELATED RISK OVERVIEW

		RISK DESCRIPTION		POTENTIAL IMPACT	MITIGATING ACTIONS
A	**Regulations to reduce emissions in production**	Denmark has proposed an emission tax on industry operations. Arla's operations will be impacted by this. There is the potential for other countries to follow Denmark and introduce similar taxes or employ other regulatory tools to reduce emissions in the future.	Regulatory risk Stable	· Increased production costs in countries with CO_2e regulations, for example a CO_2e tax	· We are constantly lowering our CO_2e emissions in our production. Our science-based target is to lower scope 1 and 2 emissions by 63 per cent by 2030. · We are also aiming at running our European operations solely on green electricity by 2025.
B	**Regulations to reduce emissions from agricultural activities**	The Danish government has committed to introducing a carbon tax on methane and nitrous oxide emissions from agricultural activities. Our Danish farmer owners will be subject to this tax; however, currently the details regarding the level and the implementation of the tax are unclear.	Regulatory risk Increased	· Our Danish farmer owners' production costs would increase significantly, which could have a negative impact on milk volumes, causing commodity sourcing issues.	· Reducing our emissions on farm is part of our business strategy. Our target is to reduce scope 3 emissions by 30 per cent per kg of milk and whey by 2030.
C	**Land use regulation**	EU-level proposals to reduce the emissions impact from land use includes peat soil restoration and increasing forestry. National initiatives to improve water and air quality such as in the Netherlands may also reduce livestock numbers in our core markets.	Regulatory risk Stable	· These regulations would mean less land for producing feed for cows, which could lead to herd size and milk volumes dropping. · Reducing livestock numbers would also negatively affect milk volumes.	· To understand the potential impact of such regulation better and to provide our farmers with solutions, we are aiming to measure land use, including the use of peat soils to our Climate Checks from 2023.
D	**Environmental footprint and origin product labelling**	Governments and the EU are increasingly looking at introducing mandatory sustainability-related labelling covering carbon footprint, country of origin and nutrition.	Regulatory risk Increased	· Mandatory origin labelling will increase the complexity of our operations and reduce our efficiency, as we collect milk from seven European countries. · Carbon and nutrition labelling that oversimplifies the complexities of a sustainable and nutritious diet could mistakenly drive consumers away from dairy.	· We are working on establishing methodologies, processes and systems to calculate our products' environmental footprint.
E	**Change in dietary guidelines and trends**	National dietary guidelines could reduce the amount of animal-based foods recommended based on concerns about their carbon footprint, ignoring their nutritional contribution.	Consumer risk Increased	· Schools and other institutions might change their offerings for kids and young adults, which can have long-term repercussions for their dietary preferences.	· We are educating about the nutritional benefits of dairy in schools and inspire hundreds of thousands of people through our recipe sites and social media accounts.
F	**Extreme weather events**	Heat waves, draughts, floods and other extreme weather events are becoming more and more common due to climate change. New animal diseases and pests are also a consequence of climate change that the agricultural sector has to face.	Physical risk Stable	· Extreme weather events could have an adverse effect on crop yield and disrupt operations or the distribution infrastructure. · Heat waves are especially detrimental for the cows' productivity and could affect milk volumes.	· Our core milk production countries are relatively resilient to extreme weather events; however, we are, together with our farmer owners, working on better understanding and mitigating the impact of changing weather conditions.

Risk category Year-on-year movement

Year-on-year movement: We assess the year-on-year movement of each risk by evaluating shifts in the likelihood of their occurrence and their potential impact. The sum of these movements gives us the year-on-year position. shift.

ENVIRONMENTAL PERFORMANCE

STRONGER PLANET

ORGANIC MILK

Arla is the world's largest producer of organic dairy. Our organic milk is produced with a special care for animal well-being and the environment, including free grazing for the cows and avoiding the use of artificial pesticides and fertilisers.

ENVIRONMENTAL

AMBITION AND PROGRESS

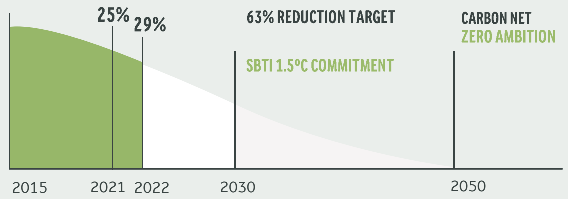
EMISSION REDUCTIONS

CO_2e/KG MILK+WHEY

Arla set Science Based Targets for 2030, using 2015 as a baseline. Direct greenhouse gas emissions (scope 1) and emissions related to purchased energy (scope 2) should be reduced by 63 per cent in absolute terms. For scope 3 emissions, among other areas, we are focusing on reducing emissions from sourcing of raw milk. The target is to reduce the carbon footprint from scope 3 by 30 per cent per kg standardised milk and whey.
Read more on page 130.
For details about climate-related risks, go to page 32.

SCOPE 1 AND 2 EMISSION REDUCTIONS AND STRATEGIC LONG-TERM TARGETS

4%p
2022

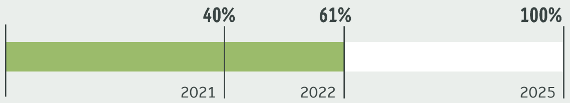


SCOPE 3 EMISSION REDUCTIONS PER KILO MILK AND WHEY

2%p
2022

ONLY RENEWABLE ELECTRICITY

By 2025, we aim to use only renewable electricity at our production sites and offices in Europe.
Read more on page 41.



FULL RECYCLABILITY

Our 2025 ambition is that 100 per cent of the packaging used for Arla's own brands is recyclable. Read more on page 43.

NO VIRGIN FOSSIL-BASED PLASTIC

2030 Ambitions Our ambition is to remove the use of virgin fossil-based plastic in packaging used for Arla's own brands by 2030.
Read more on page 43.

HALVING FOOD WASTE

2030 Ambitions Our ambition is to cut food waste by 50 per cent by 2030 (vs. 2015).

MAKING A BOLD STEP IN OUR TRANSITION TO SUSTAINABLE DAIRY

Arla made a bold step in 2022 when we announced our Sustainability Incentive model which ties the milk price farmers receive to sustainability actions on farm. After the Sustainability Incentive model will come into effect in 2023, farmers can earn up to 2.4 EUR-cent per kg of milk[1] for their actions contributing to achieve our 2030 target of reducing scope 3 CO_2e emissions by 30 per cent per kg of milk and whey, as well as other sustainability actions such as enhancing biodiversity.

To reward past action and motivate further environmental improvements on farms, our Board of Directors are earmarking EUR 500 million[2] annually to be re-distributed to farmer owners, based on their individual points collected in the incentive model.

From the start, the model will be funded from the raw milk value, and our aim is that over time, our tangible sustainability actions will raise the value of our raw milk and bring more returns to our owners through commercialisation. Rewarding farmer owners for taking sustainability action will send a clear message to customers and consumers that a share of the price they pay for more sustainable Arla products and concepts is directed to the farmers who take the most action.

> **"The support from our members, even in a time of great uncertainty, is a testament to our commitment to be at the forefront of progressive dairy farming and set the standard for how to push our whole sector forward"**
>
> **Jan Toft Nørgaard**
> **Chairman of the Board**

Our farmers were heavily involved in creating the model to ensure it is fair to all farmers, easy to understand and enables the commercialisation of on-farm sustainability activities. The model is a point-based system in which the farmer can collect points based on their activities on the model's 19 different levers.

Activities with bigger improvement potential for climate and nature will lead to the most points – and therefore also the biggest financial incentive. We identified these activities through our Climate Checks. For each point that a farmer is able to achieve, they will receive 0.03 EUR-cent per kg of milk.

The first incentive payment will be paid out as part of the monthly milk price for July 2023, based on milk delivered in July and the data submitted in the Climate Check 2022 as well as new data and documentation submitted by the farmers. Farmers also receive a 1.0 EUR-cent per kg of milk incentive to submit their climate date.

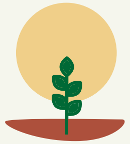
For an average Arla farmer with an average annual milk production of 1.2 million kg, it is estimated that at least 26,000 euro of their milk price is achieved based on his or her sustainable actions in the first full year.

The model is future-proof, as 20 of the maximum 100 points are reserved for future levers and new actions. When all the points are ready to be distributed farmers will be able to earn up to 3.0 EUR-cent per kg of milk for their climate actions.

OUR INCENTIVE MODEL

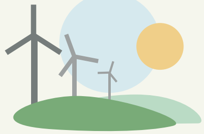
THE BIG 5
49 POINTS

SUSTAINABLE FEED
11 POINTS



BIODIVERSITY AND CARBON FARMING
8 POINTS

MANURE HANDLING
6 POINTS



RENEWABLE ELECTRICITY
5 POINTS

KNOWLEDGE BUILDING
1 POINT

[1]Over time, the model will include even more sustainability actions, and then farmers can earn up to 3.0 EUR-cent per kg of milk for their actions. [2]Based on our current milk volume, and the assumption that the farmers achieve the maximum point, plus they receive the 1.0 EUR-cent for submitting their data.

SUSTAINABLE DAIRY FARMING

DAIRY IS PART OF A HEALTHY AND SUSTAINABLE DIET DUE TO ITS NUTRIENT DENSITY. AS IS THE CASE FOR ALL FOOD PRODUCTION, IT COMES WITH A CARBON COST. WE HAVE A GREAT RESPONSIBILITY – AND AT THE SAME TIME A GREAT OPPORTUNITY – TO DO SOMETHING ABOUT THIS FOOTPRINT. 83 PER CENT OF OUR EMISSIONS COME FROM FARMS, SO THAT IS WHERE WE FOCUS MOST OF OUR EFFORTS TO REDUCE OUR ENVIRONMENTAL IMPACT.

Climate checks and the Big5

Our Climate Check tool helps Arla farmer owners identify farm greenhouse gas emissions (CO_2e) and suggests actions for reducing emissions further. Climate Checks measure six key areas: number of animals, feed composition, crop production, use of fertiliser, manure handling, and use of electricity, fuel and renewable energy. The farmers' answers are validated by external climate advisors, who also support farmers to create personalised emission reduction plans based on their results.

In 2022, 95 per cent of Arla's active farmer owners participated in the Climate Checks, covering 99 per cent of Arla's owner milk pool. The average Arla owner produces milk with 1.12 kg of CO_2e per kg milk.

Following the introduction of the Climate Check tool in 2020, we have conducted a further analysis of the first data set. This shows that 78 per cent of the variation in carbon footprint between farms stems from five areas, which we refer to as the Big 5 (see next page).

1.12

CO_2e per kg of owner milk

Strategic ambition
our science-based target is to reduce scope 3 emissions per kg of milk and whey by 30 per cent by 2030.

Benchmarking and knowledge sharing drive Big5 performance

In 2022, we further developed our on-farm emission reduction actions by introducing benchmarking and systematic knowledge sharing to support our owners. An important first step to increase awareness of how impactful the Big5 can be is to ensure that every farmer understands their current performance on the five levers. Arla therefore introduced a new benchmarking model designed to give a clear picture of how the farm performs compared to similar farms as well as to indicate the potential within reach for each of the Big5 areas. The potential is defined by what the best-performing farms in the benchmark group have been able to accomplish by being very efficient on the lever in question. The benchmark groups are created based on geographical region, herd size and feed type.

The results of the benchmarking are discussed on knowledge building events organised by Arla, where farmers can talk to their peers who are achieving very good results within one lever or the other, and learn what can be done to improve. To motivate farmer participation, farmers can earn one point in the incentive model for participating in sessions which Arla categorised as knowledge building events.

THE BIG 5

1. Feed efficiency
If farmers manage to maximise the milk per feed ratio and minimise feed waste, the milk will be more climate efficient.

2. Protein efficiency
Carefully measuring feed with the right protein levels means less nitrogen, a greenhouse gas, in the manure.

3. Animal robustness
Cows that live a long and healthy life will produce more milk over their lifetime which improves climate efficiency.

4. Fertiliser use
Matching precisely the amount of fertiliser with the plants' needs and using different methods to spread the muck can improve the yield per carbon emission ratio.

5. Land use
Feed yield on farms can also be optimised to increase climate efficiency.

Where our emissions come from

- Peat soil: 9%
- Feed purchased and home-grown: 33%
- Manure storage : 10%
- Cow's digestion of feed: 41%
- Energy: 5%
- Other emissions: 2%

The most effective climate actions – The Big5
The big 5 represent the most effective climate action areas that all Arla farmers can work with to lower their farm's carbon footprint, and they also play a key role in the sustainability incentive model. 49 points out of the possible 80 that are available from the start come from big 5 activities. These actions are also excellent tools for farm management, creating efficiencies for the farmers as they progress.

Large-scale on-farm pilot to reduce methane emissions
To find new, more efficient ways of reducing emissions on farm, Arla has a programme for pilot and innovation farms.

In one of the pilots, Arla, together with a global purpose-led science-based company, Royal DSM, in 2022 started a large-scale on-farm pilot with the methane reducing feed additive Bovaer®, which can potentially reduce methane emissions from cows who consume it by 30 per cent.

Methane emissions are one of the dairy industry's biggest climate challenges. From an Arla perspective, 40 per cent of total emissions from Arla farms are coming from cows' digestion of feed.

To tackle this problem and speed up our emission reduction, our farmer owners are piloting the use of the new feed additive Bovaer® with 10,000 dairy cows across more than 50 farms in Denmark, Sweden and Germany.

Bovaer® works by suppressing the enzyme that triggers methane production in a cow's digestive system. It takes effect immediately and is scientifically proven to not affect the milk quality. Just a quarter of a teaspoon of Bovaer® added daily to each cow's feed will enable a consistent reduction in methane emissions of 30 per cent, on average.

Arla and partners will transfer wind power into green fertiliser
The four large farmer-owned Danish cooperatives Arla, DLG, Danish Agro, and Danish Crown joined forces in 2022 and founded a new company, Zero Emission Fertilizer Denmark, which will investigate the possibility of producing a carbon-neutral fertiliser in Denmark.

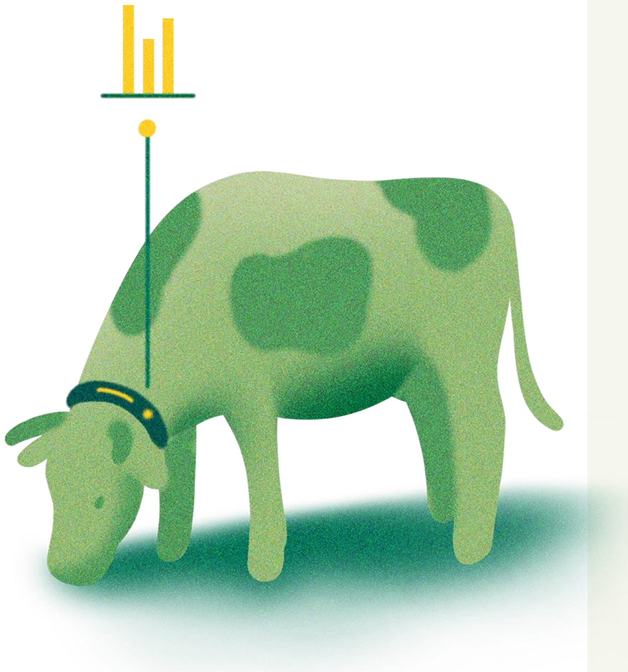
Today, chemical fertilisers are a prerequisite to cultivating high enough yields to meet the global demand for food. However, the use of chemical fertilisers accounts for a significant CO_2e emissions in agriculture, as they are mainly produced by energy from natural gas and coal.

With a carbon-neutral fertiliser based on green ammonia from wind turbine power, emissions from the use of chemical fertilisers can be reduced by up to 30 per cent.

During the next 9-12 months, the newly established company will carry out a series of feasibility studies, which will form the basis for decision-making for a possible investment in the production.

PROTECTING COWS AND NATURE

MILK IS OUR KEY RAW MATERIAL, AND WE WANT IT TO BE PRODUCED RESPONSIBLY, WITH CARE FOR COWS AND NATURE.



The effort to improve animal welfare is constantly in focus. It is also critical for Arla to continue developing and strengthening our farming practices in relation to protecting and improving nature on farms, especially in the areas of soil health, water-holding capacity and to enhance ecosystem services.

Animal welfare in Arla

In Arla, we strongly believe that animals should be treated well, and the welfare of our herds is a key concern for our customers and consumers too. We put great efforts in ensuring that Arla cows are well-cared for: our owners have to submit an extensive report on their herds' well-being four times a year.

Animal robustness is one of the Big5 levers in our incentive model. To gain evidence on how to improve on this lever, in 2022 we launched a pilot with 19 farms, where farmers, supported by veterinarians, focus on how to prevent the most common cow diseases.

However, we know that it is not good enough that cows live a long life. We also want to ensure that our farmers' cows are healthy and happy. On our UK innovation farm, we are working on creating a 'happiness' measure based on automated animal behaviour monitoring. This project aims to explore and identify positive behaviours that can be used as further welfare indicators for dairy cattle.

In an audit process harmonised across all owner countries, farmers are also visited by external experts specialised in animal welfare at least once every three years, to have their herds checked-on. We report the result of these audits in our ESG section. Read more on page 135.

Biodiversity and soil health in focus

Addressing climate change must go hand in hand with tackling biodiversity loss – both are crucial for our planet's future survival. All Arla farmers are committed to maintaining and enhancing the nature and biodiversity on their farms, and to engage in farming practices that enhance carbon sequestration in the ground.

In our new Sustainability Incentive model farmers can earn 8 points for their actions to conserve biodiversity and carbon farming. The levers for carbon farming were defined based on the fact that plants with bigger roots increases carbon capture, therefore we would like to encourage farmers to grow grass and keep permanent grasslands, as those have the most roots. As for biodiversity, farmers initially can collect points for submitting their Biodiversity and Soil Health Check data.

ANIMAL WELFARE[1]

98.4%

No major cleanliness issues

99.8%

No major body condition issues

99.5%

No major mobility issues

100%

No injury issues

[1] Share of audited farmers without major issues in animal welfare

SUSTAINABLE PRODUCTION AND LOGISTICS

ACHIEVING CARBON NET ZERO OPERATIONS BY 2050 IS THE SUSTAINABILITY TARGET FOR OUR DAIRY PRODUCTION SITES AND OUR LOGISTICS NETWORK. OUR STRATEGY FOCUSES ON TWO KEY DIMENSIONS FOR BOTH: REDUCING ENERGY AND FUEL CONSUMPTION THROUGH BETTER EFFICIENCY, AND TRANSITIONING TO RENEWABLES.

In 2022, our scope 1 and 2 emissions decreased 4 percentage points and reached a total reduction of 29 per cent compared to our 2015 baseline.

This year, we faced the short-term need to convert to oil from natural gas due to the war in Ukraine to ensure supply continuity. We were very conscious of the increased emission from this conversion as oil is approximately 30 per cent more polluting than natural gas measured on CO_2e.

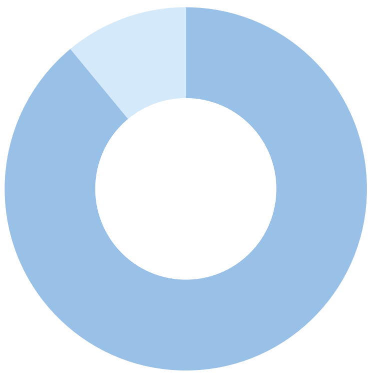
Until the switch can be made from oil back to gas, we will offset the increased emissions with electricity certificates. Our long-term plans to accelerate our transition from fossil energy with a number of initiatives such as energy optimisation, electrification, green electricity, alternative thermal energy are still on track.

29%

Scope 1 and 2 CO_2e emission reductions

Strategic ambition
We aim for 63 per cent reduction in scope 1 and 2 emissions by 2030 (baseline: 2015).

Where our emissions come from



Energy and fuel efficiency

In 2022, we saw a need for accelerating our energy efficiency plans at our sites as energy prices skyrocketed, and we faced big risk of energy disruptions. We therefore launched two sustainability programmes to help accelerate the energy reductions, build clear investment roadmaps and start our transformation journey.

Site sustainability programme

Our site sustainability programme was rolled out to 6 of our biggest CO_2-emitting sites in 2022. The sites sustainability programme builds a tailored transformational plan for the sites and it spans from engagement initiatives, energy optimisation boost, external thermal system transformation study to energy competence mapping and focused energy performance management.

Site management and employees take an active role in defining a plan, as we believe a key enabler for success is that everyone at the sites takes ownership of the journey. When the programme is finalised on a site, the site will have a clear roadmap to reach their 2030 target including investment plans, KPI structure and capability upskilling as needed.

Pronsfeld in Germany is one of the sites which completed the site sustainability programme. They identified 55 initiatives yielding 35,000 tons CO_2e reduction (-67%) over 7-8 years, exceeding their 2030 target by 3,000 tons, but now the hard work starts in implementing these initiatives.

Quick wins in 2022

We also offered the assessment of quick-win areas for our 60 sites and logistics centres. We identified three areas for 2022, through a supplier-lead screening and assessment process:

- Insulating steam and hot water pipes and valves to minimise heat loss
- Replacing and upgrading pumps to be more energy efficient
- Replacing light bulbs with LED lamps for more efficient lighting.

Collaborating with customers to optimise routes

Route and delivery optimisation in Denmark, Sweden and the UK brought significant emissions savings during the year. We proactively engaged our key customers and logistics suppliers in all three countries, organised workshops with them, and as a result we decreased delivery frequency and reduced CO_2e emissions.

One of the most successful collaborations of 2022 was with one of our key customers in the UK. For larger stores of this customer, we directly deliver milk from our warehouses, however smaller shops pose a challenge, as delivering there often requires multiple drops due to lack of storage capacity in the shop.

Together with our customer, we came up with the solution of delivering to their depots instead. To make this possible, we started to box our milk bottles instead of delivering them on trollies as before – this way the depot could handle the packages.

The initiative significantly lowered the delivery frequency, saved CO_2e, and improved service level and availability for the stores participating.

SWITCHING FROM FOSSIL TO RENEWABLE ENERGY IS AN IMPORTANT LEVER TO FULFIL ARLA'S SCOPE 1 AND 2 REDUCTION AMBITION. OUR KEY FOCUS IS SECURING RENEWABLE ELECTRICITY FOR ALL OUR SITES, AND REPLACING NATURAL GAS WITH BIOGAS.

Scaling up solar power

To reach our ambitious green electricity target we entered into a 10-year power purchase agreement in Denmark with Better Energy for the usage of four new solar parks. The solar parks will cover approximately one third of Arla's electricity consumption in Denmark by 2024. It is the most extensive agreement on renewable electricity without public subsidies in Danish history. Besides Denmark, Arla also made a significant investment in solar power in Tychowo, Northwestern Poland, where we have a packaging, mixing and distributing site. The solar panels will cover 85 per cent of the site's electricity demand. We also installed solar panels on the rooftop of our production site in Bahrain, which will cover 20 per cent of the site's electricity needs.

Wind power purchase agreement

In the fall we entered into a 10-year power purchase agreement with Eurowind Energy, which, combined with the Better Energy contract, means that we secured 100 per cent green electricity for all our production in Denmark – next step is to enter into similar setups in other markets where we operate.

Over the course of the 10-year agreement, which will come into effect in 2025, the green energy from the turbines will provide an annual saving of 58 million kg of CO_2e, which corresponds to 8 per cent of Arla's total CO_2e footprint for scope 1 and 2.

Piloting new technologies with fossil free fuels

To gather a better understanding of where we could scale up transitioning to fossil free fuels in our logistics fleet and production sites, we continued to test several new technologies in 2022. We continued our trials with biogas trucks, which are run by biogas produced primarily from cow manure. We started a successful collaboration in Sweden with some of our gas suppliers to ensure biogas circularity, and explored how we could scale the number of 'poop trucks' in the UK. Also, we extended our electric vehicle fleet in Sweden and looked at the potential in intermodal transportation in Germany, where we tried to use different types of vehicles to cover one of the key logistics routes. In production we have engaged with suppliers in Germany and Denmark with the aim to pilot hydrogen in our production facilities in Pronsfeld and Hoco.

Combatting food waste with digital sensors

We continuously work on reducing our food waste to ensure proper utilisation of our milk, which increases the value we add to our owners' milk, and also means more nutritious food for the growing population.

In three of our UK production sites, we saved around 3 million litres of raw milk this year by installing real-time material loss sensors. These enable us to measure if there is milk in the water used for flushing and cleaning, and find patterns which can be used to reduce or eliminate the wastage of milk. The sensors measure whether the liquid going through the pipes is water, a mix of water and milk or milk. Based on the measurement, the liquid is s either automatically discarded as waste water or collected to use for, e.g., animal feed or biogas. With this system, the amount of milk in waste water was reduced by 10-14 per cent compared to last year.

100%

Green electricity

In Denmark, it is fully secured that we will reach the electricity target. In coming years, we'll focus on other European countries.

PROGRESS TOWARDS FULLY SUSTAINABLE PACKAGING

ARLA'S PACKAGING AMBITION 'TOWARDS FULLY CIRCULAR PACKAGING 2030' IS A STRONG COMMITMENT TO USE RESOURCES IN THE BEST POSSIBLE WAY TO REDUCE OUR CLIMATE AND ENVIRONMENTAL IMPACT. THE AMBITION INCLUDES IMPROVING THE RECYCLABILITY OF PACKAGING AND REDUCING THE USE OF VIRGIN FOSSIL-BASED PLASTIC.

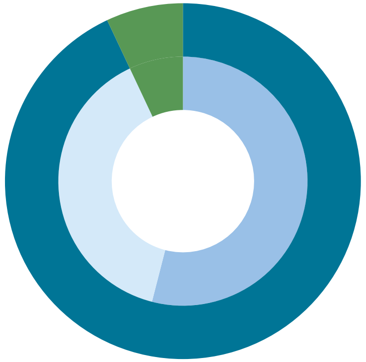
In Arla, we use more than 300,000 tonnes of packaging each year. Packaging solutions must ensure the safety and quality of food products, with the lowest possible environmental footprint while minimising food waste. We strive to ensure that no material goes to waste, that we keep packaging emissions at a minimum and that we do not deplete any natural resources that cannot be renewed. We also design our packaging so it can be sorted, collected and recycled.

Strict legal requirements related to food safety and hygiene make packaging design complex. Additionally, packaging must safeguard our products during distribution, in the store and in our home.

Packaging is also essential to securing access to our nutritious products around the world. We are selling our products in more than 144 different countries with very different collection and recycling infrastructure, and especially in our international markets some materials cannot yet be recycled.

2022 progress

- Designed for recycling 93%
- Recyclable in market where sold 54%
- Designed for recycling, but not in the market where sold 39%
- Not recyclable 7%



Towards 100% recyclability

Arla's overall long-term ambition is to reach full recyclability. As a first step, our 2025 target is to ensure that 100 per cent of packaging used for Arla's own brands is designed for recycling.

Given these conditions, especially related to our international markets, we measure our packaging recyclability progress towards two criteria:

1. Designed for recycling
This means that a packaging or a specific part of the material is recyclable in at least one of Arla Europe's markets.

2. Recyclable in market where sold
This means that a packaging or a specific part of the material is recyclable in the market where the product is sold.

During 2022, we developed a thorough methodology and tool that enables us to measure recyclability more accurately and use the data transparency to prioritise initiatives within recyclability.

A comprehensive assessment is made for each material to determine whether it is recyclable in a given market, based on commonly acknowledged references for recyclable packaging design and recycling systems in that market. Each assessed product packaging unit is converted into weights of different materials used and multiplied by sales volumes. The consolidated number is calculated as the weight of sold recyclable packaging material compared to the total weight of packaging materials used.

What is virgin fossil-based plastic?
Virgin fossil-based plastic means plastic derived from fossilised material such as crude oil. In order to phase this out we use less plastic and better plastic, prioritising recycled plastic and renewable material (such as paper and cardboard).

SKYR IN RECYCLED PLASTIC CUPS

Our popular Arla Skyr Icelandic style yoghurt brand converted 7 per cent of its portfolio from virgin fossil-based plastic to cups made with 100 per cent recycled plastic. This has halved the CO_2e emissions of the packaging.

ARLA'S FIRST-EVER RECYCLABLE CHEESE FOILS LAUNCHED IN UK

In 2022, we launched fully recyclable packaging for a selection of our cheeses in UK (such as Apetina white cheese and paneer). Cheese foils are traditionally not designed to be recycled so this is the start of a long journey for Arla and will continue towards 2025.

DANO SACHETS READY TO BE RECYCLED

Creating recyclable packaging to reduce littering for some of our markets has its own challenges. An example of this is our powdered milk sachets sold in Bangladesh. These sachets are traditionally not recyclable due to a mix of plastic and aluminium. In 2022, we reached a breakthrough solution on our popular affordable nutrition product, Arla® Dano Daily Pushti. Through a partnership with our packaging supplier, Arla developed a simplified sachet and established a pilot recycling project with local collection stations to recycle these sachets into other uses such as plastic furniture.

RESPONSIBLE SOURCING

A TRANSPARENT AND WELL-MANAGED SUPPLY CHAIN IS FUNDAMENTAL TO THE RESPONSIBLE OPERATION AND GROWTH OF OUR BUSINESS WITH MINIMAL RISKS. WE WORK CLOSELY WITH SUPPLIERS TO ENSURE ALL ENVIRONMENTAL, SOCIAL AND ETHICAL REQUIREMENTS ARE MET.

Cocoa

Share of certified cocoa

100%
2021: 100%

Our policy is to use 100 per cent UTZ/Rainforest Alliance-certified cocoa for our branded products, and we continue to comply with this goal.

Soy

Share of certified soy

100%
2021: 100%

In Arla, soy is used .as an ingredient, primarily in dairy cow protein feed, and to a smaller extent in some Arla products. Our ambition is that all soy is responsibly sourced, defined as certified according to internationally recognised third party certifications systems. In Arla, soy in animal feed must be certified according to the ProTerra or Round Table of Responsible Soy (RTRS), or covered with RTRS credits.

Palm oil

Share of certified palm oil[1]

86%
2021: 86%

Arla's ambition is to buy only segregated, certified, and traceable palm oil ingredients. When this is not possible, we use mass-balance or cover the use by Round Table of Sustainable Palm Oil (RSPO) credits.

Forest fibre

Share of certified forest fibre in Europe

83%
2021: 83%

Although we use recycled fibres wherever possible, some packaging requires virgin forest fibre to comply with food safety regulations. Our ambition is to use only FSC®-certified forest fibre materials in Europe. Where FSC®-certified forest fibre is not available, we accept forest fibre from national certification schemes if a PEFC due diligence process has proven it comes from a reputable source.

[1]Vanilla is also a key flavouring ingredient in many Arla products, however, due to the low volumes used in total we do not have a specific target related to vanilla. In 2021, we joined the Sustainable Vanilla Initiative (SVI), which aims to secure a stable supply of high-quality vanilla that is produced in a socially, environmentally and economically sustainable way.

Our suppliers from all over the world have a major impact on our sustainability performance, and we expect them to sign our code of conduct for suppliers, which governs environmental, social, business ethical and human rights aspects. Our ways of working in our upstream supply chain is outlined in our Statement on Responsible Sourcing.

Global purchasing policy

Clear and consistent procurement practices are fundamental to minimising risks to food safety, the environment and human rights in our supply chain. Our policy sets out 11 principles for purchasing in Arla to ensure a clear and uniform process when buying goods and services. Among other procedural requirements, the policy also requires compliance with Arla Foods' Code of Conduct for Suppliers.

Our Code of Conduct for suppliers was revised and further strengthened in 2022 in areas related to climate, health and safety and labour rights. As a result, we have now more firm requirements towards suppliers, for example regarding working hours and recruitment practices.

Supplier audits

During 2022, 58 physical, virtual and desktop supplier audits were conducted.

Risk commodities

Based on our thorough risk analyses, and in line with international practice, we identified some commodities we use that are linked to particular sustainability challenges. These are palm oil, soy, cocoa and forest fibre[1]. We have sourcing position papers to mitigate the risks and contribute positively to more sustainable and responsible practices. This includes reducing the risk of negative impact on human rights and the environment.

Arla®'s gut health range is on a mission to make it easy and enjoyable to nourish your gut with fermented bases that are diverse in good bacteria cultures and added vitamins, minerals and fibre.

ARLA® CULTURA

SOCIAL PERFORMANCE

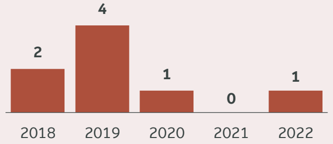
STRONGER PEOPLE

SOCIAL

AMBITION AND PROGRESS

FOOD SAFETY FIRST

A core responsibility for Arla is to ensure that our products are safe for consumers to eat and drink. The target for recalls is by default defined as zero.
Read more on page 47.



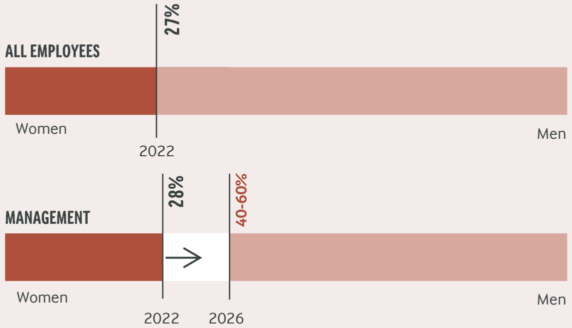
ZERO PRODUCT RECALLS
2023 TARGET

INCREASE ACCESS TO AFFORDABLE NUTRITION

2030 ambitions Access to adequate, affordable and healthy food is a basic human right, and we want to provide high-quality products that meet consumers' nutritional needs around the world. Our ambition is to reach more and more non-European consumers with affordable food.
Read more on page 48.

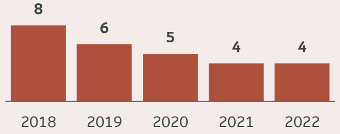
INCREASE GENDER DIVERSITY

Our long-term 2026 target to increase gender diversity is to ensure that there is no more than 60 per cent of the same gender in any team in Arla. We are also aiming to achieve this in our top management teams.
Read more on page 51.



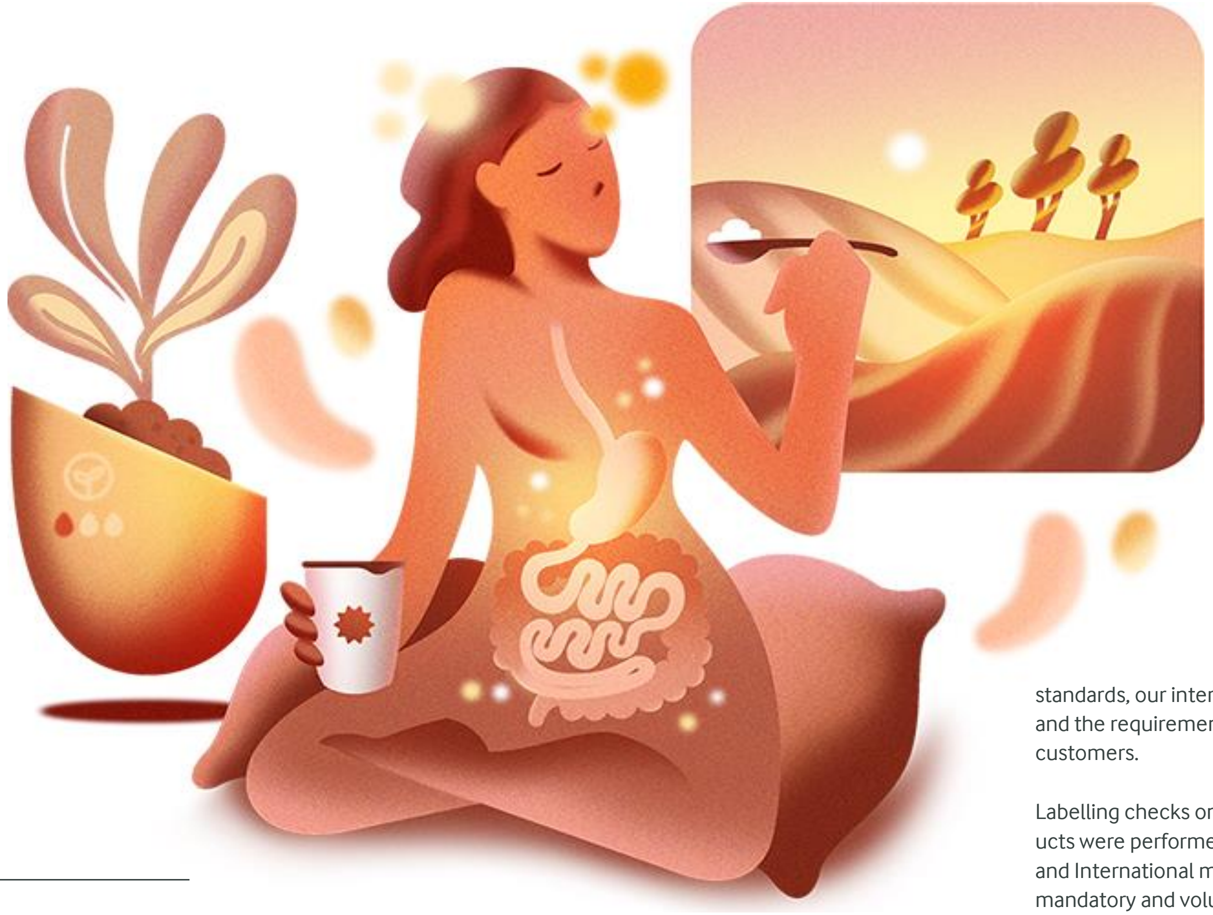
TOWARDS ZERO ACCIDENTS

Our safety vision for our colleagues aims at having zero lost-time accidents per million working hours.
Read more on page 52.



ZERO ACCIDENTS
2023 TARGET

PROVIDING THE WORLD WITH GOOD FOOD



SCIENCE SHOWS THAT PEOPLE CAN LIVE LONGER, HEALTHIER AND HAPPIER LIVES BY ENJOYING AND SHARING HEALTHY FOOD. OUR HEALTH STRATEGY AIMS AT BEING PART OF THIS JOURNEY BY PROVIDING SUSTAINABLE, HEALTHY AND SAFE CHOICES, INSPIRING GOOD FOOD HABITS AND MAKING NUTRITION ACCESSIBLE.

Our health strategy

In 2022, we laid the groundwork for updating our 2026 health strategy. Striking a balance between protecting planetary boundaries and providing the growing world population with nutritious food is a key challenge for Arla and the food industry in general. Solving this challenge is our licence to operate. Therefore, stepping up our healthy innovations is a core element of our new strategy. We aim at reaching more people to inspire healthy food preparation and help people eat well. Improved access to nutrition and affordable foods are also part of our strategic ambitions.

Our guiding star – Arla® Nutrition Criteria

When we are developing new, more sustainable and healthier products, our guiding star is the publicly available Arla® Nutrition Criteria, a set of internal standards that reflect current scientific evidence and guidance from key global health authorities. The criteria set requirements for protein and calcium content and limit the amount of added sugars, salt and fat. Following the criteria, we have been making significant improvements to the health value of our products.

1

Product recall in 2022

One of Arla's core responsibilities is to ensure that products are safe for consumers to eat and drink. The target for recalls is by default defined as zero.

Food safety first

Helping people to eat a healthy diet is important, but first and foremost we must make sure that our products are safe to eat and drink. By following the principles set out in the global Arla quality and product safety policy, we continue to strengthen our quality culture resulting in one recall in 2022. Our Quality, Environment, Health and Safety (QEHS) manual is updated yearly since its launch in 2020. Aimed at reducing complexity and aligning ways of working, the manual covers all the QEHS requirements included in international standards, our internal requirements and the requirements of several customers.

Labelling checks on our branded products were performed on our European and International markets in 2022. Both mandatory and voluntary information for consumers was evaluated on randomly selected products. The checks showed that with strong collaboration between local and global teams we were able to ensure regulatory compliance on all markets. There were no findings at any authority inspection that resulted in a fine. In cases of incompliance or inconsistency, the markets were informed about measures to improve.

1.8

EUR million for health research projects

Three new health nutrition research projects received funding of EUR 1.8 million from the Arla Food for Health partnership this year.

Research partnerships to shape the future of nutrition

To be at the forefront of dairy nutrition and keep discovering the health effects of dairy, Arla takes part in a research partnership with the two largest Danish universities under the name Arla Foods for Health (AFH). Three new research projects were selected to receive financing for 2022 in the total amount of EUR 1.8 million. The private-public partnership consists of Arla Foods, Arla Foods Ingredients, University of Copenhagen and Aarhus University.

The ambition of this partnership is to push boundaries and foster world-class dairy science. Subsequently results can be applied in food design and new nutritional solutions with a potentially positive impact on global nutritional status and public health. AFH and its partners are also committed to creating impact by disseminating scientific insight. The collaboration between the partners includes a targeted and coordinated public outreach that can serve as a basis for a science-based nutrition and health dialogue with external stakeholders – including authorities, NGOs, universities and other industries.

The three projects awarded in 2022 will investigate:

- The link between fermented dairy products and metabolic health
- How caseins effect gut comfort in infants
- The effect of a conventional diabetes diet versus a carbohydrate-reduced high-protein diet on type 2 diabetes patients.

Of the ten current projects two were finalised during 2022. A total of 41 papers have now been published based on supported projects.

Improving access to healthy nutrition

Malnutrition exists in nearly every country of the world, putting people at risk of diet-related diseases and leading to millions of deaths. Arla is committed to improving access to affordable dairy nutrition for lower income consumers in developing countries. We are focusing on addressing the needs of groups experiencing or at high risk of undernutrition and micronutrient deficiencies through affordably priced dairy products; for example, in Bangladesh with Dano Daily Pushti, and in Nigeria, Senegal and Ghana with Dano Cool Cow. Before launching these products, we conducted thorough analyses of the markets to create a price point that works for low-income consumers there.

All-time high inflation rates in food prices led to a severe decrease in purchasing power among low-income consumers during 2022; however, we managed to reach over 87 million consumers with our affordable nutrition products. To address the challenge of lower budgets, Arla came out with a new, more affordable milk-based powder named "Dano Sabi" in Nigeria and "Hye me ma" in Ghana.

In Bangladesh, we also addressed the growing inflation by reaching out to more people in need of affordable dairy nutrition. However, 2022 was particularly challenging for the Pushti Ambassadors Programme[1] in Bangladesh, which aims at bringing affordable nutrition to the doorsteps of rural households through a sales force of female entrepreneurs. Poor recruitment and retention during 2022 led to limited rural reach. Therefore, a revised model and other partner agencies to expand Arla's reach to rural communities is being negotiated.

[1] The programme is in its third year and is supported by the Danish Ministry of Foreign Affairs, and implemented by Dutch NGO, bopinc, and local social enterprise, iSocial.

WHAT WE BRING TO THE TABLE

WE BELIEVE THAT DAIRY PRODUCTS PLAY A POSITIVE ROLE IN A SUSTAINABLE DIET, BALANCING THE ENVIRONMENTAL IMPACT OF PRODUCTION WITH THE NUTRITIONAL VALUE OF THE FOOD. OUR HEALTH STRATEGY COMES ALIVE THROUGH OUR BRANDS, PRODUCTS AND INNOVATIVE PROJECTS AIMED AT CREATING AFFORDABLE QUALITY NUTRITION.

Reducing salt in cheese products

Salt is one of the essential elements that cause differences in food taste. However, too much salt in food is not good for our health, so we work hard at improving our recipes to provide the same taste experience with less salt. One of our key focus areas for this is our cheese products in MENA. In 2022, we managed to lower the salt content of the popular Puck® cream cheese jars and our feta cream cheese by 14 per cent and 26 per cent, respectively.

Arla Protein skyrocketed growth

Natural, high in protein and low in sugar and fat, Arla Protein is a success story. Arla Protein has not targeted professional or hardcore gym goers but all consumers living an active lifestyle and championing all shapes, sizes and backgrounds. By focusing on the fuelling power of protein alongside delicious products, such as milk-based beverages, quarks and puddings, Arla Protein has resonated with consumers and delivered 48.9 per cent volume growth in 2022.

Milk-based powder launched in Africa

The increasing food insecurity due to global inflation in 2022 posed an urgent task of increasing access to affordable nutrition products. To address this challenge, our global nutrition and innovation team created a new milk-based powder named "Dano Sabi" in Nigeria and "Hye me ma" in Ghana. To make it even more affordable, we reduced the protein content compared to milk powder, but ensured it is a healthier, more nutritious alternative to other creamers.

