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Sustainability
Report

BUILDING SUSTAINABLE SOLUTIONS



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Our external reporting comprises three reports: Annual Report, Sustainability Report, and ESG Report. Each includes content tailored to its specific audience and cross-references to the other reports where relevant.



Annual Report

Our Annual Report is our detailed annual account of the company's performance, strategy and governance. It includes our consolidated financial statements and our externally assured ESG figures.

Sustainability Report

Our Sustainability Report report describes how we work with social, ethical and environmental commitments, and also serves as our annual communication on progress towards the United Nations Global Compact and the statutory statement on CSR in accordance with section 99a of the Danish Financial Statements Act, it also includes the externally assured ESG figures.



Environmental, social and governance (ESG) report

The consolidated environmental, social and governance report focuses on presenting our ESG data and corresponding methodologies and accounting policies in detail. The ESG Report carries a reasonable assurance statement by EY.



≡ Brings you back to Table of contents

🔗 Read more

ABOUT THIS REPORT

This report describes how we are progressing with our social, ethical and environmental commitments. The aim is to provide transparent and balanced information about our strategies, goals and the impact of our activities on people and planet. Our Annual Report and our Environmental Social and Governance (ESG) Report are published at the same time, providing a comprehensive overview of our business.

Transparent reporting

The report serves as our annual communication on progress against the UN Global Compact and the statutory statement on CSR in accordance with section 99a of the Danish Financial Statements Act. This English master version has been translated into Swedish, Danish, German, and French.

Scope of the report

In this report, we unfold our strategies, explain how we work and discuss the challenges we face in some of our sustainability efforts. The Ambitions & Progress section describes our ambitions and reports on progress towards our sustainability targets during the 2021 financial year.

The report covers the Arla Foods amba parent company and subsidiaries, where the parent company has a majority share or otherwise maintains control. Joint ventures are outside the scope of the quantitative reporting. However, we work with our partners to ensure an ongoing focus on sustainability issues.

Materiality analysis

During 2021, we updated our materiality analysis in accordance with good practice, as specified in the Global Reporting Initiative (GRI) guidelines and the concept of double materiality. The analysis is based on input from key internal and external stakeholders and captures material issues.

By combining the analysis with continuous dialogue with selected stakeholders, we gain valuable input for developing our sustainability agenda, adjusting the scope and focus of our work and updating our reporting and communication processes. See page 60 for more information [↗](#)

More information and contact

For further information about Arla, please visit [Arla.com](https://www.arla.com), for more in-depth knowledge about financial performance read Arla's Annual Report [↗](#)

We welcome any comments, suggestions or questions you may have with respect to this report. Please reach out to csr@arlafoods.com, and stay up-to-date via [arla.com](https://www.arla.com) or through our local websites and social media channels.

MAJOR ACHIEVEMENTS 2021

[Read more ↗](#)


Sustainability has been established as one of the company's top priorities in the new strategy towards 2026.

[Read more ↗](#)


Across markets in 2021

[Read more ↗](#)

TOP 10

WWF palm oil buyers scorecard – Arla scored in the Top 10 of the 227 companies assessed.

[Read more ↗](#)


All 950 organic Arla farms implement biodiversity and soil health measures every year.

[Read more ↗](#)


We launched

Our updated global grievance service, giving stakeholders access to report misconduct.

[Read more ↗](#)

Arla now ranks number 5 on the Access to Nutrition index, which assess how the top 25 global food and beverage companies contribute to the Sustainable Development Goals on nutrition.

NO 5





OUR VISION CREATING THE FUTURE OF DAIRY TO BRING HEALTH AND INSPIRATION TO THE WORLD, NATURALLY



TAKING ACTION TO CREATE THE FUTURE OF SUSTAINABLE DAIRY

Our data-led Climate Checks set the direction for company and farmer owner collaboration on taking the most impactful steps in the years ahead.



JAN TOFT NØRGAARD

Chairman of the Board of Directors

In a year where the COVID-19 pandemic and rising costs have challenged operations, Arla and our farmer owners have continued to evolve practices to protect the environment and support a nutritious, sustainable diet.

A highlight of 2021 was sharing the results of our Climate Checks, one of the world's largest externally validated climate data sets from dairy farms across several countries. The data both confirms that our farmers are among the world's most climate efficient and provides a baseline for further improvement towards our 2030 carbon reduction targets and, ultimately, becoming carbon net zero by 2050. As such, it sets the direction for company and farmer owner collaborations on taking the most impactful steps in the years ahead.

Exploring new methods and technologies

This data-led approach is also the backbone of our continued improvements in other areas of farm management, including animal welfare and biodiversity. By participating and investing in research, we explore new methods and technologies. With the establishment of dedicated innovation farms, we have created on-farm settings for owners to work with industry experts and other partners to test solutions for later broad implementation.

In 2021, we have taken additional steps to learn how regenerative dairy farming practices can help improve soil health, carbon capture, water quality and biodiversity. By harvesting data and the experiences of our pilot farmers across five countries, we will build knowledge about how regenerative methods can be applied and how they impact climate and nature.

“ We will continue to accelerate our climate actions so our dairy farmers remain among the most climate-efficient in the world. At the same time, we recognise the many other dimensions of sustainable dairy farming, such as biodiversity, animal welfare and the wellbeing of the people working on the farm ”

Representing the largest organic milk pool in the world, our organic farmer owners have taken further steps in the areas of climate, animal care, biodiversity and soil health. This strengthening of their organic values will ensure they continue to lead the category. In 2021, they began assessing and registering their farm's biodiversity activities to generate data that will support their continuous improvement.

Future26 accelerates our sustainability journey

Arla's new strategy Future26 is a key enabler of our accelerated sustainability journey. By committing to a competitive milk price and a retention policy that will return more of the year's result to owners, the strategy supports the on-farm investments necessary to reaching our targets.

It remains a key priority to build on our unique strengths as a farmer-owned cooperative and engage our farmer owners in setting the direction for the company. Over the past year, we have started reviewing the democratic structures that govern our cooperative, and we have introduced new communication channels to encourage debate and knowledge-sharing among our owners. Furthermore, we continue to run programmes dedicated to developing competencies among current and potential future elected members – all to safeguard and strengthen our cooperative democracy.

COMMITTED TO LEADING THE WAY ON SUSTAINABILITY

Ongoing investments and a science-based approach will help us create value and sustainability to the benefit of our owners, customers, consumers and society at large.



PEDER TUBORGH
CEO of Arla Foods

During another volatile year, we again demonstrated our ability to respond quickly and diligently to the pandemic's widespread ramifications. I am pleased that, throughout 2021, we successfully protected the profitability of our owners, the continuity of services and operations for our customers and the health and safety of our people.

Adapting to recurring lockdowns, re-openings, labour and supply challenges and inflation has become an integral part of daily management in all zones and functions. Our ability to respond to these external events has enabled us to build stakeholder confidence.

Global dairy demand remained high and continues to grow, not least because of milk's rich content of protein and calcium, versatility and affordability. To ensure people continue to trust and enjoy dairy benefits, we and our farmer owners are committed to leading the way on sustainability. It's a central ambition in the new Future26 strategy, which we launched in late 2021.

A much-awaited SBTi approval

At the end of the year, we reached our first milestone when the Science Based Target initiative (SBTi) approved our new emission reduction target as consistent with the reductions required to limit global warming to 1.5°C.

We have more than doubled our target for reducing emissions from our own operations and energy use (scopes 1 and 2) to 63 per cent by 2030 from a 2015 base year. The transition to fossil-free trucks, green electricity and low-energy solutions at our sites will deliver most of these reductions.

“ We will use our size, expertise and resources to help nourish a growing population and drive necessary change to create a future that is economically, socially and environmentally sustainable ”

Regarding emissions related to our owners' milk and other sourced goods (scope 3), our current 30 per cent reduction target continues to meet the SBTi's criteria for ambitious value chain goals in line with best practice. When a new sector guidance for Forest, Land and Agriculture is launched in 2022, we will evaluate the need for any changes to our plans.

Climate action and innovation at farm level

Our owners conducted the second round of Climate Checks during 2021. By analysing their submitted data, we identified the 'Big 5' levers for reducing farm carbon emissions. In collaboration with experts, pilot farmers engaged in developing scalable carbon-reduction solutions for Arla farms. These pilot trials will continue until 2023.

Along with 24 pilot farmers, we also set out to explore regenerative dairy farming practices and document their impact on climate, animal care, biodiversity and soil health. In Sweden and the UK, we opened innovation farms that will serve as hubs for on-farm trials. The objective is to increase the positive environmental impact of dairy farming in collaboration with farmers, researchers, customers and industry stakeholders.

Our owners have gained a further opportunity to power their own dairy company by selling the green electricity they generate on farm to Arla via Guarantees of Origin – an excellent example of how we are contributing to the circular economy and sustainable societal development.

In 2022, we will maintain a high level of sustainability activities across the value chain. Ongoing investments and a science-based approach will help us create value and sustainability to the benefit of our owners, customers, consumers and society at large.



Governance framework

Our business model

Governance and ways of working

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GOVERNANCE

GOVERNANCE FRAMEWORK

Cooperative governance

Arla is a cooperative dairy company owned by 8,956 dairy farmer owners in seven countries: Denmark, Sweden, UK, Germany, Belgium, Luxembourg and the Netherlands. All farmer owners have the opportunity to raise their voice and influence important decisions through the cooperative's democratic system. Farmer owners elect members to the Board of Representatives, which in turn elects the Board of Directors. These two boards have the authority to make decisions, develop the cooperative democracy and set the overall strategic direction for Arla.

Chairman: Jan Toft Nørgaard

Corporate governance

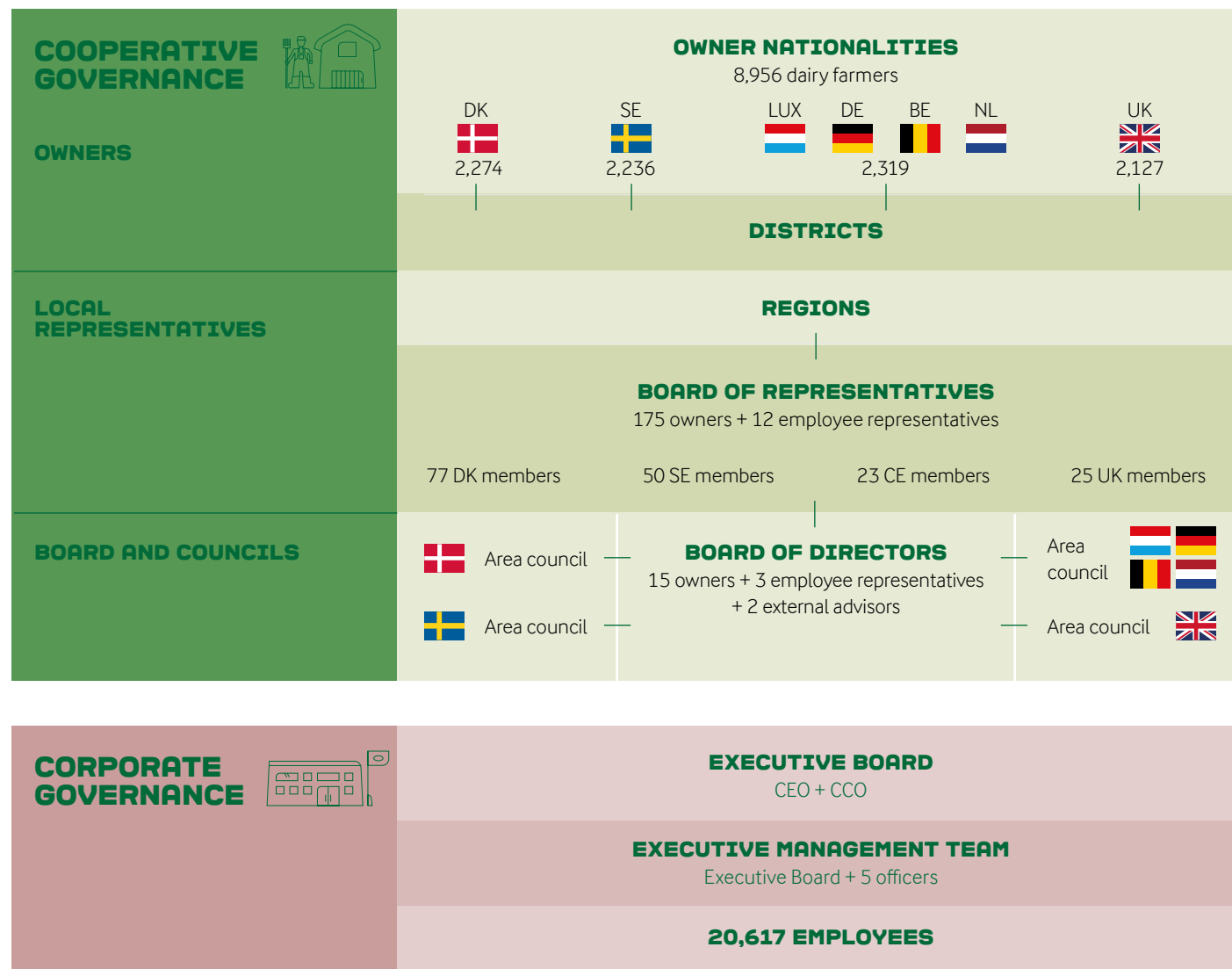
Arla's corporate governance is shared between the Executive Board, appointed by the Board of Directors, and the Board of Directors itself. Together they define and ensure adherence to the company's strategic direction to ensure long-term growth of the business, supervise management and ensure compliance with company policies as well as statutory regulations, while striving for a sustainable increase in company value. Further the Executive Board ensures appropriate risk management. 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 future operational structure.

Employees:

Arla has 20,617 full time equivalents (FTE) globally, compared to 20,020 last year. Employees are represented both in the Board of Directors and Board of Representatives.

CEO: Peder Tuborgh

For further details, please see Arla's Annual Report 2021 [L](#)



OUR BUSINESS MODEL

OWNERS & COWS

- We have 8,956 farmer owners, who are responsible for over 1.5 million cows
- Our owners are amongst the best in the world* in terms of efficient and sustainable production, with only 1.15 kg CO₂e emissions per kg of milk

MILK COLLECTION

- We collect around 13.6 billion kilos of raw milk each year, mainly from our owners in seven countries

PRODUCTION, PACKAGING & INNOVATION

- We process milk at our 60 sites
- We produce 6.8 billion kg of nutritious dairy products each year



CONSUMERS & WASTE MANAGEMENT

- We provide nutrition for millions of people
- It is important to us that our products have the lowest possible negative impact on the environment throughout their lifecycle. We work continuously to reduce our waste

CUSTOMERS

- We sell our products in 152 countries
- We add value to our owners' milk through innovation, branding and marketing, and the profit is shared among owners through the milk payment



GOVERNANCE AND WAYS OF WORKING

Arla's Code of Conduct – Our Responsibility – is our foundation for sustainable development and the corporate responsibility we embrace. Covering the key aspects of our business, it forms the basis for our company.