From papaya waste to dried fruit snack with whey protein

Papaya is the fourth most popular fruit crop in Ethiopia, and yet around 30 per cent of the annual harvest is lost through spoilage. As a product innovation partner in a public-private project led by GAIN, AFI has developed prototype recipes for a snack bar made with papaya pulp and milk and whey-based ingredients. The objective is to reduce post-harvest loss and provide easily accessible nutrition for low-income consumers. In 2022, AFI organised technical training for the staff of the Ethiopian company that will produce the bar.

Building up the dairy supply chain in Ethiopia

Ethiopia has 12 million dairy cows, but much of their milk never reaches consumers. Our subsidiary, Arla Foods Ingredients (AFI), is lead business partner in a Global Alliance for Improved Nutrition (GAIN) project to build a sustainable dairy supply chain in the country. As part of that, the project partners equipped a local dairy to produce an affordable yoghurt. The yoghurt recipe contains our whey permeate – an ingredient rich in milk minerals and lactose – to optimise yoghurt production. Following acceptability testing with consumers market launch was delayed by ongoing geopolitical challenges.

INSPIRING GOOD FOOD HABITS

WE WANT TO INSPIRE CONSUMERS BY OFFERING PRODUCTS THAT MEET THEIR VARYING NEEDS AND INVITE THEM TO PARTICIPATE IN ACTIVITIES THAT GIVE INSIGHTS INTO THE ORIGINS OF OUR PRODUCTS, AND SUPPORT HEALTHY HABITS AND COOKING WITH LESS WASTE.

Reaching millions through recipe inspiration

We believe inspiration and knowledge about cooking is the best way to develop good food habits, and we provide cooking inspiration around the world on our national websites and in brochures. We are also increasingly using social media platforms to more actively engage consumers and spread the word about sustainable and healthy eating.

Our Instagram account, @arladk, targeting the Danish market with recipes and cooking hacks, shows how effective this tool can be. The follower count of @arladk grew from 60,000 to over 171,000 during 2022, and the content had over 40 million views.

The engagement rate is one of the best among similar big brands, and it proved to be also significantly more cost effective to reach consumers via this platform.

Habits, nonsense and friends

Our popular educational programme for primary school children, Food movers, reached over 56,000 students in Denmark. This year, the teaching material, divided into three different levels, focused on how to change habits around food, how to learn to be critical about information circling on social media, but first and foremost how food is best enjoyed together. The programme has been running since 2016 with yearly changing topics, this year being "Habits, nonsense and friends."

Making sure kids do not skip breakfast

As a supplier to school canteens, we have an important role in helping students get a nutrient-rich diet that enables them to feel good during the school day and to lay the foundation for good eating habits throughout life.

Regular breakfast is one of the most important parts of healthy eating habits, and for that reason Arla Sweden started a free breakfast – skolfrukost – pilot in 2018. The results, with students arriving on time, calmer classrooms, and better self-perceived school performance, have created a lot of attention and inspired more schools and municipalities. In 2022 Arla cooperated with five different schools that served free school breakfast and shared the learnings to schools and municipality from all over the country.

Ensuring that school children have access to nutritious breakfast is also a focus area for Arla UK. We have been working with Magic Breakfast[1], a charity aiming to end hunger as a barrier to education in UK schools, to provide over 950,000 milk donations (enough to fill almost 9.5 million bowls of cereal) to schools across the UK since 2020.

As well as providing milk for partner schools, Arla and Magic Breakfast are on a mission to help children better understand where the milk comes from. In 2022, for the first time during the partnership we invited primary school children down to a farm in Yorkshire to see the action unravel and help them understand nature and how food is produced.

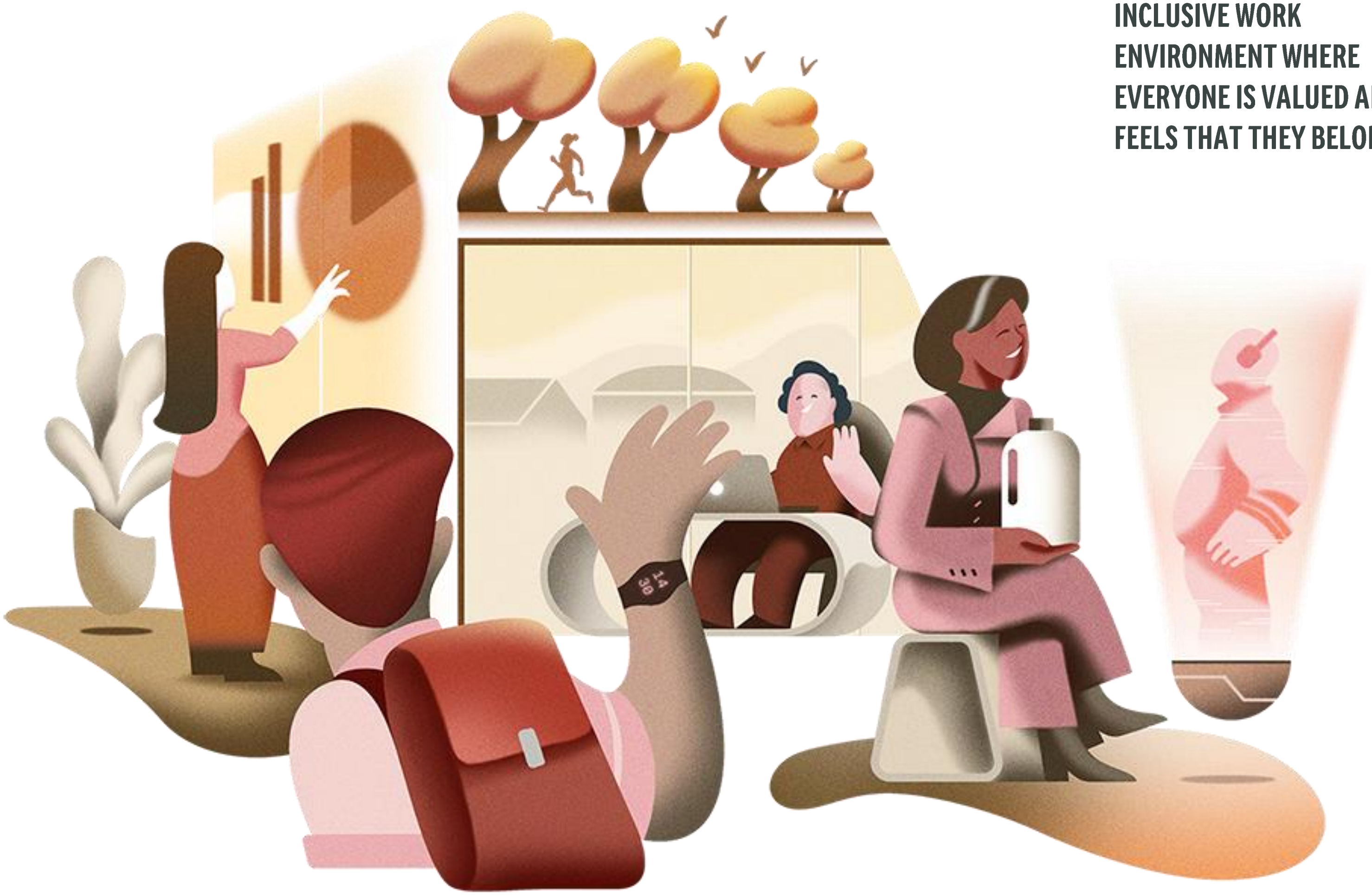
The best lunchbox comes back empty

Our cheese brand in MENA, Puck®, has always been an important source of cooking inspiration in the region. In 2022, Puck® ran a campaign targeted at mothers who are searching for ways to make their kids' lunch boxes healthier and more nutritious. In Middle Eastern schools, the first lunch box is served early in the day, almost as an extension of breakfast, therefore it is a key occasion to form healthy eating habits.

Recipes and packing inspiration were developed together with our Global Nutrition team to make sure the lunchboxes contain everything necessary for a balanced meal. The lunchbox campaign was designed and executed by the MENA branch of our in-house agency, The Barn, and consisted of search engine-friendly articles and promotions through local social influencers. The content was well received by mothers, as evidenced by the increased engagement metrics across Puck®'s channels.

[1] Arla donates EUR 1.3 million to the foundation annually.

DIVERSITY AND INCLUSION



IN 2022, WE LAUNCHED OUR RENEWED DIVERSITY AND INCLUSION STRATEGY AIMED AT FULFILLING THE EMPLOYEE PROMISE OF CREATING AN INCLUSIVE WORK ENVIRONMENT WHERE EVERYONE IS VALUED AND FEELS THAT THEY BELONG .

Our new strategy is part of our Business Strategy, Future26. We strongly believe that diversity enables innovation, better decision-making and higher performance.

Our targets and progress

To ensure tangible progress, our new strategy measures diversity and inclusion using three key performance indicators: inclusion favourability, gender equality and ethnic diversity in the workforce.

Inclusion favourability is measured using an index based on answers from our yearly employee engagement survey. In 2022, the average score across the index was 86 per cent, and one of the aspects, belonging, increased by six points compared to 2021.

For gender diversity we have a short-term (2023) target of no more than 70 per cent of one gender in the work-force, and our long-term 2026 target aims at having no more than 60 per cent of one gender in a team across the top three organisational levels in Arla. In 2022, 42 per cent of our office workers were women.

28%

Share of women in management

Our target for gender balance in management – defined as one level below our Executive Management Team – is no more than 60 per cent of one gender by 2026.

Leadership training to build an inclusive culture

To roll out our strategy and make it come alive, we needed to onboard and align the leadership layer first-hand, so we organised onboarding sessions and leadership trainings for top-and mid-managers across the organisation in 2022. More than 500 leaders and colleagues across 50 teams spent four hours on what diversity and inclusion means, how our subconscious biases influence our everyday decision-making and how to fight these biases.

Diversity and inclusion dashboard

We also educated people leaders in how to use our newly established D&I Dashboard in Power BI based on our global gender equality target. Each people leader has data on their own team across data points such as Employee Lifecycle, Performance, Promotions and Equal Pay. Data transparency and accountability are important to reveal potential subconscious biases.

Competitive and equal pay across all job bands

We strive to offer fair and competitive remuneration at market level and in line with local legislation and have a structured approach to remuneration, ensuring that salaries are unbiased towards gender, age, seniority, tenure, nationality or any other factors.

COLLEAGUES IN FOCUS

Sustainability is not just about reducing our climate impact. Sustainability is also about the people working for us in the entire value chain. We listen, we act and we try to lead by example in our industry.

Employee engagement survey points out focus areas

Our annual engagement survey is an important tool for ensuring our global organisation is a good place to work. This year's response rate was 86 per cent, on a par with last year. This means that more than 17,000 colleagues took the time to complete the survey. The 53,061 individual comments set a new record, providing a rich dataset for identifying areas in need of improvement. Based on this feedback, our Executive Management Team (EMT) identified three focus areas for 2023. One is unacceptable behaviour, which will remain a top priority for the third year running.

The number of reported unacceptable behaviours dropped significantly since it became a focus area; however, as we have a target of zero tolerance this will continue to be a key priority.

The second priority area is eradicating unnecessary bureaucracy. Specifically, we need to look at the tools we use, how we collaborate and our decision-making processes. These are the areas the EMT and other leaders will analyse in greater detail in 2023.

86%

Response rate in our yearly employee engagement survey

The result is on a par with last year and shows strong engagement.

The third area is strengthening our capabilities to deliver our Future26 strategy. Enablement is a key theme for the coming year, which will be reflected in local business plans as well.

Keeping our employees safe across the value chain

Arla has a comprehensive and long value chain and offers a large variety of jobs across geographies. Our employees are key to the success of Arla, and it is our ambition to provide all employees with safe and healthy working conditions.

Our vision is called "Zero Loss", towards which we made significant progress in the last five years. However, during 2022 we saw a slight increase in our accident frequency rate, from 4.3 in 2021 to 4.4 in 2022. Sadly, one fatality occurred at one of our Danish logistics centres in 2022. Our first priority is to support family and team members as well as investigating root cause of the accident to prevent it from happening again. Read more in our ESG section on page 128.

In 2022, we continued the roll-out of our behaviour safety programme CornerStones. The programme includes trainings, self-assessments and process confirmations. Thoroughly investigating accidents and incidents, with shared learnings across markets and a trend analysis based on safety observations captured in our reporting system LIA resulted in a dynamic risk register, which allow us always to focus on the critical areas.

We are also making sure that our basic rules are observed via a systematic approach by checking and validating compliance with key internal and external procedures called Critical12.

We are also protecting our employees through our partnership with SOS International, where the key focus is risk mitigation when operating across borders and managing supply and distribution chains.

4.4

Lost-time accidents per million working hours

Our ambition is to have zero accidents per year.

Training colleagues is key to our growth

Colleague development is essential to maintaining a high level of motivation and engagement and enabling the continued growth of our business.

During the past two years, Covid-19 has accelerated the trend towards more online training, including the introduction of digital training technologies such as HoloLens and virtual reality. Even though we can now again sit together in "classrooms", online training proved to be so effective that we are aiming at conducting 80 per cent of training activities virtually. At our production sites, virtual technologies enable fast and easy upskilling.

In 2022, there were 359 enrolments in leadership and people management development trainings.

RESPECTING HUMAN RIGHTS

WE ARE COMMITTED TO RESPECTING AND SUPPORTING INTERNATIONALLY RECOGNISED HUMAN RIGHTS AND TO PROMOTING MUTUAL RESPECT AND UNDERSTANDING IN OUR RELATIONSHIPS AROUND THE WORLD.

HUMAN RIGHTS DUE DILIGENCE PROCESS

Human rights governance

Arla is committed to respecting human rights across our entire value chain. We adhere to the United Nations Guiding Principles on Business and Human Rights (UNGP) and the OECD Guidelines for Multinational Enterprises. Our work is guided by our Code of Conduct "Our Responsibility" and our human rights policy, in which we have elaborated our commitment and expectations to stakeholders. Arla's human rights work is governed by our EMT and managed in various business functions. We engage with stakeholders, including experts, unions, right-holders and NGOs, on our human rights management.

Human rights due diligence

Based on our analyses, Arla has the highest risk of causing, contributing or being linked to negative human rights impacts when operating in our non-European growth markets due to national contexts and the complexity of business operations. Therefore, we prioritise conducting human rights impact assessments in these markets and also to carry out a due diligence process whenever we enter a new joint venture or receive an allegation. We continue to improve and implement our systematic human rights due diligence process in compliance with UNGP and OECD, as illustrated below.

Salient human rights issues

Arla's salient human rights issues are identified based on our due diligence processes, risk assessments and regular stakeholder dialogues. Salient human rights are defined as the rights at risk of the most severe negative impact on people through business activities and relationships. The issues identified as most salient across Arla's value chain are working conditions, living standard, modern slavery, health and access to a grievance mechanism.

Human rights risk assessments

In 2022, Arla continued to identify and address potential and actual human rights risks and impacts in our value chain, with a focus on our business operations in the Middle East. Together with local teams, our global human rights team completed on-location human rights risk assessments in Qatar, Saudi Arabia and Bahrain. The purpose of the assessments was to follow up on human rights risks in our own operations and to include third-party employees at our sites, key suppliers and service providers in the assessments.

Arla's salient human rights issues formed the basis for the assessments, with focus on particular risks in the region, including employer-provided housing standard, fair recruitment and passport withholding, working conditions, health and safety, and wages. On all three markets, Arla's own operations showed solid performances and did not reveal critical risks in relation to Arla's salient human rights issues. Findings indicated a need for Arla to strengthen processes in relation to assessments of local suppliers and service providers. Further, the assessments identified actual risks in relation to third-party employees, key suppliers and service providers. Arla has initiated a dialogue with relevant external parties to address these risks, and we continue to follow up on action plans to resolve the identified issues.

International dairy development

We also continued our work on human rights risks related to our international dairy development programmes in Nigeria, Indonesia and Bangladesh. This includes addressing issues related to gender, land rights, security, food safety, health and safety in farming and processing as well as distribution.

Code of Conduct for Suppliers and Business Partners

It is essential for Arla to operate in a responsible manner, and we expect our suppliers and business partners to live up to the same standards. At the end of the year, we launched an updated Code of Conduct for Suppliers and Business Partners. The aim is to strengthen our human rights efforts to support suppliers and business partners in understanding our expectations and to prepare Arla for continued compliance with increasing regulatory measures and documentation requirements in relation to mandatory due diligence in value chains. The ultimate goal is to minimise risk to people and safeguard our business.

Arla is a member of AIM Progress, which is a forum assembled to enable and promote responsible sourcing practices. The update is inspired by AIM Progress' work.

SALIENT HUMAN RIGHTS

Arla's salient human rights issues form the basis for our reporting structure. We report on findings from our global human rights work, including findings from risk assessments conducted in 2022 in the Middle East.

Right to enjoy just and favourable conditions at work

Safe and healthy working conditions

Over the year, we continued the implementation of Arla's global behavioural safety programme Arla CornerStones. The focus continues to be on increasing the maturity level in the health and safety work in production facilities globally. We see very strong performance in both our European and non-European markets. See page 52 for more about Arla's health and safety efforts.

Living wage

Aligned with international frameworks, Arla understands and appreciates that paying living wages is one of the most important ways to support people to get out of poverty, realise human rights and achieve the sustainable development goals. We participate in the AIM Working Group on Living Wage to gain insights and share knowledge.

In 2022, we collaborated with the Fair Wage Network to finalise our pilot project on three different markets (Poland, Senegal and the US), investigating the wages for our own as well as for third-party employees working at our sites. Findings from the pilot project show that the employees most at risk of not receiving a living wage are the third-party employees. We have similar findings from employee interviews conducted in the Middle East.

We will continue our work in 2023, including more markets to get a more complete overview of Arla's living wage status and to evaluate and decide next steps.

Right to adequate standard of living

Employer-provided housing

We continuously work to ensure adequate accommodation for our migrant colleagues in Saudi Arabia, the United Arab Emirates, Oman and Qatar. In 2022, we were able to visit many of these housing facilities to follow up on improvement projects. During the visits, we identified that Arla-provided accommodation meets or exceeds ILO standards for employer-provided housing as well as local standards, leaving only minor improvement areas, such as availability of common recreational facilities.

Land rights

Involuntary resettlement may result in long-term hardship, impoverishment and conflicts for the affected communities and persons. When establishing the 6,000-hectare Kaduna State-managed Damau Household Milk Farm, where Arla Foods Nigeria plays a pivotal role as an advisor, concerns were raised about how to mitigate potential adverse impacts on the settlers who are unable to continue farming in the project area. A plan for the inclusion of settlers was made, leading to the enrolment of 500 household members of existing settlers in the project (equal to 50 per cent of the project beneficiaries), a grievance mechanism committee was established to handle reports of concerns and finally compensation payment for landed properties was commenced.

Right to health

Nutrition

All over the world, inflation and increasing prices, also on food, put access to nutrition at risk. Arla seeks to improve access to nutrition where we operate, including at our sites. As an example of our efforts in 2022, we decided to run a pilot project on workforce nutrition in the United Arab Emirates.

The objective of this pilot project was to assess our workforce nutrition programme and identify opportunity areas for enhancement. The pilot revealed that we make health checks available and have a breastfeeding programme. However, we found gaps in workforce nutrition education and providing healthy food at work.

Health insurance in non-European markets

All Arla colleagues should have access to health services on fair terms. Findings from employee interviews in the Middle East show that health insurance is in place for all Arla and third-party employees. However, findings indicate that the insurance agreement varies for third-party employees. We will address this with suppliers.

Right not to be subjected to slavery, servitude or forced labour

The risk of modern slavery remains a challenge in our value chain, and we continue our efforts to mitigate the risks. Examples of this include the launch of a revised purchasing policy, supported by training for new colleagues and cost owners, and ensuring that migrant worker colleagues keep their passports and identity documents, unless they require otherwise, and sign a letter of consent. Interviews conducted with third-party employees in the Middle East revealed indications of "hidden" fees being paid to recruitment agencies in the country of origin. We have addressed this directly and we are in dialogue with the third-party suppliers to end this practice.

In Europe, we continue our work on awareness raising, including self-assessment checkpoints on farms, and we will continue to explore opportunities for collaboration with our European Works Council for further collaboration and awareness raising. We have not received any modern slavery reports in 2022.

Access to grievance mechanism

In 2022, Arla continued to communicate the recently improved whistleblower service "EthicsLine". During the year, we carried out a compliance check of 38 non-European entities, which shows an increase in EthicsLine awareness of 40 per cent compared to 2020.

ENHANCING DAIRY FARMER COMMUNITIES IN DEVELOPING COUNTRIES

As a global, farmer owned dairy company we are committed to supporting local dairy farmer communities across the world. Arla's international dairy development programmes contribute to building climate-resilient and commercially viable dairy value chains in strategic growth markets to improve farmer capacity and provide nutritious food to a growing population.

Sustainable dairy value chains

Dairy farmers in developing countries are hit the hardest by climate change, which is a critical challenge to food security, nutrition and livelihoods. Arla is committed to utilising its expertise to enhance resilience among dairy farmer communities to aid the transition towards more robust and sustainable food systems. This includes promoting resource-efficient dairy farm production, improving animal welfare, enhancing food safety and quality, energy-optimisation, reducing food waste and providing access to affordable nutrition.

Strong dairy partnerships

Arla's dairy development programmes build on strong partnerships between commercial and non-commercial partners, including governments, local and international NGOs, funding institutions, research and knowledge institutions, farmer associations, farmer cooperatives and businesses. By combining knowledge, resources and networks, dairy development partnerships enhance the implementation of effective capacity building programmes and viable business models to create a deeper sustainability impact.

Resilient dairy farming in Nigeria

We continued to scale up activities in Nigeria. Construction of the Arla Farm is progressing and is expected to be completed in March 2023. Plans for the import of heifers to the farm are being finalised, and we expect them to arrive in the first half of 2023, while milk supply is expected to begin in the third quarter.

The Damau Household Milk Farm took off during 2022. Construction of infrastructure and the selection of dairy farmers to be enrolled is progressing. The first farmer cooperatives have been registered with 20 per cent of women in leading positions. Arla will offtake the milk from the expected 1,000 farmers to create a stable income and to process the milk into nutritious dairy products meeting the growing needs and demands in Nigeria.

The Milky Way Partnership continued its capacity building programmes in collaboration with the Advancing Local Dairy Development in Nigeria project (ALDDN), targeting pastoralist farmer clusters in Kaduna State. The delivery of sufficient milk volumes to Arla's dairy plant in Kaduna is still a challenge to be addressed.

Going forward, the partnership between CORET, the Milk Value Chain Foundation, SEGES Innovation and the Danish Agricultural and Food Council will focus on enhancing a climate-resilient, sustainable and productive dairy value chain in Nigeria to reduce CO_2e emissions at local farm level by 50 per cent while improving farmer income from dairy significantly through stable supplies to Arla. The new programme is supported by the Danish Ministry of Foreign Affairs and will kick off in 2023.

Pilot organic dairy farming in Indonesia

Arla is lead commercial partner in a partnership project managed by SEGES Innovation to support Indonesian cooperative farmers at Setia Kawan Nongkojajar Dairy Farm Cooperative (KPSP) in East Java in converting to organic dairy farming. During 2022, four organic demo-farms were established to become the first certified organic dairy farms in Indonesia. The first organic calves were already born in 2022, and the cows started to produce the first ever certified organic milk in Indonesia. Mazaraat Artisan Cheese has now become a full member of the consortium, and will offtake, process and launch high-end organic cheese from 2023 with support from Arla and Indolakto. The Indonesian NGO, Bina Swadaya, KPSP and The Danish Centre for organic farming have conducted training in organic cow management, barn design, organic feed, use of herbal medicine, conversion costs etc. KPSP has managed to develop and produce the first organic feed.

Transition to a greener dairy production in Bangladesh

Arla is committed to supporting the development and greenifying of the dairy industry in Bangladesh and helping to improve the livelihood of local farmers.

In 2022, together with local business partner PRAN Dairy, and the Department of Agriculture, Dhaka University, Arla completed the first phase of the dairy development programme. This included a series of expert seminars on cow management, a training-of-trainers field visit focusing on capacity development and sustainable dairy farming practices, and recruitment and training of new farmers under the programme.

Impact of Arla's international dairy development programmes

3,291

Farmers enrolled in Arla's international dairy development programmes (accumulated since 2017).

24,350

Farmer participants in capacity building activities (accumulated since 2017).

Arla® B.O.B milk, sold on our UK market, is a fat-free skimmed milk that tastes as full-flavoured semi-skimmed. It is free of artificial ingredients and additives, and is enriched with naturally occurring milk protein to deliver a taste as good as semi-skimmed.

B.O.B MILK

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK

Arla is a cooperative owned by 8,492 dairy farmers in seven countries. Ensuring that all of our owners are able to raise their voice and seek representation for their opinions is essential in a trustworthy and successful cooperative. Therefore, Arla's management is shared between elected owner representatives – our Board of Directors – and the corporate executives of the company. The details of our governance are regulated by our Articles of Association.

Cooperative Governance
The two main farmer owner representation and decision-making bodies of Arla are the 19-member Board of Directors (BoD) and the 187-member Board of Representatives (BoR).

Owners
In 2022, 8,492 milk-producing farmers in Denmark, Sweden, Germany, the UK, Belgium, the Netherlands and Luxembourg were the joint owners of Arla. The cooperative is divided into four geographical areas (Denmark, Sweden, the UK and Central Europe), which are further divided into regions and member districts. All cooperative owners have the opportunity to influence significant decisions. In 2021, the cooperative had 8,956 joint owners. The decline in the number of owners is partly due to farmers who stopped producing milk or sold their business to another owner, and to a lesser extent due to owners resigning to supply another dairy company. This decline is in line with the trend seen in the whole dairy sector over a number of years.

Board of Representatives
The BoR is the supreme decision-making body of our cooperative governance. It comprises 187 members, of whom 175 are cooperative owners and 12 are employee representatives. Owner representatives are elected every other year.

COOPERATIVE GOVERNANCE

BOARD OF DIRECTORS
14 owners, 2 external members and 3 employee representatives

4 AREA FORUMS
DK SE CE UK

BOARD OF REPRESENTATIVES
175 farmer owners
12 employee representatives

MEMBERS
DK 74
SE 47
CE 25
UK 29

REGIONS

DISTRICTS

OWNER NATIONALITIES
8,492 dairy farmers

DK | SE | CE | UK

CORPORATE GOVERNANCE

EXECUTIVE BOARD
CEO and COO

EXECUTIVE MANAGEMENT TEAM
Executive Board and 6 officers

FUNCTIONS
- Europe
- International
- Global Industry Sales and Planning
- Supply Chain
- Agriculture, Sustainability and Communication
- Marketing & Innovation
- Human Resources
- Finance, Legal, IT & Strategy

EMPLOYEES
20,907

The next election is scheduled for May 2024. The BoR makes decisions, including appropriation of profit for the year, and elects the BoD. The BoR meets at least twice a year.

District meetings
Every owner of Arla is part of the member district where their farm is located. Each year in March, owners convene for a local annual assembly in their respective districts to ensure their democratic influence on Arla's decision-making. The members in the district elect members to represent their district on the BoR. The districts also have their own elected district councils.

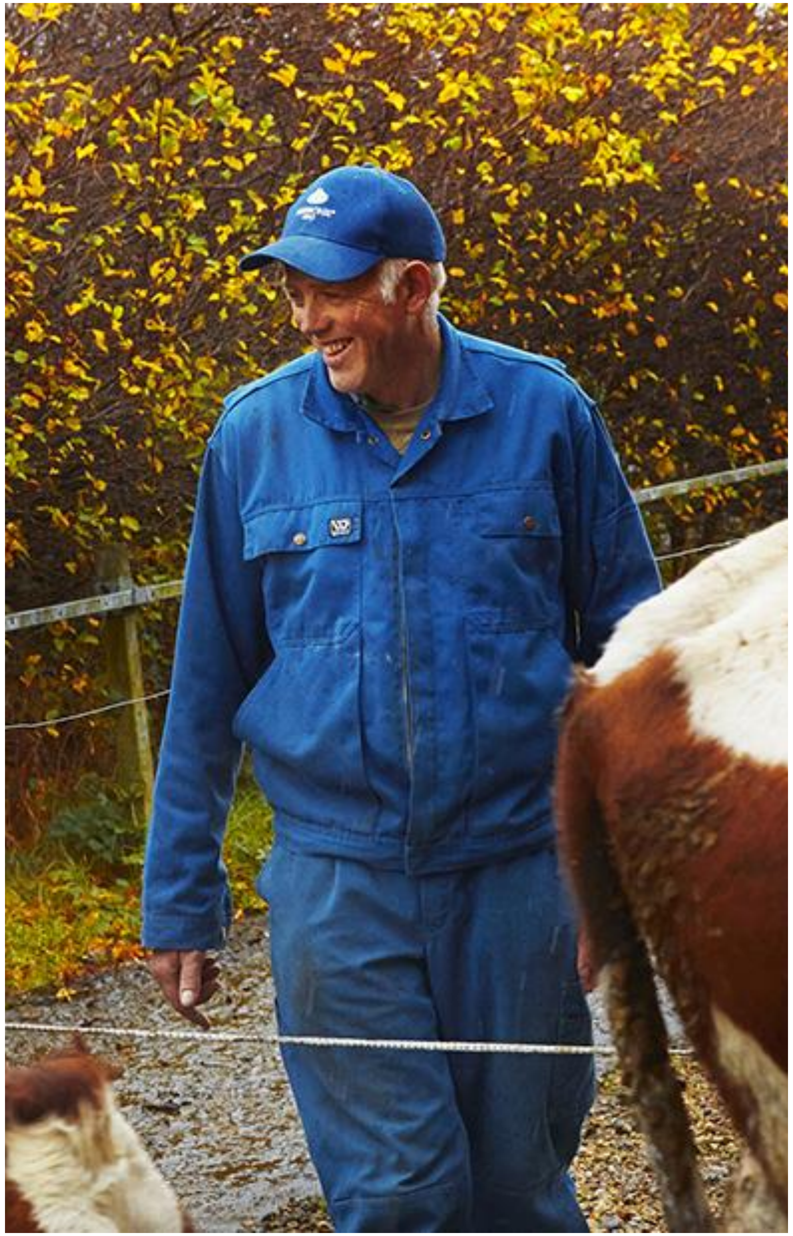
Regional boards
In the Danish and Swedish area, the regional board consists of the members of the Board of Representatives elected in the region. In the Central European and United Kingdom area, the regional board consists of all district council chairmen and vice-chairmen in the region. Regional boards meet as soon as possible after the yearly district meetings to discuss owner matters relevant for the region.

Board of Directors
Elected by the BoR, the BoD is responsible for ensuring that Arla is managed in the best interest of the farmer owners. This responsibility involves strategic direction setting, monitoring the company's activities and asset management, maintaining the accounts satisfactorily and appointing the Executive Board. They also take care of other stakeholder interests in the company: lenders, investors in bond instruments and employees, among others. The BoD consists of 14 farmer owners and two external members elected by the BoR, and three employee representatives elected by the cooperative's employees. The composition of the elected members of the BoD reflects Arla's ownership structure across the member areas.

Area forums and Joint Area Council
Arla has four area forums, corresponding to the four member areas, The forums serve as an interface with the Board of Directors and the management of Arla. Members of the forum serve as ambassadors representing Arla among all members. The forums hold two meetings a year.

The joint Area Council consists of four members of BoR from each of the respective areas, elected to the council by ballot. The BoD appoints the chairman and additional members to the council.

The council focuses on cross-area owner matters, including general membership terms and the global milk supply agreement.



Corporate governance
Corporate governance in Arla is shared between the Executive Board and the BoD. Together they define and ensure adherence to the company's strategic direction, organise and manage the company, supervise management and ensure compliance.

Executive Board
The Executive Board, appointed by the BoD, is responsible for managing the company, ensuring the proper long-term growth, setting the strategic direction, following up on targets and defining company policies, while striving for a sustainable increase in company value. Furthermore, the Executive Board ensures appropriate risk management and risk controlling, as well as compliance with statutory regulations and internal guidelines. The Executive Board is comprised of the CEO and another member of the Executive Management Team, currently the Executive Vice President of our Europe segment.

Executive Management Team
The Executive Management Team (EMT) is appointed by the Executive Board. The EMT is responsible for Arla's day-to-day business operations, preparing strategies and planning the future operating structure. The EMT consists of the Executive Board, a leader of the international commercial segment and five functional experts. The functional experts cover the management areas of Supply Chain (CSO), Agriculture, Sustainability and Communications (CASO), Marketing and Innovation (CMO), Human Resources (CHRO) and Finance, IT, Legal and Strategy (CFO). The members of the EMT keep each other informed of all significant developments in their business areas and align on all cross-functional measures.

Employees
Arla has 20,907 full-time equivalents (FTE) globally, compared to 20,617 last year. Our employees are represented by three elected members on the BoD and 12 elected members on the BoR. Besides being represented in the higher decision-making bodies of Arla, our employees also have work councils. All councils comprise employee and employer representatives. The European Works Council (EWC) is our high-level forum for dialogue between management and employees, and discussions about corporate matters. In 2022, sustainability and digitalisation were major items on the agenda of the two annual EWC meetings.

BOARD OF DIRECTORS

OUR BOARD OF DIRECTORS (BOD) HAS A WEALTH OF KNOWLEDGE, CONSISTING OF 14 ELECTED FARMER OWNERS, THREE EMPLOYEE REPRESENTATIVES AND TWO EXTERNAL MEMBERS.

In 2022, the two former external advisors, Nana Bule and Florence Rollet, were elected as ordinary BoD members by the BoR. As the result of the elections during the spring, three new members joined the BoD: Daniel Halmsjö as Swedish farmer representative and Anders Olsson and Grant Cathcart as employee representatives. Walter Lausen (DE), Jonas Carlgren (SE), Harry Shaw (UK) and Håkan Gillström (SE) stepped down from their roles.

Competencies and diversity of the BoD

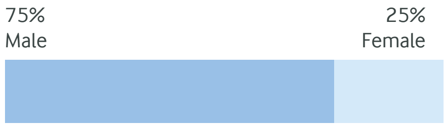
Despite their mostly similar background in agriculture and dairy, our BoD is equipped with a wide range of skills and expertise, enabling them to conduct first-class global governance. The competencies of the BoD are evaluated every other year in a transparent process approved by the BoR. Based on the results of the evaluation, board members can enrol in different trainings to further strengthen their skillset.

Key topics and decisions in 2022

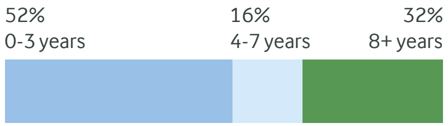
Our BoD had 12 ordinary and 4 extraordinary meetings. Five of the meetings were one and a half day physical meetings, and the rest were held online. Key topics the BoD addressed this year were:

- The increasingly uncertain and volatile external market was on top of the BoD's agenda in 2022. In light of the market realities, the BoD revised our strategic aspirations towards 2026. Read more on page 26.
- The war in Ukraine and its consequences for Arla. The BoD was part of the decision to divest our Russian business. Read more on page 16.
- The development and announcement of the Sustainability Incentive model, which is going to reward farmer owners for sustainability actions on their farms. Read more on page 35.

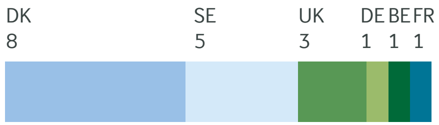
Gender composition of the BoD[1]



Tenure of the BoD



Nationalities of the BoD



[1] According to the Danish Company Act, §99b, only members elected at the company's general meeting are included.

MEMBER BIOGRAPHIES

Reading key

- Owner
- Employee
- External

1-19 Link to the group photo

Jan Toft Nørgaard (DK) 1
Born: 1960 **Member since:** 1998
Occupation: Dairy farmer
Internal positions: Chairman of the Board, the Learning and Development Committee and the Remuneration Committee
External positions: Member of the Company Board of the Danish Agriculture and Food Council (2009)

Manfred Graff (DE) 2
Born: 1959 **Member since** 2012
Occupation: Dairy farmer
Internal positions: Vice Chairman of the Board, Area Chairman of Central Europe, Chairman of the Joint Area Council and the Member Relation Group, member of the Learning and Development Committee and the Remuneration Committee
External positions: Member of the Board of German Milch NRW (2007) and the Board of the German Federation of Cooperatives (2015).

Anders Olsson (SE) 3
Born: 1966 **Member since** 2022
Occupation: Technical Coordinator at Götene Dairy.

Arthur Fearnall (UK) 4
Born: 1963 **Member since:** 2018
Occupation: Dairy farmer
Internal positions: Area Chairman of UK, Chairman of the Farmer Sustainability Working Group, member of the Joint Area Council, the Member Relation Group and the Global Appeals Committee.

Bjørn Jepsen (DK) 5
Born: 1963 **Member since:** 2011
Occupation: Dairy farmer
Internal positions: Chairman of the Organic Committee.
External positions: Vice Chairman of Skjern Bank (2012) and the Danish Dairy Board (2019), member of the cattle section of the Danish Agriculture and Food Council (2009), the Board of the Danish Cattle Levy Fund (2009) and the Board of the Danish Milk Levy Fund (2019).

Daniel Halmsjö (SE) 6
Born: 1982 **Member since:** 2022
Occupation: Dairy farmer
Internal positions: Member of the Global Appeals Committee.

Florence Rollet (FR)[1] -
Born: 1966 **Member since:** 2019
Occupation: Head of the MSC in luxury marketing and management, EMLyon, France.

Grant Cathcart (UK) 8
Born: 1970 **Member since:** 2022
Occupation: Quality Controller, QEHS, at Oswestry Packaging Plant.
External positions: Member of the National Cheese Forum, UK (1999), and the National Works Council, UK (2012).

Gustav Kämpe (SE) 9
Born: 1977 **Member since:** 2021
Occupation: Dairy farmer
Internal positions: Member of the Remuneration Committee and the Farmer Sustainability Working Group.
External positions: Member of the Swedish Dairy Association (2021).

Ib Bjerglund Nielsen (DK) 10
Born: 1960 **Member since:** 2013
Occupation: Dairy production worker
External positions: Member of the Dairy Workers' Union, DK (2005)

Inger-Lise Sjöström (SE) 11
Born: 1973 **Member since:** 2017
Occupation: Dairy farmer
Internal positions: Area Chairman of Sweden, member of the Joint Area Council, the Member Relation Group and the Learning and Development Committee.
External positions: Chairman of the Board of the Swedish Dairy Association (2022), Board member of Tillväxtbolaget (2022), Dairy Ambassador for the UN High-Level Political Forum (2022),

Johnnie Russell (UK) 12
Born: 1950 **Member since:** 2012
Occupation: Dairy farmer, chartered accountant
Internal positions: Member of the Learning and Development Committee, the Remuneration Committee and the Organic Committee
External positions: Chairman of the ING Bank UK Pension Fund (2010) and two other entities (2013 and 2015 respectively).

Jørn Kjær Madsen (DK) 13
Born: 1967 **Member since:** 2019
Occupation: Dairy farmer
Internal positions: Member of the Learning and Development Committee, Member of the Board of Andelssmør A.M.B.A (2020)
External positions: Member of the Board of GLS-A (2018).

Marcel Goffinet (BE) 14
Born: 1988 **Member since:** 2019
Occupation: Dairy farmer
Internal positions: Member of the Global Appeals Committee, the Learning and Development Committee, the Organic Committee and the Preparatory Working Group.
External positions: Chairman of the Board of Agra Ost Agriculture Research (2016), member of the municipal government of St.Vith (2018) and the Bauernbund Farmer Association (2012).

Marita Wolf (SE) 15
Born: 1959 **Member since:** 2021
Occupation: Dairy farmer
Internal positions: Chairman of the Global Training Committee, member of the Organic Committee.
External positions: Member of the Board of the Swedish Dairy Association (2003), member of the Board of the Swedish Farmers Foundation for Agriculture (2022).

Nana Bule (DK) 16
Born: 1978 **Member since:** 2019
Occupation: Operating Advisor, Goldman Sachs Asset Management
External positions: Member of the Board of Energinet (2018) and Chair of the Danish Government Digital Council (2022).

René Lund Hansen (DK) 17
Born: 1967 **Member since:** 2019
Occupation: Dairy farmer
External positions: Member of the cattle section and the Company Board of the Danish Agriculture and Food Council (2019) and the Board of Agri Nord (2012).

Simon Simonsen (DK) 18
Born: 1970 **Member since:** 2017
Occupation: Dairy farmer, Valuation Consultant DLR Kredit A/S
Internal positions: Member of the Remuneration Committee.
External positions: Dairy Ambassador for the UN High-Level Political Forum (2017).

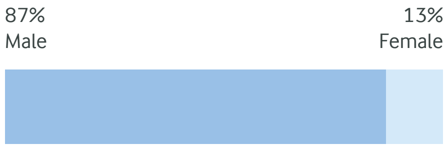
Steen Nørgaard Madsen (DK) 19
Born: 1956 **Member since:** 2005
Occupation: Dairy farmer
Internal positions: Area Chairman of Denmark, Chairman of the Global Appeals Committee and the Preparatory Working Group, member of the Joint Area Council and the Member Relation Group.
External positions: Chairman of Danish Dairy Board (2012), Deputy Chairman of the Company Board of the Danish Agriculture and Food Council (2014), Chairman of the Agro Food Park Steering Committee (2016), the Danish Milk Levy Fund (2012).

[1] Florence Rollet not present for the group photo

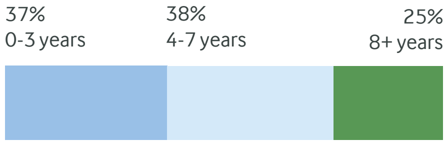
EXECUTIVE MANAGEMENT TEAM

OUR EXECUTIVE MANAGEMENT TEAM CONSISTS OF THE CEO, ONE COMMERCIAL LEADER OF THE EUROPEAN AND INTERNATIONAL COMMERCIAL SEGMENTS AND FIVE FUNCTIONAL EXPERTS. THE EXECUTIVE MANAGEMENT TEAM IS RESPONSIBLE FOR ARLA'S DAY-TO-DAY BUSINESS OPERATIONS AND FOR DEVELOPING AND DELIVERING GROUP STRATEGIES.

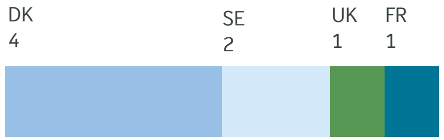
Gender composition of the EMT



Tenure of the EMT



Nationalities of the EMT



MEMBER BIOGRAPHIES

Peder Tuborgh (DK) 1

Born: 1963
Position: CEO, member of the Executive Board, Head of Milk and Trading, Chairman of Arla Foods Ingredients.
Experience: Peder has been with Arla since 1987, formerly under MD Foods, and has held various senior management and executive positions, including Marketing Director, Divisional Director and Executive Group Director. Peder has worked in Germany, Saudi Arabia and Denmark as part of his longstanding career with Arla
Education: Master's degree in Economics and Business Administration from the University of Odense.
External positions: Member of the Global Dairy Platform (2006), Chairman of AgriFoodTure (2022).

Peter Giørtz-Carlsen (DK) 2

Born: 1973
Position: COO, Executive Vice President of Europe, member of the Executive Board.
Experience: Peter joined Arla in 2003 as Vice President of Corporate Strategy and has held various senior positions in Arla, including Executive Vice President of Consumer DK and UK, before he became Executive Vice President of Europe in 2016.
Education: Master's degree in Business Administration, Organisation and Management from the Aarhus University. School of Business and Social Sciences.
External positions: Board member in AIM, the European Brands Association (2018), member of the Policy and Issues Council (PIC) of the UK's Institute of Grocery Distribution (IGD) (2016), Vice Chairman of the Board of the European Dairy Association (EDA) (2020), member of the Board of the Toms group (2022).

Torben Dahl Nyholm (DK) 3

Born: 1981
Position: CFO, Executive Vice President, Finance, Legal, IT, and Strategy.
Experience: Torben joined Arla in 2012 after working several years in the M&A consultancy industry. Starting out in Arla as a Business Controller in Corporate Finance, he has subsequently held a number of significant project and leadership roles across the finance organisation focusing mainly on the interface between finance and strategy, latest as Head of Performance Management.
Education: M.Sc. in Finance and International Business from Aarhus University.