Our responsibility

Our Code of Conduct [🔗](#) is approved by Arla's Board of Directors. Arla's Executive Management Team approves strategies, prioritises areas, ensures progress and annual follow up and sets the direction for necessary improvements and further updates.

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

Our Code of Conduct is further operationalised in policies, processes, standards and codes of practice throughout our value chain. Our overall due diligence process, which we apply before entering a new partnership or joint venture, covers economic, social and environmental concerns.

Sustainability governance

Throughout 2021, Arla's Sustainability Board has continued to govern the implementation of our sustainability strategy, focusing on developing long-term goals and short-term activities for the workstreams under the strategy: Sustainable dairy farming, Protecting nature, Carbon net zero operations, Minimising food waste, Sustainable packaging, Access to healthy nutrition, Inspiring good food habits, Supporting communities, Caring for people.

The Sustainability Board has focused on clear plans, KPIs and monitoring, while the daily implementation of the strategy, underlying ambitions and policies to support sustainable development lies with relevant functions.

During the year, we have appointed sustainability managers to our markets to further strengthen our sustainability efforts, and drive local sustainability initiatives and communication. We want to make our global ambitions and commitments relevant in a local context.

In November, together with the launch of Arla's new overall business strategy Future26, which has an integrated sustainability focus, we announced further strengthening of our climate ambitions setting Science Based Targets for 1.5 degrees, read more on page 17 [🔗](#)

It was also announced that sustainability is now anchored in the EMT through the new role Chief Agriculture and Sustainability Officer (CASO). As a consequence the Sustainability board was discontinued. The sustainability work has matured, and is now even more integrated in our business strategy and ways of working, all the way from farmer owners to the marketing and sale of our products.

To further accelerate the sustainability agenda in Arla, we have included sustainability perspectives in our investment processes and increased our focus on change management. Investments aimed at improving sustainability performance often carry a slightly longer payback time. To manage this a climate-adjusted payback is calculated for all Arla investments above EUR 1 million. This results in a shorter pay-back time for investments that reduce greenhouse gas emissions and a prolonged payback time for investments that increase them. The process makes the potential negative impacts of production changes more transparent, improving the strategic decision-making process.

Strategic issues in relation to farm management are discussed and agreed with our Board of Directors.

Business principles

In Our Responsibility we also communicate our commitment to responsible business conduct. It describes principles and expectations for how company and employees should act credibly, and with integrity, complying with applicable laws, rules and regulations in all of our operations. For us, a responsible business conduct also comes from living our company values, through our culture of openness and transparency. In 2021, we launched our new and improved grievance mechanism: EthicsLine, which is available on our website.

Risk management

Our approach to due diligence is integrated in the way we work and do business along our value chain. We identify, prevent and mitigate risks related to our activities to help minimise adverse impact on people, society and business. Examples include our farm programmes, our sourcing positions, and work with human rights. We focus on reporting on progress in relation to social and employee issues, environment, climate, corruption, human rights and other topics material to us. During the year, we updated our materiality analysis, which is now based on the concept of dual materiality, read more on page 60 [🔗](#)

GOVERNANCE AND WAYS OF WORKING

Owners and suppliers in the democratic organisation

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

VISION

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

MISSION

Securing the highest value for our farmers' milk while creating opportunities for their growth.

Hybrid meetings – the new normal

Online meetings continued to replace most face-to-face gatherings of farmer owners and their elected representatives during 2021. For this reason, the Board of Representatives voted in February to postpone the biennial elections to all the cooperative's democratic bodies until 2022. In general physical meetings were possible again from August, however, with some using hybrid format.

The Board of Directors has decided to allow hybrid meetings for the regular district meetings, where Arla farmers will cast their votes in the spring 2022 elections. This has created a need for a digital voting system. In preparation, farmer owners were introduced to the online voting platform at the autumn district meetings.

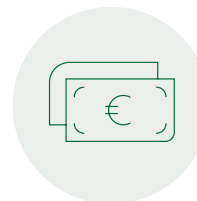
Arla Coop 2.0

A project called Coop 2.0 was launched in 2021, governed by the Board of Representatives. The purpose is to develop the cooperative further by engaging our farmer owners even more in the topics important to them. Based on more than 800 responses, the topics chosen were **Future milk pool**, **Financing and ownership**, **Coop structure and governance**, **Coop democratic process** and **Member engagement**. One of the new activities was a series of member webinars, called CoopTalks, to build knowledge and give opportunities to ask questions to internal and external experts.

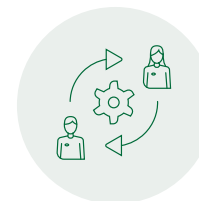
ARLA COOP 2.0 ENGAGEMENT TOPICS



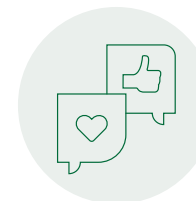
**Future
milk pool**



**Financing
and ownership**



**Coop structure
and governance**



**Coop democratic
process**



**Member
engagement**

The CoopTalks were held in each of our core markets in local languages as well. Having introduced CoopTalks, the Member Engagement Committee is looking at how to improve member communication by using a better mix of communication channels.

Digital training for representatives

Our global training programmes have benefited strongly from digital opportunities in 2021. For example, we were once again able to offer online English courses for members of the Board of Representatives and provided online training in the half-year results and our digital platforms.

At a strategy workshop in Denmark, our Global Training Committee discussed the future training programme, particularly for the newly elected members in all bodies. As members are now accustomed to digital meeting formats, it was decided to draw a closer link between physical and digital training content.

A highlight in 2021 was the ARLA 24 course, which is offered once a year to experienced elected Board of Representatives members and provides strategic insights into a specific market. In November, 32 members met for a two-day-course in Stockholm, where they gained a stronger understanding of the Swedish market and business strategy.

A photograph of a man and a young child sitting at a picnic table outdoors. The man, with grey hair and sunglasses on his head, is smiling and looking down at a glass bottle on the table. The child, with brown hair, is smiling and looking towards the camera. The table is set with various picnic items, including a wooden cutting board with food, a red cup, and a glass bottle. The background shows green foliage and a bright, sunny day.

OUR STRATEGIES

FUTURE26

Climate change and malnutrition are the most difficult challenges facing our global food systems. Both require urgent and ambitious action, and we believe dairy is an integral part of the solution.

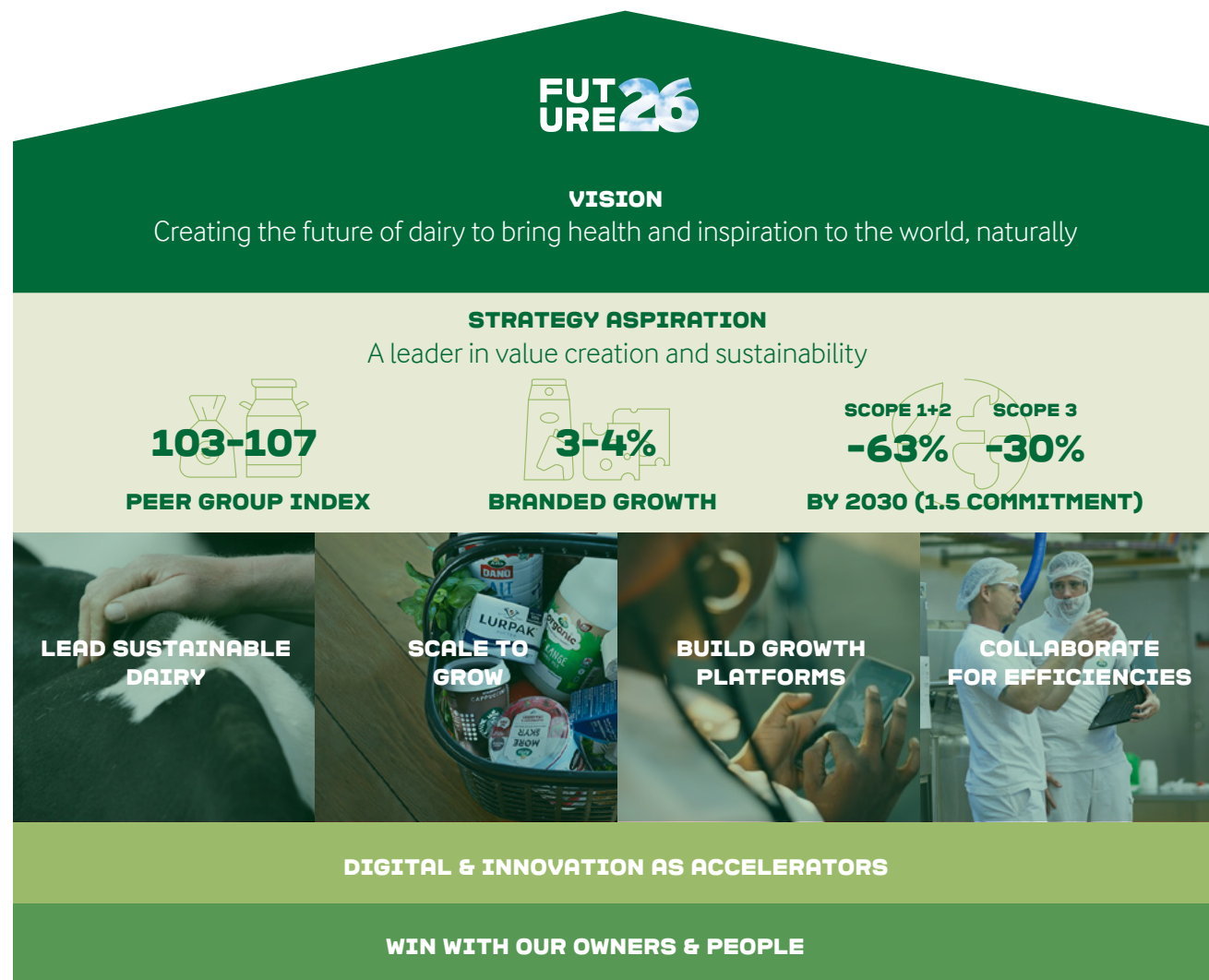
In November we presented Arla's new five-year strategy Future26. Building from a strong position, sustainability is now incorporated as one of the key focus areas in our strategy.

In Future26, we strengthen our commitment to sustainable dairy production and to growing our business responsibly to meet the fast-changing eating habits among consumers and their increasing demand for sustainably produced dairy products. Our proof points, are that we have committed to increasing our investments by more than 40 per cent to over EUR 4 billion, focusing on sustainability, digitalisation, new production technologies and product development. At the same time, returning more of the annual profit to farmer owners, amounting to more than EUR 1 billion in the strategy period, to support our farmer owners on their sustainability journey, which will require investments.

Over the last decades, Arla's farmer owners have steadily worked towards sustainable farming. Today they are among the most climate-efficient dairy farmers in the world. In 2021, emissions from Arla's farmer owners amounted to 1.15 kilo CO₂e per kg standardised milk, and they are committed to accelerating their reduction of greenhouse gas emissions towards the science-based target of 30% in 2030 (scope 3).

Over the next five years, we will continue to take industry lead on data-driven sustainable dairy production throughout our value chain, just as we have raised our commitments to meeting the 1.5 degree goal by reducing Arla company emissions and emissions from purchased energy (scope 1+2) with 63% by 2030.

The strategy is developed true to Arla's vision. It is based on trends in consumer values, focused on health, sustainability and transparency, and reflects global population, urbanisation, economic growth and digitalisation trends which are changing purchasing patterns and have the potential to change market competition. Growing our brands and market share and delivering a competitive milk price to our farmer owners are essential to the development of the cooperative.



For more in-depth information about Future26, please see Arla's Annual Report [L2](#)

SUSTAINABILITY STRATEGY

We promote a wide range of products to satisfy nutritional needs across generations and continents, while we constantly focus on reducing our environmental impact. Our sustainability strategy, which is inspired by the United Nations Sustainable Development Goals, keeps us on our path to make both the planet and people stronger.



Our sustainability strategy, which we launched in 2019, focuses on improving the environment for future generations, increasing access to healthy dairy nutrition and inspiring good food habits. The strategy is founded on our Code of Conduct, which ensures our commitments to respecting human rights and ensuring responsible business practices across our markets. These ambitions are further strengthened in our new company strategy Future26, where sustainability is one of the key focus areas. As such, the sustainability strategy will serve as a more detailed roadmap going forward.

Through our sustainability work, we contribute to the realisation of the UN's Sustainable Development Goals (SDGs). Our prioritised focus is on the SDGs relating to food, environment and climate. This is where we can maximise our positive impact, while carefully addressing our potential negative impact. We recognise the close link between all SDGs, and we know that we have an influence on all of them through our general business practices and commitments, as defined in our Code of Conduct.

Follow up on our sustainability strategy and targets can be found in this report under the themes Stronger Planet and Stronger People where we describe how we work with these strategic areas. Detailed progress and selected KPIs can be found in the section Ambitions & Progress data [L7](#)



CODE OF CONDUCT

Our responsibility throughout the value chain





Our environmental ambition

Our climate ambition

Sustainable dairy farming

Protecting nature

Carbon net zero operations – sites

Carbon net zero operations – logistics

Minimising food waste

Sustainable packaging

Carbon neutral organic

Responsible sourcing

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STRONGER PLANET

OUR ENVIRONMENTAL AMBITION

Countering climate change is at the top of the agenda in our cooperative. Together with our 8,956 farmer owners, we updated our ambitious climate targets in 2021, which are now aligned with the Paris Agreement's target of a maximum 1.5 degrees Celsius increase in the average global temperature. We are working towards becoming carbon net zero across our value chain by 2050. Our 2030 science-based targets guide us on our way to the 2050 target: reducing scope 1 and 2 emissions by 63 per cent in absolute terms, and scope 3 emissions by 30 per cent per kilo standardised milk and whey.

OUR AMBITION COVERS THREE THEMES

Better climate



Clean air & water



We are protecting regional water sources and reducing emissions across the whole value chain.

Our goal

Keep nitrogen and phosphorus cycles in balance.

More nature



We are building a more diverse, robust and accessible local agricultural landscape.

Our goal

Increase biodiversity and access to nature.

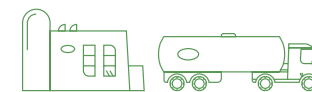
WE DEFINED CLEAR PATHS ACROSS OUR VALUE CHAIN TO ACHIEVE OUR TARGETS

Farms



- Focus on climate levers also improving resource efficiency
- Implement actions to improve biodiversity and soil health
- Development and scale of new technologies

Production and logistics



- Improve production and logistics efficiency
- Increase share of renewable energy and fuels
- Halve food-waste in operations 2015 – 2030

Packaging and food waste



- 100% recyclable packaging by 2025 where our products are sold
- 0% fossil-based virgin plastic by 2030 in our Arla branded packaging
- Inspire reduced consumer food waste

OUR BRANDS PLAY A KEY ROLE IN FUNDING THE JOURNEY FOR OUR FARMER OWNERS

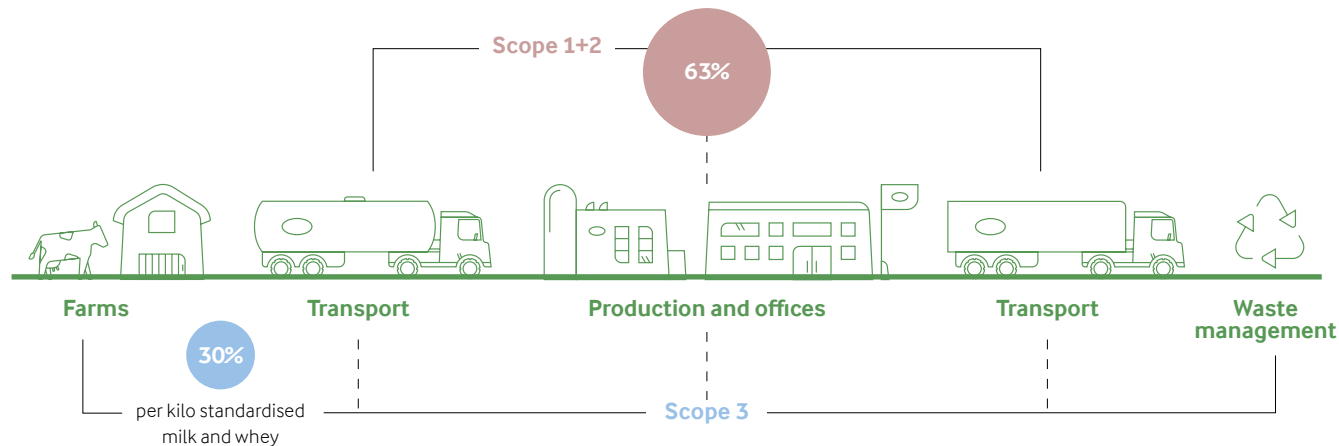


Sustainability is core in the brand strategy and positioning of our brands. In addition to the many initiatives within farm and supply chain, in 2021, we have demonstrated our strengthened sustainability focus through more sustainable packaging initiatives on brands such as Arla Lactofree®, Arla® Protein, Ingmariini®, Arla Ko®, Lurpak® and Castello®.

We have launched carbon neutral milk initiatives on Arla Øko®, Arla EKO® and Arla Biologisch® in Denmark, Sweden and Netherlands. These are examples of the many initiatives to promote the sustainability journey for Arla's brands.

OUR CLIMATE AMBITION

OUR CLIMATE REDUCTION TARGETS 2015 – 2030



Scope 1

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

Scope 2

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

Scope 3

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

SCIENCE BASED TARGETS

Arla has set science-based targets to significantly reduce our greenhouse gas emissions by 2030 compared to a 2015 baseline. At the end of 2021, the Science Based Targets Initiative (SBTi) approved our ambition to be consistent with the scope 1 and 2 reductions required to keep global warming at 1.5°C, the most ambitious goal of the Paris Agreement.

This means that the target for scope 1 and 2 emissions is a 63 per cent reduction in absolute terms, which is a doubling of Arla's 2019 ambition. For scope 3 emissions at farm level, expressed as per kilo standardised milk and whey, the target remains a 30 per cent reduction.

SBTi is expected to launch a new sector guidance in 2022 for Forest, Land and Agriculture with more detailed requirements for setting science-based targets than previously available for companies in land-intensive sectors. Arla's ambition is to be in line with a 1.5°C trajectory in all three scopes of the value chain. We are, therefore, committed to implementing the new standard when it is released and, if necessary, recalculating the base year and target year emissions for Scope 3.

SBTi is a collaboration between Carbon Disclosure Project (CDP), World Resources Institute (WRI), the World Wide Fund for Nature (WWF) and the United Nations Global Compact (UNGC) and one of the We Mean Business Coalition commitments. The SBTi defines and promotes best practice in science-based target setting and independently assesses companies' targets.



DRIVING AMBITIOUS CORPORATE CLIMATE ACTION



SUSTAINABLE DAIRY FARMING

Our farmer owners are among the most climate-efficient dairy farmers in the world. We have one of the largest externally validated climate data sets from dairy farms across seven countries to guide our actions towards further emissions reduction, and we work together to continue improving our performance.

Climate Check

Our Climate Check tool helps Arla farmer owners identify farm greenhouse gas emissions (CO₂e) and suggests actions for reducing emissions further. Because our farmer owners are in seven countries in Northern Europe, the tool is designed to take regional differences for example in dairy cow feed into account so we can map and compare the carbon footprint of all farms. The increased level of consistency and transparency this provides has resulted in reasonable assurance of our climate data on farm by an external auditor.

Following the introduction of the Climate Check tool in 2020, we have conducted a further analysis of the first dataset. This shows that 78 per cent of the variation in carbon footprint between farms stems from five focus areas, which we refer to as the Big 5: feed efficiency, protein efficiency, cow mortality (as an indicator of cow robustness), fertiliser use and land use. While there is insufficient evidence to suggest that one type of farm or production system is more efficient than others – high performers exist across all countries and production systems – management decisions and best practice are clearly essential to our climate journey. The Big 5 represent the most effective climate action areas that all Arla farmers can work with to lower their farm's carbon footprint, as they are expected to deliver about one third of the needed reductions by 2030. Innovation farms are testing technology to reduce our footprint further.

A project with global industry experts and business peers is addressing the lack of a standardised scientific methodology for including carbon sequestration (capturing and storing carbon in the soil, hedges and trees) in carbon footprint calculations. A draft methodology has been tested on owner farms in 2021. Due to challenges and complexity the project has been slightly delayed and the methodology will be further refined during 2022.



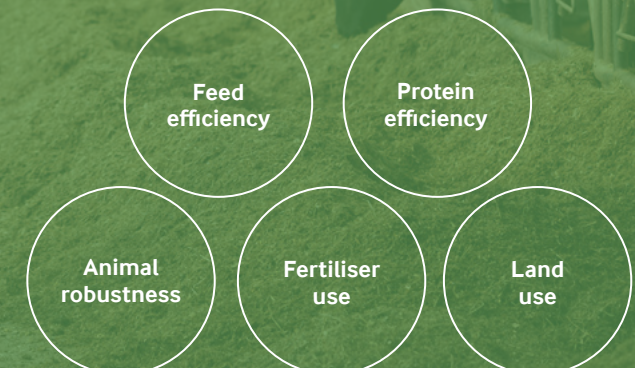
To find out more about how Arla's Climate Check programme works [↗](#)

CLIMATE CHECKS IN PRACTICE

Arla 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.

In 2021, 93 per cent of Arla's active farmer owners participated in the Climate Checks, covering 98 per cent of Arla's owner milk volume. The share of the data, which has been assured by the external auditor shows that 77 per cent of Arla's active farmer owners have a farm-level footprint of 1.15 CO₂e per kg fat and protein-corrected milk, at par with results in 2020. The best-performing farms can produce a kilo of raw milk with a footprint well below 0.9kg CO₂e.

THE BIG 5 CLIMATE ACTIONS ON FARM



SUSTAINABLE DAIRY FARMING

Our quality assurance programme Arlagården® includes four focus areas; milk quality and food safety, animal welfare, climate and nature, and people. To ensure compliance, farmer owners are audited by an external certification body. Each year, 30 per cent of all farms are audited. There are also spot checks and extra audits of farms that demonstrate low performance and/or do not submit mandatory data. If a farm fails to meet the requirements there are clear and consequential sanction systems.

Data capturing

Electronic self-assessment tools play an increasingly important role in gathering and consolidating data about overall farm performance and also about how our farmer owners are contributing to our goals within carbon reduction, biodiversity and animal welfare.

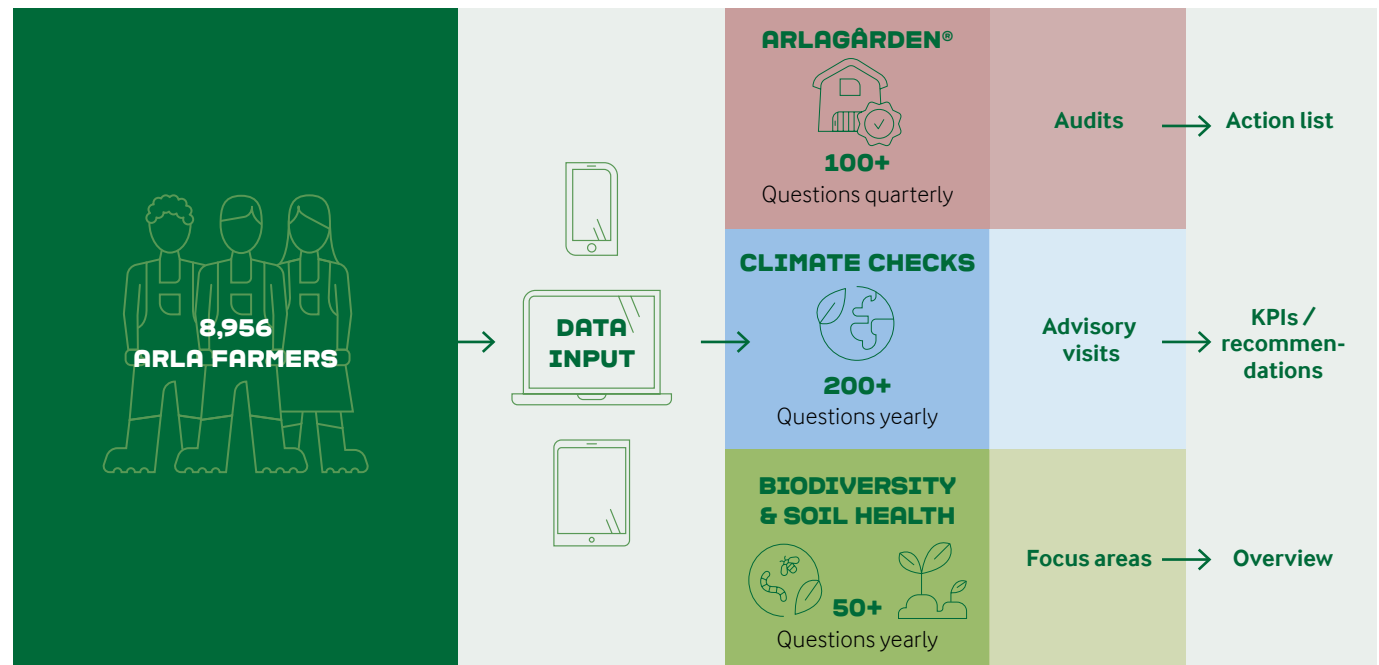
Climate advisory visits

Advisory visits to the farms are increasingly in focus on the journey towards our 2030 emission reduction goals. Conducted by external agricultural climate advisors, the objective of the visits is to validate the data and give farmers advice on how to improve their carbon footprint.

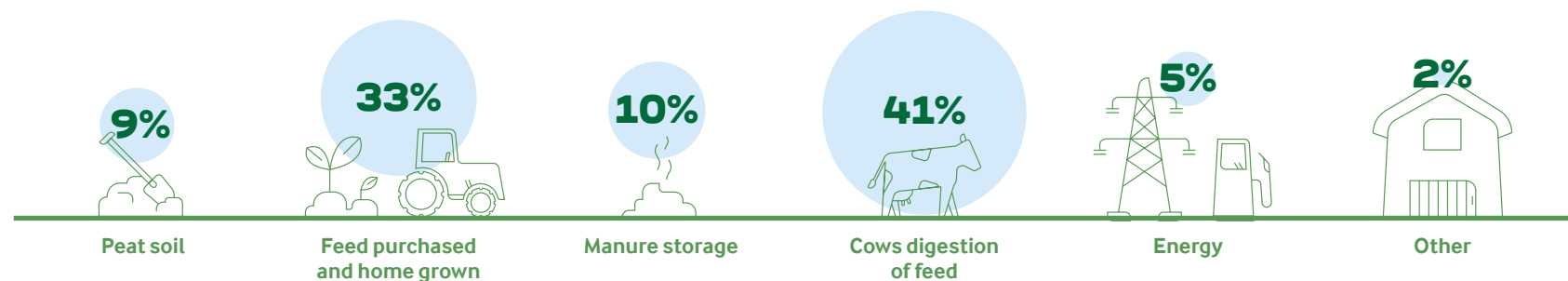
In 2021 we have improved the climate check data validation process, and added an opportunity to simulate farm climate performance to assess improvement potential.

FARM SUSTAINABILITY DATA MANAGEMENT

Farmer owners provide data related to 3 areas: our quality assurance programme Arlagården®, Climate checks, and Biodiversity & soil health. This data forms the basis for further development and improvement.



SOURCES OF GREENHOUSE GAS EMISSIONS ON FARM



SUSTAINABLE DAIRY FARMING

Milk is our key raw material, and we want it to be produced responsibly, with care for cows and nature. Animal welfare is a key priority for our farmer owners, for Arla as a company and for our external stakeholders. Healthy cows that are well cared for produce more nutritious milk in a more resource-efficient way. The effort to improve their welfare is constantly in focus.

Animal welfare

Arla farmer owners are required to report four times a year on cow body condition, cleanliness, mobility and injuries. These four science-based indicators reflect the most common issues for dairy cattle.

During 2021, 8,956 farmers submitted data related to the welfare of their herds. This included completing a questionnaire about housing, feeding, grazing and general well-being, based on their self-assessment via the Arlagården® platform. Farmers that receive unfavourable scores must act to address the problems. Sick cows must also receive the appropriate treatment.

Animal welfare on the farms is regularly audited by the specialist quality assurance and audit firm, SGS, which assesses representative groups of cows against the indicators. In 2021, 37 per cent of farmers were audited. The share of audited farmers with no major animal welfare issues is shown in our ESG table, see page 58 [↗](#)

If an audit finds major animal welfare issues, follow-up audits are scheduled. If repeated animal welfare breaches occur, milk is no longer collected from the non-compliant farm and, in rare extreme cases, membership is terminated. During 2020, the audit process was upgraded and harmonised across all owner countries.