Simon Stevens (UK) 4

Born: 1965
Position: Executive Vice President, International.
Experience: Simon joined Arla in 2002 as UK Sales Director before becoming Senior Vice President of Sales and Marketing, where he played a major role in the significant transformation of the UK business. In 2016, Simon became SVP Commercial Ops Europe and in 2020 Head of MENA region based in Dubai. Prior to Arla, Simon worked 14 years for Unilever in various Sales and Marketing Director roles in the UK, the Netherlands and Italy.
Education: 1st class BSc Hons degree in Management Sciences from Loughborough University.
External positions: Member of the Board of Mengniu (2021).

Ola Arvidsson (SE) 5

Born: 1968
Position: CHRO, Executive Vice President, HR.
Experience: Ola joined Arla in 2006 as Corporate HR Director, and has been Chief HR Officer of Arla since 2007. He came to Arla from Unilever, where he held various director positions across Europe and the Nordics, with his last position as Vice President of HR. Prior to Unilever, Ola served as an Officer in the Royal Combat Engineering Corps in the Swedish Army.
Education: Master's degree in HR Management from Lund University.
External positions: Member of the Board of AP Pension (2014), Central Board member of the Confederation of Danish Industry (2018).

David Boulanger (FR) 6

Born: 1970
Position: CSO, Executive Vice President, Supply Chain.
Experience: David joined Arla in October 2020. He has 26 years of experience in Supply Chain & Operations and held several senior leadership positions in the food industry within Mars, Mondelez & Danone in various geographies. Most recently, before joining Arla as Chief Supply Chain Officer, he was Senior Vice President Operations of Danone's Specialized Nutrition Division, operating globally in the Early Life & Medical Nutrition fields.
Education: Engineering degree from the Ecole Civil des Mines de Paris in France and Master's degree in Mathematics.
External positions: Member of the board of Global Baby SAS (2021).

Hanne Søndergaard (DK) 7

Born: 1965
Position: CASO, Executive Vice President, Agriculture, Sustainability & Communication.
Experience: Hanne has been with Arla for 33 years, first joining under MD Foods and then moving to the UK where she played a leading role in developing the Arla UK business. She became Vice CEO of Arla UK before she in 2010 moved into a global marketing role as Senior Vice President of Brands and Categories. In 2016, she became CMO and Executive Vice President and joined Arla's Executive Management Team. In January 2021, Hanne became Executive Vice President of Agriculture, Sustainability and Communication.
Education: Business degrees from the Aarhus University School of Business and Social Sciences and Harvard Business School.
External positions: Member of the Board of Arla Fonden (2012), member of the Technical University of Denmark (2016), member of the Danish Climate Forest Foundation (Klimaskovfonden) established by the Ministry of Environment of Denmark (2021), Board member of the Danish Agriculture & Food Council (2022).

Patrik Hansson (SE) 8

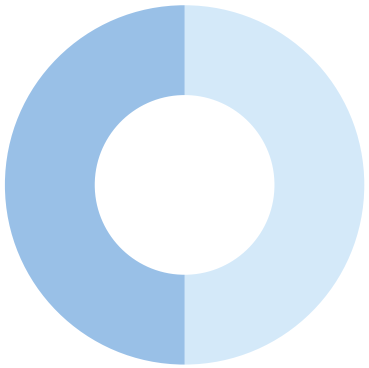
Born: 1967
Position: CMO, Executive Vice President Marketing and Innovation.
Experience: Patrik has many years of experience from working in international consumer goods companies within finance, marketing, sales and general management. Patrik worked for 13 years in Procter and Gamble, mainly in marketing, before he joined Arla in October 2011 as VP Marketing and Sales in Sweden. In 2015, he moved to Malaysia to start up Arla's regional headquarter in South East Asia. In 2016, he returned to Europe where he held the roles of Group Vice President in Sweden, and later in Germany, before taking up the current role as CMO in 2022.
Education: Master's degree in Engineering Physics from Chalmers and a master's degree from Gothenburg University.

MANAGEMENT REMUNERATION

ARLA'S EXECUTIVE REMUNERATION GUIDANCE IS DESIGNED TO ENCOURAGE HIGH PERFORMANCE AND SUPPORT VALUE CREATION. THE GUIDELINES ENSURES ALIGNMENT WITH THE GROUP'S STRATEGIC DIRECTION AND THE INTERESTS OF OUR FARMER OWNERS.

Short-term components

Long-term components



We have a structured approach to remuneration, ensuring that salaries are unbiased towards gender, nationality and age.

Remuneration governance

Arla's remuneration practice is governed by the remuneration guidance set by the Board of Directors (BoD) and reviewed regularly. The BoD is guided by the recommendations of the Remuneration Committee (RemCo), consisting of six board members, including the chairmanship. The RemCo works as a preparatory committee for the BoD as well as the Board of Representatives (BoR), with a special focus on the BoD, BoR and the Executive Board. It is also the Committee's responsibility to ensure that the remuneration guidance, practices and incentive programmes support the strategy of Arla and create value for the owners by enabling Arla to attract and retain the best qualified elected representatives, executives, directors and key employees. The RemCo meets four times a year.

Our remuneration practices

Remuneration packages are constructed to ensure attraction, engagement and retention of the best senior managers, and at the same time should drive strong performance in both short and long-term business results. In line with Scandinavian practice, the majority of the remuneration is fixed. However, in recent years, the variable part of the remuneration has increased to ensure that total remuneration is also dependent on achieving Arla's short and long-term financial targets. All executives and members of senior management are employed on terms according to international standards, including adequate non-compete restrictions, as well as confidentiality and loyalty restrictions.

Our performance measures

Board of Directors (BoD)

The remuneration of the BoD comprises a fixed fee and is not incentive-based. We believe this ensures that the Board is primarily focused on the cooperative's long-term interests. Beyond a minimal travel per diem, no additional compensation is paid for meeting attendance or committee service. The BoD's remuneration is assessed and adjusted on a bi-annual basis and approved by the BoR. The most recent adjustment made was in 2022. For more details on specific amounts, refer to page 119.

Executive Board and Executive Management Team (EMT)

The compensation elements and approach for the Executive Board and the Executive Management Team (together: executives) are identical. Remuneration paid to the Executive Board is assessed annually by the BoD based on recommendations from RemCo. The EMT's remuneration is set by the CEO. For more details on specific amount, go to page 119.

The remuneration package for the executives is based on external benchmarks against European and international FMCG companies, providing a competitive and sustainable mix of fixed and variable pay. Pension contributions and non-monetary benefits such as company car, telephone etc. are also part of the package.

Levels of fixed remuneration are set based on individual experience, contribution and function, while variable pay reflects performance against annual business targets. The variable pay component consists of an annual short-term incentive (STI) plan and a long-term (three-year) incentive (LTI) plan. The STI is composed of the same elements for all executives. From 2023 onwards, scope 1 and 2 CO_2e reduction will be part of the STI scheme. The main components of the LTI are branded volume growth, and the group's performance versus a peer group (see graphs).

TRANSPARENT TAX PRACTICES

In Arla, we acknowledge that tax is vital for the economic and social development. We are strongly committed to paying our taxes legally due and reporting transparently on our tax practices.

Taking a responsible and transparent approach to tax matters supports the strategy of growing our company on a solid foundation, and is in line with our commitment to the UN Sustainable Development Goals (SDGs). Our tax payments contribute directly and indirectly to the majority of the SDGs, but in particular to SDG number 16 – development of effective, accountable and transparent institutions.

We are committed to paying taxes in the countries where we operate and generate value as well as ensuring that requirements on tax reporting and tax transparency are met. We strive for an open dialogue with tax authorities and the general public around the world regarding our business and our tax affairs.

In order to always adhere to our key tax principles, our global tax function is organised to ensure that we have the right policies, people, tax controls and procedures in place to promote strong tax governance. Part of this work is the continuous evaluation of available tax incentives and reliefs to ensure that the use of such are always to be anchored in commercial substance.

Our key tax principles

Our approach to tax matters conforms with Arla's global Code of Conduct and is founded on a set of key tax principles approved by the Board of Directors:

- Arla aims to report the right and proper amount of tax according to where value is created
- Arla is committed to paying taxes legally due and to ensure compliance with legislative requirements in all jurisdictions in which the business operates
- Arla does not use tax havens to reduce the group's tax liabilities
- Arla will not set up tax structures intended for tax avoidance which have no commercial substance and do not meet the spirit of the law
- Arla is transparent about our approach to tax and our tax position
- Disclosures are made in accordance with relevant regulations and applicable reporting standards such as (IFRS)
- Arla builds on good relations with tax authorities and trusts that transparency, collaboration and proactiveness minimise the extent of disputes

Taxes recognised in income statement, 2022[1]

- DE,NL,BE,LUX, 14%
- DK, 13%
- UK, 25%
- SE, FI, 10%
- International & Other, 37%

Taxes recognised in income statement, 2021[1]

- DE,NL,BE,LUX, 12%
- DK, 16%
- UK, 34%
- SE,FI, 9%
- International & Other, 29%

Cooperative and corporate tax

As a cooperative, Arla's farmer owners are also our suppliers, and earnings are not accumulated in the company, but paid to the owners in the form of the highest possible milk price. Based in Denmark, Arla Foods amba is governed by the Danish tax rules for cooperatives paying income tax in Denmark based on the value of its equity.

Arla operates several subsidiaries globally. Our subsidiaries are primarily limited liability and private limited companies subject to regular corporate taxation. Transactions between Arla companies are determined and documented in accordance with OECD's Transfer Pricing Guidelines to ensure we operate on market terms.

Value generation and tax contribution

In 2022, Arla generated a total value of a EUR 7,043 million from the milk supplied. Milk from our farmer owners generated EUR 6.7 billion in milk payments, while other farmers received milk payments of EUR 519 million. As a result, the majority of the taxes are paid at farm level subject to local tax rules.

The value generated by our activities cascades further into societies via various types of tax payments that are either born or collected by the Arla group.

In line with our ambition to continuously increase transparency by disclosing details on our taxes, selected value drivers for tax and economic contribution are presented for the countries in which our farmers are based and collectively for the rest of the world.

Arla will continue to increase transparency on our tax reporting and implement the EU Directive on public country-by-country reporting by 2024 at the latest.

[1] Current and deferred taxes

INTERNAL CONTROLS AND COMPLIANCE

TO BE A COMPLIANT COMPANY AND PREVENT FRAUD ARE KEY BUSINESS PRIORITIES FOR ARLA. WE ARE COMMITTED TO ACTING WITH INTEGRITY, RESPECT AND IN A TRANSPARENT WAY ACCORDING TO PRINCIPLES SET IN OUR CODE OF CONDUCT. WE RECOGNISE THAT OUR REPUTATION AND SUCCESS ARE DEPENDENT ON THE BEHAVIOUR OF OUR EMPLOYEES, SO WE TAKE VIOLATIONS OF THE CODE OF CONDUCT SERIOUSLY.

Policy framework

We continuously work on improving our corporate policies to reflect local legislations and our values and commitments as stated in our Code of Conduct.
Our policies govern general employee behaviour in key areas of good business conduct, guide us to act responsibly and with integrity, and govern our ways of working as one aligned and efficient Arla.

Whistle-blower system

Arla's whistle-blower function provides employees and other stakeholders a channel, where they can anonymously report suspected non-compliance with Arla's Code of Conduct or criminal acts. The reports are made through an externally hosted function, and strict principles of confidentiality and non-retaliation applies. In 2022, Arla received 25 reports from its whistleblowing function. All reports qualifying as whistle-blower reports were further investigated, and appropriate measures have been taken for all substantiated reports.

Fraud investigations

Openness and trust are among our core values and incorporated into our Code of Conduct. If employees or our stakeholders believe that our Code of Conduct has been violated, we encourage them to report these violations.

In 2022, we saw an increase in the number of reported fraud allegations compared to 2021, from 14 to 18, which shows the increased trust in our anonymous reporting system. None of the investigations resulted in material financial losses to the group, but they provided us with valuable knowledge about the state of our control environment.

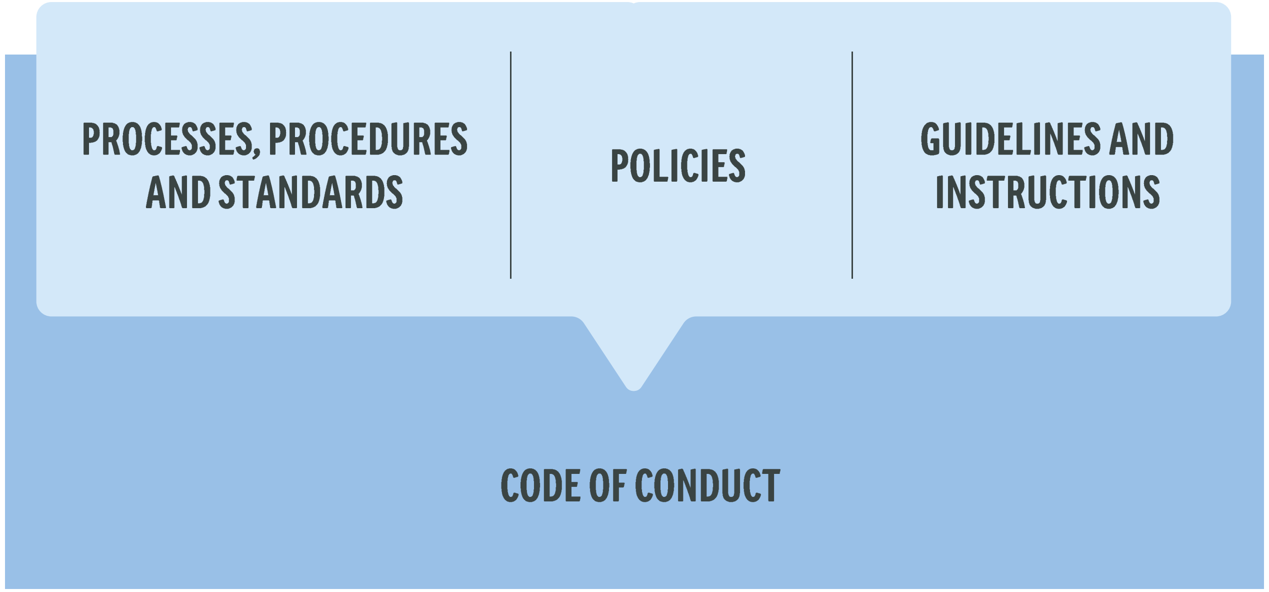
Data ethics policy

In 2022, Arla's data ethics policy was published on our internal policy portal. During the year, we carried out pilot testing of the policy principles in existing and new projects in some of our functional areas. We focused on including relevant employees in understanding how to evolve best practices and embed data ethics further in the business. The work will continue in 2023 with an awareness campaign and training of relevant employees.

Internal controls

We maintain a coherent system of internal controls, which are regularly assessed for effectiveness and adequacy.

In 2022, we expanded our control environment and reporting with climate-related financial disclosures in line with our strategic focus on sustainability and new external reporting requirements.



CONSOLIDATED FINANCIAL STATEMENTS

LURPAK® BUTTER

Lurpak® is our premium butter brand that has been crafted by Danish dairy farmers for over 100 years. Lurpak has a unique, rich and creamy taste due to the high-quality milk used, and craftsmanship applied in the production.

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REVENUE AND COSTS

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INCOME STATEMENT

(EURm)	Note	2022	2021	Development
Revenue	1.1	13,793	11,202	23%
Production costs	1.2	-11,145	-8,822	26%
Gross profit		**2,648**	**2,380**	**11%**
Sales and distribution costs	1.2	-1,771	-1,573	13%
Administration costs	1.2	-439	-427	3%
Other operating income	1.3	162	110	47%
Other operating costs	1.3	-131	-75	75%
Share of results after tax in joint ventures and associates	3.3	60	53	13%
Earnings before interest and tax (EBIT)		**529**	**468**	**13%**
Specification:				
EBITDA		1,001	948	6%
Depreciation, amortisation and impairment losses	1.2	-472	-480	-2%
Earnings before interest and tax (EBIT)		**529**	**468**	**13%**
Financial income	4.2	37	14	164%
Financial costs	4.2	-117	-75	56%
Profit before tax		**449**	**407**	**10%**
Tax	5.1	-49	-61	-20%
Profit for the year		**400**	**346**	**16%**
Allocated as follows:				
Arla Foods amba's share of profit for the year		382	332	15%
Non-controlling interests		18	14	29%
Total		**400**	**346**	**16%**

COMPREHENSIVE INCOME

(EURm)	Note	2022	2021
Profit for the year		**400**	**346**
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Remeasurements of defined benefit schemes	4.7	-1	-3
Tax on remeasurements of defined benefit schemes		2	10
Items that may be reclassified subsequently to the income statement:			
Value adjustments of hedging instruments	4.4	225	39
Fair value adjustment of certain financial assets		-3	-1
Adjustments related to foreign currency translation		-48	127
Tax on items that may be reclassified to the income statement		-19	-1
Other comprehensive income, net of tax		**156**	**171**
Total comprehensive income		**556**	**517**
Allocated as follows:			
Arla Foods amba's share		538	503
Non-controlling interests		18	14
Total		**556**	**517**

Comprehensive income

Comprehensive income consists of realised profit for the year and other value adjustments that have yet to be realised and are recognised directly in equity. Profit for the year amounted to EUR 400 million and other comprehensive income amounted to EUR 156 million. Other comprehensive income was primarily unrealised value adjustments on hedging instruments of EUR 225 million and adjustments related to foreign currency translation of EUR -48 million.

PROFIT APPROPRIATION

(EURm)	2022	2021
Profit for the year	400	346
Non-controlling interests	-18	-14
Arla Foods amba's share of profit for the year	**382**	**332**
Profit appropriation:		
Supplementary payment for milk	260	203
Interest on contributed individual capital	9	4
Total supplementary payment	**269**	**207**
Transferred to equity:		
Common capital (reserve for special purposes)	74	83
Individual capital (contributed individual capital)	39	42
Total transferred to equity	**113**	**125**
Appropriated profit	**382**	**332**

Profit appropriation

The supplementary payment for 2022 was EUR 269 million including interest. This corresponded to 2.2 EUR-cent/kg of owner milk. Contributed individual capital carried interest of 2.9 per cent in 2022, corresponding to EUR 9 million. The Board of Directors approved an half-year supplementary payment of EUR 61 million based on the first six months of owner milk deliveries. The remaining amount corresponding to EUR 208 million will be paid out in March 2023 subject to approval of the annual report by the Board of Representatives.

Arla's retainment policy prescribes a maximum of 1.0 EUR cent/kg of owner milk minus interest on individual contributed capital to be retained. In 2022, this equalled a retainment of 0.9 EUR cent/kg of owner milk, corresponding to EUR 113 million. According to the retainment policy, the retained earnings must be split 1/3 on individual capital (individual contributed capital) and 2/3 on common capital (reserve for special purposes). The amount allocated to common capital is reduced by EUR 9 million corresponding to the interest paid out in connection with the supplementary payment. In addition, the individual contributed capital was adjusted for amounts paid out to members who reached a ceiling of 7.5 EUR-cent of individual capital per kg of owner milk.

PROFIT FOR THE YEAR

3.1 EUR-cent/kg | **382** EURm

STANDARD PRE-PAID MILK PRICE

52.0 EUR-cent/kg

RETAINMENT

0.9 EUR-cent/kg | **113** EURm

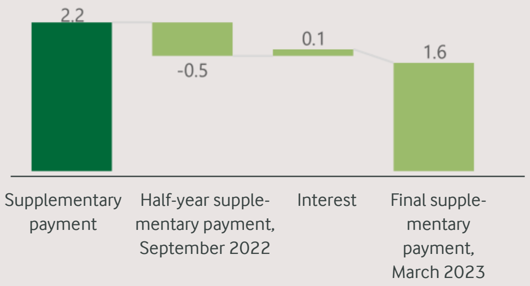
	EUR-cent/kg	EURm
Individual capital	0.3	39
Common capital	0.6	74

SUPPLEMENTARY PAYMENT

2.2 EUR-cent/kg | **269** EURm

	EUR-cent/kg	EURm
Supplementary payment, excluding interest	2.1	260
Interest	0.1	9

Cash flow of supplementary payment for 2022
(EURcent/kg)



* Please refer to Note 1.4.1 for further information on the performance price.

BALANCE SHEET

(EURm)	Note	2022	2021	Development
Assets				
Non-current assets				
Intangible assets and goodwill	3.1	954	946	1%
Property, plant, equipment and right-of-use assets	3.2	3,031	3,072	-1%
Investments in associates and joint ventures	3.3	565	530	7%
Deferred tax	5.1	22	21	5%
Pension assets	4.7	16	69	-77%
Other non-current assets		23	30	-23%
Total non-current assets		**4,611**	**4,668**	**-1%**
Current assets				
Inventory	2.1	1,772	1,248	42%
Trade receivables	2.1	1,267	1,007	26%
Derivatives	4.5	239	74	223%
Other receivables	2.1	319	285	12%
Securities	4.5	432	434	0%
Cash and cash equivalents		106	97	9%
Total current assets		**4,135**	**3,145**	**31%**
Total assets		**8,746**	**7,813**	**12%**

(EURm)	Note	2022	2021	Development
Equity and liabilities				
Equity				
Common capital		2,150	2,062	4%
Individual capital		540	542	0%
Other equity accounts		203	46	341%
Supplementary payment to owners		208	207	0%
Equity attributable to the owners of Arla Foods amba		**3,101**	**2,857**	**9%**
Non-controlling interests		67	53	26%
Total equity		**3,168**	**2,910**	**9%**
Liabilities				
Non-current liabilities				
Pension liabilities	4.7	161	245	-34%
Provisions	5.2	28	24	17%
Deferred tax	5.1	86	64	34%
Loans	4.3	2,640	2,113	25%
Total non-current liabilities		**2,915**	**2,446**	**19%**
Current liabilities				
Loans	4.3	709	628	13%
Trade payables and other payables	2.1	1,597	1,445	11%
Provisions	5.2	20	18	11%
Derivatives	4.5	36	86	-58%
Other current liabilities	2.1	301	280	8%
Total current liabilities		**2,663**	**2,457**	**8%**
Total liabilities		**5,578**	**4,903**	**14%**
Total equity and liabilities		**8,746**	**7,813**	**12%**

EQUITY

(EURm)	Common capital			Individual capital				Other equity accounts				Supplementary payment			
	Capital account	Reserve for special purposes	Total	Contributed individual capital	Delivery-based owner certificates	Injected individual capital	Total	Reserve for value adjustment of hedging instruments	Reserve for fair value through OCI	Reserve for foreign exchange adjustments	Total	Total	Equity attributable to the owners of Arla Foods amba	Non-controlling interests	Total equity
Equity at 1 January 2022	**889**	**1,173**	**2,062**	**334**	**61**	**147**	**542**	**-14**	**8**	**52**	**46**	**207**	**2,857**	**53**	**2,910**
Profit for the year	**-**	**74**	**74**	**39**	**-**	**-**	**39**	**-**	**-**	**-**	**-**	**269**	**382**	**18**	**400**
Other comprehensive income	-1	-	-1	-	-	-	-	225	-3	-65	157	-	156	-	156
Total comprehensive income	**-1**	**74**	**73**	**39**	**-**	**-**	**39**	**225**	**-3**	**-65**	**157**	**269**	**538**	**18**	**556**
Transactions with owners	2	-	2	-15	-5	-4	-24	-	-	-	-	-	-22	-	-22
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-11	-11
half-year supplementary payment	-	-	-	-	-	-	-	-	-	-	-	-61	-61	-	-61
Supplementary payment regarding 2021	-	-	-	-	-	-	-	-	-	-	-	-211	-211	-	-211
Foreign currency translation adjustments	13	-	13	-10	-1	-6	-17	-	-	-	-	4	-	7	7
Total transactions with owners	**15**	**-**	**15**	**-25**	**-6**	**-10**	**-41**	**-**	**-**	**-**	**-**	**-268**	**-294**	**-4**	**-298**
Equity at 31 December 2022	**903**	**1,247**	**2,150**	**348**	**55**	**137**	**540**	**211**	**5**	**-13**	**203**	**208**	**3,101**	**67**	**3,168**
Equity at 1 January 2021	**878**	**1,090**	**1,968**	**302**	**65**	**146**	**513**	**-53**	**9**	**-74**	**-118**	**223**	**2,586**	**53**	**2,639**
Profit for the year	**-**	**83**	**83**	**42**	**-**	**-**	**42**	**-**	**-**	**-**	**-**	**207**	**332**	**14**	**346**
Other comprehensive income	7	-	7	-	-	-	-	39	-1	126	164	-	171	-	171
Total comprehensive income	**7**	**83**	**90**	**42**	**-**	**-**	**42**	**39**	**-1**	**126**	**164**	**207**	**503**	**14**	**517**
Transactions with owners	1	-	1	-11	-4	-4	-19	-	-	-	-	-	-18	-	-18
Transactions with non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	-6	-6
Supplementary payment regarding 2020	-	-	-	-	-	-	-	-	-	-	-	-227	-227	-	-227
Foreign currency translation adjustments	3	-	3	1	-	5	6	-	-	-	-	4	13	-8	5
Total transactions with owners	**4**	**-**	**4**	**-10**	**-4**	**1**	**-13**	**-**	**-**	**-**	**-**	**-223**	**-232**	**-14**	**-246**
Equity at 31 December 2021	**889**	**1,173**	**2,062**	**334**	**61**	**147**	**542**	**-14**	**8**	**52**	**46**	**207**	**2,857**	**53**	**2,910**

EQUITY

Understanding equity

Equity accounts regulated by the Articles of Association can be divided into three main categories: common capital, individual capital and other equity accounts. The characteristics of each equity category are explained below.

Common capital

Common capital is by nature unallocated to individual members and consists of the capital account and the reserve for special purposes. The capital account represents a strong foundation for the cooperative's equity, as the non-impairment clause, described on the next page, ensures that the account cannot be used for payments to owners. The reserve for special purposes is an account that in extraordinary situations can be used to compensate owners for losses or impairment affecting the profit for appropriation. Amounts transferred from the annual profit appropriation to common capital are recognised in this account.

Individual capital

Individual capital is capital allocated to each owner based on their delivered milk volumes. Individual capital consists of contributed individual capital, delivery-based owner certificates and injected individual capital. Amounts registered in these accounts will, subject to approval by the Board of Representatives, be paid out if owners leave the cooperative. Amounts allocated to contributed individual capital as part of the annual profit appropriation are interest-bearing.

Other equity accounts

Other equity accounts include accounts prescribed by IFRS. These include reserves for value adjustments of hedging instruments, the reserve for fair value adjustments of certain financial assets and the reserve for foreign currency translation adjustments.

Supplementary payment

The account for proposed supplementary payment represents the transactions of supplementary payments in the year, and the balance represents the amount to be paid out following the approval of the annual report.

Non-controlling interests

Non-controlling interests represent the share of group equity attributable to holders of non-controlling interests in group companies.

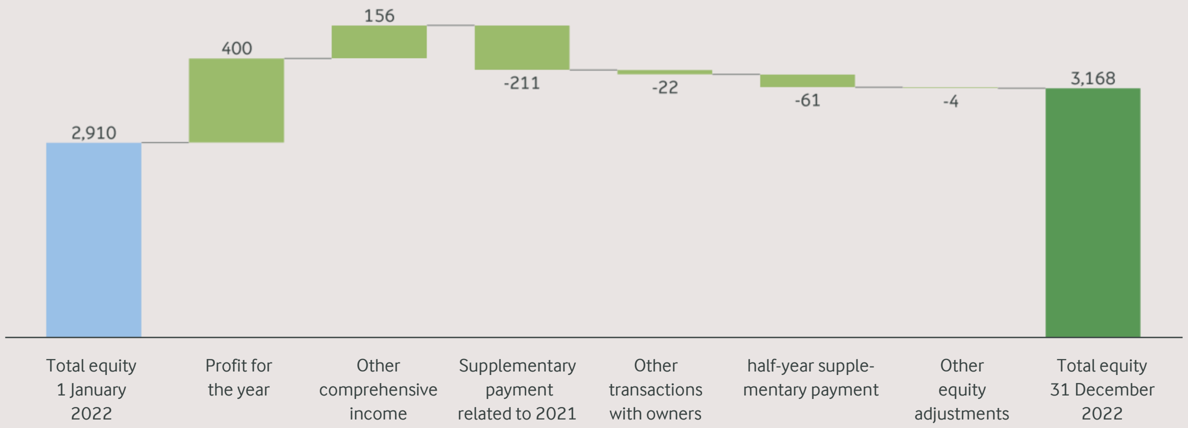
Development in equity

Equity increased by EUR 258 million in 2022, totalling EUR 3,168 million at 31 December 2022. The equity share was 35 per cent, calculated as equity excluding non-controlling interests of EUR 3,101 million divided by total assets of EUR 8,746 million.

Comprehensive income

Profit for the year amounted to EUR 400 million compared to EUR 346 million last year, and other comprehensive income amounted to EUR 156 million compared to EUR 171 million last year. Other comprehensive income included income and expenses as well as gains and losses that are excluded from the income statement and not realised at the balance sheet date. Other comprehensive income of EUR 156 million was due to positive value adjustments on hedging instruments, negative value adjustments on net assets measured in foreign currencies, and remeasurement of pension assets and liabilities.

Development in equity
(EURm)



Transactions with farmer owners

The Board of Directors decided to pay out an half-year supplementary payment of EUR 61 million for milk deliveries in the first six months of the year. An additional supplementary payment of EUR 208 million was proposed to be paid out subject to the Board of Representatives' approval of the annual report. This adds up to a total supplementary payment of EUR 269 million for the year, which includes interest on individual contributed capital.

A supplementary payment related to 2021 totalling EUR 211 million was paid out in March 2022. Other transactions with farmer owners amounted to EUR 22 million net. They consisted of EUR 24 million paid out to owners resigning or retiring from the cooperative and an amount of EUR 2 million relating to payments from new members.

In 2023, it is expected that EUR 25 million will be paid out to owners resigning or retiring, subject to approval by the Board of Representatives.

Other equity adjustments

Other equity adjustments amounted to EUR -4 million compared to EUR -14 million last year. Other equity adjustments related to transactions with non-controlling interests of EUR -11 million and foreign exchange rate adjustments of EUR 7 million.

EQUITY

Accounting policies and regulations according to the Articles of Association and IFRS

Common capital
Technical items such as remeasurement of defined benefit pension schemes, effects of disposals and acquisitions of non-controlling interests in subsidiaries and exchange rate differences in equity instruments issued to owners are recognised in the capital account. Furthermore, the capital account is impacted by agreed contributions from new owners of the cooperative.

The annual profit appropriation to common capital is recognised in the reserve for special purposes. It may, upon the Board of Director's proposal, be applied by the Board of Representatives for the full or partial offsetting of material extraordinary losses or impairment in accordance with article 20.1(iii) of the Articles of Association.

Individual capital
Individual capital instruments are regulated in article 20 of the Articles of Association and the general membership terms.

Equity instruments issued as *contributed individual capital* relate to amounts transferred as part of the annual profit appropriation. The individual balances carry interest at 12 months CIBOR + 1.5 per cent which are approved and paid out together with the supplementary payment in connection with the annual profit appropriation.

Delivery-based owner certificates are equity instruments issued to the original Danish and Swedish owners. Issue of these instruments ceased in 2010.

Injected individual capital is equity instruments issued in connection with cooperative mergers and when new owners enter the cooperative.

Balances on delivery-based owner certificates and injected individual capital instruments carry no interest.

Balances on contributed individual capital, delivery-based owner certificates and injected individual capital can be paid out over three years upon termination of membership of Arla Foods amba in accordance with the Articles of Association, subject to approval by the Board of Representatives. Balances are denominated in the currency relevant to the country in which owners are registered. Foreign currency translation adjustments are calculated annually and the effect is transferred to the capital account.

Proposed supplementary payment to owners is recognised separately in equity until approved by the Board of Representatives.

Other equity accounts
Reserve for value adjustments of hedging instruments comprises the fair value adjustment of derivatives classified as and meeting the conditions for hedging of future cash flows where the hedged transaction has not yet been realised.

Reserve for fair value adjustments through OCI comprises the fair value adjustments of mortgage credit bonds classified as financial assets measured at fair value through other comprehensive income.

Reserve for foreign currency translation adjustments comprises foreign currency translation differences arising during the translation of the financial statements of foreign companies, including value adjustments relating to assets and liabilities that constitute part of the group's net investment and value adjustments relating to hedging transactions securing the group's net investment.

Non-impairment clause
Under the Articles of Association, no payment may be made by Arla Foods amba to owners which impairs the sum of the capital account and equity accounts prescribed by law and IFRS. The non-impairment clause is assessed on the basis of the most recent annual report presented under IFRS. Individual capital accounts and the reserve for special purposes are not covered by the non-impairment clause.

No pay-out of individual capital can be made without retainment of a corresponding amount in either the cooperative's unallocated equity, the individual capital accounts or the reserve for special purposes as specified in article 20.1.(i), (ii) and (iii) of the Articles of Association.

Non-controlling interests
Subsidiaries are fully recognised in the consolidated financial statements. Non-controlling interests' share of the profit for the year and of the equity in subsidiaries is recognised as part of the consolidated profit and equity, respectively, but is listed separately.

On initial recognition, non-controlling interests are measured at either the fair value of the equity interest or the proportional share of the fair value of the acquired companies' identified assets, liabilities and contingent liabilities. The measurement of non-controlling interests is selected on a transactional basis.

Milk payment to owners
The on-account settlement of owner milk is recognised as a production cost in the income statement.

The supplementary payment is based on the profit for the year as part of the profit appropriation. The supplementary payment is recognised as a reserve in the equity statement until approved by the Board of Representatives, based on a recommendation by the Board of Directors.

The supplementary payment is settled as an half-year supplementary payment based on the first six months of milk deliveries, and a final supplementary payment at year-end. The half-year supplementary payment for the year was recognised in equity.

CASH FLOW

(EURm)	Note	2022	2021
EBITDA		1,001	948
Reversal of share of profit in joint ventures and associates	3.3	-60	-53
Reversal of other operating items without cash impact		21	-80
Change in net working capital	2.1	-707	-90
Change in other receivables and other current liabilities		11	103
Dividends received, joint ventures and associates		15	24
Interest paid		-67	-45
Interest received		23	8
Taxes paid		-53	-35
Cash flow from operating activities		**184**	**780**
Investment in intangible assets	3.1	-92	-45
Investment in property, plant and equipment	3.2	-373	-452
Sale of property, plant and equipment	3.2	13	13
Operating investing activities		-452	-484
Acquisition of financial assets		-16	-26
Sale of financial assets		17	14
Sale of enterprises		8	14
Financial investing activities		9	2
Cash flow from investing activities		**-443**	**-482**

(EURm)	Note	2022	2021
half-year supplementary payment		-61	-
Supplementary payment regarding 2021		-211	-227
Transactions with owners		-22	-18
Transactions with non-controlling interests		-11	-6
New loans obtained	4.3.c	810	172
Other changes in loans	4.3.c	-143	-147
Payment of lease debt	4.3.c	-71	-73
Payment to pension plans	4.3.c	-22	-31
Cash flow from financing activities		**269**	**-330**
Net cash flow		**10**	**-32**
Cash and cash equivalents at 1 January		97	126
Net cash flow for the year		10	-32
Exchange rate adjustment of cash funds		-1	3
Cash and cash equivalents at 31 December		**106**	**97**

(EURm)	Note	2022	2021
Free operating cash flow			
Cash flow from operating activities		184	780
Cash flow from operating investing activities		-452	-484
Free operating cash flow		**-268**	**296**
Free cash flow			
Cash flow from operating activities		184	780
Cash flow from investing activities		-443	-482
Free cash flow		**-259**	**298**

CASH FLOW

Cash flow development

Cash flow from operating activities decreased by 76.4 per cent to EUR 184 million compared to EUR 780 million last year, primarily driven by cash tied up in increased net working capital positions. Higher milk prices and inflation in production costs in general drove up the net working capital positions and resulted in a negative cash flow effect from net working capital of EUR 707 million.

Cash flow from investing activities amounted to EUR 443 million compared to EUR 482 million last year. CAPEX investments amounted to EUR 373 million compared to EUR 452 million last year. Several of prior years' significant investment projects were finalised, and new investments included investments in a capacity increase for milk-based beverages in Esbjerg, Denmark, a packaging equipment upgrade in Oakthorpe, UK, and growth investments in Arla Foods Ingredients.

Investments in intangible assets amounted to EUR 92 million compared to EUR 45 million last year. The increase was primarily due to investments in a general upgrade of our SAP platform.

The effect of financial investing activities was EUR 9 million net and related to proceeds paid and received from various minor activities.

Cash flow from financing activities was positive at EUR 269 million compared to a negative cash flow of EUR 330 million last year, comprising transactions with owners and the effect of funding activities inclusive cash management. Transactions with owners constituted a negative cash flow of EUR 294 million, specified as an half-year supplementary payment of E UR 61 million, a supplementary payment regarding 2021 of EUR 211 million and a net payment of individual capital of EUR 22 million.

The net cash flow from other financing activities was EUR 563 million, consisting of new loans obtained amounting to EUR 810 million and repayments of EUR 236 million. Please refer to Note 4.3 for more details.

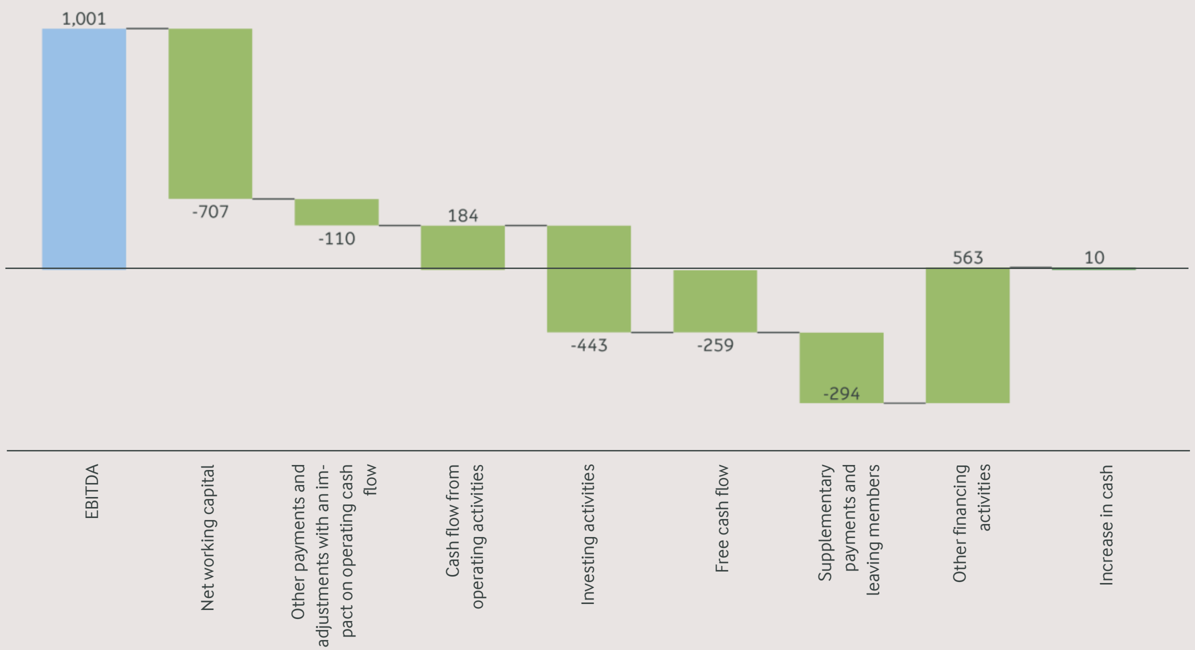
Cash and cash equivalents at 31 December 2022 amounted to EUR 106 million compared to EUR 97 million last year.

An insignificant amount of cash and cash equivalents at 31 December 2022 was deposited in restricted accounts.

Accounting policies

The consolidated cash flow statement is presented according to the indirect method, with cash flow from operating activities determined by adjusting EBITDA for the effects of non-cash items such as undistributed profit in joint ventures and associates, changes in working capital items and other non-cash items.

Illustration of cash flow
(EURm)



INTRODUCTION TO NOTES

THE NOTES ARE STRUCTURED IN FIVE SECTIONS WITH ADDITIONAL DISCLOSURES TO SUPPLEMENT THE PRIMARY FINANCIAL STATEMENTS.

NOTE 1 REVENUE AND COSTS

with details on the group's performance and rentability.

NOTE 2 NET WORKING CAPITAL

with development and composition of the group's inventory and trade balances.

NOTE 3 CAPITAL EMPLOYED

providing details on production capacity, intangible assets and financial investments.

NOTE 4 FUNDING

with details on funding of the group's activities.

NOTE 5 OTHER AREAS

providing additional disclosures including tax cost and management remuneration, general accounting principles and accounting policies are described in Note 5.

Basis for preparation

The consolidated financial statements are based on the group's monthly reporting procedures. Group entities are required to report using standard accounting principles in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

The consolidated financial statements are prepared on a going concern basis. Please refer to Note 5.7 for the group's general accounting principles and applied accounting policies.

In response to the Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority (ESMA), we have provided additional information on the APMs used by the group. These APMs, and in particular the performance price, are deemed critical to understanding the financial performance and financial position of the group. As they are not defined by IFRS, they may not be directly comparable with those of other companies that use similar measures. Definitions are provided in the glossary and supported by the calculations in Note 1.4. The group's general accounting principles are disclosed in Note 5.7, while accounting policies for the respective areas are explained in the relevant note sections.

Applying materiality

Our focus is to present information that is considered of material importance to our stakeholders in a simple and structured way.

Considering the potential future impact of strategic risks

When preparing the consolidated financial statements, identified strategic risks were considered. In addition to the going concern assumption applied, market and regulatory risks – including sustainability-related risks – were considered. In addition to the potential direct impact on Arla's performance, these risks could potentially also negatively impact future milk volumes delivered by the owners of Arla Foods amba and thereby indirectly the future value in use of certain parts of the asset base. These risks are monitored closely and no material impairments were identified. An assessment of the impact of risk on future performance is by nature subject to judgement, and different conclusions could materialise in the future. Please refer to pages 27-32 for more details on strategic risks.

Currency exposure

The group's financial position is significantly exposed to currencies, both due to transactions conducted in currencies other than the EUR and due to the translation of financial reporting from entities not part of the euro zone. The most significant exposure relates to financial reporting from entities operating in GBP and SEK, and to transactions involving sales in USD or USD-related currencies. Please refer to page 29 for more details on currencies as part of the strategic risks and to Note 4.1.

Special focus areas for 2022

Comparability

The group's activity level is normally determined by the volume of milk delivered by the owners and by the success of moving milk volumes into branded positions and to international markets. 2022 was yet another very unusual year with general macroeconomic uncertainty leading to unexpectedly high inflation and record high commodity prices, especially in the dairy sector. This resulted in record high revenue based on stable milk volumes delivered. Arla's performance was negatively impacted by a historical increase in our cost base which was only partly mitigated by the short-term effects of hedging.

Although this on a net basis led to a correspondingly historical high performance price, our owners – based on the increased costs on their farms – hesitated and only late in 2022 started to increase milk volumes.

Funds tied up in net working capital positions increased dramatically, leading to a corresponding increase in net-interest bearing debt. Despite this Arla succeeded in keeping leverage at 3.0, comfortably within our target range of 2.8 to 3.4.

The unexpected development in 2022 makes comparison with previous years difficult – both from a performance perspective and from a financial position perspective. As the volatility and uncertainty continues into 2023, predictions are difficult and stakeholders should not expect the reported results to be representative of the coming years.

INTRODUCTION TO NOTES

Valuation of inventory
Due to the macroeconomic volatility and the related effect on commodity prices, the valuations of individual cost components (such as milk-based components, additives, packaging, energy etc.) in our standard cost models were frequently updated throughout 2022 and thoroughly reviewed at 31 December 2022.

The conversion from standard cost to reflect cost at the time of production for the individual inventory categories was also carefully assessed.