In addition to the regular reports on the four welfare indicators, Arla receives data about cow and calf mortality at farm level – from national herd databases. Mortality is a strong indicator of animal welfare. In 2022, we will use this data to identify farms for a pilot project which will explore strategies for improving cow and calf robustness.

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

COWS WITH GOOD BODY CONDITION

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

MOBILE COWS

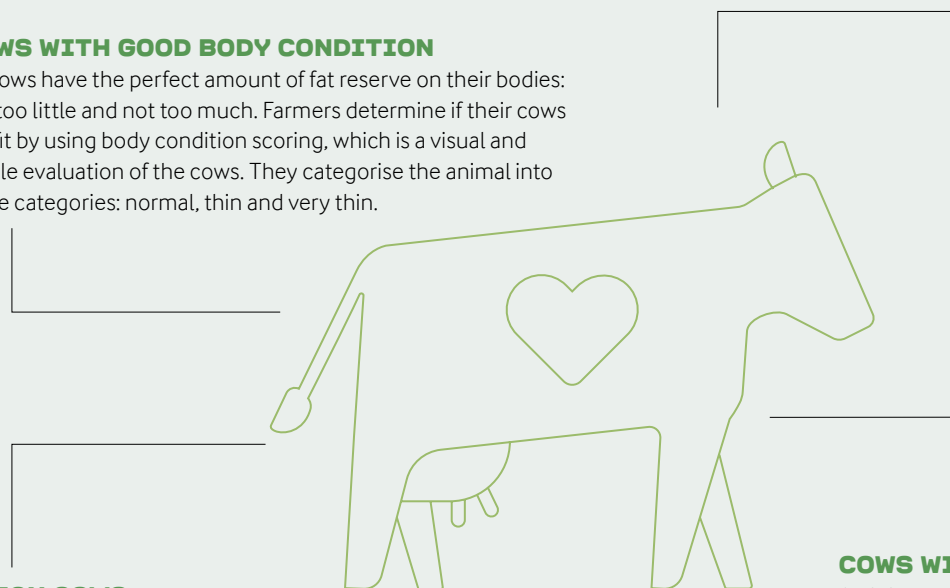
have no problem walking, and no pain in their legs and feet. If mobility is impaired, cows limp, which can be caused by a range of conditions, like disease, poor management and environmental factors. Farmers categorise the cows into three categories: normal, slightly lame and obviously lame.

CLEAN COWS

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

COWS WITHOUT INJURIES

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



PROTECTING NATURE

It is critical for Arla to continue developing and strengthening organic dairy farming, not least in relation to protecting and improving nature on farms. We need to improve our understanding of how to develop our farming practices, in order to improve soil health, water-holding capacity and to enhance ecosystem services. We want to explore how regenerative practices could be adopted at scale across both organic and conventional dairy farming systems. This is why we initiated a farmer-led pilot network.

New Arla organic standard

In 2021, Arla launched a new programme to further strengthen and differentiate our organic category by introducing 11 new requirements in four key areas: climate impact, animal welfare, nature and soil health. Organic Arla farmer owners will reach the target to reduce the on-farm carbon footprint of milk by 30 per cent already in 2028, two years ahead of our science-based target. In relation to animal welfare, Arla's organic owners will, among other actions, increase the minimum number of days that cows are on

grass from 120 to 150. They will also be spearheading biodiversity and soil health. As well as self-assessing and registering their farm's biodiversity activities on an annual basis to generate data, they will collect soil samples, which will be analysed by a third party laboratory to establish a baseline for their soil carbon. In connection with the new standard, the 950 organic Arla farms are now required to implement at least 7 biodiversity and 5 soil health measures every year, chosen from a catalogue of measures including information about how to measure and manage improvements, developed in dialogue with experts. From 2022, they will also self-assess soil health indicators.

The Arla ambition for regenerative dairy farming

In 2021, we launched our ambition to take a leading role in developing and scaling regenerative farming strategies and showcasing the positive impact of dairy farming on nature and climate. We initiated work to gain more knowledge about regenerative farming practices that can enrich soil, increase biodiversity, improve water quality and enhance ecosystem services, such as carbon sequestration, nutrient cycling, food productivity and climate resilience.

Despite its status as a field of growing interest, there is currently no official definition of regenerative farming. There are also few documented examples of regenerative grass-based dairy farming systems in Europe. Our approach to regenerative farming must be data driven and knowledge based. Our farmer-led pilot network will enable us to improve our understanding of how the approach could be adopted at scale across organic and conventional dairy farming systems.

THE REGENERATIVE FARMING AMBITION

Key focus areas include:

- Promote biodiversity, ensuring a plentiful array of beneficial plants and wildlife
- Improve soil health, increasing carbon sequestration, nutrient cycling and food productivity
- Protect water and air quality, reducing pollution that impacts air and water quality
- Enhance animal welfare, ensuring healthy and productive animals
- Promote farmer well-being & livelihoods, ensuring a sustainable future for them, their families and local communities



Members of the regenerative farming network burying underpants as a fun test to explore soil health (how fast the fabric is degraded in the soil)

PROTECTING NATURE

Farmer-led regenerative pilot network

Twenty-four Arla farms in the UK, Germany, Netherlands, Sweden and Denmark are driving a new pilot network to explore regenerative farming practices and demonstrate how conventional and organic dairy farming can have a positive impact on nature and climate.

The pilot farms will participate in a four-year programme designed in collaboration with leading regenerative farming experts FAI Farms Ltd. They will also receive 1:1 coaching from local experts, who will support them in implementing regenerative farming practices and measuring improvements in ecosystem processes and, subsequently, environmental, social and economic parameters.

Among the network's initiatives, our innovation farm in the UK is testing new technology to reduce farm ammonium emissions. The Swedish innovation farm, opened in October 2021, is running trials with 3D camera technology to monitor indicators of animal health. We will use the knowledge gained to provide training for farmers together with local experts and industry partners.

A roundtable of external experts provide input for our regenerative farming programme, including Research Institutes of Sweden (RISE), SEGES, Baltic Sea Action Group (BSAG) and the Thunen Institute. Arla is also a member of the One Planet Business for Biodiversity (OP2B) coalition which aims to scale up regenerative farming practices. Together with industry peers, Arla engages in developing definitions and a framework for sourcing milk produced by regenerative farming practices going forward in the Sustainable Agriculture Initiative platform.



- | | | |
|------------------|-------------------|----------------|
| 1. Climate | 3. Animal welfare | 5. Soil Health |
| 2. Farm Business | 4. Biodiversity | |

INNOMISSION

The Danish government is funding mission-driven public-private research and innovation partnerships called InnoMission. The partnerships aim to contribute to reaching national sustainability goals, and Arla has joined forces with universities and peers in the agricultural sector. This partnership is expected to spend around EUR 26 million from public funding to innovation projects aimed at reducing climate impact, improve biodiversity and animal welfare. Private funding will also be generated in parallel, thus scaling impact further. Arla CEO Peder Tuborgh is chairing the partnership.

CARBON NET ZERO OPERATIONS – SITES

Carbon net zero operations focus primarily on two dimensions, reducing our energy consumption through better efficiency and transition to renewable energy. Investments are paving the way to less use of fossil fuels.

Strategic ambitions

In our operations, we have high ambitions and clear targets for reducing greenhouse gas emissions. To achieve our science-based targets we work with continuous improvements and strategic investments. Our new Future26 strategy will contribute to this transition.

Energy efficiency

During 2021, our dairies continued to engage in energy mapping and identification of production improvement opportunities as part of their environmental and energy management systems. Several large investments were either implemented or approved at our sites as part of the Arla journey towards carbon net zero. Each one reflects the continuous focus on optimising efficiency. Examples include increased heat recovery and production optimisation through investments in more energy-efficient equipment and processes. The move to renewable energy sources, is improving our carbon performance further.

In Pronsfeld, Germany, this year's completion of our new milk powder drying tower was an important step in the continued growth of our business. The tower is more energy efficient than the industry average and has been prepared to run on 20 per cent hydrogen. However, increased production still leads to increased energy use. For this reason, continuous energy optimisation remains a priority at all plants – new and old.

At our milk powder production plant AKAFA in Denmark, an evaluation of production flow resulted in an investment in a new powder transport line. The 120 meter installation connects the site's newest and most energy-efficient spray-drying tower with the bagging line. This optimisation of internal logistics has reduced scope 1 and 2 emissions by an annual 418 tonnes.

Nr. Vium dairy in Denmark, invested in a new distribution system for low-temperature hot water to make better use of the heat from its biogas engines. This is used for process heating, cleaning purposes and room heating and the hot water reduces the need for the natural gas-fired boiler to produce steam. The investment reduces the dairy's carbon footprint by an annual 13 per cent. A further energy performance boost is scheduled for 2022.

Similarly, Rødkærsbro dairy in Denmark will utilise heat from the site's existing refrigeration plant and biogas-fired combined heat and power plants (CHP) to generate hot water. This heat recovery investment is expected to deliver a 5 per cent reduction in annual greenhouse gas emissions.

In 2022, the installation of a new air heater at Westbury dairy in the UK will replace outdated equipment and is expected to generate an annual emissions saving of 4,000 tonnes.

Renewable energy

Renewable energy is important to reduce our scope 2 emissions. We are currently working to replace natural gas with biogas, and increasing the share of renewable electricity. The biogas-driven CHP installed at some sites in Denmark are a key part of our transition away from fossil-based natural gas. The electricity generated is fed directly onto the Danish electricity grid, meeting the power needs of each site and delivering electricity to the community.

In Sweden, a new boiler was installed at the Visby dairy, and a new boiler will be installed at Jönköping dairy in 2022. Both replace fossil energy sources.

In Bahrain we will install solar cells, which will reduce our CO₂ emissions by approx. 1,600 tonnes per year.

Going forward will work to source more biogas and renewable electricity from our owners.



CARBON NET ZERO OPERATIONS

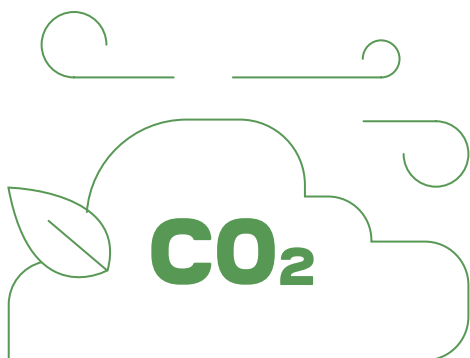
The transition to carbon neutral

The journey to becoming carbon neutral requires each Arla site to reduce net greenhouse gas emissions to zero. At present, four sites in Denmark have attained carbon neutral status.

Carbon neutral sites reduce greenhouse gas emissions primarily through energy efficiency improvements, the switch to renewable energy sources and reducing food waste. However, because not all emissions can be eliminated with today's technology, carbon offsetting credits compensate for the remainder.

All the carbon credits we use are from projects that are third-party validated and verified according to global certification standards and ensure full offsetting. The projects from which we purchase credits are Verified Carbon Standard (VCS) certified reforestation and forest protection projects. Please read more about Arla's approach to climate compensation on page 29 [L](#)

THE CARBON NEUTRAL PIPELINE



The Arla site in Nijkerk in the Netherlands is next in line to become carbon neutral. In 2022, Settle dairy in UK will start their carbon neutral journey.

WHAT IS OFFSETTING?



Balancing greenhouse gas emissions with equivalent amounts of carbon credits

**1 carbon credit =
1 tonne of CO₂e that is
reduced, avoided or captured**

Carbon credits are issued, uniquely serialized, tracked and cancelled by means of an electronic registry. CO₂e = the common unit for all greenhouse gases which covers all methane, nitrous oxide and carbon dioxide emissions.



CARBON NET ZERO OPERATIONS – LOGISTICS

Efficient transportation is key to Arla's business success, and we must continuously optimise logistics throughout our supply chain. Emissions from transportation must be reduced to contribute to our 2030 science-based targets, and we are activating multiple levers across markets to address this challenge.

Logistic

We realise that climate goals require an increased effort regarding the day-to-day transportation of fresh milk and dairy products. To this end, we have created a roadmap through to 2030. The roadmap draws on our three main sustainability levers for logistics – optimisation and efficiencies, alternative fuel and opportunities from new technology.

In our European markets, we have worked for many years to optimise routes, identify opportunities to shift to biofuel and implement eco-driving. One of our focus areas in 2021 has been to transfer this knowledge and experience to our other international markets.

Optimisation and efficiencies

Route and delivery optimisation in Denmark, Sweden and the UK brought significant emissions savings during the year. In Denmark, efficiency improvements have reduced the number of trucks on the road and cut annual emissions by an estimated 1,375 tonnes CO₂e. In the UK, reduced delivery frequencies to one key customer have brought further annual savings of around 540 tonnes CO₂e, while route optimisation in Sweden is expected to save 46 tonnes a year.

Alternative fuels – biogas

Trials with 20 biogas trucks are underway in the UK, Denmark, Sweden and Germany. An assessment of their performance will contribute to a procurement decision on fleet replacement in 2022. One of the current limiting factors on investment is the varying availability of biogas in our core markets. Biogas sourcing is significantly less of a challenge in countries with national biogas incentive schemes. However, we will replace our fleet with alternative fuel vehicle technology as the biogas infrastructure ramps up in the coming years.

In Sweden and the UK, biogas trucks are testing biogas based on cow manure from our owners' farms. The objective of the trial is to understand how we can increase use of this resource to fuel trucks. We plan to have four vehicles running on 'poo power' by the end of 2022.

This year's UK Supply Chain Excellence Awards have recognised our 'poo power' initiative with a highly commended prize. Arla Denmark won the Danish Green Transport Prize for its green transition efforts.

Electric truck technology

During the year, Arla Sweden invested in an electric truck for distributing products to customers in Gothenburg. With a range of just over 100 km, the truck can run two routes a day. In addition to the zero emissions from the tail pipe, the driver benefits from a quieter working environment. The truck is the second electric vehicle we have on the road, following an initial investment by Arla Denmark in 2020. We expect to have two more in operation in Stockholm by the end of 2022 – both running on 100 per cent renewable electricity.



MINIMISING FOOD WASTE

Food waste minimisation is an important lever for improving resource efficiency in our supply chain. We aim to halve food waste in our operations and logistics by 2030, compared to 2015, and broad collaboration is key to developing and implementing innovative strategies for food waste reduction. Our proactive Arla community of food waste champions plays a key role in this by sharing best practice between dairies and markets.