Furthermore, net realisable value was assessed based on the price development in milk commodity products in particular at the end of the year. Please refer to Note 2.1 Inventory for more details.

Valuation of certain assets and liabilities based on projection of expected future cash flow
Due to the significant increases in interest rates, the valuation of goodwill, gross pension liabilities and interest hedging instruments was carefully considered. The increased interest rates negatively impacted the headroom for certain goodwill positions, reduced the gross pension liability and significantly increased the value of fixed rate interest hedging contracts. Please refer to Note 3.1 Goodwill, Note 4.4 Hedging instruments and Note 4.7 Pension liabilities for more details.

Classification of power purchase agreements
Arla has set ambitious targets for CO_2e emission reductions, both on farm (scope 3) and within Arla's dairy production (scopes 1 and 2).

A new incentive model for owners will be introduced during the summer of 2023, allowing up to 3 EUR-cent per kg of delivered milk to be paid if certain sustainability initiatives on the farm are realised. This is one of the key levers to achieve CO_2e savings on farm and is expected to have a positive effect on sales and the value of our brands.

To support the reduction of scope 1 and 2 CO_2e emissions, Arla signed a ten-year power purchase agreement (PPA) in 2022 providing annual savings of 58,000 tonnes of CO_2e. The PPA is structured as a supplier contract which is not classified as a lease or derivative, and thus will not have any significant impact on Arla's financial position or income statement going forward. Please refer to page 41 for further information on the PPA.

Climate-related risks in the financial statements

Climate related risks are high on the agenda at Arla. The management has assessed the impact on the consolidated financial statements from such risks and the initiatives that have been implemented or will be implemented in order to mitigate these risks. There was no material impact on the consolidated financial statements 2022 from climate changes or the action taken to address climate-related risks. Potential future impacts were also evaluated.

Please refer to the Risks and opportunities section on pages 27-32 and the Environmental ambition and progress section on pages 33-44 in the management review for descriptions of the risks and progress on sustainability.

Points of consideration are described below.

Risk of decline in milk volumes
The milk supply from farmer owners declined slightly during 2022. Climate-related risks that can potentially accelerate this development in the future are:

- Regulations to reduce emissions from agricultural activities. The Danish government has committed to introducing a carbon tax on methane and nitrous oxide emissions from agricultural activities. Our Danish farmer owners will be subject to this tax; however, the details regarding the level and the implementation of the tax are currently unclear. The tax would increase production costs and could potentially force farmers to reduce production or leave the business. Initiatives implemented and backed by our Future26 strategy are targets for the reduction of scope 3 CO_2e emissions supported by an incentive model rewarding sustainability actions on farms.
- Extreme weather events like heat waves, draughts or floods which can have a negative impact on crop yields and cows' productivity.
- Land use regulations to reach EU climate targets of converting agricultural land to woodlands which could potentially reduce the production of cow feed and shrink herd numbers on farms.

Risk of increased production cost
Climate-related risks that could potentially affect the future of dairy operations are:

- Regulations to reduce emissions from production. Denmark has proposed an emission tax on industry operations. Arla's operations will be impacted by this. There is the potential for other countries to follow Denmark and introduce similar taxes or employ other regulatory tools to reduce emissions in the future. This would make dairy production more expensive compared to countries where such initiatives are not implemented, which would harm Arla's competitiveness. We are constantly lowering CO_2e emissions from operations which is supported by the Future26 strategy's science-based target of lowering scope 1 and 2 CO_2e emissions by 63 per cent by 2030.
- The transformation of consumer behaviour driven by consumers pushing for more sustainable products increases the need for sustainable dairy production to stay competitive.

Risk of impairment of production capacity
As a consequence of the above climate-related risks, Arla could face impairment of its production capacity due to:

- Equipment becoming outdated in the sustainability transformation
- Excess production capacity if milk volumes and operations decline.

The potential consequences of the above were considered as part of our impairment test conducted during 2022 and our assessment of the value in use of property, plant and equipment. Non-current assets in the balance sheet were not affected by such impairment in 2022. Sustainability is now an integral part of all CAPEX investments which ensures future investments to address the risks identified.

Significant accounting estimates and judgements

Preparing the group's consolidated financial statements requires management to apply accounting estimates and judgements that affect the recognition and measurement of the group's assets, liabilities, income and expenses. The estimates and judgements are based on historical experience and other factors. By nature, these are associated with uncertainty and unpredictability which can have a significant effect on the

Note	Significant accounting estimates and judgements	Estimate/ Judgement
1.1	Measurement of revenue and rebates	Estimate
2.1	Valuation of inventory	Estimate
2.1	Measurement of trade receivables	Estimate
3.1	Valuation of goodwill	Estimate
3.3	Classification of investments	Judgement
4.7	Valuation of pension plans	Estimate
5.1	Tax	Estimate

REVENUE AND COSTS
1.1 REVENUE

amounts recognised in the consolidated financial statements. The most significant accounting estimates are listed below with reference to further comments in the notes.

Revenue development

Revenue increased by 23.1 per cent to EUR 13,793 million compared to EUR 11,202 million last year. The increase was driven by price increases both in commodities and retail due to stagnating global milk supply and general inflation.

Strategic branded sales volumes declined by 3.2 per cent compared to an increase of 4.5 per cent last year. The price increases negatively impacted volumes sold within our branded positions as some consumers started buying cheaper products. The negative volume development was also due to a shift back to less home cooking and more food service after a couple of years of strong volume growth during the Covid-19 pandemic.

Europe is Arla's largest commercial segment, accounting for 56.3 per cent of total revenue, compared to 59.1 per cent last year. Revenue in Europe increased to EUR 7,771 million compared to EUR 6,621 million last year. The increase was driven by higher prices. Strategic branded revenue in Europe declined by 4.2 per cent primarily driven by Lurpak®.

The International segment accounted for 17.9 per cent of total revenue compared to 18.8 per cent last year. Revenue in International increased to EUR 2,463 million compared to EUR 2,101 million last year, driven by prices and positive foreign exchange rate effects from USD.

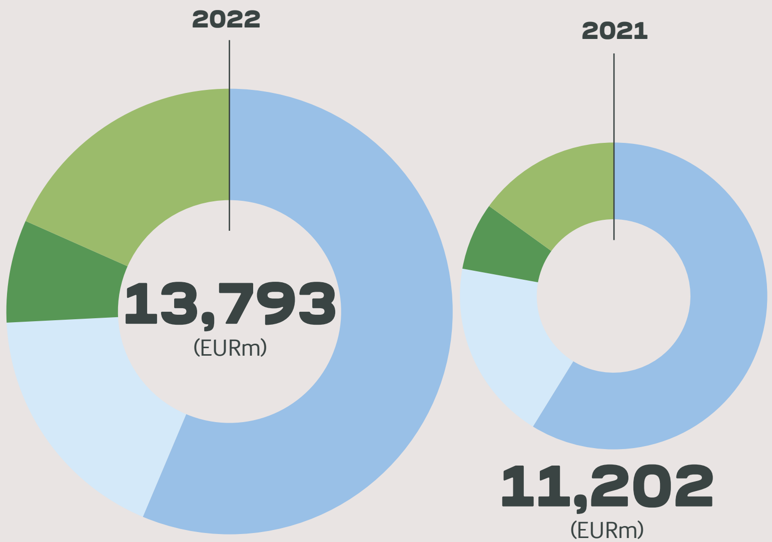
Arla Foods Ingredients accounted for 7.5 per cent of total revenue compared to 7.1 per cent last year. Revenue increased to EUR 1,028 million compared to EUR 793 million last year, mainly driven by price increases.

Global Industry Sales and other segments represented 18.3 per cent of total revenue, growing by 50.1 per cent to EUR 2,531 million compared to EUR 1,686 million last year. The significant increase was due to commodity price increases, primarily driven by stagnating global milk supply.

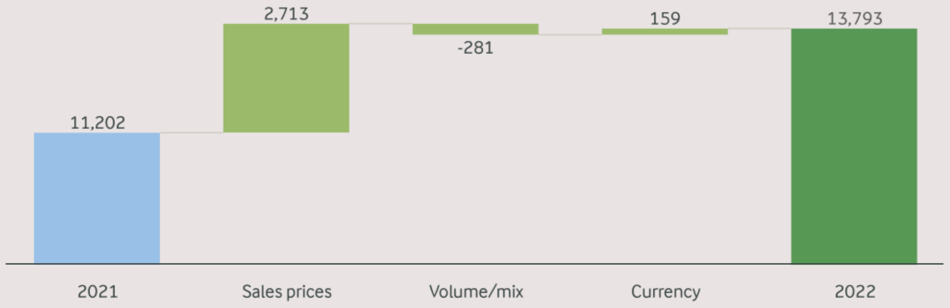
Revenue was positively impacted by foreign exchange rate movements of EUR 159 million, primarily driven by USD.

Revenue split by commercial segment

Europe 56% (59%)
International 18% (19%)
Arla Foods Ingredients 8% (7%)
Global Industry Sales and other sales 18% (15%)



Development in revenue
(EURm)



REVENUE AND COSTS
1.1 REVENUE

Table 1.1.a shows total revenue by country and includes all sales that occur in the countries, irrespective of organisational structure. Therefore, the figures cannot be compared to our commercial segment review on pages 19-24.

Table 1.1.a Revenue split by country

(EURm)	2022	2021	Share of revenue in 2022
United Kingdom	3,474	2,891	25%
Germany	1,737	1,301	13%
Sweden	1,717	1,546	12%
Denmark	1,306	1,082	9%
Netherlands	775	598	6%
Saudi Arabia	468	342	3%
Finland	337	309	2%
China	328	419	2%
Oman	302	158	2%
USA	278	215	2%
Other*	3,071	2,341	22%
Total	**13,793**	**11,202**	**100%**

**Other countries include, among others, Belgium, Canada, UAE, Spain, France, Australia*

Table 1.1.b - Revenue split by brand

(EURm)	2022	2021
Arla	3,702	3,359
Lurpak	750	646
Puck	504	383
Castello	239	192
Milk-based beverage	353	293
Other supported brands	746	599
Strategic branded revenue	**6,294**	**5,472**
Arla Foods Ingredients	1,028	794
Global Industry Sales, private label and other	6,471	4,936
Total	**13,793**	**11,202**

Accounting policies

Revenue is recognised when a contract exists with a customer for the production and transfer of dairy products across various product categories and geographical regions. Revenue by commercial segment or market is based on the group's internal financial reporting practices.

Revenue is recognised in the income statement when a performance obligation is satisfied at the price allocated to that performance obligation. This is defined as the point in time when control of the products has been transferred to the buyer, the amount of revenue can be measured reliably and collection is probable. The transfer of control to customers takes place according to trade agreement terms, i.e. Incoterms, and may vary depending on the customer or the specific trade.

Revenue comprises invoiced sales for the year less customer-specific payments, such as sales rebates, cash discounts, listing fees, promotions, VAT and duties. Contracts with customers may contain various types of discounts. Historical experience is used to estimate discounts in order to correctly recognise revenue.

Furthermore, revenue is only recognised when it is highly probable that a material reversal in the amount of revenue will not occur. This is generally the case when control of the product is transferred to the customer, also taking into consideration the level of rebates.

The vast majority of all contracts have short payment terms. Therefore, an adjustment of the transaction price with regard to a financing component in the contracts with customers is not required.

Uncertainties and estimates

Revenue, net of rebates, is recognised when the goods are transferred to the customer. Estimates are applied when measuring accruals for rebates and other sales incentives. The majority of rebates are calculated based on terms agreed with the customer. For some customer relationships, the final settlement of the rebate depends on future sales volumes, prices and other incentives. As a result, there is an element of estimation and judgement in determining whether performance obligations are achieved. Estimates are based on historical experience and forecasted future sales.

The increased selling prices in 2022 led to increased rebates. Final settlement of these is not expected to be subject to greater uncertainty than in previous years.

Since Arla's main line of business is the sale of fresh dairy products, returns are rare and therefore do not require specific accounting disclosures.

REVENUE AND COSTS
1.2 OPERATIONAL COSTS

Operational cost development

Operational costs amounted to EUR 13,355 million, up 19.0 per cent compared to last year. The increase was mainly driven by higher milk prices paid to farmer owners and by inflation in production costs and other operational costs.

Production costs increased by 26.3 per cent to EUR 11,145 million compared to EUR 8,822 million last year. Excluding costs of raw milk, production costs increased to EUR 3,965 million compared to EUR 3,599 million last year, representing an increase of 10.2 per cent. The increase was driven by higher energy prices and inflation in other production materials such as packaging, consumables and utilities.

Sales and distribution costs increased by 12.6 per cent to EUR 1,771 million compared to EUR 1,573 million last year. The increase was mainly driven by higher transport costs. Research and development costs amounted to EUR 86 million compared to EUR 89 million last year.

Administration costs rose by 2.8 per cent to EUR 439 million compared to EUR 427 million last year.

The volatility of the external environment, especially the swings in raw milk availability, put pressure on our transformation and efficiency programme, Fund our Future. However, we reached the expected net savings target of EUR 101 million, primarily delivered by overperformance in net revenue management, International net productivity and a lower marketing spend. EUR 26 million related to improved revenue and EUR 75 million related to cost efficiencies.

Cost of raw milk

The cost of raw milk increased by 37.5 per cent to EUR 7,180 million compared to EUR 5,223 million last year.

Owner milk

Costs related to owner milk increased by EUR 1,899 million due to a higher average pre-paid milk price. Arla's average pre-paid milk price increased to 52.0 EUR-cent/kg in 2022 compared to 37.0 EUR-cent/kg last year, which constitutes a 40.5 per cent increase.

Other milk

The cost of other milk increased by EUR 58 million due to higher prices, partly offset by lower volumes in the UK and the Netherlands. Other milk consists of speciality milk and other contract milk acquired to meet local market demand.

Staff costs and number of FTEs

Staff costs increased by 4.9 per cent to EUR 1,427 million compared to EUR 1,360 million last year. Staff costs increased due to additional FTEs in Arla Foods Ingredients, continued in-sourcing of IT activities and regular salary increases.

The total number of FTEs increased to 20,907 compared to 20,617 last year. Please refer to the ESG section, Note 1.2, for further details.

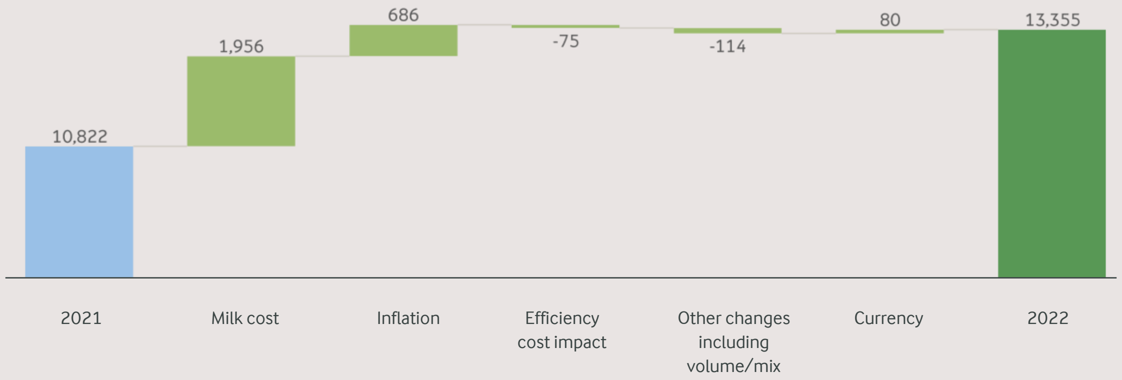
Marketing spend

The marketing spend was consistent with last year and amounted to EUR 240 million.

Depreciation, amortisation and impairment

Depreciation, amortisation and impairment were consistent with last year and amounted to EUR 472 million.

Development in operational costs
(EURm)



REVENUE AND COSTS
1.2 OPERATIONAL COSTS

Cost split by type

- Weighed-in raw milk 49% (48%)
- Other production materials* 17% (18%)
- Staff costs 13% (13%)
- Transport costs 7% (7%)
- Marketing costs 2% (2%)
- Depreciation, amortisation and impairment 4% (4%)
- Other costs** 8% (8%)

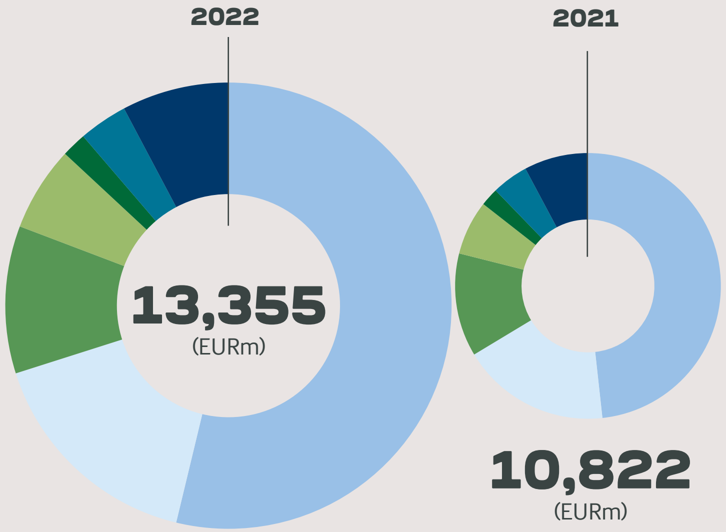


Table 1.2.a Operational costs split by function and type

(EURm)	2022	2021
Production costs	11,145	8,822
Sales and distribution costs	1,771	1,573
Administration costs	439	427
Total	**13,355**	**10,822**
Specification:		
Weighed-in raw milk	7,180	5,223
Other production materials*	2,181	1,959
Staff costs	1,427	1,360
Transport costs	820	718
Marketing costs	240	238
Depreciation, amortisation and impairment	472	480
Other costs**	1,035	844
Total	**13,355**	**10,822**

**Other production materials include packaging, additives, consumables, variable energy and changes in inventory*
***Other costs mainly include maintenance, utilities and IT*

Table 1.2.b Weighed-in raw milk	2022		2021	
	Mkg	EURm	Mkg	EURm
Owner milk	12,494	6,661	12,518	4,762
Other milk	961	519	1,128	461
Total	**13,455**	**7,180**	**13,646**	**5,223**

REVENUE AND COSTS
1.2 OPERATIONAL COSTS

Table 1.2.c Staff costs

(EURm)	2022	2021
Wages, salaries and remuneration	1,239	1,177
Pensions – defined contribution plans	90	83
Pensions – defined benefit plans	1	5
Other social security costs	97	95
Total	**1,427**	**1,360**
Staff costs relate to:		
Production costs	800	756
Sales and distribution costs	412	394
Administration costs	215	210
Total	**1,427**	**1,360**
Average number of full-time employees	20,907	20,617

Table 1.2.d Depreciation, amortisation and impairment

(EURm)	2022	2021
Intangible assets, amortisation	61	74
Property, plant and equipment and RoU, depreciation	411	406
Total	**472**	**480**
Depreciation, amortisation and impairment relate to:		
Production costs	336	329
Sales and distribution costs	67	75
Administration costs	69	76
Total	**472**	**480**

Accounting policies

Production costs

Production costs cover direct and indirect costs related to production, including volume movements in inventories and related inventory revaluation. Direct costs comprise purchase of milk from owners, inbound transport costs, packaging, additives, consumables, energy and variable salaries directly related to production. Indirect costs comprise other costs related to the production of goods, including depreciation and impairment losses on production-related materials and other supply chain-related costs. The purchase of milk from cooperative owners is recognised at pre-paid prices for the accounting period and therefore does not include the supplementary payment, which is classified as distributions to owners and recognised directly in equity.

Sales and distribution costs

Costs relating to sales staff, write-downs on receivables, sponsorships, research and development, depreciation and impairment losses are recognised as sales and distribution costs. Sales and distribution costs also include marketing expenses relating to investments in the group's brands, such as the development of marketing campaigns, advertising, exhibits etc.

Administration costs

Administration costs relate to management and administration, including administrative staff, office premises and office costs as well as depreciation and impairment.

REVENUE AND COSTS
1.3 OTHER OPERATING INCOME AND COSTS

Other income and costs

Other operating income and costs, net, amounted to EUR 31 million compared to EUR 35 million last year.

The net income of EUR 31 million was primarily attributable to commodity hedging of EUR 72 million, sales of surplus electricity of EUR 26 million and positive currency hedging of EUR 8 million. This was offset by negative currency hedging of EUR 76 million and a loss due to the divestment of the Russian activities of EUR 19 million.

Accounting policies

Other operating income and costs consist of items outside the regular course of dairy business activities, including items such as gains and losses relating to the settlement of disputes, revaluation gains from the step acquisition of entities, the net result of financial hedging activities and the net result of the production and sale of energy from our biogas plants. Furthermore, this item includes gains and losses from disposal of non-current assets and divestment of entities.

Table 1.3 Other operating income, net

(EURm)	2022	2021
Sale of electricity	58	28
Income from hedging instruments transferred from equity	80	36
Gains on disposal of intangible assets and PP&E	11	17
Other items	13	29
Other operating income	**162**	**110**
Costs related to sale of electricity	-32	-24
Costs of hedging instruments transferred from equity	-76	-38
Other items	-23	-13
Other operating costs	**-131**	**-75**

REVENUE AND COSTS
1.4 KEY PERFORMANCE INDICATORS

1.4.1 PERFORMANCE PRICE

Financial comments

Arla's performance price is a key measure of our overall performance, expressing the value added to each kg of milk supplied by our farmer owners. The performance price is calculated as the standardised pre-paid milk price included in production costs, plus Arla Foods amba's share of the profit attributable to farmer owners, divided by the weighed-in milk volume in 2022. The performance price was 55.1 EUR-cent/kg of owner milk compared to 39.7 EUR-cent/kg of owner milk last year.

The alternative performance measures disclosed in Note 1.4 are key performance indicators for the group. They are not an IFRS requirement.

Table 1.4.1 Performance price

	2022			2021		
	EURm	Mkg	EUR-cent/kg	EURm	Mkg	EUR-cent/kg
Owner milk	6,661	12,494	53.3	4,762	12,518	38.0
Adjustment to standard milk (4.2% fat, 3.4% protein)			-1.3			-1.0
Arla Foods amba's share of profit for the year	382		3.1	332		2.7
Total		**12,494**	**55.1**		**12,518**	**39.7**

REVENUE AND COSTS
1.4 KEY PERFORMANCE INDICATORS

1.4.2 STRATEGIC BRANDED VOLUME-DRIVEN REVENUE GROWTH

Financial comments
Volume-driven revenue growth (VDRG) is defined as revenue growth derived from growth in volumes keeping prices constant.

VDRG of strategic brands is a performance measure applied to support and understand the non-price revenue growth and performance of our branded business.

Strategic branded VDRG decreased by 3.2 per cent in 2022 after significant increases in the last two years. Although the demand for branded products remains high in the retail sector, the inflationary price increases meant that some customers turned to cheaper non-branded products.

Accounting policies
Strategic branded volume-driven revenue growth (strategic branded VDRG) is a measure of the share of revenue growth relative to volumes.

Volume-driven revenue is calculated by keeping prices fixed year on year.

Strategic branded VDRG is calculated as the volume growth of EUR -176 million divided by total strategic branded revenue last year of EUR 5,472 million and amounted to -3.2 per cent in 2022.

Table 1.4.2 Strategic branded volume-driven revenue growth

(EURm)	2022	2021
Strategic branded revenue last year	5,472	5,156
Strategic branded VDRG	-176	230
Price and exchange rate adjustments	998	86
Strategic branded revenue	**6,294**	**5,472**
Strategic branded volume-driven revenue growth, %	**-3.2%**	**4.5%**

1.4.3 PROFIT SHARE

Financial comments
Arla's profit share is targeted at 2.8-3.2 per cent of revenue, calculated on the basis of the profit attributable to our farmer owners.

In 2022, the profit attributable to our farmer owners amounted to EUR 382 million compared to EUR 332 million last year. This corresponded to 2.8 per cent of revenue, or 3.1 EUR-cent/kg of milk delivered, and was distributed to the supplementary payment and retainment as disclosed in the statement of profit appropriation.

Accounting policies
The profit share is a measure of profit relative to revenue, calculated as Arla Foods amba's share of profit for the year divided by total revenue.

The profit share is calculated as EUR 382 million divided by EUR 13,793 million and came to 2.8 per cent in 2022.

Table 1.4.3 Profit share

(EURm)	2022	2021
Revenue	13,793	11,202
Profit for the year	400	346
Profit relating to non-controlling interests	-18	-14
Profit attributable to farmer owners	**382**	**332**
Profit share	**2.8%**	**3.0%**

NET WORKING CAPITAL
2.1 NET WORKING CAPITAL, OTHER RECEIVABLES AND CURRENT LIABILITIES

Net working capital development

Net working capital increased by EUR 632 million to EUR 1,442 million compared to EUR 810 million last year, representing an increase of 78 per cent on last year. The increase was driven by higher inventory and trade receivables positions partly offset by trade payables and other payables.

Inventory

Inventory increased by 42 per cent to EUR 1,772 million compared to EUR 1,248 million last year. The increase was driven by higher milk prices to our farmer owners, higher energy prices and inflation in other production materials such as packaging, consumables and utilities. To a lesser extent, the increase was due to higher stock volumes and a changed composition of inventory compared to last year. Excluding currency effects, the carrying amount of inventory increased by EUR 558 million.

Trade receivables

Trade receivables increased by 26 per cent to EUR 1,267 million compared to EUR 1,007 million last year. The development was driven by increased selling prices and partly offset by higher utilisation of trade receivables finance programmes. The group utilises these programmes to manage liquidity and reduce credit risk on trade receivables.

Managing credit risk exposure on trade receivables is guided by group-wide policies. Credit limits are set based on the customer's financial position and current market conditions. The customer portfolio is diversified in terms of geography, industry sector and customer size. In 2022, the group was not extraordinarily exposed to credit risk related to significant individual customers, but to the general credit risk in the retail sector. Read more about credit risk in Note 4.1.5.

Overdues above 30 days amounted to 8.8 per cent of the trade receivables position compared to 6.5 per cent last year. Provision for expected losses was EUR 19 million compared to EUR 15 million last year.

Excluding currency effects, the carrying amount of trade receivables increased by EUR 290 million.

Trade payables and other payables

Trade payables and other payables increased by 11 per cent to EUR 1,597 million compared to EUR 1,445 million last year. Inflation was the main reason for the development.

A number of Arla's strategic suppliers participate in supply chain finance programmes, where the supply chain finance provider and related financial institutions act as a funding partner. When suppliers participate in these programmes, the supplier has the option, at their own discretion and flexibility, to receive early payment from the funding partner based on invoices sent to Arla. This is conditioned by Arla's recognition and approval of received goods or services and an irrevocable acceptance to pay the invoice at the due date via the funding partner. The arrangement of early payment is an exclusive transaction between the supplier and the supply chain finance provider.

Extended payment terms are not embedded in the programmes themselves, but agreed with vendors directly.

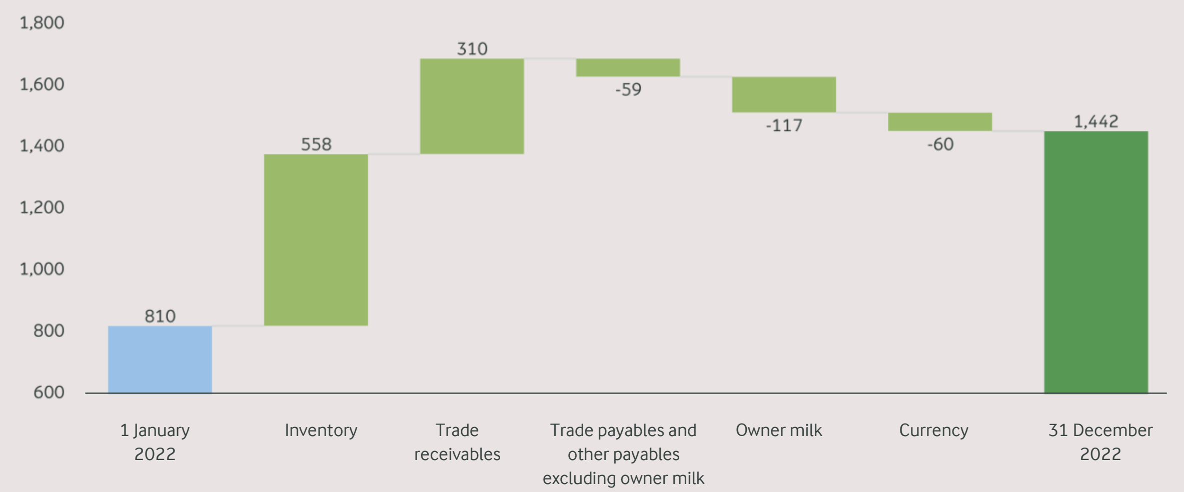
The liquidity risk for Arla on termination of the programmes is limited. The payment terms for suppliers participating in the programmes are no more than 180 days. Utilisation of supply chain finance programmes was on the same level as last year.

Excluding currency effects, the carrying amount of trade payables and other payables including owner milk increased by EUR 176 million.

Other receivables and other current liabilities

Other receivables increased by EUR 34 million to EUR 319 million compared to EUR 285 million last year, and mainly consist of VAT and duty receivables. Other current liabilities increased by EUR 21 million to EUR 301 million compared to EUR 280 million last year. Other current liabilities mainly consist of HR-related accruals.

Development in net working capital
(EURm)



NET WORKING CAPITAL
2.1 NET WORKING CAPITAL, OTHER RECEIVABLES AND CURRENT LIABILITIES

Net working capital
(EURm)

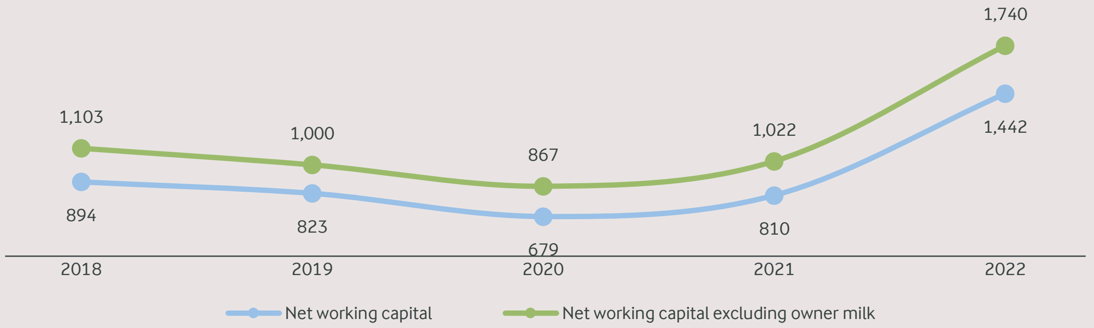


Table 2.1.a Net working capital

(EURm)	1 January	Cash flow: Included in operating cash flow	Non-cash flow: Write-downs	Non-cash flow: Currency	31 December
2022					
Inventory	1,248	569	-11	-34	1,772
Trade receivables	1,007	318	-4	-54	1,267
Trade payables and other payables	-1,445	-180	-	28	-1,597
Total net working capital	810	707	-15	-60	1,442
2021					
Inventory	1,080	135	-3	36	1,248
Trade receivables	811	171	-1	26	1,007
Trade payables and other payables	-1,212	-216	-	-17	-1,445
Total net working capital	679	90	-4	45	810

Table 2.1.b Inventory

(EURm)	2022	2021
Inventory before the write-downs	1,801	1,269
Write-downs	-29	-21
Total inventory	**1,772**	**1,248**
Raw materials and consumables	401	274
Work in progress	622	382
Finished goods and goods for resale	749	592
Total inventory	**1,772**	**1,248**

Table 2.1.c Trade receivables

(EURm)	2022	2021
Trade receivables before provision for expected losses	1,286	1,022
Provision for expected losses	-19	-15
Total trade receivables	**1,267**	**1,007**

Table 2.1.d Trade receivables age profile

	2022		2021	
(EURm)	Gross carrying amount	Expected loss rate	Gross carrying amount	Expected loss rate
Not overdue	1,013	0%	837	0%
Overdue by less than 30 days	160	0%	119	0%
Overdue by between 30 and 89 days	72	1%	38	3%
Overdue by more than 90 days	41	44%	28	50%
Total trade receivables	**1,286**		**1,022**	

Historically, experienced loss rates on balances not overdue or overdue by less than 30 days are below 1 per cent.

NET WORKING CAPITAL
2.1 NET WORKING CAPITAL, OTHER RECEIVABLES AND CURRENT LIABILITIES

Accounting policies

Inventory
Inventories are measured at the lower of cost or net realisable value, calculated on a first-in, first-out basis. The net realisable value is established taking into account inventory marketability and an estimate of the selling price, less completion costs and costs incurred to execute the sale.

The cost of raw materials, consumables and commercial goods includes the purchase price plus delivery costs. The pre-paid milk price to Arla's owners is used as the purchase price for owner milk.

The cost of work in progress and manufactured goods also includes an appropriate share of production overheads, including depreciation, based on the normal operating capacity of the production facilities.

Trade receivables
Trade receivables are recognised at the invoiced amount less expected losses in accordance with the simplified approach for amounts considered irrecoverable (amortised cost). Expected losses are measured as the difference between the carrying amount and the present value of anticipated cash flows.

Expected losses are assessed for major individual receivables or in groups at portfolio level based on the receivables' age and maturity profile as well as historical records of losses. Calculated expected losses are adjusted for specific significant negative developments in geographical areas.

Trade receivables subject to trade receivables finance programmes are derecognised once the criteria for derecognition have been met and all substantial risks and rewards have been transferred.

Trade payables and other payables
Trade payables are measured at amortised cost, which usually corresponds to the invoiced amounts.

The amounts payable to suppliers included in supply chain finance programmes are classified as trade payables in the balance sheet and in the cash flow statement as cash flow from working capital.

Other receivables and other current liabilities
Other receivables and other current liabilities are measured at amortised cost usually corresponding to the nominal amount.

Uncertainties and estimates

Inventory
The group uses monthly standard costs to calculate inventory and revises all indirect production costs at least once a year. Standard costs are also revised if they deviate materially from the actual cost of the individual product. A key component in the standard cost calculation is the cost of raw milk from farmers. This is determined using the average pre-paid milk price that matches the production date of inventory.

Due to the macroeconomic volatility and the related effect on commodity prices, valuations of individual cost components, such as milk-based components, energy, packaging, consumables and utilities etc. in our standard cost models were frequently updated throughout 2022 and carefully assessed at 31 December 2022.

Conversion from standard cost to reflect cost at the time of production for the individual inventory categories was correspondingly carefully assessed.

Indirect production costs are calculated based on relevant assumptions with respect to capacity utilisation, production time and other factors characterising the individual product.

The assessment of the net realisable value requires judgement, particularly in relation to the estimate of the selling price of certain cheese stock with long maturities and bulk products to be sold on European or global commodity markets.

Receivables
Expected losses are based on a calculation, including several parameters, for example the number of days overdue adjusted for significant negative developments in certain geographical areas.

The financial uncertainty associated with the provision for expected losses is usually considered to be limited. However, if a customer's ability to pay were to deteriorate in the future, further write-downs may be necessary.

Based on the macroeconomic volatility and the increased selling prices in 2022, expected losses were carefully assessed.

Customer-specific bonuses are calculated based on actual agreements with retailers; however, some uncertainty exists when estimating the exact amounts to be settled and the timing of these settlements.

Finance programmes
The classification of trade receivables finance programmes and supply chain finance programmes is subject to judgement. The utilisation of these programmes is recognised in net working capital.

CAPITAL EMPLOYED
3.1 INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill

Intangible assets and goodwill amounted to EUR 954 million, unchanged from last year.

Goodwill

The carrying amount of goodwill amounted to EUR 702 million compared to EUR 710 million last year. Addition for the year amounting to EUR 16 million related to an acquisition in our Chinese business unit. Of the carrying amount of goodwill, EUR 473 million related to activities in the UK compared to EUR 498 million last year. Please refer to table 3.1.b for a specification of goodwill.

Licences and trademarks

The carrying amount of licences and trademarks amounted to EUR 66 million compared to EUR 76 million last year. The carrying amount primarily related to the recognition of trademarks in connection with business combinations and includes brands such as Yeo Valley® and Svensk Mjölk®. The decrease in value compared to last year was due to amortisation.

The strategic brands, Arla®, Lurpak®, Castello® and Puck® are internally generated trademarks and consequently no carrying amounts are recognised for these. Arla has the licence to manufacture, distribute and market Starbucks™ premium ready-to-drink coffee beverages under a long-term strategic licence agreement. Additionally, Arla holds a long-term licence agreement to manufacture, distribute and market Kraft™ branded cheese products in the MENA region. No values are recognised for these licence agreements.

IT and other development projects

The carrying amount of IT and other development projects was EUR 186 million compared to EUR 160 million last year. The group continued to invest in IT projects with an addition of EUR 76 million. One of the key projects in 2022 was a general upgrade of our SAP platform.

Intangible assets and goodwill

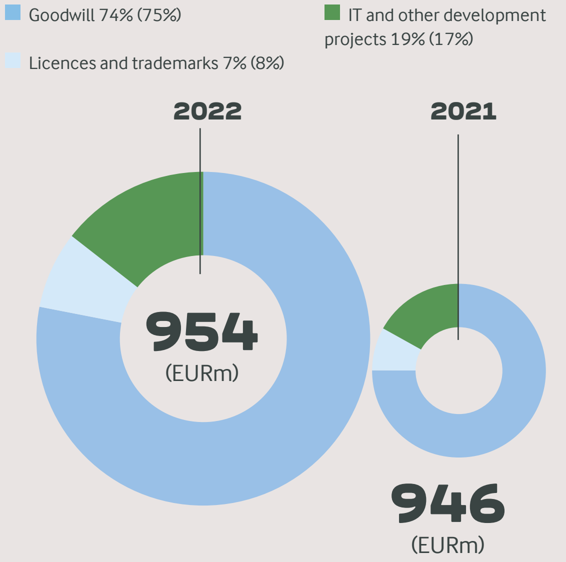


Table 3.1.a Intangible assets and goodwill

(EURm)	Goodwill	Licences and trademarks	IT and other development projects	Total
2022				
Cost at 1 January	710	166	558	1,434
Exchange rate adjustments	-22	-6	-1	-29
Additions	16	-	76	92
Impairment	-2	-	-	-2
Disposals	-	-	-2	-2
Cost at 31 December	**702**	**160**	**631**	**1,493**
Amortisation and impairment at 1 January	-	-90	-398	-488
Exchange rate adjustments	-	3	5	8
Amortisation and impairment for the year	-	-7	-54	-61
Amortisation on disposals	-	-	2	2
Amortisation and impairment at 31 December	**-**	**-94**	**-445**	**-539**
Carrying amount at 31 December	**702**	**66**	**186**	**954**
2021				
Cost at 1 January	667	163	513	1,343
Exchange rate adjustments	43	3	2	48
Additions	-	-	45	45
Disposals	-	-	-2	-2
Cost at 31 December	**710**	**166**	**558**	**1,434**
Amortisation and impairment at 1 January	-	-82	-330	-412
Exchange rate adjustments	-	-1	-3	-4
Amortisation and impairment for the year	-	-7	-67	-74
Amortisation on disposals	-	-	2	2
Amortisation and impairment at 31 December	**-**	**-90**	**-398**	**-488**
Carrying amount at 31 December	**710**	**76**	**160**	**946**

CAPITAL EMPLOYED
3.1 INTANGIBLE ASSETS AND GOODWILL

Accounting policies

Goodwill

Goodwill represents the premium paid by Arla above the fair value of the net assets of an acquired company. On initial recognition, goodwill is recognised at cost. Goodwill is not amortised, but is subsequently measured at cost less any accumulated impairment. The carrying amount of goodwill is allocated to the group's cash-generating units which follow the management structure and internal financial reporting. Cash-generating units are the smallest group of assets which can generate independent cash inflows.

Licences and trademarks

Licences and trademarks are initially recognised at cost. The cost is subsequently amortised on a straight-line basis over their expected useful lives, with a maximum of 20 years.

IT and other development projects

Costs incurred during the research or exploration phase when carrying out general assessments of requirements and available technologies are expensed as incurred. Directly attributable costs incurred during the development stage for IT and other development projects relating to the design, programming, installation and testing of projects before they are ready for commercial use are capitalised as intangible assets. Such costs are only capitalised provided the expenditure can be measured reliably, the project is technically and commercially viable, future economic benefits are probable and the group intends to and has sufficient resources to complete and use the asset. IT and other development projects are amortised on a straight-line basis over five to eight years.

Table 3.1.b Goodwill split by commercial segment and country

(EURm)	2022	2021
UK	473	498
Finland	40	40
Sweden	20	22
Other	60	63
Europe total	**593**	**623**
MENA	83	78
China	16	-
International	**99**	**78**
Argentina	10	9
Arla Foods Ingredients	**10**	**9**
Total	**702**	**710**

3.1.1 IMPAIRMENT TEST OF GOODWILL

Impairment test

Goodwill is allocated to relevant cash-generating units, primarily to our activities in the UK within the commercial segment Europe.

Basis for impairment test and applied estimates

Impairment tests are based on expected future cash flows derived from forecasts and long-term strategic targets. Future cash flows and earnings targets are projected for individual cash-generating units based on expected developments identified in the Future26 strategy process as well as past experience. The impairment tests do not include revenue growth in the terminal value.

Procedure for impairment tests

Impairment tests of goodwill are based on an assessment of their value in use. Milk costs in the forecast are recognised at a milk price that corresponds to the price at the time the test was performed and longer-term. The key operational assumption is future profitability based on a combination of the impact from moving milk intake into value-add products, more profitable markets and operational efficiency initiatives.

Test results

An increased interest rate level led to a higher discount rate, resulting in lower calculated headroom. With lower headroom, our goodwill positions were carefully monitored and supporting business cases assessed throughout the year.

With the applied discount rates, sensitivity analyses showed that margins in the UK could decline by 1 per centage point without risk of impairment. For goodwill related to Finland, a similar reduction in margins could lead to an impairment of the carrying amount. Subsequently, after the detailed calculations were performed, the market situation in Finland improved.

Table 3.1.1 Applied key assumptions

	2022		2021	
(EURm)	Discount rate, net of tax	Discount rate, before tax	Discount rate, net of tax	Discount rate, before tax
UK	8.6%	9.5%	6.5%	7.2%
Finland	7.6%	8.2%	5.6%	6.0%
Sweden	7.6%	8.4%	6.1%	6.7%
Europe, other	7.4%	8.3%	5.7%	6.3%
MENA	13.0%	14.4%	12.0%	13.7%
Arla Foods Ingredients	8.1%	9.1%	6.3%	7.0%

CAPITAL EMPLOYED
3.1 INTANGIBLE ASSETS AND GOODWILL

Accounting policies

Impairment occurs when the carrying amount of an asset is greater than its recoverable amount through either use or sale. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use (a cash-generating unit) which are largely independent of the cash inflows of other assets or cash-generating units. For goodwill which does not generate largely independent cash inflows, impairment tests are prepared at the level where cash flows are considered to be generated largely independently.

The group of cash-generating units is determined based on the management structure and internal financial reporting. The structure and groups of cash-generating units are assessed on an annual basis. The carrying amount of goodwill is tested for impairment together with other non-current assets in the cash-generating unit to which the goodwill is allocated. The recoverable amount of goodwill is recognised as the present value of the expected future net cash flows from the group of cash-generating units to which the goodwill is allocated, discounted using a pre-tax discount rate that reflects the current market assessment of the time value of money and risks specific to the asset or cash-generating unit.

The carrying amount of other non-current assets is assessed annually against its recoverable amount to determine whether there is any indication of impairment. Any impairment of goodwill is recognised as a separate item in the income statement and cannot be reversed.

The recoverable amount of other non-current assets is the higher value of the asset's value in use and its market value, i.e. fair value, less expected disposal costs. The value in use is calculated as the present value of the estimated future net cash flows from the use of the asset or the group of cash-generating units to which the asset belongs.

An impairment loss on other non-current assets is recognised in the income statement under production costs, selling and distribution costs or administration costs, respectively. Impairment recognised can only be reversed to the extent that the assumptions and estimates that led to the impairment have changed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

Uncertainties and estimates

Goodwill impairment tests are performed for the group of cash-generating units to which goodwill is allocated. The group of cash-generating units is defined based on the management structure for commercial segments and is linked to individual markets. The structure and groups of cash-generating units are assessed on an annual basis.

The impairment test of goodwill is performed at least annually for each group of cash-generating units to which goodwill is allocated. In 2022, we assessed the validity of our 2026 targets in the light of both macroeconomic volatility and volatility within the dairy sector, and we have more thoroughly analysed and tested our goodwill positions compared to normal procedures.

To determine the value in use, the expected cash flow approach is applied. The most important parameters in the impairment test include anticipations of future free cash flows and assumptions of discount rates.

Anticipated future free cash flows

The anticipated future free cash flows are based on current forecasts and long-term 2026 targets derived from the Future26 process. These are determined at cash-generating unit level in the forecast and target planning process and are based on external sources of information and industry-relevant observations such as macroeconomic and market conditions.

All applied assumptions are challenged through the forecast and target planning process based on management's best estimates and expectations, which are subject to judgement by nature. They include expectations regarding revenue growth, EBIT margins and capital expenditure. The assumptions include moving milk intake into value-add products and more profitable markets and operational efficiency initiatives. The growth rate beyond the strategy period has been set to the expected inflation rate in the terminal period and assumes no nominal growth.

Discount rates

A discount rate, namely weighted average cost of capital (WACC), is applied for specific cash-generating units based on assumptions regarding interest rates and risk premiums. The WACC is recalculated to a before-tax rate. Changes in the future cash flow or discount rate estimates used may result in materially different values.

CAPITAL EMPLOYED
3.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

Arla's main property, plant and equipment are located in Denmark, the UK, Germany and Sweden. The carrying amount was EUR 3,031 million compared to EUR 3,072 million last year.

Additions amounted to EUR 429 million compared to EUR 521 million last year.

Additions included the finalisation of the powder tower in Pronsfeld, Germany, investments in the production facilities in Bahrain and expansion of the mozzarella production in Denmark.

New projects included investments in a capacity increase for milk-based beverages in Esbjerg, Denmark, a packaging equipment upgrade in Oakthorpe, UK, and growth investments in Arla Foods Ingredients.

Depreciation amounted to EUR 411 million, unchanged from last year.

Property, plant and equipment by country

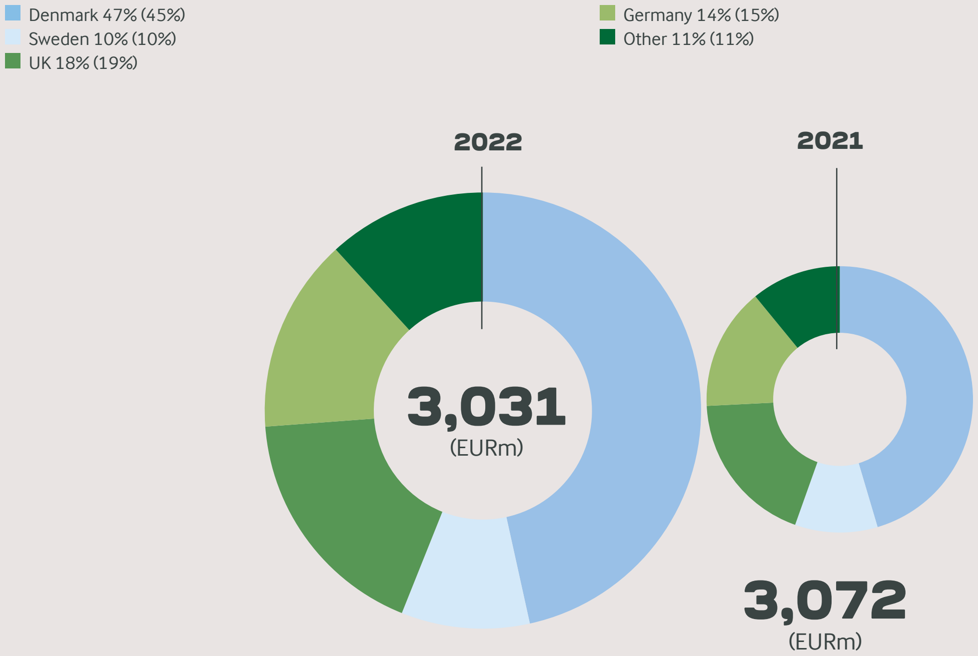


Table 3.2.a Property, plant and equipment

(EURm)	Land and building	Plant and machinery	Fixture and fitting, tools and equipment	Asset in course of construction	Total
2022					
Cost at 1 January	1,987	3,800	782	413	6,982
Exchange rate adjustments	-43	-73	-19	-3	-138
Additions	58	114	58	199	429
Transferred from assets in the course of construction	62	189	21	-272	-
Disposals	-17	-46	-37	-4	-104
Cost at 31 December	**2,047**	**3,984**	**805**	**333**	**7,169**
Depreciation and impairment at 1 January	-838	-2,489	-583	-	-3,910
Exchange rate adjustments	22	57	17	-	96
Depreciation and impairment for the year	-86	-247	-78	-	-411
Depreciation on disposals	14	38	35	-	87
Depreciation and impairment at 31 December	**-888**	**-2,641**	**-609**	**-**	**-4,138**
Carrying amount at 31 December	**1,159**	**1,343**	**196**	**333**	**3,031**
Right-of-use assets in the carrying amount at 31 December	124	11	74		209
2021					
Cost at 1 January	1,770	3,471	724	453	6,418
Exchange rate adjustments	38	45	20	11	114
Additions	104	133	53	231	521
Transferred from assets in the course of construction	100	169	12	-281	-
Disposals	-27	-46	-32	-1	-106
Reclassification	2	28	5	-	35
Cost at 31 December	**1,987**	**3,800**	**782**	**413**	**6,982**
Depreciation and impairment at 1 January	-764	-2,219	-520	-	-3,503
Exchange rate adjustments	-9	-29	-11	-	-49
Depreciation and impairment for the year	-78	-251	-77	-	-406
Depreciation on disposals	15	38	30	-	83
Reclassification	-2	-28	-5	-	-35
Depreciation and impairment at 31 December	**-838**	**-2,489**	**-583**	**-**	**-3,910**
Carrying amount at 31 December	**1,149**	**1,311**	**199**	**413**	**3,072**
Right-of-use assets in the carrying amount at 31 December	141	8	81		230

CAPITAL EMPLOYED
3.2 PROPERTY, PLANT AND EQUIPMENT

Investments in and depreciation of property, plant and equipment and right-of-use assets
(EURm)

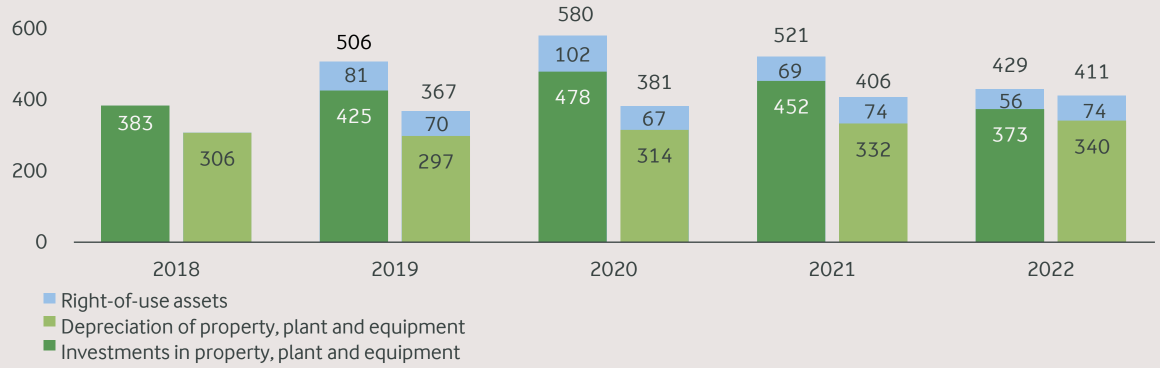


Table 3.2.b Estimated useful life in years

(EURm)	2022	2021
Office buildings	50	50
Production buildings	20-30	20-30
Technical facilities	5-20	5-20
Other fixtures and fittings, tools and equipment	3-7	3-7

Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Assets under construction, land and decommissioned plants are not depreciated.

Cost

Cost comprises the acquisition price as well as costs directly associated with an asset until the asset is ready for its intended use. For self-constructed assets, cost comprises direct and indirect costs relating to materials, components, payroll and the borrowing costs from specific and general borrowing that directly concerns the construction of assets. If significant parts of an item of property, plant and equipment have different useful lives, they are recognised as separate items (major components) and depreciated separately. When component parts are replaced, any remaining carrying amount of replaced parts is removed from the balance sheet and recognised as an accelerated depreciation charge in the income statement. Subsequent expenditures of property, plant and equipment are only recognised as an addition to the carrying amount of the item, when it is likely that incurring the cost will result in financial benefits for the group. Other costs such as general repair and maintenance are recognised in the income statement when incurred.

Depreciation

Depreciation aims to allocate the cost of the asset, less any amounts estimated to be recoverable at the end of its expected use, to the periods in which the group obtains benefits from its use. Property, plant and equipment are depreciated on a straight-line basis from the time of acquisition, or when the asset is available for use based on an assessment of the estimated useful life.

The depreciation base is measured taking into account the residual value of the asset, being the estimated value the asset can generate through sale or scrappage at the balance sheet date if the asset was of the age and in the condition expected at the end of its useful life, and reduced by any impairment made. The residual value is determined at the date of acquisition and is reviewed annually. Depreciation ceases when the carrying amount of an item is lower than the residual value, or when an item is decommissioned. Changes during the depreciation period or in the residual value are treated as changes to accounting estimates, the effect of which is adjusted only in current and future periods. Depreciation is recognised in the income statement in production costs, sales and distribution costs or administration costs.

Uncertainties and estimates

Estimates are made in assessing the useful lives of items of property, plant and equipment that determine the period over which the depreciable amount of the asset is expensed in the income statement. The depreciable amount of an item of property, plant and equipment is a function of the asset's cost or carrying amount and its residual value. Estimates are made in assessing the amount that the group can recover at the end of the useful life of an asset. An annual review is performed to assess the appropriateness of the depreciation method, useful life and residual values of items of property, plant and equipment.

As a consequence of climate-related risks, Arla could face future impairment of its production capacity due to equipment becoming outdated in the sustainability transformation or from excess production capacity if milk volumes and operations decline.

Non-current assets in the balance sheet were not affected by such impairment in 2022. Sustainability is now an integral part of all CAPEX investments which ensures future investments to address the risks identified.

CAPITAL EMPLOYED
3.2 PROPERTY, PLANT AND EQUIPMENT

3.2.1 RIGHT-OF-USE ASSETS

Right-of-use assets

Arla leases various offices, warehouses, vehicles and other equipment. Leases are typically agreed for a fixed duration, but may include an extension option. Significant right-of-use assets include office buildings and warehouses in Denmark, Germany, Sweden and the UK with remaining useful lives between 10 and 20 years.

Filling machinery and other technical plants represent another major right-of-use asset category. Filling machines typically have useful lives of seven years, whereas other technical plants are depreciated between one and seven years. Cars and trucks have on average useful lives of four and five years, respectively. In total, the group has approximately 4,000 leases.

Additions to right-of-use assets during the year amounted to EUR 56 million compared to EUR 69 million last year. The total carrying amount of right-of-use assets was EUR 209 million compared to EUR 230 million last year as specified in table 3.2.1.a. Lease liabilities are specified in Note 4.3.

Accounting policies

All leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. A lease liability is initially measured on a present value basis, which comprises the net present value of fixed lease payments less any lease incentives receivable, variable lease payments based on an index or a rate and a potential exercise price if a purchase option exists.

The lease payments are discounted using an incremental borrowing rate.

The corresponding right-of-use asset is measured at cost comprising initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received and any initial direct costs, and restoration costs.

The right-of-use asset is subsequently depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Each lease payment comprises a reduction of the lease liability and a finance cost. The finance cost is charged to profit or loss over the lease period as a constant periodic rate of interest on the remaining balance of the liability.

Short-term leases and leases of low-value assets are recognised as an expense in the income statement.

Uncertainties and estimates

The group has applied estimates and judgements with an impact on the recognition and measurement of right-of-use assets and lease liabilities. This includes an assessment of the incremental borrowing rate, service components and facts and circumstances that could create an economic incentive to utilise the extension options of lease arrangements.

Table 3.2.1.a Right-of-use assets

(EURm)	RoU land and buildings	RoU plant and machinery	RoU fixtures and fittings, tools and equipment	Total RoU assets
2022				
Carrying amount at 1 January	141	8	81	230
Additions	17	9	30	56
Disposals	-7	-12	-32	-51
Depreciation and impairment for the year	-30	-6	-35	-71
Depreciation on disposals	7	12	31	50
Exchange rate adjustments	-4	-	-1	-5
Carrying amount at 31 December	**124**	**11**	**74**	**209**
2021				
Carrying amount at 1 January	136	13	80	229
Additions	30	4	35	69
Disposals	-5	-7	-18	-30
Depreciation and impairment for the year	-31	-9	-34	-74
Depreciation on disposals	5	6	16	27
Exchange rate adjustments	6	1	2	9
Carrying amount at 31 December	**141**	**8**	**81**	**230**

Table 3.2.1.b Amounts recognised in the income statement

(EURm)	2022	2021
Expenses related to short-term and low-value leases	40	38
Interest expenses on lease liabilities	7	7
Total amounts recognised in the income statement	**47**	**45**
Payment of lease debt	71	73
Total cash outflow from right-of-use assets	**118**	**118**

CAPITAL EMPLOYED
3.3 ASSOCIATES AND JOINT VENTURES

Associates and joint ventures

The share of profit in associates and joint ventures increased by 13 per cent to EUR 60 million compared to EUR 53 million last year and related primarily to the profit from our investment in Mengniu.

COFCO Dairy Holdings Limited (CDH) and China Mengniu Dairy Company Limited (Mengniu)
The group's proportionate share of the net asset value of CDH including the investment in Mengniu was EUR 448 million compared to EUR 416 million last year. The carrying amount of the investment in CDH included goodwill amounting to EUR 149 million compared to EUR 158 million last year driven by currency adjustments.

The fair value of the indirect share in Mengniu amounted to EUR 888 million compared to EUR 1,043 million last year, based on the official listed share price at 31 December 2022.

Impairment risks include substantial and long-term reductions in leading stock indexes in Asia or an adverse and permanent reduction in the expected performance of Mengniu. As the fair value exceeded the carrying amount of the investment, there was no indication of impairment.

Mengniu reported group revenue of EUR 12,214 million and a profit of EUR 696 million in 2021. Consolidated figures are not available for the CDH group. CDH holds no other significant investment than the investment in Mengniu and reported revenue relates to received dividend payments from Mengniu.

Through the investment in CDH, Arla holds a 5.3 per cent indirect investment in Mengniu. See table 3.3.b for more details on CDH.

The carrying amount of the investment concerning the membership of Lantbrukarnas Riksförbund in Sweden amounted to EUR 93 million and was unchanged from last year.

Joint ventures
The carrying amount of joint ventures increased to EUR 24 million compared to EUR 20 million last year. The value primarily related to the German joint venture ArNoCo.

Table 3.3.a Associates and joint ventures

(EURm)	2022	2021
Value of associates and joint ventures		
Share of equity in COFCO Dairy Holdings Ltd. (Mengniu)	290	267
Goodwill in COFCO Dairy Holdings Ltd. (Mengniu)	158	149
Share of equity in immaterial associates	93	94
Recognised value of associates	**541**	**510**
Share of equity in immaterial joint ventures	24	20
Recognised value of associates and joint ventures	**565**	**530**

Table 3.3.b COFCO Dairy Holdings Ltd. Disclosures of financial information*

(EURm)	2022	2021
Revenue	**44**	-
Net profit	**44**	-
Non-current assets	**742**	729
Dividends received	**12**	12
Ownership share	**30%**	30%
Group share of net profit	**44**	36
Recognised value	**448**	416
COFCO Dairy Holdings Ltd. has no other significant assets or liabilities		
**Based on the latest available financial reporting*		
Fair value based on listed share price	888	1,043

Table 3.3.c Transactions with associates and joint ventures

(EURm)	2022	2021
Sales of goods	31	56
Purchase of goods	48	68
Trade receivables*	3	13
Trade payables*	-21	-5

**Included in other receivables and other payables*

CAPITAL EMPLOYED 3.3 ASSOCIATES AND JOINT VENTURES

Accounting policies

Investments in which Arla has a significant but not controlling influence are classified as associates. Investments in which Arla has joint control are classified as joint ventures.

The proportionate share of the net profit or loss in associates and joint ventures is recognised in the consolidated income statement after elimination of the proportionate share of unrealised intercompany profits or losses.

Investments in associates and joint ventures are recognised according to the equity method and measured at the proportionate share of the entities' net asset values, calculated in accordance with Arla's accounting policies. The proportionate share of unrealised intercompany profits and the carrying amount of goodwill is added, whereas the proportionate share of unrealised intercompany losses is deducted. Dividends received from associates and joint ventures reduce the value of the investment.

For investments held in listed companies, computation of Arla's share of profit and equity is based on the latest published financial information of the company, other publicly available information on the company's financial development and the effect of revalued net assets.

Investments in associates and joint ventures with negative net asset values are measured at zero. If Arla has a legal or constructive obligation to cover a loss in the associate or joint venture, the loss is recognised under provisions. Any amounts owed by associates and joint ventures are written down to the extent that the amount owed is deemed irrecoverable.

An impairment test is performed when there are indications of impairment, such as significant adverse changes in the environment in which the equity-accounted investee operates, or a significant or prolonged decline in the fair value of the investment below its carrying amount.

Where the equity-accounted investment is considered to be an integral part of a cash-generating unit (CGU), the impairment test is performed at the CGU level using the expected future net cash flows of the CGU. An impairment loss is recognised when the recoverable amount of the equity-accounted investment (or CGU) becomes lower than the carrying amount. The recoverable amount is defined as the higher of value in use and fair value less costs to sell of the equity-accounted investment (or CGU).

Uncertainties and estimates

Significant influence is defined as the power to participate in financial and operating policy decisions of the investee but does not constitute control or joint control over those policies. Judgement is necessary in determining when a significant influence exists. When determining significant influence, factors such as representation on the Board of Directors, participation in policymaking, material transactions between the entities and interchange of managerial personnel are considered.

CDH and Mengniu

The group has a 30 per cent investment in CDH, which is considered an associate based on a cooperation agreement extending significant influence, including the right to representation on the Board. The cooperation agreement with CDH also entitles Arla to representation on the Board of Mengniu, a Hong Kong-listed dairy company in which CDH is a significant shareholder.

Based on these underlying agreements, it is our assessment that Arla exercises a significant influence in Mengniu.

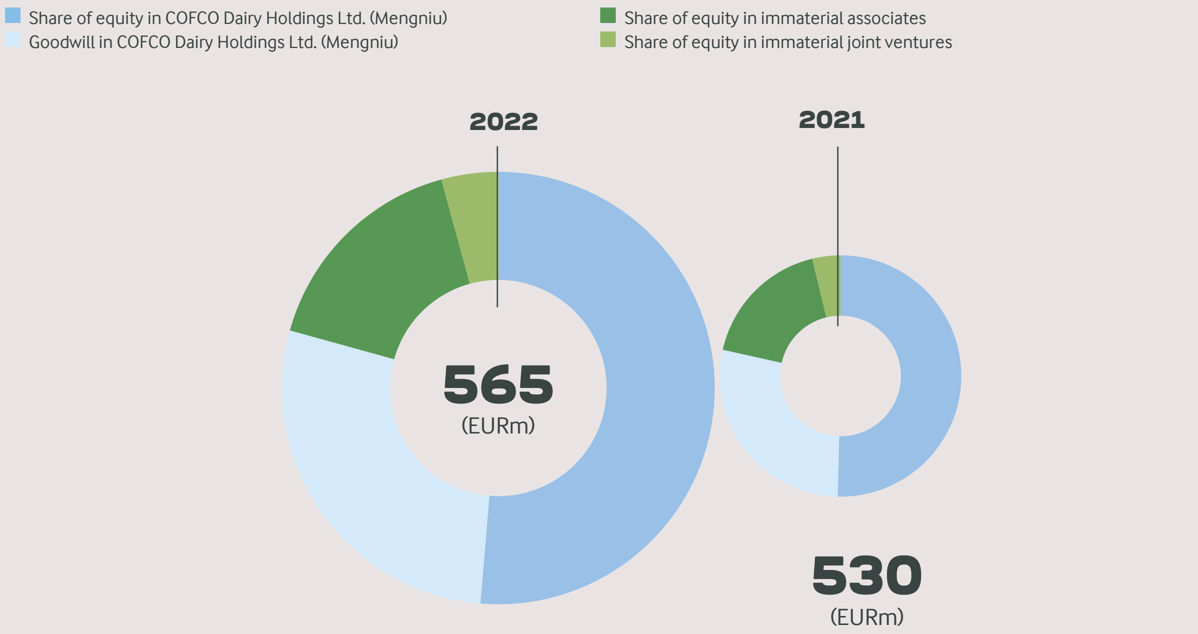
Lantbrukarnas Riksforbund, Sweden (LRF)

Arla has an ownership interest of 24 per cent in LRF, which is a politically independent professional organisation for Swedish entrepreneurs involved in agriculture, forestry and horticulture.

Based on a detailed analysis of the LRF arrangement, Arla's active ownership interest constitutes a significant influence in LRF. This includes, but is not limited to, owner representation on the Board of Directors. Furthermore, Arla's owners have represented the Swedish dairy industry on the Board of Directors of LRF, and both Arla and our Swedish owners are individual members of LRF.

Based on this, it is our assessment that Arla exercises a significant influence in LRF and the investment is therefore classified as an associate.

Recognised value of associates and joint ventures



FUNDING
4.1 FINANCIAL RISKS

Financial risk management
Financial risks are an inherent part of the group's operating activities and as a result, the group's profit is impacted by the development in currencies, interest rates and certain types of commodities. The global financial markets are volatile and thus it is critical for the group to have an appropriate financial risk management approach in place to mitigate short-term market volatility, while simultaneously achieving the highest possible milk price.

The group's comprehensive financial risk management strategy and system builds on a thorough understanding of the interaction between the group's operating activities and underlying financial risks. The overall framework for managing financial risks, the treasury and funding policy, is approved by the Board of Directors and managed centrally. The policy outlines risk limits for each type of financial risk, permitted financial instruments and counterparties.

The Board of Directors receives a report on the group's financial risk exposure on a monthly basis. Hedging the volatility of milk prices is not within the scope of financial risk management but is an inherent component of the group's business model.

4.1.1 LIQUIDITY RESERVES

Adequate liquidity reserves
Liquidity reserves increased by EUR 91 million to EUR 1,056 million in 2022. Looking at the maturity profile of the group's debt and the forecasted cash flow, the liquidity reserves are considered adequate and expected to be maintained at the same level during 2023.

Ensuring the availability of sufficient operating liquidity and credit facilities for operations is the primary goal of managing liquidity risk. Based on the liquidity models suggested by the rating agencies, Arla's liquidity reserves are assessed as adequate for the coming 12 months.

Supply chain finance programmes and trade receivables financing relating to customers form part of the group's liquidity management. Selected suppliers have access to the group's supply chain finance facilities, which allow those suppliers to benefit from the group's credit profile.

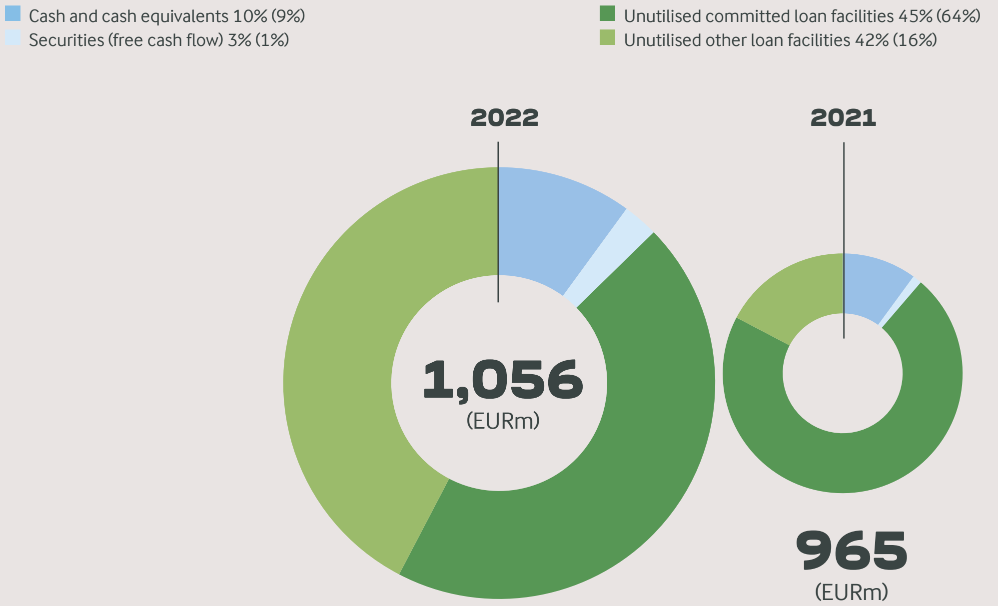
More than 95 per cent of the day-to-day liquidity flow of the group is managed via cash pooling arrangements. This secures a scalable and efficient operating model. As a result, the group is able to achieve a cost-efficient utilisation of credit facilities.

Arla operates in several countries where restrictions on the transferability of cash exist. Cash and securities in Argentina of 54 million EUR generated from the local profit are assessed as restricted and thus not included in the liquidity reserve. Other balances of cash deemed to be restricted are insignificant.

Table 4.1.1.a Liquidity reserves

(EURm)	2022	2021
Cash and cash equivalents	106	97
Securities (free cash flow)	28	12
Unutilised committed loan facilities > 1 year	475	689
Other unutilised loan facilities	447	167
Total	**1,056**	**965**
Interest-bearing debt maturing < 1 year	**401**	**293**

Liquidity reserves



FUNDING
4.1 FINANCIAL RISKS

Table 4.1.1.b Expected non-discounted contractual cash flow on gross financial liabilities

		Non-discounted contractual cash flow									
(EURm)	Carrying amount	Total	2023	2024	2025	2026	2027	2028	2029	2030-2032	After 2032
2022											
Issued bonds	490	493	134	135	-	179	-	45	-	-	-
Mortgage credit institutions	1,221	1,229	11	11	86	50	54	61	68	273	615
Credit institutions	1,424	1,425	507	517	47	1	251	1	101	-	-
Lease liabilities	214	218	59	47	38	25	17	23	1	4	4
Other non-current liabilities	18	18	18	-	-	-	-	-	-	-	-
Interest expense – interest-bearing debt	-	359	53	41	38	30	22	17	17	51	90
Trade payables and other payables	1,597	1,597	1,597	-	-	-	-	-	-	-	-
Derivative instruments	36	36	30	5	1	-	-	-	-	-	-
Total	**5,000**	**5,375**	**2,409**	**756**	**210**	**285**	**344**	**147**	**187**	**328**	**709**

		Non-discounted contractual cash flow									
	Carrying amount	Total	2022	2023	2024	2025	2026	2027	2028	2029-2031	After 2031
2021											
Issued bonds	440	444	-	149	149	-	146	-	-	-	-
Mortgage credit institutions	1,033	1,040	11	11	12	87	50	55	61	249	504
Credit institutions	1,036	1,038	599	194	243	1	1	-	-	-	-
Lease liabilities	233	233	60	50	35	27	19	16	7	14	5
Other non-current liabilities	15	15	15	-	-	-	-	-	-	-	-
Interest expense – interest-bearing debt	-	65	14	11	6	5	3	3	2	7	14
Trade payables and other payables	1,445	1,445	1,445	-	-	-	-	-	-	-	-
Derivative instruments	86	86	47	13	7	5	2	1	1	4	6
Total	**4,288**	**4,366**	**2,191**	**428**	**452**	**125**	**221**	**75**	**71**	**274**	**529**

Assumptions

The contractual cash flows are based on the following assumptions:

- The cash flows are based on the earliest possible date at which the group can be required to settle the financial liability.
- The forecasted interest expense cash flows are based on the contractual interest rate. Floating interest payments have been determined using the current floating rate for each item at the reporting date.

FUNDING
4.1 FINANCIAL RISKS

Risk mitigation

Risk

Liquidity and funding are vital for the group to be able to pay its financial liabilities as they become due. Risk management impacts our ability to attract new funding in the longer term and is crucial to fulfilling the group's strategic ambitions.

Policy

The treasury and funding policy states the minimum average maturity threshold for net interest-bearing debt and sets limitations on debt maturing within the next 12- and 24-month periods. Unused committed facilities are taken into account when calculating average maturity.

How we act and operate

In addition to the treasury and funding policy, the Board of Directors has approved a long-term financing strategy, which defines the direction for financing of the group. This includes counterparties, instruments and risk appetite and describes future funding opportunities to be explored and implemented. The funding strategy is supported by farmer owners' long-term commitment to investing in the business. It is the group's objective to maintain its credit quality at a robust investment grade level.

Average maturity

			Policy	
	2022	2021	Minimum	Maximum
Average maturity, gross debt	5.2 years	5.8 years	2 years	-
Maturity < 1 year, net debt	0%	0%	-	25%
Maturity > 2 year, net debt	78%	100%	50%	-

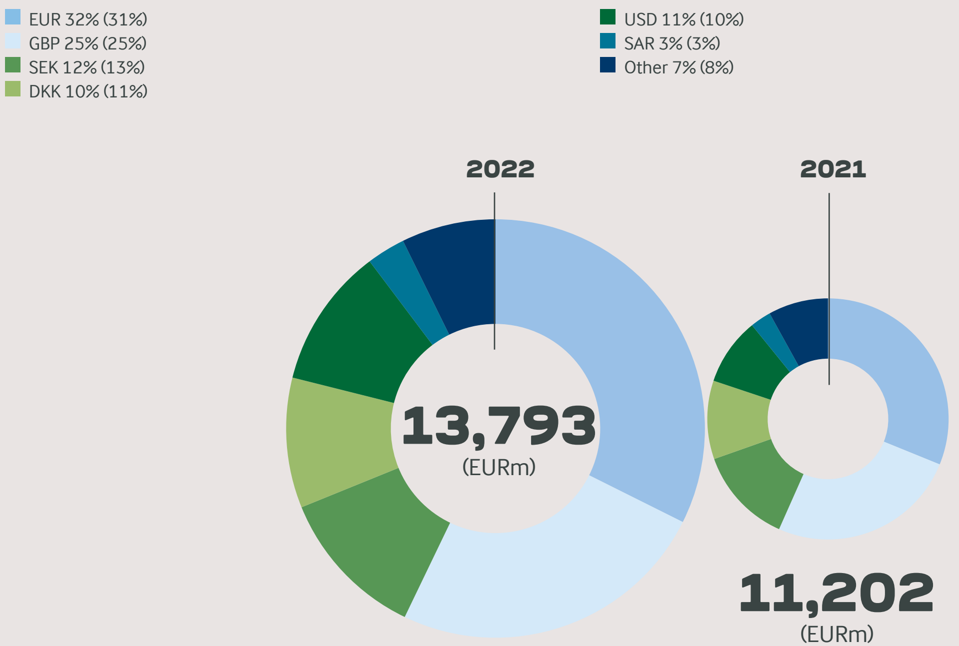
4.1.2 CURRENCY RISK

Currency exposure

The group is exposed to both transaction and translation effects from foreign exchange rates.

Transaction effects are due to sales in currencies other than the functional currencies of the individual entities. The group is mainly exposed to USD and USD-pegged currencies as well as GBP. Revenue increased by EUR 108 million compared to last year due to positive transaction effects. Part of this exposure was hedged by costs in the same currency. Financial instruments such as trade receivables, trade payables and other items denominated in currencies other than the individual entities' functional currencies are also exposed to currency risks. The net effect from the revaluation of these financial instruments is recognised in financial income or financial costs. A net loss of EUR 46 million was recognised in financial costs compared to a loss of EUR 28 million last year. Exchange rate losses related primarily to the devaluations of the Argentine, Bangladeshi and Nigerian currencies and totalled EUR 38 million.

Revenue split by currency



FUNDING
4.1 FINANCIAL RISKS

To manage short-term volatility from currency fluctuations, derivatives are used to hedge the currency exposure. When settling the hedging instrument, a positive or negative amount is recognised in other income or other costs, respectively. A net loss of EUR 68 million was recognised in other costs compared to a loss of EUR 31 million last year. A loss from hedges should be expected in years where export currencies strengthen during the year and vice versa.

The group is exposed to translation effects from entities reporting in currencies other than EUR. The group is mainly exposed to translation of entities reporting in GBP, DKK, SEK, and USD. Due to translation effects, revenue increased by EUR 51 million compared to the revenue reported last year.

Table 4.1.2.a Exchange rates

	Closing rate			Average rate		
	2022	2021	Change	2022	2021	Change
EUR/GBP	0.884	0.839	-5.1%	0.852	0.860	0.8%
EUR/SEK	11.156	10.241	-8.2%	10.629	10.145	-4.5%
EUR/DKK	7.436	7.437	0.0%	7.439	7.437	0.0%
EUR/USD	1.066	1.133	6.2%	1.051	1.182	12.5%
EUR/SAR	3.982	4.253	6.8%	3.947	4.434	12.4%

Table 4.1.2.b Currency exposure

	Balance sheet exposure			Potential accounting impact		
(EURm)	Open positions	Hedging of future cash flows	External exposure	Sensitivity	Income statement	Other comprehensive income
2022						
EUR/DKK	270	11	281	1.0%	3	-
USD/DKK*	-62	-544	-606	5.0%	-3	-27
GBP/DKK	10	-345	-335	5.0%	-	-17
SEK/DKK	45	-65	-20	5.0%	2	-3
SAR/DKK	47	-103	-56	5.0%	2	-5
2021						
EUR/DKK	-86	278	192	1.0%	-1	3
USD/DKK*	44	-252	-207	5.0%	2	-13
GBP/DKK	25	-418	-393	5.0%	1	-21
SEK/DKK	12	-49	-37	5.0%	1	-2
SAR/DKK	9	-176	-167	5.0%	-	-9

**Incl. AED*

Simultaneously, costs increased by EUR 69 million compared to last year's reported costs. The group's financial position is similarly exposed, impacting the value of assets and liabilities reported in currencies other than EUR. The translation effect on net assets is recognised in other comprehensive income as foreign currency translation adjustments. In 2022, a net loss of EUR 46 million was recognised in other comprehensive income compared to a net gain of EUR 127 million last year.

Indirectly the pre-paid milk price absorbs both transaction and translation effects, and the net profit or loss therefore has limited exposure to currency risks. The pre-paid milk price is set based on achieving an annual profit of 2.8 to 3.2 per cent. The pre-paid milk price is initially measured and paid out based on an EUR amount and is consequently exposed to EUR fluctuations against GBP, SEK and DKK.

Compared to last year, the average rate of the USD strengthened by 12 per cent, GBP strengthened by 1 per cent whereas the SEK weakened by 5 per cent.

The group is increasingly involved in emerging markets where efficient hedging is often not feasible due to currency regulations, illiquid financial markets or expensive hedging costs. Among the most important markets are Nigeria, the Dominican Republic, Bangladesh, Lebanon and Argentina. Countries with less efficient currency markets represented 4 per cent of the group's revenue in 2022.

Risk mitigation

The group's external exposure is calculated as external financial assets and liabilities denominated in currencies other than the functional currency of each legal entity, plus any external derivatives converted at group level into currency risk against DKK, i.e. EUR/DKK, USD/ DKK etc. The same also applies to the group's net internal exposure. The aggregate of the group's external and internal currency exposure is the net exposure, which is outlined in Table 4.1.2.b.

Net foreign currency investments in subsidiaries, as well as instruments hedging those investments, are excluded.

Risk

According to the treasury and funding policy, the Treasury department can hedge:

- Up to 15 months of the net forecasted cash receipts and payables
- Up to 100 per cent of net recognised trade receivables and trade payables.

The currency exposure is continuously managed by the Treasury department. Individual currency exposures are hedged in accordance with the treasury and funding policy.

Financial instruments used to hedge the currency exposure do not necessarily need to qualify for hedge accounting, and hence some of the applied financial instruments, i.e. some option strategies, are accounted for as fair value through the income statement.

Arla Foods amba's functional currency is DKK. However, the risk in relation to the EUR currency is assessed in the same manner as for DKK. The Executive Management Team has the discretion to decide if and when investments in foreign operations should be hedged (translation risks) with an obligation to inform the Board of Directors at the next meeting.

FUNDING
4.1 FINANCIAL RISKS

4.1.3 INTEREST RATE RISK

Interest rate risk

The average duration of the group's interest hedging of interest-bearing debt, including derivatives but excluding pension liabilities, has decreased by 0.5 to 3.1.

The duration decreased due to higher net interest-bearing debt, a reduction in time to maturity which was only partly offset by new interest rate hedges.

The value of hedged future interest cash flows amounted to EUR 132 million. See more in Note 4.4.

Risk mitigation

Risk

The group is exposed to interest rate risk on interest-bearing borrowings, pension liabilities, interest-bearing assets and on the value of non-current assets where an impairment test is performed. The risk is divided between profit exposure and exposure in other comprehensive income. Profit exposure relates to net potential impairment of non-current assets. Other comprehensive income exposure relates to revaluation of net pension liabilities and interest hedging of future cash flows.

Fair value sensitivity

A change in interest rates will impact the fair value of the group's interest-bearing assets, interest rate derivative instruments and debt instruments measured on a 1 per cent increase in interest rates. A decrease in the interest rate would have the opposite effect.

Cash flow sensitivity

A change in interest rates will impact interest rate payments on the group's unhedged floating rate debt. Table 4.1.3 shows the one-year cash flow sensitivity, depicting a 1 per cent increase in interest rates at 31 December 2022. A decrease in the interest rate would have the opposite effect.

Policy

Interest rate risk must be managed according to the treasury and funding policy. Interest rate risk is measured as the duration of the debt portfolio, including hedging instruments, but excluding pension liabilities.

How we act and operate

The purpose of interest rate hedging is to mitigate risk and secure relatively stable and predictable financing costs. The interest rate risk from net borrowing is managed by having an appropriate split between fixed and floating interest rates.

The group actively uses derivatives to reduce risks related to fluctuations in the interest rate, and to manage the interest profile of the interest-bearing debt. By having a portfolio approach and using derivatives, the group can independently manage and optimise interest rate risk, as the interest rate profile can be changed without having to change the funding itself. This allows the group to operate in a fast, flexible and cost-efficient manner without changing underlying loan agreements.

The mandate from the Board of Directors provides the group with the opportunity to use derivatives, such as interest rate swaps and options, in addition to interest conditions embedded in the loan agreements.

Table 4.1.3 Interest rate risk

			Potential accounting impact	
(EURm)	Carrying amount	Sensitivity	Income statement	Other comprehensive income
2022				
Financial assets	-542	1.0%	5	-1
Derivatives	-	1.0%	6	42
Financial liabilities	3,367	1.0%	-19	-
Net interest-bearing debt excluding pension liabilities	**2,825**		**-8**	**41**
2021				
Financial assets	-536	1.0%	5	-1
Derivatives	-	1.0%	6	56
Financial liabilities	2,757	1.0%	-12	-
Net interest-bearing debt excluding pension liabilities	**2,221**		**-1**	**55**

Table 4.1.4 Duration

			Policy	
	2022	2021	Minimum	Maximum
Duration	3.1	3.6	1	7

FUNDING
4.1 FINANCIAL RISKS

4.1.4 COMMODITY PRICE RISK

Commodity price risk

Supply contracts are predominately related to a floating official price index. The Treasury department uses financial derivatives to hedge commodity price risk. This secures full flexibility to change suppliers without having to take future hedging into consideration.

Hedging activities focus on the most significant risks, including electricity, natural gas and diesel. The total forecasted energy commodity spend, excluding taxes and distribution costs, amounted to EUR 250 million with the prices at 31 December 2022.

The purpose of hedging is to reduce volatility in energy-related costs. In 2022, hedging activities resulted in a gain of EUR 72 million compared to a gain of EUR 29 million last year. However, the gain in 2022 was more than offset by significantly higher physical energy costs. The result of hedging activities, classified as hedge accounting, is recognised in other income and costs.

At the end of 2022, 81 per cent of the forecasted energy spend for 2023 was hedged. A 50 per cent increase in commodity prices would negatively impact the forecasted unhedged energy spend by approximately EUR 24 million.

If the forecasted energy prices were 50 per cent higher at 31 December 2022, a gain of EUR 109 million would positively impact other comprehensive income.

Table 4.1.5 Hedged commodities

			Potential accounting impact	
	Sensitivity	Carrying amount	Income statement	Other comprehensive income
2022				
Diesel/natural gas	50%	6	-10	80
Electricity	50%	31	-14	29
		37	-24	109
2021				
Diesel/natural gas	50%	15	-85	14
Electricity	50%	12	-46	14
		27	-131	28

Risk mitigation

Risk

The group is exposed to commodity risks related to the production and distribution of dairy products. Increased commodity prices negatively impact production and distribution costs.

Fair value sensitivity

A change in commodity prices will impact the fair value of the group's hedged commodity derivative instruments, measured through other comprehensive income and the unhedged energy consumption through the income statement. The table shows the sensitivity of a 50 per cent increase in commodity prices for both hedged and unhedged commodity purchases. A decrease in commodity prices would have the opposite effect.

Policy

According to the treasury and funding policy, the forecasted consumption of electricity, natural gas and diesel can be hedged for up to 36 months, of which 100 per cent can be hedged for the first 18 months, with a limited proportion thereafter.

How we act and operate

Energy commodity price risks are managed by the Treasury department. Commodity price risks are mainly hedged by entering into financial derivative contracts, which are independent of the physical supplier contracts. Arla is also exploring other commodities relevant for financial risk management.

Arla's energy exposure and hedging are managed as a portfolio across energy type and country. Not all energy commodities can be effectively hedged by matching the underlying costs, but Arla aims to minimise the basic risk.

Dairy derivative markets in the EU, the US and New Zealand remain small, but are evolving. The group has engaged in hedging activities for a small part of the group's dairy commodity trading volume. As the dairy derivative market develops, we expect this to play a role in managing fixed price contracts with customers in the coming years.

FUNDING
4.1 FINANCIAL RISKS

4.1.5 CREDIT RISK

Credit risk

In 2022, the group continued to experience very limited losses from defaulting counterparties such as customers, suppliers and financial counterparties.

All major financial counterparties had satisfactory credit ratings at year-end. The Arla requirement is a credit rating of at least A-/A-/A3 from either S&P, Fitch or Moody's either for the financial counterparty or its parent company. In a small number of geographical locations which are not served by our relationship banks and where financial counterparties with a satisfying credit rating do not operate, the group deviated from the rating requirement.

Further information on trade receivables is provided in Table 2.1.c.

The maximum exposure to credit risk is approximately equal to the carrying amount.

As in previous years, the group continuously worked with credit exposure and experienced a very low level of losses arising from customers.

To manage the financial counterparty risk, the group uses master netting agreements when entering into derivative contracts. Table 4.1.6 shows the counterparty exposure for those agreements covered by entering into netting agreements that qualify for netting in case of default.

Risk mitigation

Risk

Credit risks arise from operating activities and engagement with financial counterparties. Furthermore, a weak counterparty credit quality can reduce their ability to support the group going forward, thereby jeopardising the fulfilment of our group strategy.

Policy

Counterparties are selected based on a relationship bank strategy. Financial counterparties must be approved by the Executive Board and the CFO upon recommendation from the Treasury team. A counterparty (or its parent) to financial contracts and deposits must as a minimum have a long-term rating corresponding to A3 from Moody's, A- from S&P or A- from Fitch. If the group has only obtained credit from the counterparty, no rating is required. If the counterparty is rated by several credit rating agencies, an average is used, rounded up to the nearest notch.

In geographies which are not properly served by our relationship banks, the Treasury team may deviate from the counterparty requirement in this section.

How we act and operate

The group has an extensive credit risk policy and uses credit insurance and other trade financing products extensively in connection with exports. In certain emerging markets, it is not always possible to obtain credit coverage with the required rating; however, the group then seeks the best coverage available. The group has determined that this is an acceptable risk given the levels of investment in emerging markets.