Fresher for longer milk

Every year in the UK, more than 100 million litres of milk are wasted due to spoilage. With the introduction of 'fresher for longer' milk, the Arla Cravendale® brand aims to reduce this waste by 80 per cent. In 2021, Cravendale® and Tesco Superstores launched a joint campaign to raise consumer awareness and drive a shift to milk with a longer shelf life. The campaign included a free food waste action pack, comprising a meal planner, recipes for using leftover food and a fridge thermometer to help consumers store food at the optimum temperature.

Collaboration with customers and food banks

Collaboration with customers has proven an efficient means to avoiding food waste. In Germany, we have worked to improve processes and significantly reduced product waste by an estimated 80 per cent compared to 2020. Over the past year, our Arla Deals digital platform has continued to sell short shelf-life products at a discount in Denmark, Sweden and the UK. In Sweden alone, this has saved 873 tons of products from being wasted in 2021.

Another element in our food waste strategy is to donate surplus products to food banks. Surplus products may result from errors in labelling and forecasts. Through our ongoing food bank collaboration on multiple markets, we both reduce waste and help vulnerable groups to a better diet. In Denmark, donations to Fødevarebanken prevented more than 401 tonnes of food from going to waste.

Consumer-facing initiatives

Measures are also being taken to cut waste at consumer level. Widespread use of 'Often good after' labelling now encourages consumers in several markets to smell and taste a product before throwing it away. In the Netherlands, organic products were launched with this label in 2021.

In Germany, Arla collaborates with the 'Too good to go' initiative and has the logo on all Arla branded products. Additional online information and inspiration nudge consumers to waste less.

Our UK team has further collaborated with the Waste & Resources Action Programme (WRAP) to create a validated gold standard for labelling branded and own label products. This includes optimal shelf life, open life and freezing and storage instructions for all product types. Rollout of the new labelling is planned to start during 2022.

Food waste reporting

In 2021, we initiated a project to upgrade the accuracy and efficiency of food waste reporting in preparation for including it in our corporate ESG reporting. As part of this, we are now working towards reporting food waste in terms of milk solids. The first step is to streamline and automate the data collection process. Once implementation is complete, we will be able to improve our food waste reporting further.

REPURPOSING TRIAL PRODUCTS



New product development in Arla requires considerable production of trial products, many of which end up being wasted. Close collaboration between our global QEHS team and the Arla dairy in Stourton, UK, has come up with a process for repurposing these products and distributing them among colleagues. The process has the potential to save 20,000 individual products a year at the Stourton dairy alone.

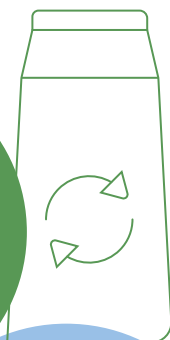
SUSTAINABLE PACKAGING

Arla's packaging ambition 'Towards fully circular packaging 2030' focuses on plastic, recycling and cross-sector collaborations that are exploring new opportunities to take dairy packaging into a sustainable future.

OUR COMMITMENTS

RESPONSIBLE MATERIALS

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



CIRCULAR DESIGN

We design our packaging to be recyclable, reusable or compostable and help consumers dispose of it, so it continues to be of value.

COLLABORATION FOR IMPACT

We collaborate with authorities to ensure collection and recycling and with suppliers and start-ups to develop tomorrow's solutions.

OUR CIRCULAR TARGETS

First and foremost, sustainable packaging solutions must ensure the safety and quality of food products with the lowest possible environmental footprint. In 2021 we used more than 330,000 tonnes of packaging material in total, which is 20,000 tonnes more than in 2020. In Arla, our use of complex materials to protect our products during shelf life was the primary reason why we fell short of our goal to use 100% recyclable packaging by 2020. We have renewed our commitment to fully circular packaging working towards:

0%
virgin fossil plastic in our packaging by 2030*

Virgin fossil plastic refers to any plastic derived from fossil resources, such as crude oil or natural gas. Based on the weight of the total plastic used in our packaging material, around 85% was virgin fossil at the end-2020 baseline – equivalent to around 20% of the total packaging material used for Arla's own brands. 84% of the plastic in our packaging was virgin fossil plastic in 2021.

100%
recyclable packaging by 2025*

We will ensure the packing used for Arla's own brands can be collected, processed and returned to use in the form of raw materials and products, as stipulated by the ISO 14021 standard. In markets where recycling systems are not yet fully developed, we will work with local stakeholders to make sure our packaging waste is managed responsibly. At the end of 2021, 90% of our packaging material was recyclable by weight, compared to our 2020 baseline of 85%.

*Packaging material used for Arla brands

OUR LEVERS

Remove



Reduce



Reuse



Recycle



Renew



Rethink



INITIATIVES IN 2021 – TOWARDS OUR GOALS



180 MILLION

tubs of Lurpak® sold in Denmark and the UK each year are now fully recyclable. Mono material plastics and washable paper labels are used for the tubs and lids.

70 MILLION

cartons of Lactofree milk have been converted from layers of virgin plastic to plastic derived from the side streams of paper production**.



140 TONNES

of plastic on Castello® Cream Cheese rings are no longer virgin fossil. More than 95% has been replaced with recycled plastic or fibre.

**With the exception of a very thin protection layer inside the cardboard.



SUSTAINABLE PACKAGING

Our collaborations

Collaboration with authorities has contributed to progress collection of milk cartons in Denmark, where municipal carton collection are being rolled out during 2021 and 2022. We have also started to print disposal pictograms on the cartons to ensure consumers dispose of the cartons in the correct bin. Through a public-private partnership with the Danish Ministry of Environment, Arla has defined a series of packaging commitments towards 2025, including the development of new circular packaging design guidelines and an ambition, to include 30 per cent recycled content in plastic packaging.

In Sweden, Arla participates in an industry plastic initiative and contributes to the national recycling scheme, which announced in 2021 that new recycling facilities to improve processing will be put in place to improve material recycling of the plastic parts of milk cartons. This has the potential to recycle approximately 3000 tonnes of plastic from Arla milk cartons.

Through a partnership in Bangladesh Arla has involved a packaging material supplier in a pilot project to reduce plastic sachet waste. A company that enables plastic waste reuse, will provide the technical expertise. The project will establish a reverse logistics model from rural villages to the packaging material supplier factory on the outskirts of Dhaka.

Creating the future of packaging

During 2021, we have continued to collaborate on new possibilities to create the future of dairy packaging. Around one third of all the packaging material we use is plastic, which is still necessary to fulfill the strict functional requirements that apply to food contact materials and to help prevent food waste. However, we are continuously rethinking our use of plastic, replacing plastic with fiber materials where possible, removing plastic components, converting to bio-based plastic and increasing the recycled content. Paper-based wraps and sachets for powdered milk, fibre-based screw caps for milk cartons and biodegradable paper cups for yoghurt are among the areas we are exploring.

As part of our innovation strategy, we have engaged with multiple partners. This includes investing in the global agri-food accelerator Rockstart, which supports the development of green technology start-ups. Our objective is to find innovative partners that can contribute to our 2030 carbon reduction target and 2050 carbon net zero ambition. By helping these start-ups with their proof of concept, we gain access to new knowledge and technology. Most of these potential opportunities are within packaging.

Digi Mark

We have in 2021 collaborated with AIM (European Brands Association) to pioneer digital watermarks for smart packaging recycling in the EU. Digi Mark is invisible watermarks on packaging that enables precision recycling in the food industry. We have participated in a pilot test at the end of 2021, contributing with different cheese packaging.

We plan to introduce market test on this new technology during 2022.





CARBON NEUTRAL ORGANIC

As the world's largest producer of organic dairy products, we want to keep moving the organic agenda forward. Our organic business is often the spearhead for new initiatives to engage with consumers and to bring us closer to our wider sustainability goals.

To ensure organic standards are met, all Arla farmers that supply organic milk undergo an external certification in addition to our regular Arlagården® quality assurance audit.

Carbon-neutral products

Early in 2021, we introduced organic carbon neutral dairy products in the Netherlands, building on the Arla ØKO® concept launched in Denmark in 2020 and the Swedish Arla KO® EKO launched in 2019. Products that we launch as carbon neutral are subject to our most ambitious emission-reduction targets with our organic farmer owners reaching the on-farm target to reduce carbon footprint by 30 per cent per kg standardised milk in 2028. Throughout our supply chain, we follow the ISO 14021 standard for carbon-neutral claims. In the Netherlands, third-party auditing allows us to use a national carbon neutral logo.

We follow the international ISO 14067 standard for quantifying greenhouse gas emissions, including all the relevant greenhouse gases in the product lifecycle, from milk production on farm to use in consumers' homes. These calculations are externally assured.

Carbon neutrality is achieved by balancing the product portfolio's emissions with nature-based carbon credits. We do not use offsetting to reach the science-based targets we have set for 2030 or in any other corporate reporting of our climate impact.

The use of carbon neutral claims is debated in many countries, and we have followed the available guidelines for transparent communication and documentation on pack and online. However, this is an area of rapid and continuous change.

Carbon offsetting

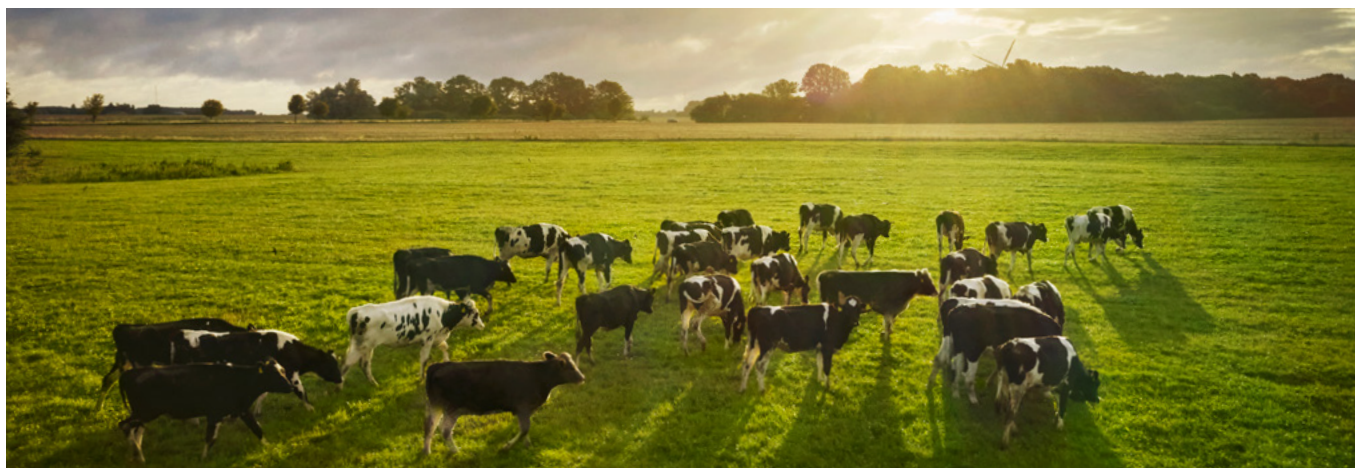
On-pack claims of carbon neutrality and carbon net-zero have been perceived as being too bold, and have been challenged on all three markets where we have made such launches. Complaints to authorities have resulted in investigations during 2021, and Arla has fully engaged to provide information on the robustness of our approach and the carbon credits we use to offset remaining emissions.

The Consumer Ombudsman of the Swedish Consumer Agency initiated a lawsuit against Arla to get precedence on interpretation of the marketing law in relation to our claim of carbon net zero. We await the court ruling in 2022.

The Danish Food Administration concluded that the claim 'CO₂e-neutral-compensated with climate credits' was clear, easy to understand and not to be considered greenwashing. However, the decision was appealed and the process will continue in 2022.

The Dutch Advertising Committee made an interim ruling at the end of 2021, concluding that more information was needed, and a decision is expected during 2022.

In all three cases, the question is if the use of carbon credits is sufficiently robust to make definite claims of carbon neutrality or carbon net-zero, and if the average consumer has sufficient understanding of how offsetting works. We have followed all available and applicable international standards on calculation, offsetting and communication. We recognise that communication of this complex and technical area is challenging, and we try our best to be transparent on-pack and online, while we strongly oppose accusations of greenwashing and false marketing.





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.

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. The aim is to highlight Arla's overall sustainability ambition, and we expect all suppliers to work with their agents and sub-contractors to fulfill the requirements and expectations. Our ways of working in our upstream supply chain is outlined in our Statement on Responsible Sourcing.

Revised 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. In 2021, we revised our global purchasing policy to secure this and improve transparency.

Our updated policy sets out 11 principles for purchasing in Arla to ensure a clearer and more uniform process when buying goods and services. Among other procedural requirements, the policy also flags compliance with the Arla Foods' Code of Conduct.

From now on, suppliers should experience a clearer, more uniform process when working with our regional procurement teams. Strengthening supplier relations and development within food safety, quality and the health of consumers further, we ran a series of targeted training courses for suppliers in our international markets during the year. Subjects covered were allergen management, food safety and packaging material, and quality and food safety culture.

Supplier audits

During 2021, 85 physical, virtual and desktop supplier audits were conducted. The number of audits was increased by 13 per cent compared to last year. The increase is among other things a result of Covid-19, and a volatile raw material market.

Risk commodities

Some of the commodities we use are linked to particular sustainability challenges: palm oil, soy, cocoa and vanilla. 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.

Similarly, we have a sourcing position paper on forest fibre in Europe. We report on this for the first time this year and are working to include the rest of our business.





RESPONSIBLE SOURCING

Palm oil

The 2021 WWF Palm Oil Buyers Scorecard has ranked Arla in the top 10 of the 227 manufacturers, retailers and hospitality companies assessed for their active commitment to a sustainable palm oil industry. With a score of 19.9 out of 24, we have moved from 'middle of the pack' to 'leading the way' since our previous assessment. The report points out two primary improvement areas. One is that we should add conversion-free palm oil to our focus on a deforestation-free supply. We will act on this in 2022 with the publication of our deforestation and conversion-free statement. Another improvement area is that we should extend our human rights commitment to all relevant stakeholders.

Soy

Soy is used as an ingredients in some Arla products and as an ingredient in dairy cow protein feed, with the latter being the major use in Arla's value chain. Market requirements for non-GM feed in Sweden, Denmark and Germany have resulted in a reduction in soy feed use due to price increases. During 2021, there was a continued focus on soy as a driver of deforestation and conversion. We recognise the critique of our approach to purchasing Round Table on Responsible Soy (RTRS) credits to cover the use of uncertified soy in ingredients and owner use of feed soy that could involve deforestation and conversion. We maintain that, for the time being, this is our best way to contribute, in parallel to engaging in industry dialogues on scaling deforestation and conversion-free soy supply chains. We purchase RTRS credits from one region, further contributing to the development of more rational segregated supply chains. We acknowledge the 2021 EU regulation to ensure that EU consumption of commodities like soy will not contribute to global deforestation and forest degradation. If implemented in a rational manner, it can contribute to making more sustainable soy mainstream.