If a customer payment is late, internal procedures are followed to mitigate losses. The group uses a limited number of financial counterparties where credit ratings are monitored on an ongoing basis.

External rating of financial counterparties

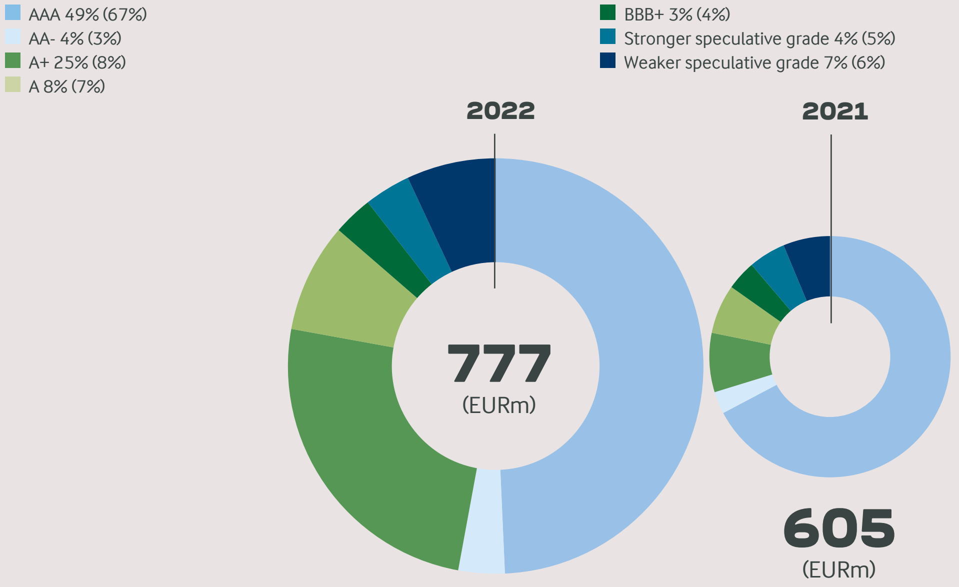


Table 4.1.6 External rating of financial counterparties

(EURm)	Counterparty rating							
	AAA	AA-	A+	A	BBB+	Stronger speculative grade*	Weaker speculative grade*	Total
2022								
Securities	383	-	-	-	-	-	49	432
Cash	-	15	5	33	20	28	5	106
Derivatives	-	13	189	33	4	-	-	239
Total	**383**	**28**	**194**	**66**	**24**	**28**	**54**	**777**
2021								
Securities	402	-	-	-	-	-	32	434
Cash	5	17	9	7	24	29	6	97
Derivatives	-	1	39	33	-	1	-	74
Total	**407**	**18**	**48**	**40**	**24**	**30**	**38**	**605**

**Definition based on S&P rating scale. Stronger speculative grade: BB+ to B- and weaker speculative grade: CCC+ to D.*

FUNDING
4.2 FINANCIAL ITEMS

Financial income and financial cost

Net financial costs increased by EUR 19 million to EUR 80 million, mainly due to higher exchange rate losses.

Net interest expenses amounted to EUR 51 million, representing an increase of EUR 11 million compared to last year due to higher interest-bearing debt and interest rates compared to last year.

Average interest expenses, excluding interest related to pension assets and liabilities, were 2.3 per cent compared to 1.8 per cent last year. Interest cover decreased to 19.6 compared to 23.7 last year.

Exchange rate losses relate primarily to the devaluation of the Argentine, Bangladeshi and Nigerian currencies and amounted to EUR 39 million, of which EUR 19 million was offset by interest income on the restricted cash and securities.

Accounting policies

Financial income and financial costs as well as capital gains and losses are recognised in the income statement at amounts that can be attributed to the year. Financial items comprise realised and unrealised value adjustments of securities and currency adjustments of financial assets and financial liabilities as well as the interest portion of financial lease payments. Additionally, realised and unrealised gains and losses on derivatives not classified as hedging contracts are included. Borrowing costs from general borrowing, or loans that directly relate to the acquisition, construction or development of qualified assets are attributed to the costs of such assets and are therefore not included in financial costs.

Capitalisation of interest was performed by using an interest rate matching the group's average external interest rate in 2022. Financial income and financial costs relating to financial assets and financial liabilities were recognised using the effective interest method.

Table 4.2 Financial income and financial costs

(EURm)	2022	2021
Financial income:		
Interest securities, cash and cash equivalents	22	7
Fair value adjustments and other financial income	15	7
Total financial income	**37**	**14**
Financial costs:		
Interest on financial instruments measured at amortised cost	-71	-45
Net exchange rate losses	-46	-28
Interest on pension liabilities	-2	-2
Interest transferred to property, plant and equipment	7	7
Fair value adjustments and other financial costs	-5	-7
Total financial costs	**-117**	**-75**
Net financial costs	**-80**	**-61**

FUNDING
4.2 FINANCIAL ITEMS

Increased net interest-bearing debt

Net interest-bearing debt, excluding pension liabilities, increased to EUR 2,825 million compared to EUR 2,221 million last year. The increase in net interest-bearing debt was mainly driven by the increase in net working capital.

Pension liabilities decreased by EUR 84 million to EUR 161 million. Net interest-bearing debt, including pension liabilities, amounted to EUR 2,986 million compared to EUR 2,466 million last year. The UK pension scheme net assets were EUR 16 million compared to EUR 69 million last year. These assets are excluded from the calculation of pension liabilities, net interest-bearing debt and leverage.

Arla's leverage ratio was 3.0, an increase of 0.4 compared to last year. This is within the long-term target range of 2.8 to 3.4.

The average maturity of interest-bearing borrowings decreased by 0.6 years to 5.2 years. Average maturity is impacted by new facilities and offset by a lapse of time to maturity and the level of net interest-bearing debt.

The equity ratio decreased to 35 per cent compared to 37 per cent last year.

Funding

The group applies a diversified funding strategy to balance the liquidity and refinancing risk with the aim of achieving low financing costs. Major acquisitions or investments are funded separately.

A diverse funding strategy includes diversification of markets, currencies, instruments, banks, lenders and maturities to secure broad access to funding and to ensure that the group is independent of one single funding partner or one single market. All funding opportunities are benchmarked against the three-month EURIBOR rate, and derivatives are applied to match the currency of our funding needs. The interest profile is managed with interest rate swaps independently of the individual loans.

The credit facilities contain financial covenants on equity/total assets and minimum equity as well as standard non-financial covenants. The group did not default on or fail to fulfil any loan agreements in 2022.

During 2022, the group's most significant funding activities were:

- Extension of a EUR 400 million ESG-linked revolving credit multi-bank facility to 2028
- Five-year bond issue of SEK 1,000 million
- 20-year EUR 200 million mortgage
- Two-year bridge loan, EUR 200 million
- Arla has a commercial paper programme in Sweden denominated in SEK and EUR. The average utilisation in 2022 was EUR 139 million
- During the year, Arla entered into sale and repurchase arrangements based on its holdings in listed AAA-rated Danish mortgage bonds. Refer to Note 4.6 for more details.

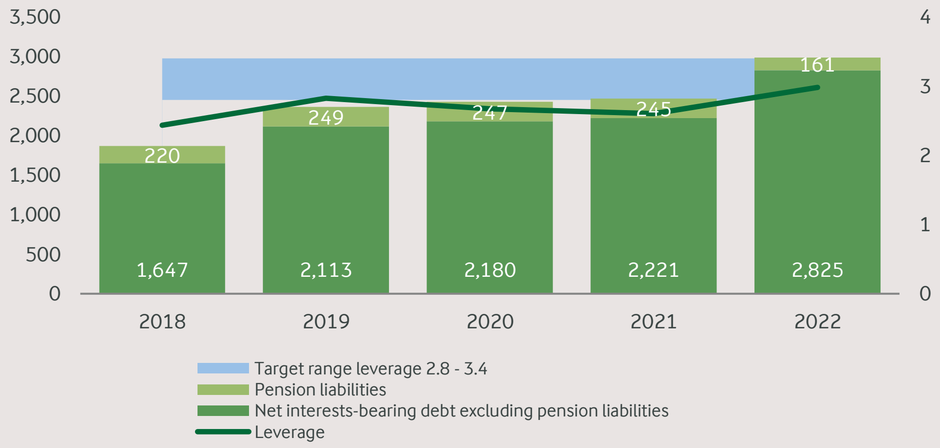
Leverage

3.0

(2021:2.6)

Net interest-bearing debt consists of current and non-current liabilities, less interest-bearing assets. The definition of leverage is the ratio between net interest-bearing debt including pension liabilities and EBITDA and expresses the group's capacity to service its debt. The group's long-term target range for leverage is between 2.8 and 3.4.

Net interest-bearing debt
(EURm)



FUNDING
4.3 NET INTEREST-BEARING DEBT

Table 4.3.a Net interest-bearing debt

(EURm)	2022	2021
Long-term borrowings	2,640	2,113
Short-term borrowings	727	644
Securities, cash and cash equivalents	-538	-531
Other interest-bearing assets	-4	-5
Net interest-bearing debt excluding pension liabilities	**2,825**	**2,221**
Pension liabilities	161	245
Net interest-bearing debt including pension liabilities	**2,986**	**2,466**

Table 4.3.b Borrowings

(EURm)	2022	2021
Long-term borrowings:		
Issued bonds	357	440
Mortgage credit institutions	1,210	1,021
Bank borrowings	918	478
Lease liabilities	155	174
Total long-term borrowings	**2,640**	**2,113**
Short-term borrowings:		
Issued bonds	133	-
Commercial papers	88	102
Mortgage credit institutions	11	11
Bank borrowings	418	456
Lease liabilities	59	59
Other current liabilities	18	16
Total short-term borrowings	**727**	**644**
Total interest-bearing borrowings	**3,367**	**2,757**

Table 4.3.c Cash flow, net interest-bearing debt

		Cash flow	Non-cash changes				
(EURm)	1 January	Included in financing activities	Additions	Reclassi-fications	Foreign exchange movements	Fair value changes	31 Decem-ber
2022							
Pension liabilities	245	-22	-		-14	-48	161
Long-term borrowings	2,113	696	49	-190	-32	4	2,640
Short-term borrowings	644	-100	-	190	-7	-	727
Total interest-bearing debt	**3,002**	**574**	**49**	**-**	**-53**	**-44**	**3,528**
Pension assets	-	-	-	-	-	-	-
Securities and other interest-bearing assets	-439	1	-	-	-	2	-436
Cash	-97	-9	-	-	-	-	-106
Net interest-bearing debt	**2,466**	**566**	**49**	**-**	**-53**	**-42**	**2,986**

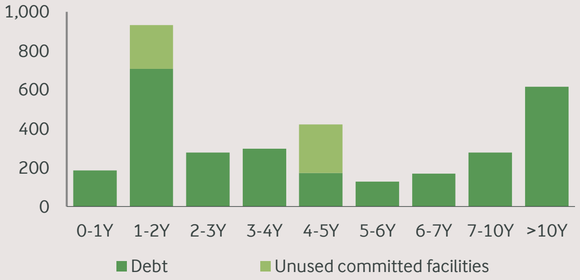
Long- and short-term borrowings payments of EUR 596 million (EUR 696 million and EUR -100 million, respectively) can be reconciled to the cash flow statement as new loans obtained (EUR 810 million), other changes in loans (EUR -143 million) and lease payments (EUR -71 million).

		Cash flow	Non-cash changes				
(EURm)	1 January	Included in financing activities	Additions	Reclassi-fications	Foreign exchange movements	Fair value changes	31 Decem-ber
2021							
Pension liabilities	247	-14	-		-4	16	245
Long-term borrowings	1,964	-	46	62	24	17	2,113
Short-term borrowings	766	-48	-	-62	-12	-	644
Total interest-bearing debt	**2,977**	**-62**	**46**	**-**	**8**	**33**	**3,002**
Pension assets	-	-17	-	14	4	-1	-
Securities and other interest-bearing assets	-424	-12	-	-	-3	-	-439
Cash	-126	32	-	-	-3	-	-97
Net interest-bearing debt	**2,427**	**-59**	**46**	**14**	**6**	**33**	**2,466**

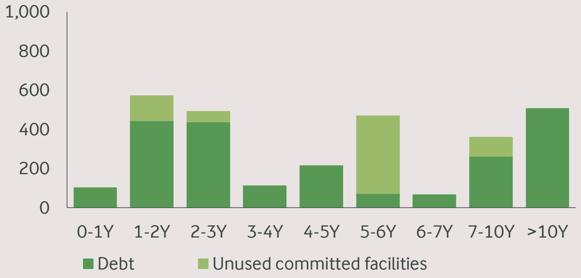
Long- and short-term borrowings payments of EUR -48 million (EUR 0 million and EUR -48 million, respectively) can be reconciled to the cash flow statement as loans obtained, net, (EUR 172 million), other changes in loans (EUR -147 million) and lease payments (EUR -73 million).

FUNDING
4.3 NET INTEREST-BEARING DEBT

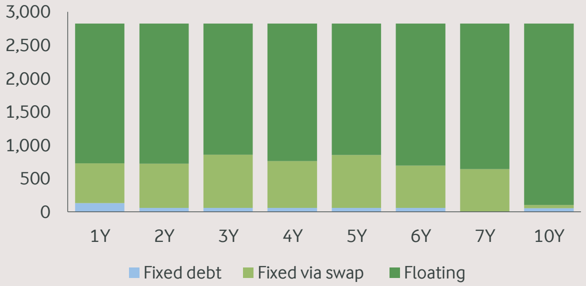
Maturity of net interest-bearing debt excluding pension liabilities, 31 December 2022
(EURm)



Maturity of net interest-bearing debt excluding pension liabilities, 31 December 2021
(EURm)



Interest profile for net interest-bearing debt excluding pension liabilities at 31 December 2022
(EURm)



Interest profile for net interest-bearing debt excluding pension liabilities at 31 December 2021
(EURm)

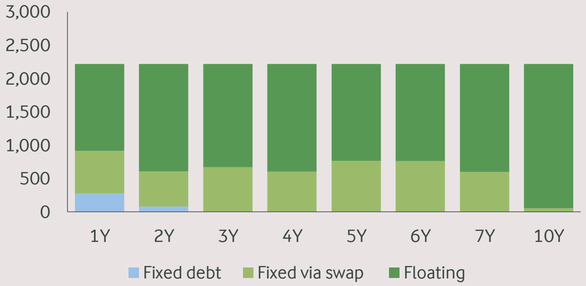


Table 4.3.d Net interest-bearing debt excluding pension liabilities and the effect of hedging, maturity

(EURm)	Total	2023	2024	2025	2026	2027	2028	2029	2030-2032	After 2032
2022										
DKK	1,046	30	36	97	57	58	61	67	201	439
SEK	606	228	139	5	183	3	48	-	-	-
EUR	1,014	-10	390	163	5	105	7	102	76	176
GBP	39	8	7	6	5	5	8	-	-	-
Other	120	-71	135	6	46	1	3	-	-	-
Total	**2,825**	**185**	**707**	**277**	**296**	**172**	**127**	**169**	**277**	**615**

	Total	2022	2023	2024	2025	2026	2027	2028	2029-2031	After 2031
2021										
DKK	873	20	26	55	94	56	55	61	202	304
SEK	572	109	153	152	4	150	4	-	-	-
EUR	592	5	207	108	4	3	4	4	55	202
GBP	43	7	8	6	5	4	4	3	4	2
Other	141	-37	48	116	7	3	4	-	-	-
Total	**2,221**	**104**	**442**	**437**	**114**	**216**	**71**	**68**	**261**	**508**

Table 4.3.e Currency profile of net interest-bearing debt excluding pension liabilities
(EURm)

Currency profile of net interest-bearing debt excluding pension liabilities before and after derivative financial instruments	Original principal	Effect of swap	After swap
2022			
DKK	1,046	-	1,046
SEK	606	-538	68
EUR	1,014	183	1,197
GBP	39	355	394
Other	120	-	120
Total	**2,825**	**-**	**2,825**
2021			
DKK	873	-	873
SEK	572	-586	-14
EUR	592	64	656
GBP	43	522	565
Other	141	-	141
Total	**2,221**	**-**	**2,221**

FUNDING
4.3 NET INTEREST-BEARING DEBT

Table 4.3.f Interest rate risk excluding effect of hedging

(EURm)	Interest rate	Average interest rate	Fixed for	Carrying amount	Interest rate risk
2022					
Issued bonds:					
Commercial papers	Fixed	2.5%	0-1 year	88	Fair value
SEK 750m maturing 03.07.2023	Floating	3.7%	0-1 year	67	Cash flow
SEK 750m maturing 03.07.2023	Fixed	1.5%	0-1 year	66	Fair value
SEK 750m maturing 03.04.2024	Fixed	1.6%	2-3 years	66	Fair value
SEK 750m maturing 03.04.2024	Floating	3.9%	2-3 years	67	Cash flow
SEK 500m maturing 14.01.2026	Floating	4.0%	3-4 years	45	Cash flow
SEK 1,500m maturing 17.07.2026	Floating	2.4%	3-4 years	134	Cash flow
SEK 500m maturing 14.01.2028	Floating	4.2%	5-6 years	45	Cash flow
Total issued bonds		**2.8%**		**578**	
Mortgage credit institutions:					
Fixed-rate	Fixed	1.9%	1-2 years	125	Fair value
Floating-rate	Floating	3.0%	0-1 year	1,096	Cash flow
Total mortgage credit institutions		**2.9%**		**1,221**	
Bank borrowings:					
Fixed-rate	Fixed	1.9%	0-1 year	377	Fair value
Floating-rate	Floating	2.9%	0-1 year	959	Cash flow
Total bank borrowings		**2.6%**		**1,336**	
Other borrowings:					
Finance leases	Fixed	3.1%	0-20 years	214	Cash flow
Other borrowings	Floating	3.7%	0-1 year	18	Cash flow
Total other borrowings		**3.2%**		**232**	

	Interest rate	Average interest rate	Fixed for	Carrying amount	Interest rate risk
2021					
Issued bonds:					
Commercial papers	Fixed	0.2%	0-1 year	102	Fair value
SEK 750m maturing 03.07.2023	Floating	1.1%	1-2 years	74	Cash flow
SEK 750m maturing 03.07.2023	Fixed	1.5%	1-2 years	73	Fair value
SEK 750m maturing 03.04.2024	Fixed	1.6%	2-3 years	73	Fair value
SEK 750m maturing 03.04.2024	Floating	0.9%	2-3 years	74	Cash flow
SEK 1,500m maturing 17.07.2026	Floating	0.6%	4-5 years	146	Cash flow
Total issued bonds		**0.9%**		**542**	
Mortgage credit institutions:					
Fixed-rate	Fixed	0.2%	1-2 years	97	Fair value
Floating-rate	Floating	0.3%	0-1 year	935	Cash flow
Total mortgage credit institutions		**0.3%**		**1,032**	
Bank borrowings:					
Fixed-rate	Fixed	0.0%	0-1 year	390	Fair value
Floating-rate	Floating	0.6%	0-1 year	544	Cash flow
Total bank borrowings		**0.4%**		**934**	
Other borrowings:					
Finance leases	Fixed	3.2%	0-20 years	233	Cash flow
Other borrowings	Floating	3.4%	0-1 year	16	Cash flow
Total other borrowings		**3.2%**		**249**	

FUNDING
4.3 NET INTEREST-BEARING DEBT

Accounting policies

Financial instruments
Financial instruments are recognised at the date of trade. The group ceases to recognise financial assets when the contractual rights to the underlying cash flows either cease to exist or are transferred to the purchaser of the financial asset, and substantially all risks and rewards related to ownership are also transferred to the purchaser.

Financial assets and liabilities are offset, and the net amount is presented in the balance sheet when, and only when, the group has a legal right of offsetting and either intends to offset or settle the financial asset and the liability simultaneously.

Financial assets
Financial assets are classified on initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income or fair value through the income statement.

The classification of financial assets on initial recognition depends on the financial asset's contractual cash flow characteristics and how these are managed.

Financial assets where the group intends to collect the contractual cash flow are classified and measured at amortised cost.

Financial assets that are part of liquidity management are classified and measured at fair value through other comprehensive income. All other financial assets are classified and measured at fair value through the income statement.

Financial assets measured at amortised cost
Financial assets measured at amortised cost consist of readily available cash at bank and deposits, together with exchange-listed debt securities with an original maturity of three months or less, which have an insignificant risk of change in value and can be readily converted to cash or cash equivalents.

Financial assets measured at fair value through other comprehensive income
Financial assets measured at fair value through other comprehensive income consist of mortgage credit bonds, which correspond in part to raised mortgage debt.

Financial assets are measured on initial recognition at fair value plus transaction costs. The financial assets are subsequently measured at fair value with adjustments made in other comprehensive income and accumulated in the fair value reserve in equity.

Interest income, impairment and foreign currency translation adjustments of debt instruments are recognised in the income statement on a continuous basis under financial income and financial costs. In connection with the sale of financial assets classified at fair value through other comprehensive income, accumulated gains or losses, previously recognised in the fair value reserve, are recycled to financial income and financial costs.

Financial assets measured at fair value through profit or loss
Securities classified at fair value through the income statement consist primarily of listed securities which are monitored, measured and reported continuously in accordance with the group's treasury and funding policy. Changes in fair value are recognised in the income statement under financial income and financial costs.

Liabilities
Debt to mortgage credit and credit institutions as well as issued bonds are measured at the trade date on first recognition at fair value plus transaction costs. Subsequently, liabilities are measured at amortised cost with the difference between the loan proceeds and the nominal value recognised in the income statement over the expected life of the loan.

Capitalised residual lease obligations related to leases are recognised under liabilities and measured at amortised cost. Other financial liabilities are measured at amortised cost. Please refer to Note 4.7 for details on pension liabilities.

FUNDING
4.4 DERIVATIVES

Derivatives

The group has entered into derivative contracts to secure a stable cash flow in future years. The total value increased by EUR 225 million to EUR 211 million. The increase was driven by higher interest rates in 2022 which increase the future gains on interest rate swaps. Additionally, currency sales in 2023 were hedged at a higher rate than the market rate at the end of 2022.

Hedging of future cash flows

The group uses currency forwards to hedge currency risks on expected future net revenue and costs. Interest rate swaps are used to hedge risks against movements in expected future interest payments, and commodity swaps are used for energy hedging.

Fair value of hedging instruments not qualifying for hedge accounting (financial hedge)

The group uses currency options which hedge forecasted sales and purchases. Some of these options do not qualify for hedge accounting, and the fair value adjustment is therefore recognised directly in the income statement.

Currency swaps are used as part of the daily liquidity management. The objective of the currency swaps is to match the timing of in- and outflow of foreign currency cash flows.

Accounting policies

Derivatives are recognised from the trade date and measured in the financial statements at fair value. Positive and negative fair values of derivatives are recognised as separate items in the balance sheet.

Fair value hedging

Changes in the fair value of derivatives which meet the criteria for hedging of the fair value of recognised assets and liabilities are recognised alongside changes in the value of the hedged asset or the hedged liability for the portion that is hedged.

Cash flow hedging

Changes in the fair value of derivatives that are classified as hedges of future cash flows and effectively hedge changes in future cash flows are recognised in other comprehensive income as a reserve for hedging transactions under equity until the hedged cash flows impact the income statement. The reserve for hedging instruments is presented net of tax under equity. The cumulative gains or losses from hedging transactions recognised in equity are reclassified and recognised under the same item as the basic adjustment for the hedged item.

The accumulated change in value recognised in other comprehensive income is recycled to the income statement once the hedged cash flows affect the income statement or are no longer likely to be realised. For derivatives that do not meet the criteria for classification as hedging instruments, changes in fair value are recognised as they occur in the income statement, under financial income and costs.

Table 4.4.a Hedging of future cash flows from highly probable forecast transactions

			Expected recognition				
(EURm)	Carrying amount	Fair value recognised in OCI	2023	2024	2025	2026	After 2026
2022							
Currency contracts	42	42	42	-	-	-	-
Interest rate contracts	132	132	30	27	25	15	35
Commodity contracts	37	37	28	8	1	-	-
Hedging of future cash flows	**211**	**211**	**100**	**35**	**26**	**15**	**35**

			Expected recognition				
(EURm)	Carrying amount	Fair value recognised in OCI	2022	2023	2024	2025	After 2025
2021							
Currency contracts	-17	-17	-17	-	-	-	-
Interest rate contracts	-24	-24	-8	-6	-	1	-11
Commodity contracts	27	27	26	1	-	-	-
Hedging of future cash flows	**-14**	**-14**	**1**	**-5**	**-**	**1**	**-11**

Table 4.4.b Value adjustment of hedging instruments

(EURm)	2022	2021
Deferred gains and losses on cash flow hedges arising during the year	254	12
Value adjustments of hedging instruments reclassified to other operating income and costs	3	3
Value adjustments of hedging instruments reclassified to financial items	-32	24
Total value adjustment of hedging instruments recognised in other comprehensive income during the year	**225**	**39**

FUNDING
4.5 FINANCIAL INSTRUMENTS

Table 4.5.a Categories of financial instruments

(EURm)	2022	2021
Derivatives	47	22
Shares	7	9
Financial assets measured at fair value through the income statement	**54**	**31**
Securities	432	434
Financial assets measured at fair value through other comprehensive income	**432**	**434**
Currency instruments	43	2
Interest rate instruments	96	22
Commodity instruments	53	28
Derivative assets used as hedging instruments	**192**	**52**
Trade receivables	1,267	1,007
Other receivables	319	285
Cash	106	97
Financial assets measured at amortised cost	**1,692**	**1,389**
Derivatives	19	44
Financial liabilities measured at fair value through the income statement	**19**	**44**
Currency instruments	1	19
Interest rate instruments	-	22
Commodity instruments	16	1
Derivative liabilities used as hedging instruments	**17**	**42**
Long-term borrowings	2,640	2,113
Short-term borrowings	727	644
Trade payables and other payables	1,597	1,445
Financial liabilities measured at amortised cost	**4,964**	**4,202**

Table 4.5.b Fair value hierarchy – carrying amount

(EURm)	Level 1	Level 2	Level 3	Total
2022				
Financial assets:				
Bonds	432	-	-	432
Shares	7	-	-	7
Derivatives	-	239	-	239
Total financial assets	**439**	**239**	**-**	**678**
Financial liabilities:				
Issued bonds	-	490	-	490
Mortgage credit institutions	1,221	-	-	1,221
Derivatives	-	36	-	36
Total financial liabilities	**1,221**	**526**	**-**	**1,747**
2021				
Financial assets:				
Bonds	434	-	-	434
Shares	9	-	-	9
Derivatives	-	74	-	74
Total financial assets	**443**	**74**	**-**	**517**
Financial liabilities:				
Issued bonds	-	440	-	440
Mortgage credit institutions	1,032	-	-	1,032
Derivatives	-	86	-	86
Total financial liabilities	**1,032**	**526**	**-**	**1,558**

FUNDING
4.5 FINANCIAL INSTRUMENTS

Risk mitigation

Methods and assumptions applied when measuring fair values of financial instruments:

Bonds and shares
The fair value is determined using the quoted prices in an active market.

Non-option derivatives
The fair value is calculated using discounted cash flow models and observable market data. The fair value is determined as a termination price and, consequently, the value is not adjusted for credit risks.

Option instruments
The fair value is calculated using option models and observable market data, such as option volatilities. The fair value is determined as a termination price and, consequently, the value is not adjusted for credit risks.

Fair value hierarchy
Level 1: Fair values measured using unadjusted quoted prices in an active market.

Level 2: Fair values measured using valuation techniques and observable market data.

Level 3: Fair values measured using valuation techniques and observable as well as significant non-observable market data.

FUNDING
4.6 SALE AND REPURCHASE ARRANGEMENTS

Sale and repurchase arrangements

The group has invested in listed Danish mortgage bonds underlying its mortgage debt. By entering into a sale and repurchase arrangement on the mortgage bonds, the group is able to achieve a lower interest rate compared to current market interest rates on mortgage debt. The mortgage bonds are measured at fair value through other comprehensive income.

The proceeds from these bonds create a repurchase obligation which is recognised in short-term borrowings.

In addition to mortgage bonds, the group holds other securities with a carrying amount of EUR 43 million.

Table 4.6 Transfer of financial assets

(EURm)	Carrying value	Notional amount	Fair value
2022			
Mortgage bonds	379	377	379
Repurchase liability	-370	-369	-370
Net position	**9**	**8**	**9**
2021			
Mortgage bonds	398	394	398
Repurchase liability	-385	-387	-385
Net position	**13**	**7**	**13**

FUNDING
4.7 PENSION LIABILITIES

Pension liabilities

The group's pension assets and liabilities consist primarily of defined benefit plans in Sweden and the UK.

The group also operates defined contribution plans for employees. For these defined contribution plans, the group is not subject to the same investment, interest rate, inflation or longevity risks as it is for the defined benefit plans. The benefits that employees receive are dependent on the contribution paid, investment returns and the form of benefit chosen at retirement.

Pension plans in Sweden

The recognised net pension liability in Sweden was EUR 144 million at 31 December 2022, a decrease of EUR 81 million (36.0 per cent) compared to the previous year. The decrease is reflective of the current economic environment in Sweden with the main driver being discount rates increasing significantly over the past 12 months.

These pension plans are contribution-based plans, guaranteeing a defined benefit pension at retirement. The plan assets are legally structured as a trust, and the group has control over the operation of the plan and the associated investments.

These pension plans do not include a risk-sharing element between the group and the plan participants.

Pension plans in the UK

The recognised net pension asset in the UK was EUR 16 million at 31 December 2022, a decrease of EUR 53 million (76.8 per cent) compared to the previous year.

Similarly to Sweden, the current economic environment in the UK has significantly driven up discount rates which is the main factor causing pension liabilities to fall by EUR 530 million (36.0 per cent) from 31 December 2021 to 31 December 2022. Inflation assumptions remained steady despite developments over the past 12 months due to the longevity of the inflation assumptions and the subsequent impact that it has on the present value of liabilities. The decrease in liabilities can mainly be attributed to actuarial losses for the year of EUR 441 million as well as negative currency effects of EUR 61 million.

At the same time, difficult market conditions led to a decrease in the fair value of plan assets of EUR 583 million (37.8 per cent). The decrease can mainly be attributed to a negative return on plan assets for the year of EUR 503 million as well as negative currency effects of EUR 65 million, marginally offset by contributions to the plan of EUR 12 million.

Despite the volatile year, the UK managed to remain in a net pension asset position due to the investment strategy adopted by the trustees. The strategy aims to mitigate any major fluctuations in asset values due to external factors by incorporating matching assets into the asset portfolio. This minimises movements in the net pension asset position and increases stability in the pension position. The higher interest rate in 2022 led to a lower present value of gross pension liabilities. Net pension liabilities were on a par with last year due to a corresponding value adjustment of the pension asset portfolio.

More details of the investment strategy can be found in the Plan asset investment in the UK section.

The defined benefit plan in the UK is a defined benefit final salary scheme. The plan is closed to both new entrants and future accruals. The plan is a registered pension scheme, and

Table 4.7.a Pension liabilities recognised in the balance sheet

(EURm)	Sweden	UK	Other	Total
2022				
Present value of funded liabilities	153	943	35	1,131
Fair value of plan assets	-11	-959	-20	-990
Deficit of funded plans	**142**	**-16**	**15**	**141**
Present value of unfunded liabilities	2	-	2	4
Net pension liabilities recognised in the balance sheet	**144**	**-16**	**17**	**145**
Specification of total liabilities:				
Present value of funded liabilities	153	943	35	1,131
Present value of unfunded liabilities	2	-	2	4
Total liabilities	**155**	**943**	**37**	**1,135**
Presented as:				
Pension assets	-	-16	-	-16
Pension liabilities	144	-	17	161
Net pension liabilities	**144**	**-16**	**17**	**145**
2021				
Present value of funded liabilities	235	1,473	44	1,752
Fair value of plan assets	-13	-1,542	-26	-1,581
Deficit of funded plans	**222**	**-69**	**18**	**171**
Present value of unfunded liabilities	3	-	2	5
Net pension liabilities recognised in the balance sheet	**225**	**-69**	**20**	**176**
Specification of total liabilities:				
Present value of funded liabilities	235	1,473	44	1,752
Present value of unfunded liabilities	3	-	2	5
Total liabilities	**238**	**1,473**	**46**	**1,757**
Presented as:				
Pension assets	-	-69	-	-69
Pension liabilities	225	-	20	245
Net pension liabilities	**225**	**-69**	**20**	**176**

FUNDING
4.7 PENSION LIABILITIES

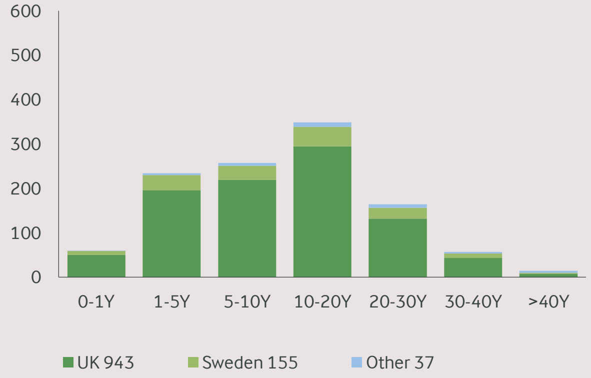
the assets are held in legally separate, trustee-administered funds. The trustees of the plan are required by law to act in the best interests of the plan participants while at the same time administering the plan in accordance with the purpose for which the trust was created, and is responsible for drawing up the investment, funding and governance policies. A representative of the group attends trustee meetings to provide the group's view on the investment strategy, but the ultimate power lies with the trustees.

Employer contributions are determined based on the advice of an independent qualified actuary on the basis of triennial valuation negotiations between the plan and Arla and are ultimately approved by HRM Pensions Regulator. The most recent full actuarial valuation of the plan was carried out at 31 December 2019. The valuation indicated that, on the agreed funding basis, the plan had a deficit of EUR 25 million.

The results of the 2019 actuarial valuation have been used and updated for IAS19 "Employee benefits" purposes by a qualified independent actuary. The plan exposes the group to inflation risk, interest rate risk and market investment risk as well as longevity risk.

Defined contribution plans are in place for other employees. Contributions are made both by Arla and the employee at a rate determined by Arla.

Maturity of pension liabilities at 31 December 2022
(EURm)



Maturity of pension liabilities at 31 December 2021
(EURm)

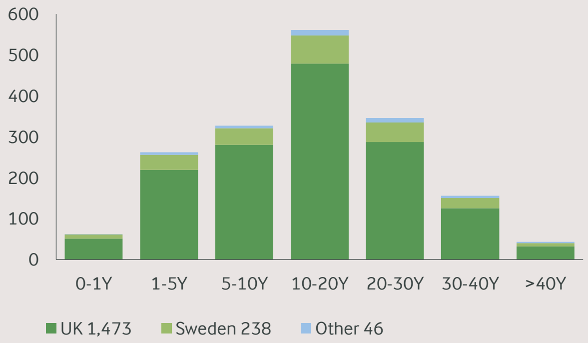


Table 4.7.b Development in pension liabilities

(EURm)	2022	2021
Present value of liabilities at 1 January	1,757	1,745
Current service costs	3	5
Interest costs	31	23
Actuarial gains and losses from changes in financial assumptions (OCI)	-505	-44
Actuarial gains and losses from changes in demographic assumptions (OCI)	-6	-
Benefits paid	-64	-74
Exchange rate adjustment	-81	102
Present value of pension liabilities at 31 December	**1,135**	**1,757**

Table 4.7.c Development in fair value of plan assets

(EURm)	2022	2021
Fair value of plan assets at 1 January	1,581	1,538
Reclassification	-	-
Interest income	29	21
Return on plan assets excluding amounts included in net interest on the net defined benefit liability (OCI)	-512	-47
Contributions to plans	12	17
Benefits paid	-54	-60
Administration costs	-	-
Exchange rate adjustments	-66	112
Fair value of plan assets at 31 December	**990**	**1,581**
Actual return on plan assets:		
Calculated interest income	29	21
Return excluding calculated interest	-512	-47
Actual return	**-483**	**-26**

The group expects to contribute EUR 21 million to the plan assets in 2023 and EUR 78 million in 2024-2027.

FUNDING
4.7 PENSION LIABILITIES

Table 4.7.d Specification of plan assets

(EURm)	2022	%	2021	%
Liability hedge portfolio	269	27	289	18
Annuity policies	221	22	321	20
Debt vehicles	216	22	440	28
Properties	117	12	134	8
Infrastructure	81	8	74	5
Other assets	75	8	103	7
Bonds	9	1	168	11
Equity instruments	1	0	52	3
Fair value of plan assets at 31 December	**989**	**100**	**1,581**	**100**

Plan asset investment

Plan assets generate returns that are used to satisfy the plan liabilities. They are not necessarily intended to be realised in the short term. The trustees invest in different categories of assets and with different allocations among those categories according to the plan investment principles.

Currently, the plan investment strategy is to maintain a balance of growth assets (property and infrastructure), income assets (comprising credit investments and corporate bonds) and matching assets (comprising a liability hedge portfolio and a buy-in annuity policy), with a weighting towards matching assets. There are no direct investments in the group.

Part of the investment objective is to minimise fluctuations in the plan's funding levels due to changes in the value of the liabilities. This is primarily achieved using a Liability Driven Investment (LDI) portfolio, the main goal of which is to align movements in the value of the assets with movements in the liabilities caused by changes in market conditions. The plan has hedging that covers the majority of interest rate and inflation movements, as measured based on the trustees' funding assumptions which use a discount rate derived from gilt yields.

LDI primarily involves the use of government bonds. Derivatives such as interest rate and inflation swaps are also used. There are no annuities or longevity swaps in the LDI portfolios. The value of the LDI assets is determined based on the latest market bid price for the underlying investments, which are traded daily on liquid markets.

Table 4.7.e Assumptions for the actuarial calculations

%	2022	2021
Discount rate assumptions		
Discount rate, Sweden	4.0	1.7
Discount rate, UK	4.9	1.9
Inflation assumptions		
Inflation (CPI), Sweden	2.0	2.1
Inflation (CPI), UK	2.6	2.7
Mortality assumptions		
Life expectancy in years at age 65:		
Males in the UK	21.0	21.0
Females in the UK	23.0	23.0
Males in Sweden	22.0	22.0
Females in Sweden	24.0	24.0

Table 4.7.f Sensitivity of pension liabilities to key assumptions

(EURm)	2022	2022	2021	2021
Impact on pension liabilities at 31 December	+	-	+	-
Discount rate +/- 10 bps	-14	14	-26	26
Expected salary increases +/- 10 bps	1	-1	2	-2
Life expectancy +/- 1 year	36	-36	82	-82
Inflation +/- 10 bps	8	-8	16	-16

FUNDING
4.7 PENSION LIABILITIES

Table 4.7.g Recognised in the income statement

(EURm)	2022	2021
Current service costs	3	5
Administration costs	-	-
Curtailments and settlements	-	-
Recognised as staff costs	**3**	**5**
Interest costs on pension liabilities	31	23
Interest income on plan assets	-29	-21
Recognised as financial costs	**2**	**2**
Total amount recognised in the income statement	**5**	**7**

Table 4.7.h Recognised in other comprehensive income

(EURm)	2022	2021
Actuarial gains and losses on liabilities from changes in financial assumptions (OCI)	505	44
Actuarial gains and losses on liabilities from changes in demographic assumptions (OCI)	6	-
Return on plan assets excluding amounts included in net interest on the net defined benefit liability	-512	-47
Total amount recognised in other comprehensive income	**-1**	**-3**

Accounting policies

Pension liabilities and similar non-current liabilities

The group has post-employment pension plan arrangements with a significant number of current and former employees. The post-employment pension plan agreements take the form of defined contribution plans and defined benefit plans.

Defined contribution plans

For defined contribution plans, the group pays fixed contributions to independent pension companies. The group has no obligation to make supplementary payments beyond those fixed payments, and the risk and reward of the value of the pension plan therefore rests with plan members and not the group. Contributions to defined contribution plans are expensed in the income statement as incurred.

Defined benefit plans

Defined benefit plans are characterised by the group's obligation to make specific payments from the date the plan member is retired, depending on, for example, the member's seniority and final salary. The group is subject to the risks and rewards associated with the uncertainty of whether the return generated by the assets will meet the pension liability, which is affected by assumptions concerning mortality and inflation.

The group's net liability is the amount presented in the balance sheet as a pension liability.

The net liability is calculated separately for each defined benefit plan. The net liability is the amount of future pension benefits that employees have earned in current and prior periods (i.e. the liability for pension payments for the portion of the employee's estimated final salary earned at the balance sheet date) discounted to a present value (the defined benefit liability), less the fair value of assets held separately from the group in a plan fund.

The group uses qualified actuaries to annually calculate the defined benefit liability using the projected unit credit method.

The balance sheet amount of the net liability is impacted by remeasurement, which includes the effect of changes in assumptions used to calculate the future liability (actuarial gain and losses) and the return generated on plan assets (excluding interest). Remeasurements are recognised in other comprehensive income.

Interest costs for the period are calculated using the discounted rate used to measure the defined benefit liability at the start of the reporting period applied to the carrying amount of the net liability, taking into account changes arising from contributions and benefit payments. The net interest costs and other costs relating to defined benefit plans are recognised in the income statement. The net liability primarily covers defined benefit plans in the UK and Sweden.

Uncertainties and estimates

The defined benefit liability is assessed based on a number of assumptions, including discount rates, inflation rates, salary growth and mortality. A small difference in actual variables compared to assumptions and any changes in assumptions can have a significant impact on the net position.

OTHER AREAS
5.1 TAX

Current and deferred tax

Tax in the income statement

Tax costs decreased to EUR 49 million compared to EUR 61 million last year, primarily due to a reduction in total deferred tax costs.

The effective tax rate decreased to 10.9 per cent compared to 15.0 per cent last year, primarily due to a higher share of the result realised by companies being subject to cooperative taxation.

Current income tax

Costs related to current income taxes decreased to EUR 42 million compared to EUR 44 million last year, mainly due to adjustments to current taxes of previous years, partially offset by higher corporate income tax costs for the year.

Deferred tax

Costs recognised in the income statement related to adjustments to deferred taxes amounting to EUR 7 million, representing a decrease of EUR 10 million compared to last year. Last year was negatively impacted by an adjustment of the tax rate in the UK.

Net deferred tax liabilities amounted to EUR 64 million, representing an increase of EUR 21 million compared to last year. The increase was mainly driven by deferred tax costs from financial instruments recognised in other comprehensive income.

Table 5.1.a Tax recognised in the income statement

(EURm)	2022	2021
Current income tax		
Current income tax on profit for the year relating to:		
Cooperative tax	10	10
Corporate income tax	31	28
Adjustments to current taxes of previous years	1	6
Total current income tax costs	**42**	**44**
Deferred tax		
Change in deferred tax for the year	16	10
Adjustment to deferred taxes of previous years	-9	-4
Impact of changes in tax rates and laws	-	11
Total deferred tax costs	**7**	**17**
Total tax costs in the income statement	**49**	**61**

Table 5.1.b Calculation of effective tax rate

(EURm)	2022		2021	
Profit before tax		449		407
Tax applying the statutory Danish corporate income tax rate	22.0%	99	22.0%	89
Effect of tax rates in other jurisdictions	-2.8%	-13	-2.0%	-8
Effect of companies subject to cooperative taxation	-7.7%	-34	-4.9%	-20
Tax-exempt income, less non-deductible expenses	-0.6%	-3	-1.5%	-6
Impact of changes in tax rates and laws	0.0%	-	2.7%	11
Adjustment for tax costs of previous years	-0.8%	-4	0.5%	2
Recognition of previously unrecognised tax losses	-1.0%	-4	0.0%	-
Current year losses for which no deferred tax asset is recognised	0.3%	1	0.0%	-
Other adjustments	1.5%	7	-1.8%	-7
Total	**10.9%**	**49**	**15.0%**	**61**

The gross deferred tax liabilities of EUR 86 million mainly related to temporary differences in provisions, pension liabilities and other liabilities, financial assets and other items. These were in part offset by deferred tax assets relating to property, plant and equipment and tax losses carried forward of EUR 22 million.

The group recognises deferred tax assets, including the value of tax losses carried forward, where management assesses that the tax assets may be utilised in the foreseeable future by offsetting against taxable income. The assessment is performed on an ongoing basis and is based on the budgets and business plans for future years.

The group recognised deferred tax assets in respect of tax losses carried forward in the amount of EUR 9 million. Deferred tax assets not recognised totalled EUR 32 million, which is on a par with last year. Unrecognised deferred tax assets related to tax losses carried forward.

OTHER AREAS
5.1 TAX

Table 5.1.c. Deferred tax assets and liabilities

(EURm)	2022	2021
Net deferred tax liability at 1 January	-43	-35
Deferred tax recognised in the income statement	-7	-6
Deferred tax recognised in other comprehensive income	-17	9
Impact of change in tax rates	-	-11
Exchange rate adjustments	3	-
Net deferred tax liability at 31 December	**-64**	**-43**
Deferred tax, by gross temporary difference		
Intangible assets	-6	-7
Property, plant and equipment	22	29
Provisions, pension liabilities and other assets	-51	-33
Tax losses carried forward	9	7
Other	-38	-39
Total deferred tax, by gross temporary difference	**-64**	**-43**
Recognised in the balance sheet as:		
Deferred tax assets	22	21
Deferred tax liabilities	-86	-64
Total	**-64**	**-43**

Accounting policies

Tax in the income statement

Tax in the income statement comprises current tax and adjustments to deferred tax. Tax is recognised in the income statement, except to the extent that it relates to a business combination or items (income or costs) recognised directly in other comprehensive income.

Current tax

Current tax is assessed based on tax legislation for entities in the group subject to cooperative or corporate income taxation. Cooperative taxation is based on the capital of the cooperative, while corporate income tax is assessed based on the company's taxable income for the year. Current tax liabilities comprise the expected tax payable/receivable on the taxable profit or loss for the year, any adjustments to the tax payable or receivable in respect of previous years and tax paid on account. Current tax liabilities are disclosed as part of other current liabilities.

Deferred tax

Deferred tax is measured in accordance with the balance sheet liability method for all temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognised on temporary differences on initial recognition of goodwill or arising at the acquisition date of an asset or a liability without affecting either the profit or loss for the year or taxable income, except for those arising from M&A activities.

Deferred tax is determined by applying tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Changes in deferred tax assets and liabilities due to changes in the tax rate are recognised in the income statement except for items recognised in other comprehensive income.

Deferred tax assets, including the value of tax losses carried forward, are recognised under other non-current assets at the value at which they are expected to be used, either by elimination in the tax of future earnings or by offsetting against deferred tax payable in companies within the same legal tax entity or jurisdiction.

Uncertainties and estimates

Deferred tax

Deferred tax reflects assessments of actual future tax due on items in the financial statements, considering timing and probability. These estimates also reflect expectations about future taxable profits. Actual future taxes may deviate from these estimates due to changes in expectations relating to future taxable income, future statutory changes in income taxation or the outcome of tax authorities' final review of the group's tax returns. Recognition of a deferred tax asset also depends on an assessment of the future use of the asset.

OTHER AREAS
5.2 PROVISIONS

Provisions

Provisions amounted to EUR 48 million in 2022 compared to EUR 42 million last year. Provisions primarily related to provisions for insurance incidents that have occurred, but have not yet been settled.

Uncertainties and estimates

Provisions are particularly associated with estimates of insurance provisions. Insurance provisions are assessed based on historical records of, among other things, the number of insurance events and related costs considered. The scope and extent of onerous contracts are also estimated.

Table 5.2 Provisions

(EURm)	Insurance provisions	Restructuring provisions	Other provisions	Total 2022	Total 2021
Provisions at 1 January	14	3	25	42	46
New provisions during the year	7	1	-	8	10
Reversals	-	-	-1	-1	-
Used during the year	-	-	-1	-1	-14
Provisions at 31 December	**21**	**4**	**23**	**48**	**42**
Non-current provisions	7	-	21	28	24
Current provisions	14	4	2	20	18
Provisions at 31 December	**21**	**4**	**23**	**48**	**42**

OTHER AREAS
5.3 FEES TO AUDITORS APPOINTED BY THE BOARD OF REPRESENTATIVES

Fees paid to EY

Table 5.3 Fees to auditors appointed by the Board of Representatives

(EURm)	2022	2021
Statutory audit	1.7	1.6
Other assurance engagements	0.4	0.3
Tax assistance	0.3	0.4
Other services	0.3	0.5
Total fees to auditors	**2.7**	**2.8**

OTHER AREAS
5.4 MANAGEMENT REMUNERATION AND TRANSACTIONS WITH RELATED PARTIES

Remuneration paid to management

The remuneration to the 19 registered members of the Board of Directors (BoD) is assessed and adjusted on a bi-annual basis and approved by the Board of Representatives. The BoD's remuneration was most recently adjusted in 2022. The principles applied to the remuneration of the BoD are described on page 63. Members of the BoD are paid for their milk supplies to Arla Foods amba on the same terms as apply to other owners. Similarly, individual capital instruments are issued to the BoD on the same terms as apply to other owners.

The Executive Board consists of Chief Executive Officer Peder Tuborgh and Chief Commercial Officer, Europe, Peter Giørtz-Carlsen. The principles applied to the remuneration of the Executive Board are described on page 63.

Table 5.4.a Management remuneration

(EURm)	2022	2021
Board of Directors		
Wages, salaries and remuneration	1.6	1.3
Total	**1.6**	**1.3**
Executive Board		
Fixed compensation	2.5	2.4
Pension	0.4	0.3
Short-term variable incentives	0.5	0.8
Long-term variable incentives	0.8	2.9
Total	**4.2**	**6.4**

The above table includes accrued amounts related to the respective reporting period. The amounts are based on reported key figures together with estimates of performance compared to peers and, consequently, the final future pay-out may differ.

Table 5.4.b Transactions with the Board of Directors

(EURm)	2022	2021
Purchase of raw milk	36.2	27.4
half-year supplementary payment	0.3	-
Supplementary payment regarding previous years	1.1	1.4
Total	**37.6**	**28.8**
Unsettled milk deliveries in trade payables and other payables	1.4	2.6
Individual capital instruments	2.6	2.9
Total	**4.0**	**5.5**

OTHER AREAS
5.5 CONTRACTUAL COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

Contractual obligations and commitments

Arla's contractual obligations and commitments amounted to EUR 293 million compared to EUR 370 million last year. The development was due to reduced surety and guarantee obligations and increased commitments relating to property, plant and equipment purchase agreements.

Contractual obligations and commitments consisted of surety and guarantee obligations, IT licences, short-term and low-value leases and commitments relating to property, plant and equipment purchase agreements.

The group provided security upon property for mortgage debt based on the Danish Mortgage Act with a nominal value of EUR 1,229 million compared to EUR 1,040 million last year.

The group is party to a small number of lawsuits, disputes and other claims. The management assesses that the outcome of these will not have a material impact on the group's financial position beyond what has already been recognised in the financial statements.

OTHER AREAS
5.6 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent events

No subsequent events with a material impact on the financial statements have occurred after the balance sheet date.

OTHER AREAS
5.7 GENERAL ACCOUNTING POLICIES

Basis for preparation

The consolidated financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act for large class C companies. Arla is not an EU public interest entity as the group has no debt instruments traded in a regulated EU market place. The consolidated financial statements were authorised for issue by the company's Board of Directors on 8 February 2023 and presented for approval by the Board of Representatives on 22 February 2023.

The functional currency of the parent company is DKK. The presentation currency of the parent company and the group is EUR.

These financial statements are prepared in million EUR with rounding.

Consolidated financial statements

The consolidated financial statements are prepared as a compilation of the parent company's and the individual subsidiaries' financial statements in line with the group's accounting policies. Revenue, costs, assets and liabilities, along with items included in the equity of subsidiaries, are aggregated and presented on a line-by-line basis. Inter-company shareholdings, balances and transactions as well as unrealised income and expenses arising from inter-company transactions are eliminated.

The consolidated financial statements comprise Arla Foods amba (parent company) and the subsidiaries in which the parent company directly or indirectly holds more than 50 per cent of the voting rights or otherwise maintains control to obtain benefits from its activities. Entities in which the group exercises joint control through a contractual arrangement are considered to be joint ventures. Entities in which the group exercises a significant but not a controlling influence are considered to be associates. A significant influence is typically obtained by holding or having at the group's disposal, directly or indirectly, more than 20 per cent, but less than 50 per cent, of the voting rights in an entity.

Unrealised gains arising from transactions with joint ventures and associates, i.e. profits from sales to joint ventures or associates and whereby the customer pays with funds partly owned by the group, are eliminated against the carrying amount of the investment in proportion to the group's interest in the company. Unrealised losses are eliminated in the same manner, but only to the extent that there is no evidence of impairment.

The consolidated financial statements are prepared on a historical cost basis, except for certain items with alternative measurement bases, which are identified in these accounting policies.

Translation of transactions and monetary items in foreign currencies

For each reporting entity in the group, a functional currency is determined, being the currency used in the primary economic environment where the entity operates. Where a reporting entity has transactions in a foreign currency, it will record the transaction in its functional currency using the transaction date rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate applicable at the reporting date. Exchange rate differences are recognised in the income statement under financial items. Non-monetary items, for example property, plant and equipment, which are measured based on historical cost in a foreign currency, are translated into the functional currency on initial recognition.

Translation of foreign operations

The assets and liabilities of consolidated entities, including the share of net assets and goodwill of joint ventures and associates with a functional currency other than EUR, are translated into EUR using the year-end exchange rate. The revenue, costs and share of the net profit or loss for the year are translated into EUR using the average monthly exchange rate if this does not differ materially from the transaction date rate. Exchange rate differences are recognised in other comprehensive income and accumulated in the translation reserve.

On partial divestment of associates and joint ventures, the relevant proportional amount of the cumulative foreign currency translation adjustment reserve is transferred to the net profit or loss for the year, along with any gains or losses related to the divestment. Any repayment of outstanding balances considered part of the net investment is not in itself considered to be a partial divestment of the subsidiary.

Adoption of new or amended IFRS

The group has implemented all new standards and interpretations effective in the EU from 2022.

Future implementations

The IASB has issued a number of new or amended and revised accounting standards and interpretations which are not yet applicable. Arla will adopt these new standards when they become mandatory. No material impact is expected from that.

OTHER AREAS
5.8 GROUP CHART

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods Ingredients Group P/S	Denmark	DKK	100
Arla Foods Ingredients Energy A/S	Denmark	DKK	100
Arla Foods Ingredients Japan K.K.	Japan	JPY	100
Arla Foods Ingredients Inc.	USA	USD	100
Arla Foods Ingredients Korea, Co. Ltd.	Korea	KRW	100
Arla Foods Ingredients Trading (Beijing) Co. Ltd.	China	CNY	100
Arla Foods Ingredients S.A.	Argentina	USD	100
Arla Foods Ingredients Comércio de Produtos Alimentícios Ltda.	Brazil	BRL	100
Arla Foods Ingredients Singapore Pte. Ltd.	Singapore	SGD	100
Arla Foods Ingredients S.A. de C.V.	Mexico	MXN	100
Arla Foods Holding A/S	Denmark	DKK	100
Arla Foods W.L.L.	Bahrain	BHD	100
Arla Oy	Finland	EUR	100
Massby Facility & Services Ltd. Oy	Finland	EUR	60
Osuuskunta MS tuottajapalvelu**	Finland	EUR	37
Arla Foods Distribution A/S	Denmark	DKK	100
Cocio Chokolademælk A/S	Denmark	DKK	50
Arla Foods International A/S	Denmark	DKK	100
Arla Foods UK Holding Limited	UK	GBP	100
Arla Foods UK Farmers Joint Venture Co. Limited	UK	GBP	100
Arla Foods UK plc	UK	GBP	100
Arla Foods GP Limited	UK	GBP	100
Arla Foods Limited Partnership	UK	GBP	100

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods Finance Limited	UK	GBP	33
Arla Foods Limited	UK	GBP	100
Arla Foods Hatfield Limited	UK	GBP	100
Yeo Valley Dairies Limited	UK	GBP	100
Arla Foods Cheese Company Limited	UK	GBP	100
Arla Foods Ingredients UK Limited	UK	GBP	100
MV Ingredients Limited*	UK	GBP	50
Arla Foods UK Property Co. Limited	UK	GBP	100
Arla Foods B.V.	Netherlands	EUR	100
Arla Foods Comércio, Importacâo e Exportacão de Productos Alimenticios Ltda.	Brazil	BRL	100
Arla Foods Ltd.	Kingdom of Saudi Arabia	SAR	75
AF A/S	Denmark	DKK	100
Arla Foods Finance A/S	Denmark	DKK	100
Kingdom Food Products ApS	Denmark	DKK	100
Ejendomsanpartsselskabet St. Ravnsbjerg	Denmark	DKK	100
Arla Insurance Company (Guernsey) Limited	Guernsey	EUR	100
Arla Foods Energy A/S	Denmark	DKK	100
Arla Foods Trading A/S	Denmark	DKK	100
Arla DP Holding A/S	Denmark	DKK	100
Arla Foods Investment A/S	Denmark	DKK	100
Arla Senegal SA.	Senegal	XOF	100
Tholstrup Cheese A/S	Denmark	DKK	100
Arla Foods Belgien AG	Belgium	EUR	100

OTHER AREAS
5.8 GROUP CHART

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods Ingredients (Deutschland) GmbH	Germany	EUR	100
Arla CoAr Holding GmbH	Germany	EUR	100
ArNoCo GmbH & Co. KG*	Germany	EUR	50
Arla Biolac Holding GmbH	Germany	EUR	100
Arla Foods Kuwait Company WLL	Kuwait	KWD	49
Arla Kallassi Foods Lebanon S.A.L.	Lebanon	LBP	50
Arla Foods Qatar WLL	Qatar	QAR	40
Arla Foods Trading and Procurement Limited	Hong Kong	HKD	100
Arla Foods Sdn. Bhd.	Malaysia	MYR	100
Arla Foods Corporation	Philippines	PHP	100
Arla Foods Limited	Ghana	GHS	100
Arla Global Dairy Products Ltd.	Nigeria	NGN	100
Arla Global Development Company Ltd.	Nigeria	NGN	99
TG Arla Dairy Products LFTZ Enterprise	Nigeria	NGN	50
TG Arla Dairy Products Ltd.	Nigeria	NGN	100
Arla For General Trading Ltd.	Iraq	USD	51
Arla Foods AB	Sweden	SEK	100
Arla Gelfeortens AB	Sweden	SEK	100
Årets Kock Aktiebolag	Sweden	SEK	67
Arla Foods Russia Holding AB	Sweden	SEK	100

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods Inc.	USA	USD	100
Arla Foods Production LLC	USA	USD	100
Arla Foods Transport LLC	USA	USD	100
Arla Foods Deutschland GmbH	Germany	EUR	100
Arla Foods Verwaltungs GmbH	Germany	EUR	100
Dofo Cheese Eksport K/S°	Denmark	DKK	100
Dofo Inc.	USA	USD	100
Aktieselskabet J. Hansen	Denmark	DKK	100
J.P. Hansen USA Incorporated	USA	USD	100
AFI Partner ApS	Denmark	DKK	100
Andelssmør A.m.b.a.	Denmark	DKK	98
Arla Foods AS	Norway	NOK	100
Arla Foods Bangladesh Ltd.	Bangladesh	BDT	51
Arla Foods Dairy Products Technical Service (Beijing) Co. Ltd.	China	CNY	100
Arla Foods FZE	UAE	AED	100
Arla Foods Hellas S.A.	Greece	EUR	100
Arla Foods Inc.	Canada	CAD	100
Arla Foods Logistics GmbH	Germany	EUR	100
Arla Foods Mayer Australia Pty, Ltd.	Australia	AUD	51
Arla Foods Mexico S.A. de C.V.	Mexico	MXN	100
Arla Foods S.A.	Spain	EUR	100

OTHER AREAS
5.8 GROUP CHART

	Country	Currency	Group equity interest
Arla Foods amba	**Denmark**	**DKK**	**%**
Arla Foods France S.a.r.l.	France	EUR	100
Arla Foods S.R.L.	Dominican Republic	DOP	100
Arla Foods SA	Poland	PLN	100
Arla Global Shared Services Sp. Z.o.o.	Poland	PLN	100
Arla Foods LLC	UAE	AED	49
Arla National Food Products Company LLC	Oman	OMR	67
Cocio Chokolademælk A/S	Denmark	DKK	50
Marygold Trading K/S°	Denmark	DKK	100
Mejeriforeningen	Denmark	DKK	89
COFCO Dairy Holdings Limited**	British Virgin Islands	HKD	30
Svensk Mjölk Ekonomisk förening	Sweden	SEK	75
Svensk Mjölk AB	Sweden	SEK	100
Lantbrukarnas Riksförbund upa**	Sweden	SEK	24
Jörd International A/S	Denmark	DKK	100
Ejendomsselskabet Gjellerupvej 105 P/S	Denmark	DKK	100
Svenska Ostklassiker AB	Sweden	SEK	68
Komplementarselskabet Gjellerupvej 105 ApS	Denmark	DKK	100
PT Arla Foods Indonesia	Indonesia	IDR	100
Arla Foods Arinco A/S	Denmark	DKK	80
Green Fertilizer Denmark ApS**	Denmark	DKK	25

**Joint ventures*
***Associates*
°According to section 5 of the Danish Financial Statements Act, the company does not prepare a statutory report.
In addition, the group owns a number of entities without material commercial activities.

Financial statements of the parent company
Under section 149 of the Danish Financial Statements Act, these consolidated financial statements represent an extract of Arla's complete annual report. In order to make this report more manageable and user-friendly, we publish consolidated financial statements that do not include the financial statements of the parent company, Arla Foods amba. The annual report of the parent company is an integral part of the full annual report and is available at www.arlafoods.com. Profit sharing and supplementary payments from the parent company are set out in the equity section of the consolidated financial statements. The full annual report contains the statement by the Board of Directors and the Executive Board as well as the independent auditor's report.

STATEMENT BY THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Arla Foods amba for the financial year 2022. The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act.

It is our opinion that the consolidated financial statements and the parent company financial statements give a true and fair view of the group's and the parent company's financial position at 31 December 2022 and of the results of the group's and the parent company's activities and cash flows for the financial year 1 January to 31 December 2022.

In our opinion, the management's review of the annual report (pages 4-65) includes a true and fair view of the development in the group's and the parent company's financial position, activities, financial matters, results for the year and cash flows as well as a description of the most significant risks and uncertainties which may affect the group and the parent company.

Arla's consolidated environmental, social and governance statements have been prepared in accordance with Arla's ESG accounting principles. In our opinion, they give a true and fair view and a balanced and reasonable presentation of the groups environmental, social and governance performance in accordance with these principles.

We hereby recommend the annual report for adoption by the Board of Representatives.

Aarhus, 8 February 2023

Peder Tuborgh
CEO

Peter Giørtz-Carlsen
COO

Jan Toft Nørgaard
Chairman

Manfred Graff
Vice Chairman

Anders Olsson

Arthur Fearnall

Bjørn Jepsen

Daniel Halmsjö

Florence Rollet

Grant Cathcart

Gustav Kämpe

Ib Bjerglund Nielsen

Inger-Lise Sjöström

Johnnie Russell

Jørn Kjær Madsen

Marcel Goffinet

Marita Wolf

Nana Bule

René Lund Hansen

Simon Simonsen

Steen Nørgaard Madsen

INDEPENDENT AUDITOR'S REPORT

TO THE OWNERS OF ARLA FOODS AMBA

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Arla Foods amba for the financial year 1 January to 31 December 2022, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the group and the parent company. The consolidated financial statements and the parent company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the group and the parent company at 31 December 2022 and of the results of the group's and the parent company's operations and cash flows for the financial year 1 January to 31 December 2022 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the group or the parent company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the parent company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and the parent company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Aarhus, 8 February 2023
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Henrik Kronborg Iversen State Authorised Public Accountant MNE no. 24687	Jes Lauritzen State Authorised Public Accountant MNE no. 10121

ESG STATEMENTS

ARLA BABY AND ME®

Arla has been making infant formula for 30 years, going the extra mile to provide the next generations with organic, natural goodness.

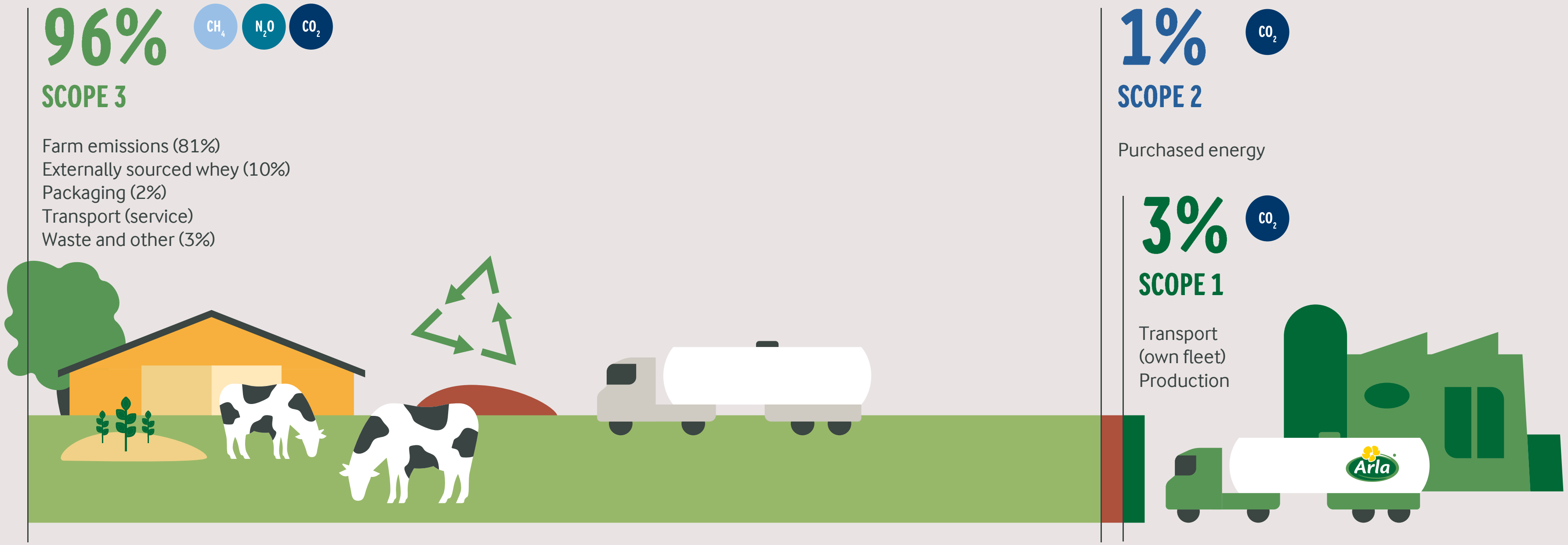
ENVIRONMENTAL FIGURES
1.1 GREENHOUSE GAS EMISSIONS (CO_2e)

INTRODUCTION TO GREENHOUSE GAS EMISSIONS IN ARLA

In Arla, we believe that being science-based and-data driven is key to reducing our carbon footprint. Science is developing rapidly and we strive to use best available data and methodology at all times. The effects on updates in methodologies and data sources are included in the reported numbers. We receive reasonable assurance on our complete ESG data set, including scope 1, 2, and 3 greenhouse gas emissions.

According to the 2022 quantification of Arla's climate impact, scope 1 and 2 emissions accounted for 3 and 1 per cent of total emissions, respectively. Scope 3 emissions accounted for 96 per cent of Arla's climate impact. Milk production on farms (including, among many other factors, methane emitted by cows, and emissions related to feed and transport of feed) accounted for 81 per cent of total emissions.

WHERE DO OUR EMISSIONS COME FROM



ENVIRONMENTAL DATA
1.1 GREENHOUSE GAS EMISSIONS (CO_2e)

Greenhouse gas emission development

To follow up on the progress towards emission reduction targets, greenhouse gas emissions (expressed as CO_2 equivalents, CO_2e) are reported annually. CO_2e is categorised into three scopes according to the methodology of the Greenhouse Gas Protocol Corporate Standard (GHG protocol). In line with Arla's Science Based Targets, the group does not reduce the CO_2e emissions with carbon credits.

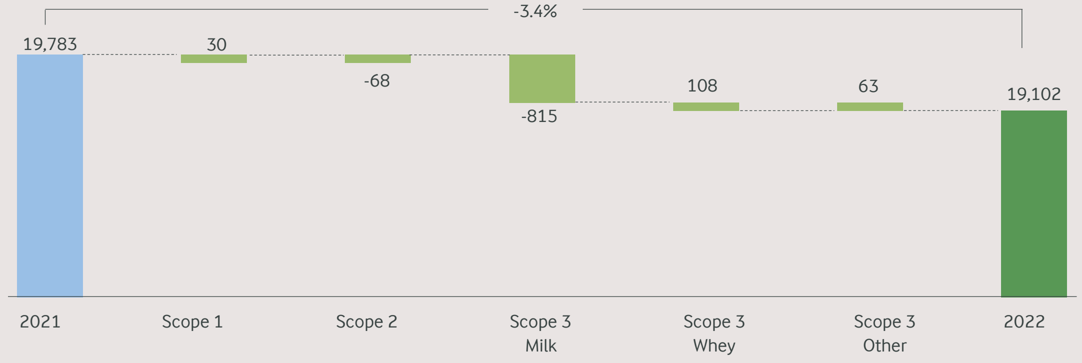
In 2022, our scope 1+2 CO_2e emissions decreased 4 percentage points, leading to a total reduction of 29 per cent compared to 2015. The reduction was a result of energy optimisations at sites, slightly lower milk volumes, partly offset by changes to our production mix to more energy intensive products such as milk powder. You can read more about energy optimisation activities in 2022 on page 36 and about our progress towards our renewable electricity target on page 41.

Scope 3 emissions per kg milk and whey were reduced 2 per centage points in 2022, leading to a total decrease towards our 2030 target of 9 per cent compared to the 2015 baseline. Scope 3 emissions per kg milk and whey amounted to 1.18 kg. Emissions specifically from Arla's owners amounted to 1.12 kg CO_2e per kg of owner milk. For more information on initiatives to reach the target, refer to page 36.

Emissions related to packaging and transport increased due to changes in emission factors, partly offset by lower packaging volumes due to a shift in sales from retail to trading.

In 2022, total CO_2e emissions decreased to 19,102 million kg compared to 19,783 million kg last year. The development is explained by emission reduction on farm, lower milk volumes and decreased scope 2 emissions, partly offset by increased purchase of external whey for the Arla Foods Ingredients business.

CO_2e emission development
(MKG)



ESG Table 1.1.a Greenhouse gas emissions progress

(mkg)	2022	2021	2020	2019	2018
CO_2e scope 1+2 market-based	695	733	751	862	946
CO_2e reduction scope 1+2 (baseline: 2015)	**-29%**	**-25%**	**-24%**	**-12%**	**-4%**
CO_2e scope 3 from owner milk (kg)	1.12	1.15	1.15	1.15	1.14
CO_2e scope 3 per kg of milk and whey (kg)	1.18	1.20	1.21	1.21	1.20
CO_2e reduction scope 3 per kg milk and whey (baseline: 2015)[1]	**-9%**	**-7%**	**-7%**	**-7%**	**-7%**

[1] The calculation of CO_2e emissions in 2015 was based on national statistical data, the best available source at that time. In 2016, we started to do climate measurements on Arla farms and gradually replaced the national statistical data with Arla-specific data in the CO_2e calculation model. Read more on page 131.

ESG Table 1.1.b Greenhouse gas emissions

(mkg)	2022[2]	2021	2020	2019	2018
Production	399	368	381	366	400
Transport	78	79	93	97	90
CO_2e scope 1	**477**	**447**	**474**	**463**	**490**
CO_2e scope 2 – market-based	**218**	**286**	**277**	**399**	**456**
Milk	15,571	16,386	16,645	16,524	16,548
Externally sourced whey	1,859	1,751	1,133	1,032	1,162
Packaging	444	417	396	384	383
Purchased goods and services (category 1)	17,874	18,554	18,174	17,940	18,093
Fuel and energy-related activities (category 3)	177	125	120	110	108
Upstream transport and distribution (category 4)	346	347	306	312	326
Waste generated in operations (category 5)	10	24	25	25	26
CO_2e scope 3[3]	**18,407**	**19,050**	**18,625**	**18,387**	**18,553**
Total CO_2e	**19,102**	**19,783**	**19,376**	**19,249**	**19,499**
CO_2e Scope 2 – location-based	165	243	237	274	263
Total CO_2e – location-based	19,049	19,740	19,336	19,124	19,306

[2] In 2022, the supplier of Arla's emission factors was changed from Sphera to Quantis due to a supplier-initiated termination of emission factor services. Historical figures 2015-2021 were not adjusted. The impacts on CO_2e for 2021 using 2022 emission factors were: Packaging (part of category 1): +43mkg, category 3: +16 mkg, category 4: +7mkg, category 5: -15mkg.
[3] Scope 3 emissions from categories 2, 6, 7, 8, 9, 12, 13 and 15 are immaterial to Arla's scope 3 emissions and are therefore not included in the emission figures in ESG Table 1.1. The categories mentioned individually account for less than 0.6 per cent of the Arla's scope 3 emissions. Categories 10, 11 and 14 are not applicable to Arla due to the nature of the products and the Arla business model.

ENVIRONMENTAL DATA
1.1 GREENHOUSE GAS EMISSIONS (CO_2e)

Accounting policies
Calculating CO_2 equivalents

Greenhouse gases are gases that contribute to the warming of the climate by absorbing infrared radiation. Besides the widely known carbon dioxide (CO_2), there are two other major greenhouse gases associated with dairy production: Methane (CH_4) and nitrous oxide (N_2O). In order to calculate Arla's total greenhouse gas emissions (the carbon footprint), different greenhouse gas emissions are converted into carbon dioxide equivalents (CO_2e). The conversion of different gases reflects their global warming potential.

The potency of the different gases is taken into consideration according to the following calculations (based on the IPCC[1] Fifth Assessment Report, Climate Change 2013):

1 kg of carbon dioxide (CO_2) = 1 kg of CO_2e
1 kg of methane (CH_4) = 28 kg of CO_2e
1 kg of nitrous oxide (N_2O) = 265 kg of CO_2e

The majority of Arla's emissions are methane from digestion and manure storage, nitrous oxide from fertiliser and manure usage. Greenhouse gas emissions are categorised into three scopes according to where they appear across the value chain, and what control the company has over them.

[1] The IPCC (Intergovernmental Panel on Climate Change) is the United Nations' body for assessing the science related to climate change.

Scope 1 – All direct emissions

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

Scope 2 – Indirect emissions

Scope 2 emissions relate to the indirect emissions caused by Arla's energy purchases, i.e. electricity or heat. Scope 2 emissions are calculated in accordance with the methodology set out in the GHG protocol by applying emission factors to Arla-specific activity data.

In 2020, Arla switched from location-based scope 2 reporting to market-based reporting and updated the 2015 baseline. The market-based allocation approach reflects emissions from the specific electricity and other contractual instruments that Arla purchases, which may differ from the average electricity and other energy sources generated in a specific country. This gives Arla the chance to purchase electricity and other contractual instruments that emit less greenhouse gases than the country average. In accordance with the GHG protocol, Arla discloses scope 2 emissions according to both the market and location-based method (also known as dual reporting).

Scope 3 – Other indirect emissions

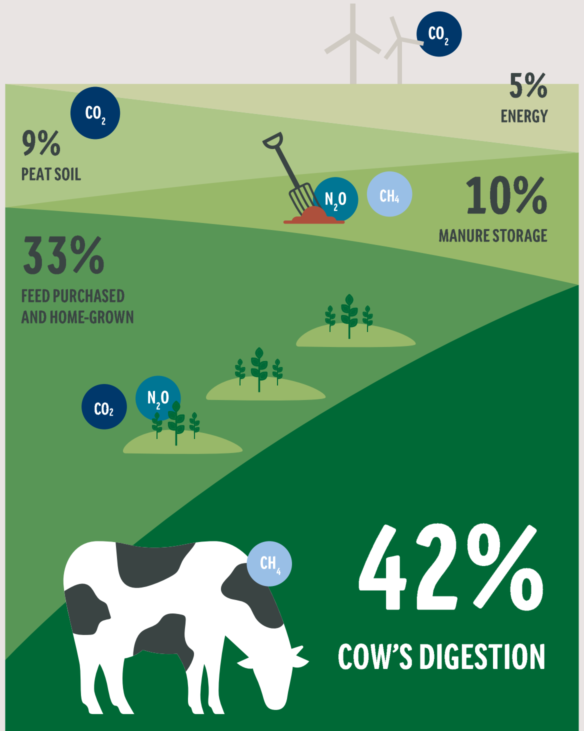
Scope 3 emissions relate to emissions from sources that Arla does not directly own or control. They cover emissions from purchased goods and services (e.g. raw milk purchased from owners and contract farmers, whey, packaging and transport purchased from suppliers), but also waste processing from production sites. Scope 3 emissions are, in line with the GHG protocol, calculated by applying emission factors to Arla-specific activity data.

Emissions from whey relates to externally purchased whey for Arla Foods Ingredients. Included whey is standardised and recalculated based on the milk solid content to consider the difference in quality and fractions purchased at Arla. The emission factor related to externally purchased whey was unchanged at 1.0, a conservative estimate (Flysjö, 2012).

Arla collects data from transport and packaging suppliers covering a minimum of 95 per cent of the spend, and based on the collected data, emissions are scaled up to cover 100 per cent. Biogenic emissions are not currently disclosed in the ESG section, but will be disclosed from 2023. For transport, production and packaging emission factors are provided by Quantis, an industry-leading consultancy firm. The emission factors are updated annually to the most recent. Farm-level emission factors are obtained from 2.-0 LCA Consultants. For non-owner milk, emission factors were unchanged at 2015 levels.

ENVIRONMENTAL DATA 1.1 GREENHOUSE GAS EMISSIONS (CO_2e)

WHERE DO OUR FARM EMISSIONS COME FROM



Other emissions, 1%, include capital goods and destruction of animal remains.

Scope 3 – Emissions on farm

Scope 3 emissions from raw milk are calculated in accordance with the International Dairy Federation's guideline for the carbon footprint of dairy products (IDF 2015). The tool used for calculating the carbon footprint from milk is based on an attributional life-cycle assessment (LCA) that has been developed during the last decade in collaboration with 2.-0 LCA Consultants, a Danish consultancy firm formed by academics. For detailed descriptions of methodology, please refer to Schmidt and Dalgaard (2021). Farm-level emission factors are also obtained from 2.-0 LCA Consultants. Non-owner milk emissions are calculated by multiplying milk volume with emission factors based on national inventory data and not Arla specific data. The calculations are based on an earlier version of the farm tool following IDF 2010 (Dalgaard R, Schmidt J, Cenian K, 2016).

Emissions related to raw milk include emissions both on and off farm. The emissions relate to the cow's digestion, feed production and purchase, manure storage, energy usage, capital goods and peat soils. Emissions related to feed include fertiliser for home-grown feed and purchased feed, and transport of purchased feed. Manure storage can result in methane and nitrous oxide emissions. The amount of emissions varies depending on how manure is covered and whether it is used for biogas production. Peat soils are wetland with a high CO_2e content. When soils are drained and used in crop production CO_2 and N_2O are released. The emission figure related to raw milk presented in this report is a weighted average emission per kg of milk, calculated based on validated climate data from farms where the data has been validated by external climate experts, multiplied by the fat and protein-adjusted milk intake. Farm data validated by external climate experts are statistically representative of all Arla farms.

Uncertainties and estimates

In 2022, 95 per cent of Arla's active farmer owners, covering 99 per cent of Arla's owner milk volume, submitted a detailed Climate Check questionnaire (farmers receive an incentive of 1.0 EUR-cent/kg of milk to complete the survey). Their answers were validated by external climate experts. This report includes only externally validated data which in 2022 covered all farms who submitted a climate check.

Farmer owners complete the Climate Check once a year based on data from their most recent financial year. This could vary from farm to farm, as some have financial years running from January to December, while others run from July to June. Therefore, the figures presented are not necessarily based on farm data covering the same period. The majority of data, 61 per cent, relates to the period 1 January 2021 to 31 December 2021 while 11 per cent relates to earlier periods.

An uncertainty analysis has been carried out to understand the biggest areas of uncertainty related to self-reported farm emission data. The analysis was centred around four key levers: herd, feed, crops and manure handling, and addressed the parameters with the highest impact on the emissions on farm. The analysis concluded that data could be misstated, in worst case up to 10-12 per cent, but only if the farmer had a starting point of high emissions and claimed to change from no biogas treatment to full biogas treatment of slurry.

Smaller farmers and farmers using extensive grazing systems are not always measuring the amount of feed that the cows eat or the dry matter content of the grass on the fields. To enable these farmers to report, the system contains a model which calculates feed consumption based on herd size and milk yield.

Reporting on peat soils is a developing field and still subject to higher uncertainty than other areas. Due to its relatively high climate impact uncertainties related to peat soils could have significant impact on the total reported greenhouse gas figure. The risk of errors is minimised by external climate advisors validating the data supported by automated statistical outlier controls. All outliers are flagged and need to be checked by the advisor before the result of the Climate Check is available. Numbers are only released for reporting after thorough investigation.

The methodology used to calculate emissions on farm is developing over time. Currently, factors that potentially could lower total net emissions, such as carbon sequestration on farm and direct land use change, are not included. IDF 2015 suggests that direct land use change should be included in the calculations.

The baseline year for our scope 3 Science Based Target is 2015. To calculate the baseline as well as follow up on the reduction target, the same method and tool were used, but the type of data used differed. For the 2015 baseline, national statistical data for 2012 was used, which was the best available data at the time. From 2016, national statistics were gradually replaced by data from climate measurements at Arla farms. The change happened for Denmark, the UK and Sweden in 2016, Germany in 2019 and the rest of the owner countries in 2020. The reporting year 2020 was the first time when most Arla farms were included. The farm-specific data is always one to two years behind, which is why the 2022 reporting was based on farm data primarily from 2021.

Other uncertainty relates to data collection regarding packaging and transport from suppliers. Each quarter, Arla sends its suppliers detailed requests to provide the necessary data, accompanied by a manual on how to complete the related documentation. Manual data entries from different sources are clear risks to data quality. To minimise the risk of reporting errors, a rigorous two-step internal validation process is in place.

ENVIRONMENTAL DATA
1.2 RENEWABLE ELECTRICITY SHARE

Renewable electricity development

In 2022, Arla set a target of using 100 per cent green electricity in Europe by the end of 2025. Switching from fossil-based to renewable electricity is an important lever to fulfil Arla's climate ambition and to reduce the carbon footprint from scope 1 and 2 emissions by 63 per cent before 2030.

A solid plan for reaching the 2025 target is in place. It includes a number of already entered power purchase agreements related to electricity produced from solar and wind energy across core markets in EU. Read more about the account treatment of power purchase agreement on page 77.

The renewable electricity share increased to 62 per cent in 2022 compared to 42 per cent last year. The increase was a result of a deliberate choice to purchase more renewable electricity certificates to cover negative CO_2 impact related to temporary shift from natural gas to oil. The conversion from natural gas to oil was done as an emergency measure to ensure food delivery continuity and to lower dependency on natural gas in Europe. The company's long-term ambition to transition from fossil-based energy to renewable energy was unaffected by the shift. Arla plans to revert back to using natural gas as soon as the situation allows.

The renewable electricity included certificates related to self-produced electricity from biogas, electricity certificates purchased from farmer owners and open market certificates.

Accounting policies

Electricity used at Arla's production sites and warehouses originates from different sources. At some sites, it is self-produced from biogas, biomass or natural gas while the majority of sites buy electricity from the grid.

The renewable electricity share is calculated as the share of consumed electricity, both purchased and self-produced, that originates from renewable energy sources or renewable electricity certificates.

The renewable electricity share follows the RE100 guidelines 2022. Arla follows market-based accounting and account for the purchase of green electricity by contractual agreement, i.e. certificates. The renewable mix in the electricity not covered by certificates is calculated using a residual mix factor supplied by Quantis.

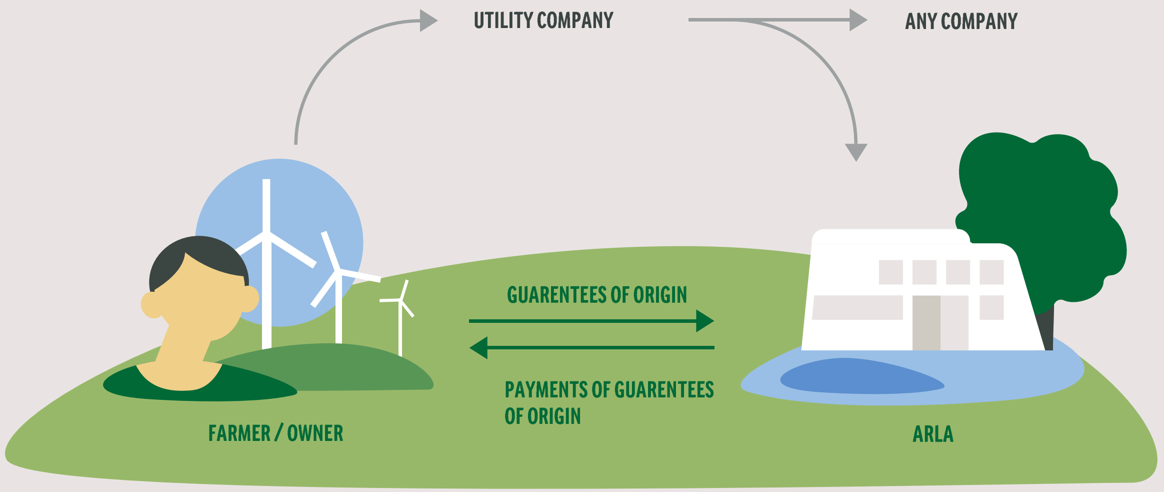
Some Arla sites produce and sell excess electricity. The electricity sold was excluded from the calculation. The data presented in ESG Table 1.2 is registered monthly and primarily based on invoice information and automated meter readings at each site, and therefore there is very little uncertainty associated with these figures.

ESG Table 1.2 Electricity consumption in Europe

(thousand MWh)	2022	2021	2020	2019	2018
Non-renewable sources	401	613	605		
Renewable sources	638	416	428		
Total electricity consumed	**1,039**	**1,029**	**1,033**		
Renewable electricity share	**61%**	**40%**	**41%**		

THE GREEN POWER LOOP PRESENT AND FUTURE

One way of securing green electricity for our operations is by buying Guarantees of Origin (GoO) certificates directly from our farmer owners. This will secure our farmers a better price for their power and provide Arla access to additional certificates.



ENVIRONMENTAL DATA
1.3 WASTE

Solid waste development

Waste that cannot be recovered through recycling, reuse or composting impacts the environment. Arla continuously seeks to increase production efficiency at sites, reduce waste throughout the production and transport process, as well as working with waste management suppliers to reduce waste and improve waste handling.

In 2022, solid waste decreased to 31,460 tonnes compared to 33,500 tonnes last year, mainly driven by lower volumes of waste for recycling in our sites in Germany and UK partly offset by increased waste for recycling and landfill at our production facility in Bahrain. Hazardous waste decreased to pre-COVID-19 pandemic levels.

Currently, Arla discloses only solid waste in ESG Table 1.3. which is only a small part of Arla's total waste. Other waste types are product waste and sludge. Arla is working to further improve the food waste reporting accuracy and efficiency with the aim of including food waste in the ESG reporting.

Accounting policies

Solid waste is defined as materials from production which are no longer intended for their original use and which must be recovered (e.g. recycled, reused or composted) or not recovered (e.g. landfilled). This includes packaging waste, hazardous waste and other non-hazardous waste.

Uncertainties and estimates

Solid waste information is retrieved from external waste handlers monthly. For Denmark and Sweden data collection is automated. For the other countries data is based on manual entries by sites which increases the risk of errors. Relevant controls are in place to mitigate the risk of errors.

ESG Table 1.3 Solid waste

(tonnes)	2022	2021	2020	2019	2018
Recycled waste	19,442	21,640	21,402	21,651	20,233
Waste for incineration with energy recovery	8,358	8,679	8,991	10,011	12,546
Waste for landfill	2,616	1,921	1,204	988	933
Hazardous waste	1,034	1,260	1,378	1,063	888
Total	**31,450**	**33,500**	**32,975**	**33,713**	**34,600**

ENVIRONMENTAL DATA
1.4 WATER

Water consumption development

Providing access to clean water is an important part of Arla's environmental ambition, and, as such, reducing water usage and enhancing water cleansing technologies at production sites is a key focus area.