Cocoa

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



Palm oil



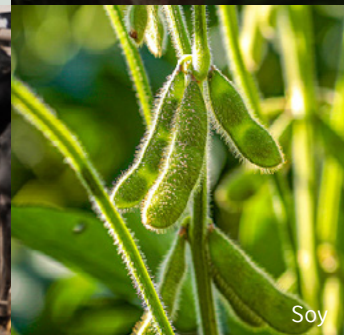
Vanilla



Forest fibre



Cocoa



Soy

Vanilla

Vanilla is a key flavouring ingredient in many Arla products. 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. The membership contributes to building a more responsible supply chain in Madagascar.

Forest fibre

Forest fibre plays an important part in our production chain. Although we use recycled fibres wherever possible, some packaging requires virgin forest fibre to comply with food safety regulations. During the year, we achieved our commitment to use only FSC®-certified forest fibre materials in Europe by the end of 2021. 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.



Access to healthy nutrition – food safety
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STRONGER PEOPLE

ACCESS TO HEALTHY NUTRITION – FOOD SAFETY

We provide safe, healthy and affordable dairy products to help people eat healthily and sustainably around the world. By balancing the environmental impact of production with the nutritional impact of food, we strive to contribute to the realisation of the UN Sustainable Development Goals.

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 zero recalls in 2021. In 2021, we updated the Quality, Environment, Health and Safety (QEHS) manual, which we launched 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. Going forward the QEHS Manual will be updated annually.

World Food Safety Day

The World Health Organisation's World Food Safety Day in June prompted a range of activities across our production sites and among our teams working with logistics. It was the first time we had marked the occasion globally, and dilemma discussions and quizzes, for example, took place throughout the week.

Label checks

Correct and transparent product information is key, enabling consumers to make informed choices. Checks of the mandatory and voluntary information on product labels are complete in Denmark, Germany, Finland, Sweden, the Netherlands and in the UK. Only a single case of non-compliance in EU resulted in a fine. We will keep a focus on best practice and compliance. During the coming year, we will focus on updating guidelines related to mandatory and voluntary information on European markets and integrate these guidelines in daily operations.

On non-European markets, we have focused on allergen labelling during 2021, and we plan to roll out label checks on these markets in 2022.



ACCESS TO HEALTHY NUTRITION – HEALTH STRATEGY

Health strategy

Our health strategy is a core component of our commitment to supporting healthy and sustainable diets while reducing our environmental impact. In 2021, we began the process of developing the 2026 Arla Health Strategy, which will step up our health engagement. The new strategy will target more product innovation in accordance with the externally validated Arla® Nutrition Criteria and more activities to engage consumers on digital platforms that support sustainable dietary choices. Improved access to nutrition and affordable foods are also part of our strategic ambitions.

Nutrition criteria


Our ambition is to develop more products that can be part of sustainable diets. The publicly available Arla® Nutrition Criteria is a set of internal standards that guides our development of healthier products by setting requirements for protein and calcium content and limiting the amount of added sugars, salt and fat.

By 2025, we want to increase the volume of products that meet the Nutrition Criteria by 60,000 tonnes, compared to 2019. We have

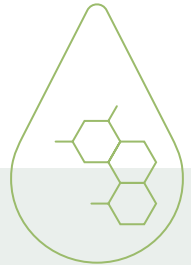
delivered above expectation, reaching 40,000 tonnes in just two years. The criteria are regularly updated, based on input from independent scientific experts and the latest official dietary guidelines in the countries where we operate.

Research partnership

Arla Food for Health is a private-public research partnership established to foster world-class dairy science with a positive impact on public health. Comprising University of Copenhagen, Aarhus University, Arla Foods Ingredients and Arla Foods, the partnership awards DKK 10 million a year to research projects aimed at investigating the health effects of dairy and dairy ingredients.

Of the ten current projects, five were finalised during 2021. A total of 23 scientific papers have now been published based on supported projects, and all findings are disseminated via press releases and relevant journals. Every year, Arla Food for Health gathers around 100 researchers at a scientific meeting, where nutrition and health insights are shared. [Read more](#) 


GLOBAL NUTRITION CHALLENGES



Malnutrition exists in every country of the world, putting people at risk of diet-related diseases and leading to millions of deaths. As a global dairy company, it is important that we play our part in addressing malnutrition. In 2021, the [Access to Nutrition Index](#) (ATNI) assessed our contribution alongside that of 24 other large food and beverage manufacturers.

The results show that we have consistently improved our performance since 2016. Our overall ranking has improved from 14th to 5th place.

ATNI makes a specific mention of the Arla responsible marketing and labelling policies, recognising Arla's commitment to protecting children and enabling all consumers to make informed dietary choices. The report further refers to the Arla® Nutrition Criteria, which provide the basis for all approved nutrition and health claims on Arla products.

There is, however, still much work to be done to overcome global nutrition challenges. We continue to focus on this in our product development, and efforts to provide access to nutrition to low-income consumers, please read more on pages 38 and 39 [L](#) 

In addition to the focus on marketing and labelling, the report highlighted Arla's recent implementation of a global minimum parental leave policy.





INSPIRING GOOD FOOD HABITS

We want to inspire consumers by offering products that meet their varying needs and inviting them to participate in activities that give insights into the origins of our products, and support healthy habits and cooking with less waste.

Farm visits

Many Arla farmers look forward to opening their doors so the public can meet the cows and see where their milk comes from. Following a year when physical visits were restricted, 38 of our Danish farmers were the first to welcome visitors back during a single day in 2021.

Although COVID-19 restrictions continued to prevent events in some markets. More than 700 farmer owners reported hosting school visits during 2021.

In Sweden, the popular event when the cows are put out to pasture was held online for the second year running. Reaching more than 685,000 viewers, it was a big success. A hybrid event is now planned for 2022.

Our farmers are keen to run more activities when the pandemic allows. In the meantime, we have a perfect opportunity to rethink how we build the bridge between farmers and consumers and strengthen external communications about our farmer-owned cooperative.

Plant-based portfolio

In Arla, we want to offer products that meet consumer needs for every occasion.

A study of consumers in five European countries has found that more than half of consumers buy both dairy and plant based products. We interpret this to mean that the products are complementary. The three organic, oat-based drinks under our JÖRD brand give consumers a choice of products with a lower carbon footprint and a different nutrient content than dairy. All are 100 per cent plant-based and made with oats grown in the Nordic region.

The packaging is made with FSC-certified cardboard. As we try to avoid using additives, the carton has a plastic cap so consumers can give it a good shake before drinking.

Inspiring young consumers

Good dietary habits start young. At Arla Sweden, our food inspiration team reaches young consumers through the YouTube channel Matkanalen, where popular influencers demonstrate how to make simple and healthy foods from scratch. Since its launch in 2019, the channel has attracted millions of viewers with its fun and informative episodes. In 2021, Swedish grocery retail magazine Fri Köpenskab recognised Matkanalen with its Food Inspiration of the Year award.

To highlight the importance of a healthy start to the day, especially for children in primary and secondary school, Arla Sweden conducted a survey among parents, students and school headmasters in the spring of 2021, and more than half of the students answered that their concentration improves if they eat breakfast. A key finding from the survey is that breakfast is important to the ability to learn, indicating that a school breakfast would ensure all children have equal learning possibilities. Arla Sweden plans to run the survey each year and present the results to decision-makers.

To inspire students to better food habits, Arla has run campaigns that put breakfast on the agenda in schools and among university students. This included serving more than 22,000 nutritious breakfasts to students in four university cities in Sweden.

Another strategy for reaching young consumers is to print tailored content on milk cartons. Carrying stories from farms, activities and games, the cartons are read by more than two million Swedish consumers a month.



INSPIRING GOOD FOOD HABITS

Activities for schools and scouts

The Arla Foundation* organises food camps to inspire healthy food habits among young people in Denmark. However, when COVID-19 restrictions closed the camps in 2021, the foundation changed direction and launched alternative initiatives.

A new food workshop concept was introduced for schools. Based on the same methods and principles as the food camps, the workshops are designed to give sixth to eighth grade school pupils a fun introduction to healthy cooking. Around 400 pupils participated over the past year.

The Arla Foundation also entered a collaboration with five Danish scout and guide organisations to develop a cookbook for an international jamboree that will gather 40,000 scouts and guides in July 2022. The cookbook is being designed to involve young jamboree participants in food preparation during the nine-day event.

The Food Waste School inspiring families to waste less, is another collaboration between the Arla Foundation, Arla and Too Good To Go. In 2021, the concept was expanded to five towns in Denmark. Many families attended, reaching a total of around 1,000 people, half of them children.

The food camps will return in 2022.

Food waste reduction through inspiring recipes

Food waste reduction is a key sustainability topic. Following this year's launch of a new 'Empty your fridge' tool on the Arla Sweden website, more than 10,000 consumers a month already use it to find recipes that help them avoid throwing food away. Swedish consumers can also seek inspiration from the quarterly Arla recipe brochure, which supports sustainable cooking based on seasonal produce. More than 1.5 million people read each issue. In Denmark, similar initiatives have also been in place for a few years and continue to attract many users.

FOOD MOVERS

100,000

Arla Food Movers had 100,000 children enrolled in Denmark in 2021.



Arla Food Movers is a free programme for school children, containing educational material about creating better food and exercise habits in an involving and community-creating way. The material is divided into three levels, for primary school pupils. Each year, material is developed with a new theme.



INSPIRING THE WORLD



Mindful eating in Spain

Several local campaigns have focused on raising consumer awareness of healthy and sustainable eating during 2021.

Arla Spain, for example, launched a mindful eating awareness campaign, promoted via a new website and social media channels and in store to encourage consumers to take a holistic approach to nutrition and the environment.

Easter carnival in Nigeria

Arla Dano® sponsors an annual Easter carnival in Nigeria, organised by popular local celebrity Rachael Okonkwo. The three-day event supports less advantaged communities with food, educational material and children's toys.

Behaviour change campaigns in Bangladesh

To increase awareness of the nutritional benefits of dairy, a nationwide campaign was launched, aimed at low-income consumers in urban areas and garment factories in Bangladesh. It used a variety of initiatives including songs and tastings of Dano® Daily Pushti. The campaign exceeded its goal by reaching 1.3 million new consumers. Also our Pushti Ambassador network (read more on page 38 [↗](#)) piloted campaigns, to improve the health and wellbeing of rural households through initiatives such as wall paintings, courtyard meetings and cooking competitions. The behaviour change campaigns will scale up in 2022.

*Arla donates 10 million DKK to the Arla Foundation annually.

SUPPORTING COMMUNITIES

Arla's international dairy development programmes support communities around the world. We promote responsible production and consumption of our products, contribute to a sustainable and commercially viable dairy sector in selected countries, and engage actively in partnerships with local key stakeholders.

Growing outside of Europe

Arla focuses on growing its business in a number of countries outside Europe to further strengthen its position as a global dairy company. We believe in the co-existence of sales of Arla dairy products and the sustainable development of local dairy production. This complementary approach aims to make nutritional dairy products available, affordable and accessible, while contributing to economic growth and decent employment by supporting the sustainable development of the local dairy sector.

Partnerships for sustainable dairy development

We ensure that our local engagement supports governmental policies on sustainable dairy development. This includes promoting resource-efficient dairy production, enhancing food safety and quality, improving food security and providing access to affordable nutrition for low-income consumers. We contribute with Arla's dairy value chain expertise from cow to consumer.

Scaling-up our commitment in Nigeria

We continue to scale-up activities in Nigeria through four main pillars: our first Arla dairy model farm outside Europe, the Milky Way Partnership, the Advance Local Dairy Development project (ALDDN) and the Damau Household Milk Farm project. In 2021 we saw heightened insecurity, social unrest, farm production cost increase and project delays in Kaduna State. It is a challenge to secure a sufficient milk-pool to develop a viable business case, and we have therefore engaged and invested in the local dairy value chain.

Construction of the dairy model farm has begun, with 400 milking cows to be imported from Arla owners in Denmark. The Arla dairy

farm lies within the Damau Household Milk Farm project, initiated by the government of Kaduna State and supported by the Central Bank of Nigeria. Milk production is expected to start by the end of 2022. Renovation work has also continued at the Arla dairy plant, improving the production process and the recipe of the Milcopal drinking yoghurt that is now on sale in two outlets in Kaduna State.

As lead business partner in the Milky Way Partnership, our key focus this year has been to build capacity, with more than 400 participants to trainings and increase raw milk deliveries. Here, we are working with the Danish Agricultural and Food Council/SEGES, Care Denmark and the Nigeria-based NGOs Milk Value Chain Foundation and CORET, with support from the Danish Ministry of Foreign Affairs.

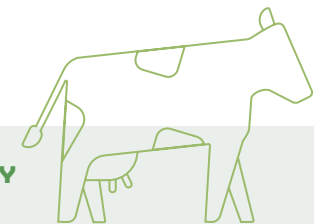
The project collaborates closely with Kaduna State and the dairy cooperative Milcopal.



Through our engagement in the ALDDN project, up to 400 farm households have been enrolled and more than 2000 participants joined trainings in partnership with SAHEL Consulting and with funding from the Bill and Melinda Gates Foundation.

Since the beginning, all partners have focused on the empowerment of women farmers to ensure they get their fair share of the dairy income. To support this, an e-wallet system for financial inclusion is underway.

REARING BETTER DAIRY COWS IN INDONESIA



Our calf-rearing project in East Java – Rearing Social Business Unit (RSBU) – reached break even in 2021 and is no longer dependent on financial support from the the partners involved. Owned in partnership with local dairy actors Indolakto and KPSP, RSBU was founded in 2018 to increase the availability of dairy cows in Indonesia.

RSBU rears calves into high-quality cows before selling them at a reduced price to farmers trained in good dairy practices. In this way, dairy farmers can improve their milk yield, milk quality and thereby income from dairy production. More than 40 cows were sold in 2021, bringing the total to 77.

SUPPORTING COMMUNITIES

Pilot organic dairy production in Indonesia

Arla is the lead commercial partner in the new partnership project 'Pilot Organic Dairy Production in Indonesia'. The objective is to share best practices from Arla's organic dairy farmers so that, by 2026, 200 Indonesian farmers have converted to organic farming and 2,000 farmers have improved their dairy farm practices and income. The project is supported by the Danish Ministry of Foreign Affairs and is a partnership between Indonesian NGO Bina Swadaya and the Danish Agricultural and Food Council/SEGES, which is the lead non-commercial partner.