In 2022, water consumption in Arla decreased by 1 per cent compared to last year. The decreases were seen across the majority European sites partly offset by increases among the sites in International. The decrease can be explained partly by slightly lower production and also a shift in production mix.

Accounting policies

The water consumption covers all water purchased from external suppliers and water from internal boreholes at production sites, warehouses and logistics terminals. External borehole water includes water purchased from external suppliers before internal treatment. Internal borehole water relates to boreholes on sites measured before internal treatment.

Uncertainties and estimates

Water consumption data is based on monthly manual input from sites. The externally purchased water is checked against supplier data, while internal borehole water is retrieved from manual meter readings. To mitigate the risk of manual errors, data goes through thorough internal validation at the site and centrally.

ESG Table 1.4 water consumption

(thousand m³)	2022	2021	2020	2019	2018
Water purchased externally	10,935	11,057	10,918	10,589	10,484
Water from internal boreholes	7,829	7,803	7,745	7,470	7,600
Total	**18,764**	**18,860**	**18,663**	**18,059**	**18,084**

ENVIRONMENTAL DATA
1.5 ANIMAL WELFARE

Animal welfare development

Animal welfare is a key priority for Arla's farmer owners, and for Arla as a company. Arla is committed to reporting on the most important measures to describe and improve animal welfare. The animal welfare KPIs include somatic cell count, which is a good indicator of disease and stress in cows, and four indicators associated with the physical appearance and well-being of cows. The indicators are body condition, cleanliness, mobility and injuries. These indicators were developed based on scientific research into the most common dairy cattle issues.

Animal welfare on farm is externally audited at least once every three years by a world-leading quality assurance and audit firm, SGS, specialising in animal welfare. The percentage of audited farms was 38 per cent in 2022, corresponding to 3,170 audits. The results of the audit can trigger a follow-up audit either if there are major issues or if there are several minor issues. In case of repeated animal welfare breaches, Arla stops milk collection from the non-compliant farm, and, in rare, extreme cases, terminates the membership. During 2020, the audit process was upgraded and harmonised across all owner countries to ensure that auditors follow the same procedures and standards everywhere. Therefore, only 2021-2022 data is reported.

The average somatic cell count across Arla geographies fell by 4 per cent to 184 thousand cells/ml, the lowest level for more than six years.

ESG Table 1.5 Animal welfare indicators

	2022	2021	2020	2019	2018
Somatic cell count (thousand cells/ml)	184	191	194	196	198
Share of audited farmers with no major cleanliness issues	98.6%	98.4%	-	-	-
Share of audited farmers with no major mobility issues	99.8%	99.5%	-	-	-
Share of audited farmers with no major injury issues	100.0%	100.0%	-	-	-
Share of audited farmers with no major issues related to body condition	99.9%	99.8%	-	-	-

Ratios calculated based on 3,170 Arlagården® audits performed in 2022.

Accounting policies

Somatic cell count (average):
Somatic cells in milk are primarily white blood cells. An elevated level of somatic cells can indicate inflammation (mastitis) of the cow's udder, which causes the animal pain and stress, and also lowers milk quality. Arla monitors the somatic cell count (SCC) by analysing milk at bulk tank level each time milk is collected from the farms. Levels are continuously reported to safeguard milk quality. The figure reported is a weighted average of Arla's entire milk intake in a given year. The SCC count is received from several laboratories across owner countries. SCC above 300 reduces the milk price to the farmer, while an addition is given for SCC below 300.

Audit on farms and animal-based indicators
Animal welfare conditions on all Arla farms are regularly audited. An audit entails a thorough check-up of the herd and the farm from all relevant animal welfare perspectives. Audits include basic audits (performed every three years), spot checks, start-up visits, attention and special attention audits. Audited farmers are defined as the percentage of owners who received at least one audit in 2022. One owner could potentially receive more than one audit per year if the farmer owns more than one farm or if the farmer receives both a basic audit and a spot check audit. Follow-up audits are not included in the figure.

Animal-based indicators evaluated by auditors
The KPIs reported in Table 1.5 relate to the share of audited farmers with no major issues reported within each category. When an auditor visits the farm, a sample of the herd is selected. The sample size varies with the herd size. The auditor scores the cows in the sample for the four core welfare indicators on a scale of 0-2, where 0 means no issues identified, 1 means minor issues and 2 means major issues. The results are reported to Arla. If the auditors find more than 5 per cent of the sampled cows too thin, more than 25 per cent too dirty, more than 15 per cent lame or more than 10 per cent injured, they report it as a major animal welfare incident to Arla.

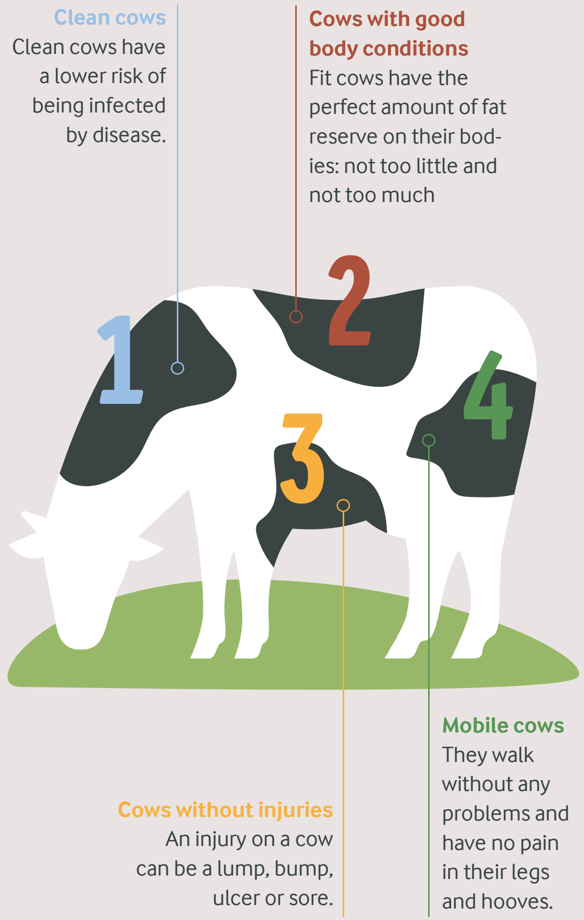
Uncertainties and estimates

The UK somatic cell count includes the somatic cell count for contract farmers as well as owners, however this has no significant impact on the total somatic cell count.

Farms are audited every three years. A year-on-year comparison may therefore be affected due to the fact that it is not the same farms being audited every year.

FOUR CORE ANIMAL WELFARE INDICATORS

We measure the general well-being of the cows using four indicators developed based on scientific research into the most common dairy cattle issues.



SOCIAL DATA
2.1 FULL-TIME EQUIVALENTS

FTE development

People are crucial to Arla's success, so it is imperative to know how the group deploys these resources across geographies and time. The total number of full-time equivalents (FTEs) increased by 1.4 per cent compared to last year. The increase was due to investments in Arla Foods Ingredients, continued insourcing of IT activities and ramp-up in the agriculture service and sustainability area.

Over the last five years, the FTE level increased on average 2 per cent per year. The numbers show a shift from core European markets to Poland and international markets (included in "other countries" in Table 2.1), especially to MENA. This supports Arla's strategic plan to expand the share of business outside Europe, where the outlook for growth is more promising.

The share of blue-collar FTEs amounted to 63 per cent of the total FTEs as at 31 December 2022.

Accounting policies

FTEs are defined as the contractual working hours of an employee compared to a full-time contract in the same position and country. The full-time equivalent figure is used to measure the active workforce counted in full-time positions. An FTE of 1.0 is equivalent to a full-time worker, while an FTE of 0.5 equals half of the full workload.

The average FTE figure reported in Note 1.2 in the consolidated financial statements, and in ESG Note 2.1 is calculated as an average figure for each legal entity during the year based on quarterly measurements taken at the end of each quarter.

All employees are included in the FTE figure, including employees who are on permanent and temporary contracts. Employees on long-term leave, e.g. maternity leave or long-term sick leave, are excluded.

The majority of employees in production and logistics are classified as blue-collar employees, while employees in sales and administrative functions are classified as white-collar employees. The ratio of white-collar to blue-collar employees is calculated based on FTEs as at 31 December.

Employee data is handled centrally in accordance with GDPR. The FTE figure is reported internally on a monthly basis. To improve data quality, data is validated by each legal entity on a quarterly basis.

ESG Table 2.1 Full-time equivalents

	2022	2021	2020	2019	2018
Denmark	7,763	7,565	7,350	7,258	7,264
UK	3,605	3,616	3,761	3,407	3,387
Sweden	3,038	3,076	3,114	2,977	3,001
Germany	1,570	1,590	1,632	1,681	1,759
Saudi Arabia	975	974	970	952	965
Poland	617	582	529	511	463
North America	536	501	479	477	502
UAE	437	421	300	207	192
Finland	373	364	336	319	325
The Netherlands	370	349	351	339	327
Bahrain	315	252	126	70	-
Other countries[1]	1,308	1,327	1,072	976	1,005
Full-time equivalents	**20,907**	**20,617**	**20,020**	**19,174**	**19,190**

[1] *Other countries include, among others, Belgium, Oman, Spain, Nigeria, France, Australia.*

SOCIAL DATA
2.2 GENDER DIVERSITY

Gender diversity development

A diverse workforce is key to Arla's success. Arla's policies do not distinguish between men and women when it comes to promotion opportunities or remuneration, however women are underrepresented in Arla's blue-collar workforce and, to a lesser extent, in the white-collar workforce as well.

Arla's goal is to create a workplace with a diverse workforce in all managerial levels promoting equal opportunities regardless of background, culture, religion, gender etc. Diversity, inclusion and anti-harassment policies are in place to handle issues in a structured manner and a whistle-blower platform enables employees to report any kind of harassment. Work councils at both local and global levels also help to ensure that workplace decisions are made in the best interests of all colleagues and Arla. Read more about diversity and inclusion in Arla on page 51.

Gender diversity for the Board of Directors is disclosed in ESG Note 3.1.

Gender diversity (all employees)
In 2022, the share of women among all FTEs remained unchanged from last year at 27 per cent. Read more about how Arla works with diversity on page 51.

Gender diversity
(Level below Executive Management Team)
In 2022, 28 per cent of positions at the level below the Executive Management Team were held by women. The number increased slightly compared to 26 per cent in 2021, but more significantly compared to 17 per cent in 2018.

Gender diversity (in Executive Management Team)
In 2022, 13 per cent of the Executive Management Team members were women. The number of women remained unchanged compared to last year, however an additional member, Executive Vice president Marketing and Innovation, was added to the EMT during 2022. Since the position was filled by a man, the share of women was slightly lower in 2022 compared to 2021. Read about gender diversity in Board of Directors on page 140.

Accounting policies

Gender diversity (all employees)
Gender diversity is defined as the share of women compared to total FTEs. Gender diversity is based on FTEs as at 31 December 2022. It covers all white-collar and blue-collar employees.

Gender diversity
(Level below Executive Management Team)
Arla's gender diversity in management is defined as the share of women measured as FTEs in the level below the executive management team at 31 December 2022.

Gender diversity (in Executive Management Team)
Gender diversity in management is defined as the share of women in the Executive Management Team (EMT) as at 31 December 2022.

ESG Table 2.2.a Gender diversity for all employees

(All employees)	2022	2021	2020	2019	2018
Total share of women	27%	27%	27%	27%	27%

ESG Table 2.2.b Gender diversity in management

(Diversity in management)	2022	2021	2020	2019	2018
Share of women at level below Executive Management Team	28%	26%	15%	13%	17%

ESG Table 2.2.c Gender diversity in Executive Management Team

(Diversity in executive management)	2022	2021	2020	2019	2018
Share of women in Executive Management Team (EMT)	13%	14%	14%	29%	29%

SOCIAL DATA
2.3 GENDER PAY RATIO

Gender pay ratio development

Paying equal salaries for the same job regardless of gender is a basic requirement for an ethical and responsible company. At Arla, men and women in the same or equivalent jobs receive the same level of pay. This is ensured through well-defined and fixed salary bands across all job categories. Comparability between salary levels for men and women are monitored quarterly within the comparable job bands.

Gender pay ratio disclosed in Table 2.3 indicates where women are placed in the company hierarchy. Arla targets complete equitable treatment between genders, which would be represented by a gender pay ratio of 1.0. In 2022, the median salary for men at Arla was 3 per cent higher than the median salary for women, unchanged compared to last year.

Accounting policies

The gender pay ratio is defined as the median salary for men divided by the median salary for women. The salary used in the calculation includes contractual base salaries, while pensions and other benefits are not included.

Uncertainties and estimates

The ESG reporting guidelines issued by CFA Society Denmark and Nasdaq recommend including the total workforce as well as bonus and pension in the equation. However, due to data limitations only, the gender pay ratio for the white-collar workforce is included. It is estimated that including blue-collar employees in the gender pay ratio would reduce the gap, as males are overrepresented in the blue-collar workforce. The pay data used relates to contractual salary amounts end of March 2022 after 2022 salary adjustment.

ESG Table 2.3 Gender pay ratio

	2022	2021	2020	2019	2018
Gender pay ratio (hierarchy variances)	1.03	1.03	1.05	1.05	1.06

SOCIAL DATA
2.4 EMPLOYEE TURNOVER

Employee turnover development

Attracting and retaining the right people is imperative to the success of Arla's business. Employee turnover shows the fluctuation in the workforce. Arla aims for a stable turnover and recognises that some turnover is needed to remain competitive and innovative.

Employee turnover was largely unchanged compared to last year with a total turnover of 14 per cent compared to 13 per cent last year. The voluntary turnover was stable at 10 per cent, while involuntary turnover was slightly up, ending at 4 per cent compared to 3 per cent last year. Looking at a five-year period the levels in 2022 and 2021 was higher than prior years, likely impacted by labour shortage in some areas of Europe.

Accounting policies

Turnover is broken down by voluntary turnover (i.e. the employee decides to leave the company) and involuntary turnover (i.e. the employee is dismissed). With such differentiation, turnover is an indicator of talent retention at Arla and also indicates the efficiency of operations.

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

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

ESG Table 2.4 Employee turnover

	2022	2021	2020	2019	2018
Voluntary turnover	10%	10%	6%	8%	8%
Involuntary turnover	4%	3%	4%	4%	4%
Total	**14%**	**13%**	**10%**	**12%**	**12%**

SOCIAL DATA
2.5 FOOD SAFETY – NUMBER OF PRODUCT RECALLS

Product recalls

As a global food company, food safety is key to Arla.

A core responsibility for Arla is to ensure that products are safe for consumers to eat and drink, and that the content of the product is clearly and appropriately labelled on the packaging. Food safety is also one of the most important indicators towards consumers, signalling that Arla's products are produced and labelled according to the highest quality standards.

In 2022, one public recall occurred. The recall related to quality and sensory issues in one batch of UHT baby milk. The issue was assessed to not cause any food safety risk, however due to the sensitivity of the consumer group, the batch was recalled.

Arla is dedicated to ensuring that its products are safe to consume and works continuously across the value chain, including with suppliers, to reduce the number of recalls to as close to zero as possible. All product incidents must be dealt with in a timely manner to ensure the safety of consumers as well as the legality and quality of products. The handling of all public recall incidents follows a detailed and standardised process. Product incident management is also tested annually.

Accounting policies

In accordance with ESG reporting standards, product recalls are defined as public recalls. A public recall is the action taken when products pose a material food safety, legal or brand integrity risk. Public recall is only relevant if products are available to the consumers in the marketplace.

Public recalls are reported as soon as they happen, and an incident report must be completed about each incident within two weekdays from the first notice of the problem.
The total number of public recalls is reported externally on an annual basis.

ESG Table 2.5 Recalls

	2022	2021	2020	2019	2018
Number of recalls	1	-	1	4	2

SOCIAL DATA
2.6 ACCIDENTS

Accident frequency rate development

Arla has a comprehensive and complex value chain and offers a large variety of jobs across geographies. Employees are key to the success of Arla, and it is key to provide all employees with safe and healthy working conditions. Arla is committed to preventing accidents, injuries and work-related illnesses.

A systematic approach to target-setting and tracking is applied to mitigate risks and reduce problems in an ongoing close collaboration with employees across the organisation. Accidents resulting in injuries can be lost-time accidents (LTAs) as well as non-lost-time accidents (minor). The number of LTAs per 1 million working hours increased slightly to 4.4 compared to 4.3 last year. An increase in the accident frequency rate is seen across production sites in Denmark, UK and Germany offset by a decrease in the transport area in Germany and Sweden.

Sadly, one fatality occurred at one of our Danish transport centres in 2022. The incident was investigated by Arla and authorities, and measures were taken to prevent it from happening again.

Accounting policies

An LTA is a workplace injury sustained by an employee while completing work activities that result in the loss of one or more days off from work on scheduled working days/shifts. An accident is considered a lost-time accident only when the employee is unable to perform the regular duties of the job, takes time off for recovery, or is assigned modified work duties for the recovery period.

All employees – both Arla employees and external agency workers undertaking an Arla job – sustaining injury or illness related to the workplace are required to report it to their team leader or manager as soon as reasonably practical, regardless of severity. Accidents related to contractors, e.g., construction workers are not included.

Most site employees have access to a mobile application where they can quickly and easily report any accidents. Notification must be done prior to the injured party leaving work. Working hours, used to calculate the accident frequency ratio, origin partly from payroll information and partly from estimates using FTE numbers.

ESG Table 2.6 Accidents

(Per 1 million working hours)	2022	2021	2020	2019	2018
Accident frequency	4.4	4.3	5.2	6.0	7.9

GOVERNANCE DATA
3.1 GENDER DIVERSITY – BOARD OF DIRECTORS

BoD diversity development

Gender diversity on the Board of Directors is important, partly to ensure that both genders are represented at a high level, and partly to bring a variety of perspectives to the business. Ensuring gender diversity on the Board of Directors is also a legal requirement in Denmark. The current Board of Directors consists of 19 members, including 14 farmer owners, three employee representatives and two external members.

In accordance with section 99.b of the Danish Financial Statements Act, only members elected by the Board of Representatives at the general assembly count in the Board of Directors gender diversity figure. The members elected by the Board of Representatives are the 14 owner representatives and two external members. Four of these 16 Board of Representatives elected board members are women, reflecting a ratio in 2022 of 25 per cent women and 75 per cent men. The ratio changed significantly compared to last year as a result of the external members becoming elected members during 2022 and also by reducing the number of owner representatives from 15 to 14.

In 2022, Arla reached the target of achieving at least 20 per cent women in the Board of Directors. A new target for the 2026 strategy will be set during 2023.

Accounting policies

The gender diversity ratio is calculated as the share of women on the board as at 31 December. It includes only members of the Board of Directors elected by the general meeting and excludes employee representatives and advisors to the Board of Directors.

ESG Table 3.1 Gender diversity on Board of Directors

	2022	2021	2020	2019	2018
Share of women on the Board of Directors	25%	13%	13%	13%	13%

GOVERNANCE DATA
3.2 BOARD MEETING ATTENDANCE

Meeting attendance development

Attendance at the board meetings by the members of the Board of Directors ensures that all Arla's owners and employees are represented when important strategic decisions are made. Arla's board members are very dedicated, and as a general rule all board members attend all meetings unless they are prevented from doing so due to health reasons.

In 2022, there were 12 ordinary board meetings and four extra ordinary meetings. The board attendance remained at the same level as last year. Information on board members can be found on page 59-60.

Accounting policies

The board meeting attendance ratio is calculated as the sum of regular board meetings attended per board member and the total possible attendance.

The current Board of Directors consists of 14 owners, three employee representatives and two external members. When calculating board meeting attendance, all 19 board members are included.

ESG Table 3.2 Board meeting attendance

	2022	2021	2020	2019	2018
Number of meetings	12	12	10	10	13
Attendance	98%	98%	99%	96%	99%

GOVERNANCE DATA
3.3 GENERAL ACCOUNTING POLICIES

Basis for preparation

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

Materiality

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

Arla's materiality assessment was last updated in 2021 and is based on the concept of double materiality. This means that both impact materiality and financial materiality is being evaluated. The materiality assessment will be updated in the coming years to comply with Corporate Sustainability Reporting Directive (CSRD) in 2025.

Each topic in the materiality matrix (see graphic) represents a wider agenda and underlying issues, which are identified from relevant ESG/sustainability frameworks, and qualified through insights from Arla's strategy process. Based on input from different expert groups within the Arla value chain, a draft matrix was prepared and sent out to a wider group of selected external and internal stakeholders for further comments and dialogue. The external stakeholders include top 20 customers, elected farmer owners, NGOs and financial institutions in Denmark, Sweden, the UK and Central Europe.

The 2021 update showed that food safety is still the top priority for both external and internal stakeholders. Other areas, which are still highly prioritised are animal care and greenhouse gas emissions.

The topics highlighted as material according to the materiality assessments are widely addressed throughout the annual report. The figures disclosed in the consolidated ESG data section were chosen based on the materiality analysis, but also consider the maturity of data to ensure high data quality on each KPI. In some cases, it was concluded that current data tracking or collection capabilities do not provide sufficient data quality to satisfy disclosure to the highest standards, despite the fact that the figures could be of material importance to stakeholders. In these cases, e.g. recyclability in packaging, the necessary steps to improve data tracking and collection have been initiated. In the coming years, plans are to widen the scope of reporting to fully comply with best practice in ESG reporting.

Reporting scope

Environmental KPIs (Notes 1.1-1.4) included data from all production and logistical sites. This, together with milk, external waste handling, external transport and packaging cover all material activities in Arla's value chain. The environmental impact related to offices, business travel and other less material activities was not included in the total emission figure. This scope also applies to the accident KPI, Note 2.6, however accidents at head offices in Denmark, the UK, Sweden and Germany were also included.

Restatement principles

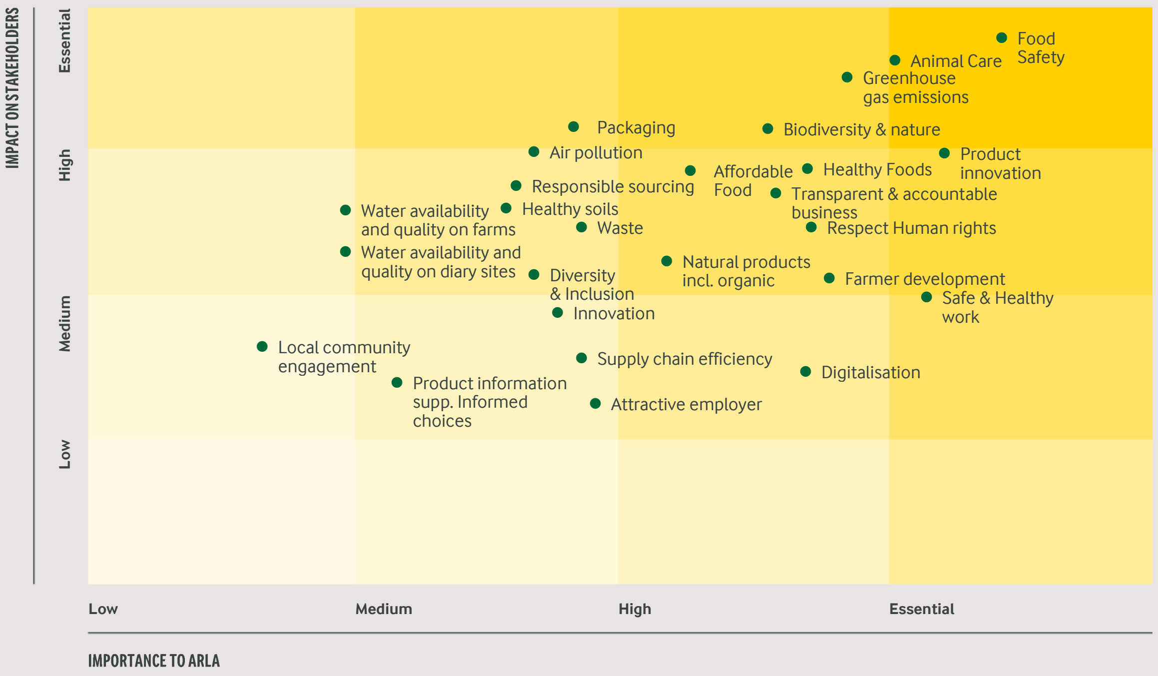
In line with ESG reporting guidelines, environmental data is presented in absolute figures to ensure comparability. Where relevant, a measure for progress towards Arla's previously communicated internal targets is included. Baselines and comparison figures are restated according to Arla's restatement policy. By default, Arla's baseline emissions are reviewed every five years from the target base year (2020, 2025, 2030), if no significant structural or methodological changes trigger a recalculation before. Every five years, Arla assesses if the structural changes (e.g. acquisitions or divestments) in the past years reach the significance threshold when added together in a cumulative manner. Each year, Arla assesses if the structural changes that year reach the significance threshold (see below) by themselves or when added together.

A threshold is defined for each Science Based Target:

- Scope 1 and 2: 5 per cent change compared to the base year
- Scope 3 per kg of raw milk: 3 per cent change compared to the base year

When the baseline emissions are recalculated due to significant structural changes in the company (as defined above), historic figures are also recalculated and reported alongside the non-recalculated (actual) historic emission figures. This provides the reader with more clarity to understand Arla's actual emissions each year. Other externally reported ESG KPIs are only restated if material mistakes in the previous years' reporting are discovered. The materiality of mistakes is determined on a case-by-case basis.

MATERIALITY ANALYSIS



FIVE-YEAR OVERVIEW

	ESG note	2022	2021	2020	2019	2018
Environmental data						
CO_2e emissions						
CO_2e scope 1 and 2 market-based		695	733	751	862	946
CO_2e reduction scope 1 and 2 (baseline: 2015)		-29%	-25%	-24%	-12%	-4%
CO_2e scope 3 owner milk (kg)		1.12	1.15	1.15	1.15	1.14
CO_2e scope 3 per kg of milk and whey (kg)		1.18	1.20	1.21	1.21	1.20
CO_2e reduction scope 3 per kg of milk and whey (baseline: 2015)[1]		-9%	-7%	-7%	-7%	-7%
CO_2e scope 1 (mkg)		477	447	474	463	490
CO_2e Scope 2 – market-based (mkg)		218	286	277	399	456
CO_2e scope 3 (mkg)		18,407	19,050	18,625	18,387	18,553
Total CO_2e (mkg)	1.1	**19,102**	**19,783**	**19,376**	**19,249**	**19,499**
CO_2e scope 2 – location-based (mkg)		165	243	237	274	263
Total CO_2e – location-based (mkg)		19,049	19,740	19,336	19,124	19,306
Energy mix						
Renewable electricity share EU (%)	1.2	61%	40%	41%		
Waste and water						
Solid waste (tonnes)	1.3	31,450	33,500	32,975	33,713	34,600
Water consumption (thousand m3)	1.4	18,764	18,860	18,663	18,059	18,084
Animal welfare						
Somatic cell count (thousand cells/ml)	1.5	184	191	194	196	198
Share of audited farmers with no major cleanliness issues	1.5	98.6%	98.4%	-	-	-
Share of audited farmers with no major mobility issues	1.5	99.8%	99.5%	-	-	-
Share of audited farmers with no major injury issues	1.5	100.0%	100.0%	-	-	-
Share of audited farmers with no major body condition issues	1.5	99.9%	99.8%	-	-	-

	ESG note	2022	2021	2020	2019	2018
Social data						
Full-time equivalents (average)	2.1	20,907	20,617	20,020	19,174	19,190
Total share of women (%)	2.2	27%	27%	27%	27%	27%
Share of women at level below Executive Management Team (%)	2.2	28%	26%	15%	13%	17%
Share of women in Executive Management Team (%)	2.2	13%	14%	14%	29%	29%
Gender pay ratio (hierarchy variances)	2.3	1.03	1.03	1.05	1.05	1.06
Employee turnover (%)	2.4	14%	13%	10%	12%	12%
Food safety – number of recalls	2.5	1	-	1	4	2
Accident frequency (per 1 million working hours)	2.6	4.4	4.3	5.2	6.0	7.9
Governance data						
Share of women, Board of Directors (%)[2]	3.1	25%	13%	13%	13%	13%
Board meeting attendance (%)	3.2	98%	98%	99%	96%	99%

[1] The calculation of CO_2e emissions in 2015 was based on national statistical data, the best available source at that time. In 2016 we started to do climate measurements on Arla farms and gradually replaced the national statistical data with Arla specific data in the CO_2e calculation model. Read more on page 131.

TASK FORCE FOR CLIMATE-RELATED DISCLOSURES (TCFD)

In 2022, Arla started to implement TCFD into its reporting and risk assessment practices. In the first phase of implementation Arla focused on integrating climate-related risk assessment and management into the company's existing enterprise risk management framework, and report on the results of the risk assessment. Arla also conducted a high-level analyses of the potential financial impact of climate-related risks. Read more in Introduction to notes on page 77.

Table TCFD overview

	Section and page reference
Governance - TCFD recommendations	
Describe the organisation's governance around climate-related risks and opportunities	Risks and Opportunities, page 27; Governance, page 56
Describe management's role in assessing and managing climate-related risks and opportunities	Risks and Opportunities, page 27; Governance, page 56
Strategy - TCFD recommendations	
Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Risks and Opportunities, page 27
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	Risks and Opportunities, Page 27; Financial Statements, page 77
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Scenario analyses to be added in the next phase of TCFD implementation.
Risk management - TCFD recommendations	
Describe the organisation's processes for identifying and assessing climate-related risks	Risks and Opportunities, page 27
Describe the organisation's processes for managing climate-related risks	Risks and Opportunities, page 27
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Risks and Opportunities, page 27
Metrics and targets - TCFD recommendations	
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	ESG statements, page 130
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and related risks	ESG statements, page 130
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	ESG statements, page 129

OUR PROGRESS TOWARDS THE UN SUSTAINABLE DEVELOPMENT GOALS

	Reference	UN SDGs
Environmental data		
CO_2e emissions		2.3, 2.4, 12.2, 12.3, 12.5, 13.1
CO_2e reduction scope 1 and 2 (baseline: 2015)		
CO_2e reduction scope 3 per kg of milk and whey (baseline: 2015)[1]		
Total CO_2e (mkg)	ESG note 1.1	
Energy mix		
Renewable electricity share EU (%)	ESG note 1.2	7.2, 7.3
Waste and water		6.3, 6.4
Solid waste (tonnes)	ESG note 1.3	
Water consumption (thousand m3)	ESG note 1.4	
Animal welfare		15.1
Somatic cell count (thousand cells/ml)	ESG note 1.5	
Share of audited farmers with no major cleanliness issues	ESG note 1.5	
Share of audited farmers with no major mobility issues	ESG note 1.5	
Share of audited farmers with no major injury issues	ESG note 1.5	
Share of audited farmers with no major body condition issues	ESG note 1.5	

	Reference	UN SDGs
Social data		
Total share of women (%)	ESG note 2.2	5.1, 5.5
Share of women at level below Executive Management Team (%)	ESG note 2.2	5.1, 5.5
Share of women in Executive Management Team (%)	ESG note 2.2	5.1, 5.5
Gender pay ratio, white-collar (man to woman)	ESG note 2.3	5.1, 5.5, 8.5, 8.7
Employee turnover (%)	ESG note 2.4	8.5, 8.7
Food safety – number of recalls	ESG note 2.5	2.1
Accident frequency (per 1 million working hours)	ESG note 2.6	8.8
Governance data		
Share of women, Board of Directors (%)*	ESG note 3.1	5.1, 5.5
Non-audited targets and ambitions		
Nutrition and affordability	Page 48	2.1, 3.4
Supporting communities – International dairy development	Page 55	23., 2.A, 5A, 8.2, 8.3, 12.2, 17.B
Responsible sourcing	Page 44	2.3, 2.4, 6.3, 6.4, 8.7, 8.8, 12.2, 12.4, 13.1, 15.1, 15.2
Anti-corruption and bribery	Page 65	16.5

2 ZERO HUNGER | 5 GENDER EQUALITY | 6 CLEAN WATER AND SANITATION | 7 AFFORDABLE AND CLEAN ENERGY | 8 DECENT WORK AND ECONOMIC GROWTH | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION | 15 LIFE ON LAND | 16 PEACE, JUSTICE AND STRONG INSTITUTIONS | 17 PARTNERSHIPS FOR THE GOALS

UN GLOBAL COMPACT

IN EARLY 2008, ARLA SIGNED UP TO THE GLOBAL COMPACT, THE UN INITIATIVE TO PROMOTE ETHICAL BUSINESS PRACTICES. AS A PARTICIPANT, WE ARE COMMITTED TO OBSERVING THE GLOBAL COMPACT'S 10 FUNDAMENTAL PRINCIPLES.

Human rights

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

Labour

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

Environment

7. Support a precautionary approach to environmental challenges
8. Undertake initiatives to promote greater environmental responsibility
9. Encourage the development and diffusion of environmentally friendly technologies

Anti-corruption

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

WE SUPPORT UN GLOBAL COMPACT

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

INDEPENDENT AUDITOR'S REASONABLE ASSURANCE REPORT ON ESG DATA CONTAINED IN ARLA FOODS AMBA'S ANNUAL REPORT

TO THE STAKEHOLDERS OF ARLA FOODS AMBA

As agreed, we have performed a reasonable assurance engagement, as defined by the International Standards on Assurance Engagements, on the environmental, social and governance (ESG) data, contained in Arla Foods Amba's Annual Report on pages 128-145 for the period from 1 January 2022 to 31 December 2022.

In preparing the environmental, social and governance (ESG) data, Arla Foods Amba's applied the Accounting Policies described on pages 131-141. The environmental, social and governance (ESG) data needs to be read and understood together with the Accounting Policies, which management is solely responsible for selecting and applying. The absence of an established practice on which to derive, evaluate and measure the environmental, social and governance (ESG) data allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Other than as described in the preceding paragraph, which sets out the scope of our engagement, we did not perform assurance procedures on the remaining information included in the Annual Report, and, accordingly, we do not express an opinion on this information.

Management's responsibilities
Arla Foods Amba's Management is responsible for selecting the Accounting Policies, and for presenting the environmental, social and governance (ESG) data in accordance with the Accounting Policies, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the environmental, social and governance (ESG) data, such that it is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities
Our responsibility is to express a conclusion based on our examinations on the presentation of the environmental, social and governance (ESG) data in accordance with the scope defined above.

We conducted our examinations in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information and additional requirements under Danish audit regulation to obtain reasonable assurance for the purposes of our conclusion.

EY Godkendt Revisionspartnerselskab is subject to International Standard on Quality Control (ISQC) 1 and thus uses a comprehensive quality control system, documented policies and procedures regarding compliance with ethical requirements, professional standards, applicable requirements in Danish law and other regulations.

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour as well as ethical requirements applicable in Denmark.

Description of procedures performed
In obtaining reasonable assurance over the environmental, social and governance (ESG) data identified on pages 128-145, our objective was to perform such procedures as to obtain information and explanations which we consider necessary in order to provide us with sufficient appropriate evidence to express an opinion with reasonable assurance.

As part of our examination, we have performed the below procedures:

- Interviewed relevant personnel in relation to environmental, social and governance (ESG) data to develop an understanding of the process for the preparation of the environmental, social and governance (ESG) data and for carrying out internal control procedures.
- Interviewed external specialists responsible for providing input to the calculations of the animal welfare and farmer climate data to evaluate the competence, capabilities and objectivity and as well as evaluate whether the results of the external specialists' work are adequate for our purposes
- Performed analytical review of the data and trends to identify areas of the environmental, social and governance (ESG) data with a higher risk of misleading or unbalanced information or material misstatements and obtained an understanding of any explanations provided for significant variances.
- Based on inquiries, we evaluated the appropriateness of the Accounting Policies used, their consistent application and related disclosures in the environmental, social and governance (ESG) data. This includes the reasonableness of estimates made by management.
- Designed and performed further procedures responsive to those risks and obtained evidence that is sufficient and appropriate to provide a basis for our conclusion.
- Site visits to conduct walkthroughs of data gathering, calculation and consolidation processes related to the reasonable assurance of metrics.
- Agreed key items and representative samples based on generally accepted sampling methodology to source information to check accuracy and completeness of the data.
- In connection with our procedures, we read the other sustainability information in the Annual Report of Arla Foods Amba's and, in doing so, considered whether the other sustainability information is materially inconsistent with the environmental, social and governance (ESG) or our knowledge obtained in the review or otherwise appear to be materially misstated.

In our opinion, the evidence and procedures performed provide a sufficient basis for our conclusion.

Conclusion
In our opinion the environmental, social and governance (ESG) data, contained in Arla Foods Amba's Annual Report on pages 128-145 for the period from 1 January 2022 to 31 December 2022 which has been subject to our reasonable assurance procedures have, in all material respects, been prepared in accordance with the Accounting Policies described on pages 131-141.

Aarhus, 8 February 2023
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Henrik Kronborg Iversen
State Authorised Public Accountant
MNE no. 24687

Carina Ohm
Partner
Head of Climate Change and Sustainability Services

GLOSSARY

Arlagården® is the name of our quality assurance programme.

BEPS is an acronym referring to base erosion and profit shifting. These are tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations.

Biogas is the mixture of gases produced by the breakdown of organic matter in the absence of oxygen. primarily consisting of methane and carbon dioxide. At Arla, biogas is primarily produced from cow manure.

Biomass is plant or animal material used for energy production. It can be purposely grown energy crops, wood or forest residues, waste from food crops, Horticulture, food processing, animal farming or human waste from sewage plants.

Brand share measures revenue from strategic brands as a proportion of total revenue and is defined as the ratio of revenue from strategic branded products to total revenue.

CAPEX is an abbreviation of capital expenditure.

Capacity cost is defined as the cost of running the general business, and includes staff costs, maintenance, energy, cleaning, IT, travel and consultancy etc.

Carbon sequestration refers to a natural or artificial process by which carbon dioxide is removed from the atmosphere and held in solid or liquid form.

CPI is an abbreviation of Consumer Price Index.

Digital engagement is defined as the number of interactions consumers have across digital channels. The interaction is measured in a number of different ways, for example by viewing a video on all media channels for more than 10 seconds, visiting a webpage, Commenting, liking or sharing on our social media channels.

Digital reach is defined as engagement with Arla's digitil content, i.e. spending more than 2 minutes on our website, watching our videos to the end on YouTube and liking or commenting on content on our social media platforms.

EBIT is an abbreviation of earnings before interest and tax. and is a measure of earnings from operations.

EBITDA is an abbreviation of earnings before interest, Tax, depreciation and amortisation from ordinary operations.

EBIT margin measures EBIT as a percentage of total revenue.

EMEA is an acronym referring to Europe, the Middle East and Africa.

Equity ratio is the ratio of equity, excluding minority interests, to total assets, and is a measure of the financial strength of Arla.

FMCG is an acronym for fast-moving consumer goods.

Free cash flow is defined as cash flow from operating activities after deducting cash flow from investing activities.

FTE is an acronym for full-time equivalents. FTEs are defined as the contractual working hours of an employee compared to a full-time contract in the same position and country. The FTE figure is used to measure the active workforce counted in full-time positions. An FTE of 1.0 is equivalent to a full-time worker, while an FTE of 0.5 equals half of the full workload.

GDPR is an acronym for the General Data Protection Regulation which regulates data protection and privacy in the European Union (EU) and the European Economic Area (EEA). It also addresses the transfer of personal data outside the EU and EEA areas. The GDPR aims primarily to give control to individuals over their personal data and to simplify the regulatory environment for international business by unifying the regulation within the EU.

Global industry share is a measure of the total milk consumption for producing commodity products relative to the total milk consumption, i.e. based on volumes. Commodity products are sold with lower or no value added, typically via business-to-business sales for other companies to use in their production as well as via industry sales of cheese, butter or milk powder.

Greenhouse Gas Protocol (GHGP) provides accounting and reporting standards, sector guidance, calculation tools to account for greenhouse gas emissions. It establishes a comprehensive, global, standardised framework for measuring and managing emissions from private and public sector operations, value chains, products, cities and policies.

Incoterms refer to International Commercial Terms. These are a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC) relating to international commercial law. They are widely used in international commercial transactions or procurement processes and their use is encouraged by trade councils, courts and international lawyers.

Innovation pipeline is defined as the net incremental revenue generated from innovation projects up to 36 months from their launch.

Interest cover is the ratio of EBITDA to net interest costs.

International share of business is defined as the revenue from the International zone as a percentage of revenue from the International and Europe zones.

Lactalbumin, also known as 'whey protein', is the albumin contained in milk and obtained from whey.

Leverage is the ratio of net interest-bearing debt, inclusive of pension liabilities, to EBITDA. It enables evaluation of the ability to support future debt and obligations: the long-term target range for leverage is between 2.8 and 3.4.

MENA is an acronym referring to the Middle East and North Africa.

GLOSSARY CONTINUED

Meal kits are a subscription service-food business model where a company sends customers pre-portioned and sometimes partially prepared food ingredients and recipes to prepare homecooked meals.

Milk volume is defined as total intake of raw milk in kg from owners and contractors.

M&A is an abbreviation of mergers and acquisitions.

Net interest-bearing debt is defined as current and non-current interest-bearing liabilities less securities. cash and cash equivalents. and other interest-bearing assets.

Net interest-bearing debt inclusive of pension liabilities is defined as current and non-current interest-bearing liabilities less securities, cash and cash equivalents, and other interest-bearing assets plus pension liabilities.

Net working capital is the capital tied up in inventories. receivables and payables including payables for owner milk.

Net working capital excluding owner milk is defined as capital that is tied up in inventories, receivables and payables excluding payables for owner milk.

Non-GMO means non-genetically modified organisms, for example non-genetically modified feed crops for cows.

OCI is an acronym for other comprehensive income. OCI includes revenue, Expenses, gains and losses that have yet to be realised.

OECD refers to the Organisation for Economic Cooperation and Development.

On-the-go refers to food consumed while on the go, and also to packaging solutions supporting this food consumption trend.

Other supported brands are brands other than Arla®. Lurpak®. Puck®, Castello® and milk-based branded beverages that contribute to strategic branded volume-driven revenue growth.

Performance price for Arla Foods is defined as the prepaid milk price plus net profit divided by total member milk volume intake. It measures the value creation per kg of owner milk including retained earnings and supplementary payments.

Prepaid milk price describes the cash payment farmers receive per kg of milk delivered during the settlement period.

Private label refers to retail brands which are owned by retailers, but produced by Arla based on contract manufacturing agreements.

Profit margin is a measure of profitability. It is the amount by which revenue from sales exceeds costs in a business.

Profit share is defined as the ratio of profit for the period allocated to owners of Arla Foods. to total revenue.

QEHS stands for Quality, Environmental. Health. and Safety. It is a department within Arla's supply chain safeguarding the quality and safety of production.

SEA is an acronym referring to South-East Asia.

SMP is an abbreviation of skimmed milk powder.

Strategic brands are defined as products sold under branded products such as Arla®, Lurpak®, Castello® and Puck®.

Strategic branded volume-driven revenue growth is defined as revenue growth associated with growth in volumes from strategic branded products while keeping prices constant. It is also referred to in the report as branded volume growth.

USD-related currencies are currencies which move in the same direction as the USD (i.e. when the USD depreciates against the EUR, it also depreciate against the EUR). Currencies in the MENA region are typical examples.

Value-added protein segment contains products with special functionality and compounds, compared to standard protein concentrates with a protein content of approximately 80 per cent.

Volume-driven revenue growth is defined as revenue growth associated with growth in volumes while keeping prices constant.

Whey protein hydrolysate is a concentrate or isolate in which some of the amino bonds have been broken by exposure of the proteins to heat, acids or enzymes. This pre-digestion means that hydrolysed proteins are more rapidly absorbed in the gut than either whey concentrates or isolates.

WMP is an abbreviation referring to whole milk powder.

CORPORATE CALENDAR

22-23 February	Board of Representatives meeting
23 February	Publication of the consolidated annual report for 2022
17 May	Extraordinary Board of Representatives meeting
29 August	Publication of the consolidated half-year results for 2023
4-5 October	Board of Representatives meeting

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