In 2021, an evaluation of existing conventional dairy farms assessed the investment necessary for the conversion to organic dairy farming. Train the trainer sessions were held for farmer members of the KPSP dairy cooperative. The first demonstration farm is expected to be ready in early 2022 and will serve as a training hub.

We have signed a Letter of Intent with the Indonesian Ministry of Agriculture, confirming our commitment to supporting sustainable development within the Indonesian dairy sector.

Pushti Ambassador Partnership in Bangladesh

To improve access to affordable dairy nutrition in Bangladesh, Arla develops alternative sales channels. The 'Pushti Ambassadors Partnership' (PAP) aims to improve access to Arla's affordable dairy nutrition throughout rural Bangladesh by engaging female micro-entrepreneurs in selling door-to-door.

Bangladeshi iSocial and Dnet are implementing partners in the PAP project, managed by the Dutch NGO Bopinc. The project is supported by the Danish Ministry of Foreign Affairs. In 2021, the project succeeded in recruiting and training more than 1,100 Pushti Ambassadors who are now actively selling Arla Bangladesh's milk powder sachet Dano® Daily Pushti.

During 2021, the project scaled up and expanded to 14 sub-districts from the 6 pilot districts. However, at the end of 2021,

supply chain challenges led to decreased sales activities, and immediate action to solve this has been taken. Through conferences, research, field studies and key note speeches, PAP project results have been shared in Bangladesh to inspire companies and decision makers to target rural consumers and empower women more effectively.

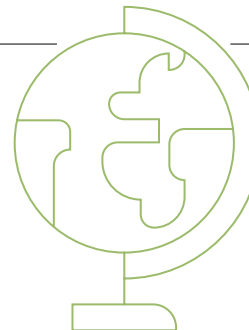
Dairy transition in Bangladesh

Arla has been present in Bangladesh for more than 50 years. In 2021, we joined forces with local dairy business partner PRAN Group

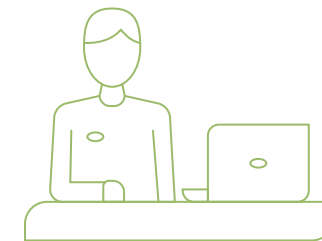
and Bangladesh Agricultural University to support the transition to more sustainable dairy farming. The aim is to increase milk yield, improve farm practices, optimise fodder and feed and raise animal welfare standards.

Following an analysis of the dairy value chain, we will identify major focus areas where we can draw on knowledge from Arla's work to improve resource efficiency. Arla Foods Bangladesh and PRAN have signed a Letter of Intent to commence pilot activities in the Rangpur area which consists of around 600 dairy farmers.

CHINESE-DANISH COLLABORATION RAISES DAIRY FARM STANDARDS



Arla and China's Mengniu Dairy Company established the China-Denmark Milk Technology Cooperation Centre (CDMTCC) in 2012. Ten years later, the Chinese dairy farms that supply Mengniu have undergone significant change. Training in Arla know-how and Arlagården® has lifted their productivity, animal welfare and milk quality to European standards on most parameters.



CDMTCC carried out the following in 2021:

- 12 online seminars/training sessions, reaching 4,063 participants
- 59 on-farm training sessions with 539 participants
- Publication of eight newsletters, more than 50 educational news feeds, one report and seven articles about Chinese dairy farming in international media
- Delivered four speeches at international online webinars and conferences with more than 250 participants and over 132,000 online views

As all goals have been reached, CDMTCC was closed at the end of the year.

SUPPORTING COMMUNITIES – ARLA FOODS INGREDIENTS AFFORDABLE NUTRITION ACTIVITIES

Dairy supply chain in Ethiopia

Arla Foods Ingredients is lead business partner in the Global Alliance for Improved Nutrition (GAIN) Nordic project to establish a sustainable supply chain for affordable dairy products in Ethiopia. During 2021, the project partners took further steps towards bringing a locally produced fortified yoghurt to market. Although a planned study of nutritional impact on schoolchildren had to be cancelled due to COVID-19, acceptability tests with consumers were successfully completed. Product launch is now scheduled for early 2022, depending on the political situation in the country.

The Danish Ministry of Foreign Affairs has agreed to provide an additional two years of funding for the project. This will be used to investigate further measures for optimising resource utilisation and scaling a greener business model both in and outside Ethiopia.

Healthy snack from papaya waste

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 product innovation partner in a new public-private project led by GAIN, Arla Foods Ingredients has developed the prototype recipes for a dried papaya protein bar that will reduce post-harvest loss.

The goal of the four-year project is to improve farmer incomes and provide low-income consumers with affordable, easily accessible nutrition. It will also develop a toolkit for training food processing workers and facilitate job creation in the Ethiopian food industry.

Three Ethiopian food producers and the Confederation of Danish Industry are among the partners in the project, which is supported by funding from the Danida Market Development Partnerships programme.

Prototype developed in P4G project

Despite the challenges presented by COVID-19, Arla Foods Ingredients has developed a prototype protein-enriched biscuit as part of a collaborative project with the NGO DanChurchAid, Novozymes and other companies. Funded by the global forum for accelerating sustainable development, P4G, the project partners have relied on virtual knowledge sharing to produce the prototype, which contains protein from chickpeas and whey. The chickpeas are grown in Ethiopia, where the biscuit will eventually be produced and marketed as an affordable nutrition product.

Dairy circular bioeconomy in Kenya

A three-year collaborative research project has begun to investigate the opportunities for utilising the side-streams from Kenyan dairies. Arla Foods Ingredients is one of the partners in the project, called **VALORISE**, which is led by the UNEP DTU Partnership and also involves research partners in Africa.

The main objectives include assessing the characteristics and distribution of dairy side-streams and identifying appropriate technologies and business models for converting them into commercial products. Ultimately, the aim is to support dairies in diversifying their businesses and increase public awareness of the potential in the dairy circular bioeconomy.

The UNEP DTU Partnership is a leading international research and advisory institution, established by the Danish Ministry of Foreign Affairs, UN Environment and the Technical University of Denmark (DTU) in 1990.

SUN Business Network

GAIN Nordic models for the development of affordable nutrition are shared via the Scaling Up Nutrition (SUN) Business Network's online platform. As a result, Arla Foods Ingredients is now working with dairies in Nigeria and Pakistan to share best practices for the production of safe and nutritious dairy products and support efforts to reduce malnutrition.



CARING FOR PEOPLE

We are committed to respecting human rights and promoting mutual respect and understanding in our relationships with people, organisations and communities around the world.

Human rights governance

We focus on our entire value chain in our work to ensure respect for human rights. This involves embedding human rights in our policies, activities and training courses for the global key functions responsible for Arla's daily management. The UN Guiding Principles on Business and Human Rights (UNGPR), our Code of Conduct and our human rights policy guide us in these efforts.

It is essential that Arla operates in a responsible manner, and we expect our business partners to live up to the same standards.

Minimising the risk of negative impacts

The highest risk of negative impacts is in our non-European growth markets, due to national contexts and the complexity of business operations. For this reason, we prioritise human rights impact assessments in these markets and carry out a due diligence process to identify the potential for causing, contributing or being directly linked to adverse impacts whenever we enter a new joint venture.

Via statements from AIM Progress and the Nordic Business and Human Rights Network, we have expressed our public support for the upcoming EU legislation on mandatory human rights due diligence. We expect this legislation to create a level playing field for business, provide more leverage with business partners and, most importantly, promote impactful actions. During 2022, we will evaluate our documents and ways of working to identify possible gaps we must address to comply with upcoming legislation.

We continue to improve and implement our systematic human rights due diligence process in compliance with UNGPR, as illustrated below.

Human rights due diligence

In 2021, we completed human rights assessments in Ghana, Senegal and Nigeria and identified no critical risks during the process. Environment, health and safety management was found to have improved significantly, and national minimum wage standards were met, although there are some potential living wage gaps to explore. Findings indicate that external, low-skilled labourers are among the most vulnerable.

While a robust supplier assessment process is in place in Senegal and Nigeria, there is a need for a stronger process in Ghana, and a code of conduct for business partners has now been signed by all. We continue to focus on working conditions in the distribution stage, which is a challenge due to road and car conditions.

In Saudi Arabia and Bangladesh, we continue to conduct regular follow-ups on action plans to resolve issues related to employee-provided housing and the training of drivers and employees who work for our distributor partners. We have also continued our work with human rights risks related to our International Dairy Development Programmes in Nigeria and Bangladesh. This includes addressing issues related to gender, land rights, security, health and safety and distribution. All assessments have been conducted by Arla's global human rights team and local teams in collaboration, with full management support. Due to COVID-19 travel restrictions, it has not been possible for the global team to participate in the assessment on location.

HUMAN RIGHTS DUE DILIGENCE PROCESS

By enhancing our tools and streamlining our approach, aligning it with relevant and responsible functions in the business, we are developing a more comprehensive, efficient and integrated approach to assessing human rights risks.



CARING FOR PEOPLE

Salient human rights

The concept of salience views risk in terms of negative impacts on people rather than the business, while recognising that, where the risk to human rights is greatest, business risks usually follow. We have defined our salient human rights issues based on our due diligence processes and stakeholder dialogues. These issues form the basis for our human rights reporting structure.



Right to enjoy just and favourable conditions at work

a. Safe and healthy working conditions

During 2021 we have strengthened our environment, health and safety (EHS) agenda significantly in our non-European markets. A dedicated manager has been assigned to roll out Arla Foods Global EHS Programs and Standards. In 2021, the focus was on markets with production facilities, covering Bahrain, Saudi Arabia, USA, Canada, Bangladesh and Nigeria. The Arla health and safety reporting system has been implemented at all production sites and in Saudi Arabia's national logistics. The global behavioural safety programme Arla Cornerstones, which has already been implemented in Arla's European sites, is also being rolled out in international markets and will be completed in 2022. Our sites in Canada and Bahrain stand out for achieving more than 2,500 days without a lost-time accident (LTA), followed by our facility in Bangladesh, which has reached more than 1,500 LTA-free days.

b. Living wage

In Arla, we believe that a living wage is fundamental to decent work. This year, we joined the AIM Working Group on Living Wage and pledged support to the AIM-Progress Statement of Engagement on Living Wage - Better Business Through Better Wages. We are now working to establish a global living wage Arla guideline.

Through our collaboration with the Fair Wage Network, we have access to a comprehensive international database of living wage standards. To identify gaps between the national minimum wage, actual employee compensation and estimated living wage in specific countries, we have developed a project plan and research design. In the first phase, we will focus on Arla colleagues and out-sourced labour in selected pilot markets. We will extend the focus to more markets in 2022.



Right to adequate standard of living

Through 2021, we continued to ensure adequate housing for migrant colleagues in Saudi Arabia, the United Arab Emirates (UAE), Oman and Qatar to minimise the risk of COVID-19. As a result, UAE staff spent the first six months of the year in hotels and we provided cars for transport. Once colleagues were vaccinated, we assessed and refurbished staff housing across the region, reducing the number of people in each room. In Abu Dhabi, we moved our accommodation to a new location, which reduced commuting time by an hour a day.

All Arla-provided staff accommodation in UAE, Oman and Qatar meets ILO and local standards. In Saudi Arabia, we started a project to ensure full compliance with ILO standards for employee housing. Currently, 95 per cent of our accommodation is fully ILO compliant. The remaining 5 per cent will be aligned in early 2022. The project focuses on availability of the essentials, which include room size, health & safety and dining areas. In 2022, we will focus on providing better facilities, such as gyms and entertainment rooms.



CARING FOR PEOPLE



Right to health

a. COVID-19 precautions

We have taken measures in all countries where we operate to protect our colleagues from COVID-19 infection and encourage all to follow national health authority recommendations for vaccinations.

b. Health insurance for distribution colleagues in Bangladesh

Distribution is a challenging area with regard to human rights. In Bangladesh, the risk to distribution workers came to light after a road traffic accident resulted in a colleague facing a hefty hospital bill, which they didn't have the funds to cover. Following this incident, Arla Bangladesh has introduced a health insurance scheme for distributor employees. More than 1,490 people will benefit from the scheme.



Access to grievance mechanism

In 2021, Arla introduced an improved whistleblower service – EthicsLine – which is multilingual and also open to external stakeholders with a concern. To raise awareness, a communication package, including posters, newsletters, articles and workshops has been rolled out to European and non-European markets. In Europe, the European Works Council has been included in the communication process. Efforts have been made to ensure colleagues have easy access to EthicsLine via smartphones. Communication efforts will continue throughout 2022.

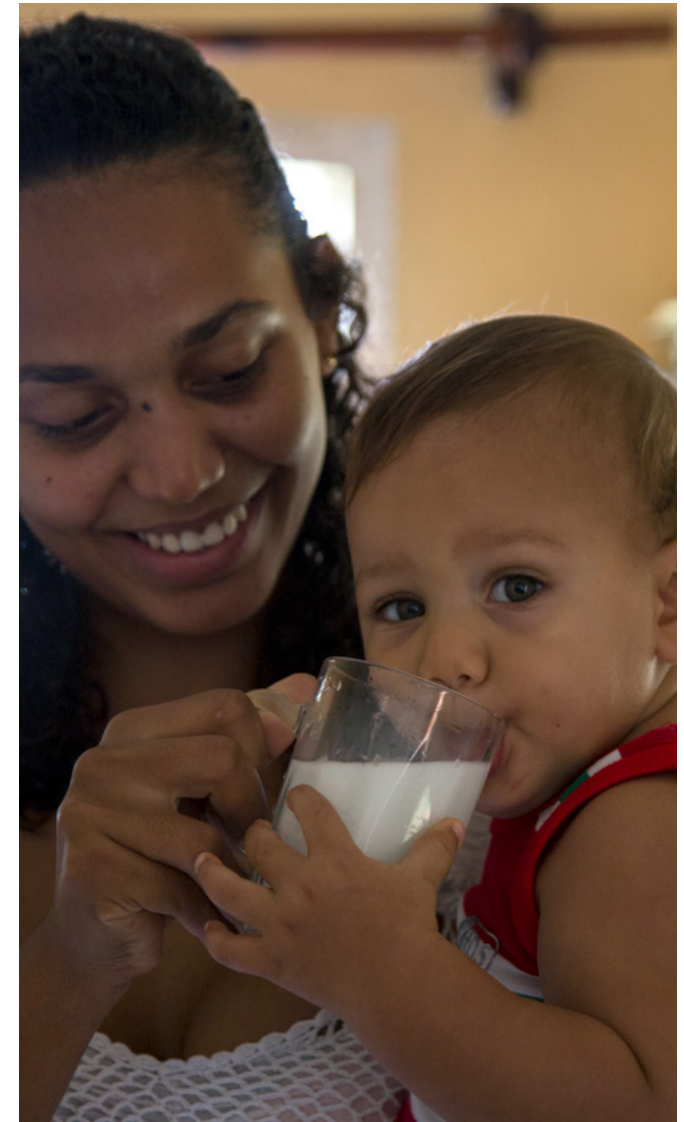


Right not to be subjected to slavery, servitude or forced labour (incl. child labour, mobility)

Modern slavery remains a challenge in our supply chains. We focus on strengthening our processes to mitigate this risk. In the Middle East, we ensure that our many migrant workers retain their passports and identity documents, unless they require otherwise, and sign a letter of consent. We are, however, aware of potential risks in regard within in the region and will continue to explore this going forward in dialogue with our business partners.

In Europe, we continue to implement the new Arlagården® programme on farms, which includes checkpoints on human rights. For Arla sites in the UK, a single temporary labour provider has been appointed. We have verified the practices of the agency and have robust processes in place for audit and assessment.

We further engage with reputable hauliers and warehouses for the transportation and storage of our products, and we train our colleagues in correct purchasing behaviour to ensure compliance with policies and processes. See the Arla modern slavery statement for more details [↗](#)



COLLEAGUES IN FOCUS

The best results are achieved by providing a safe and engaging workplace. In Arla, we maintain a close dialogue with colleagues, support personal development and encourage community involvement.

Colleague engagement survey

Distributed in 15 languages, Barometer, 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, which means more than 16,800 colleagues took the time to complete the survey. The 26,000 individual comments set a new record, providing a rich dataset for identifying areas in need of improvement.

Based on this feedback, our EMT will focus on two areas in particular in the year ahead. One is unacceptable behaviour, which will remain a top priority for the second year running. Although pockets of action have brought local improvements, the survey shows we still have the opportunity to improve this issue across the business.

The second priority area is work-life balance. Following another year of living with the pandemic, the survey has confirmed, not unexpectedly, that some colleagues are finding it difficult to balance work with home life. We must make a proactive effort to overcome this issue.

Learning management system

Colleague development is essential to maintaining a high level of motivation and engagement and enabling the continued growth of our business. Starting with the UK, we have begun the rollout of a learning management system (LMS) that captures the competences, training and certificates of each colleague. The LMS is an effective tool, ensuring individuals have completed obligatory training programmes and facilitating good development conversations with team leaders. In this way, training can be planned and prioritised.

COVID-19 has accelerated the trend towards more online training, including the introduction of digital training technologies such

as hololens and virtual reality. At our production sites, these technologies enable fast and easy upskilling. Our experience so far is that online training is just as effective as face-to-face, with a reduction in travel being an added benefit.

In 2021, all formal global learning activities were conducted online, totalling 1,804 enrolments in leadership and people management development and 10,629 enrolments in personal development. Moving forward, the ambition is to deliver 80 per cent of these activities virtually and 20 per cent as a mix of face-to-face and online training.

Collaboration with unions and works councils

Our works councils are strong forums for internal dialogue at all levels on key matters related to colleague wellbeing and safety and to securing the necessary conditions for the company's ongoing development. 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 2021, sustainability and digitalisation were major points on the agenda of the two annual EWC meetings. The task of onboarding employees to these major transformations was particularly in focus.

To strengthen our global business practices, Arla maintains a dialogue with the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations International (IUF). During 2021, talks have covered specific third-party suppliers, including their ethical standards and human rights record.

F15 GRADUATE PROGRAMME



Fostering diversity and inclusion is paramount in the Arla F15® Graduate Programme, where we prepare young professionals to be effective global leaders. In 2021, we selected 10 graduates from six countries, with a fair split between genders. The graduates come from a wide range of educational backgrounds.

Our fast-track leadership programme comprises three eight-month rotations in different business areas and locations. Here, graduates work on high-profile projects that boost their professional and personal development.

APPRENTICESHIP PROGRAMMES



We have a long history of employing apprentices and supporting their education. Most of our apprenticeships are within dairy technology and dairy engineering. In a new initiative this year, however, we started an apprenticeship for drivers in the UK. This will serve to ensure our own skilled workforce and, at the same time, mitigate the current driver shortage in the UK by offering a good career path.



COLLEAGUES IN FOCUS

Security at work

Protecting our people is a big responsibility. In 2021, our global security team revised our global security policy, published a security handbook and guidelines and established a network for global security coordinators. The initiatives are all part of developing a strong security mindset throughout Arla.

In collaboration with our partner International SOS, we have launched an internal communication campaign about our Security Framework concept. The objective is to protect the health and wellbeing of Arla colleagues and mitigate risks when operating across borders and managing supply and distribution chains.

The global security team has also contributed to our COVID-19 crisis operating plan and policy since February 2020.

Towards Zero Loss – safety vision

We have made significant strides towards our 'Zero Loss' safety vision in 2021, with improvements in all reactive and proactive safety metrics. This has contributed to a 20 per cent decline in the frequency of workplace accidents per million working hours, since 2020.

The rollout of the Arla Cornerstones behavioural safety programme is a core element in our efforts to maximise health and safety in the workplace. Over the past two years, it has also provided a strong framework for solving several operational challenges related to COVID-19.

At sites where the programme is now running, the high level of colleague engagement is driving continuous improvements in safe behaviour. A new Visual Felt Leadership concept introduced during the year will accelerate this progress by creating even stronger safety leadership networks across our supply chain. The objective is to embed a sustainable safety culture across all sites.

In 2021, it was the turn of our sites in Bahrain and Saudi Arabia to start their Cornerstones journey. More international sites will be onboarded in 2022.



Building a bridge to farmers

We are always working to bring Arla colleagues closer to our farmer owners. To help build that bridge, this year we established a corporate volunteering project in connection with Open Farm Day. We also support projects such as learning weeks, where we invite colleagues to find out about our core farm programmes, including Arlagården® and Climate Check.

To showcase the daily life of farmers and key pilot projects, we have run a series of virtual events. UK farmers from our regenerative farming pilot network hosted a virtual farm visit during our sustainability month in September. Commercial colleagues have further taken part in multiple farm visits to strengthen partnerships for creating the highest possible value from our milk. These activities highlight what it means to be a farmer-owned cooperative and the work that our farmer owners do.

COMMUNITY INVOLVEMENT



Arla colleagues in Denmark rolled up their sleeves and volunteered for a series of food waste initiatives. In Copenhagen, the volunteers joined the non-profit organisation Madboks in collecting leftover food from supermarkets and bakeries and packing it into boxes for distribution to subscribers. Meanwhile, colleagues in Aarhus helped at We-Food, a supermarket based on surplus food donations, and the local food bank.

The initiatives were part of a pilot project on employee engagement in non-profit organisations that share our sustainability ambitions.



Company performance

Sustainable dairy farming

Energy & climate

Responsible sourcing

Food safety

Supporting communities

– Nutrition and affordability

– International dairy development

Caring for people

– Health and safety

– Decent work

Legal and food regulatory compliance

Anti-corruption & bribery

Consolidated environmental, social and governance data

UN Global Compact

Materiality analysis

ESG accounting principles

AMBITIONS & PROGRESS DATA

COMPANY PERFORMANCE

RESULTS 2021

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

Arla's revenue in 2021 amounted to EUR 11.2 billion, compared to EUR 10.6 billion in the previous year. The profit for the year was EUR 332 million, compared to EUR 352 million in 2020.

CALCIUM CONCLUDED SUCCESSFULLY

In 2018 we launched our 4-years savings and efficiency programme, Calcium. The purpose of the programme is to transform the way we work, reduce bureaucracy, cut unnecessary costs, reinvest more in selected strategic initiatives, and save EUR 400 million during the period.

Calcium created operational efficiencies across the organisation and delivered savings (excluding inflation) of EUR 634 million. In the past two years we managed to deliver efficiencies in the same pace as during the first half of the programme, even though Covid-19 posed serious challenges to our supply chain and the continuity of our operations. In 2021, savings primarily came from optimised supply chain operations, in-sourcing of marketing activities and optimised trade investments.

With our new strategy, Future26, we also launched the next phase of our efficiency programme, called Fund our Future.

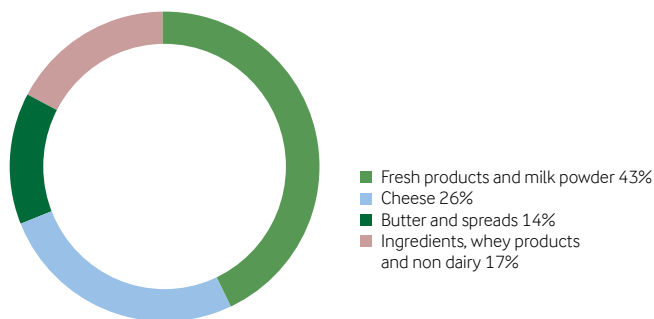
MILK PRICE

In 2021, which was a volatile year defined by COVID-19, fast economic rebound, and inflationary pressure across value chains, the Arla performance price increased to 39.7 EUR-cent/kg, compared to 36.5 EUR-cent/kg in 2020, driven primarily by the raising commodity prices.

CHANGING CONSUMER BEHAVIOUR DRIVEN BY COVID-19

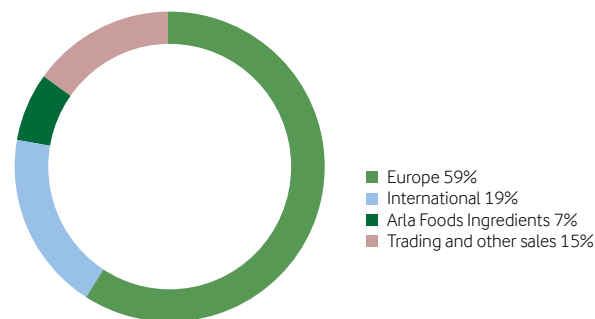
During 2021, customer and consumer behaviours were still significantly influenced by COVID-19, although to a lesser extent than last year. Along with the easing of COVID-19 restrictions, consumer trends normalized, which meant less in-home cooking and less stocking of groceries at home. This was accompanied by the slow revival of the foodservice sector as restaurants, cafes and canteens opened again, overall leading to re-balancing of demand between retail and foodservice. Online grocery shopping was largely accelerated by COVID-19 in the past two years, with the growth somewhat flattening in 2021 compared to 2020. At the peak, 15 per cent of all grocery sales were online in certain European markets.

Revenue by product group



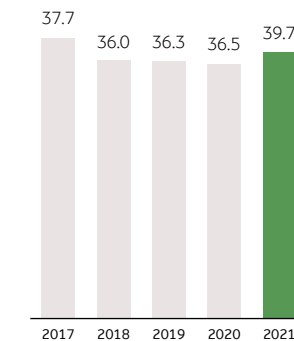
The revenue by product group was similar to 2020.

Revenue split by commercial segment



Arla's total revenue has increased by 5.6 per cent since 2020. For further information, see Arla's annual report.

Performance price (EURc/kg)



The left graph shows the performance price (EURc/kg). The right graph shows the average pre-paid milk price, which was 37.0 EUR-cent/kg, unchanged compared to last year.

Pre-paid milk price (EURc/kg)



SUSTAINABLE DAIRY FARMING



Policy/ambition

Arla's sustainability strategy, launched in 2019, is targeting sustainable dairy farming as one of the most important areas to address in our value chain. The ambition is to minimise negative and maximise positive impacts by targeted actions at farm level.



Targets

In 2021, Arla Science Based Targets towards 2030 were approved, aiming to reduce greenhouse gas emissions per kg of standardised milk and whey at farm level by 30%, with 2015 as the baseline year. The long-term ambition is to reach carbon net-zero by 2050 through focus on emission reductions, carbon sequestration and other activities reducing global warming.

Also, Arla promotes sustainable dairy farming at farmer workshops for sharing of best practice and expertise.

Further, we have the goal to build a more diverse, robust and accessible local agricultural landscape to increase biodiversity and access to nature. The new environmental strategy targets clean air and water, with the goal to protect regional water sources

and reduce emissions across the whole value chain, with a particular goal on nitrogen and phosphorus cycles in balance.

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



Progress

Scope 3 emissions per kg standardised milk and whey amounted to 1.21 kg CO₂e in 2021, unchanged compared to last year. They were reduced by 7% since 2015 due to activities on Arla farms. In 2021, emissions specifically from Arla's farmer owners amounted to 1.15 kilo CO₂e per kilo of standardised milk, on par with last year.

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

Greenhouse gas emissions

Progress towards 2030 CO₂e reduction target (scope 3 per kg standardised milk and whey)

	2021	2020	2019	2018	2017
	-7%	-7%	-7%	-7%	-6%

Climate Checks

In 2021, 93% of Arla's active farmer owners, covering over 98% 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.

Animal welfare

(Somatic Cell Count <200 000)

Udder health, share of farms reaching top level

	2021	2020	2019	2018	2017
	57%	57%	55%	53%	56%

Our share of owner farms reaching top-level, when it comes to udder health, is at par with last year's performance. We support those who are not reaching top levels with advisory services and we incentivise low SCC through the milk payment. Continued focus on udder health is needed to improve overall performance further.

Detailed information on animal welfare indicators can be found in the ESG table on page 58 [L](#)

In the Arlagården® programme it is mandatory to measure and assess animal welfare on a quarterly basis, using multiple indicators such as cow mobility, cleanliness, lesions and body condition. Data is uploaded using Arlagården® digital tool.

Arlagården® audits

All Arla farms are audited according to our quality assurance programme Arlagården® a minimum of once in every three-year period. In 2021, 37% of farmer owners were audited (2020:23%, 2019:36%).



Impact

On society

We have identified raw material production, especially milk, as our most significant environmental impact on society, involving greenhouse gas emissions, land use, biodiversity impacts and contamination of air and water.

On Arla

Climate change, water stress and malfunctioning ecosystems are threats to our supply chain, mainly to our farmer owners and other farmers providing our agricultural raw materials. Rising costs and/or declining availability are business risks going forward. Not addressing environmental and climate challenges pose reputational risks as well.

On Sustainable Development Goals And Targets

		
2.3, 2.4	13.1	15.1

For in-depth info please click on icons

ENERGY & CLIMATE



Policy/ambition

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



Targets

Arla set Science Based Targets for 2030, using 2015 as a baseline. Direct greenhouse gas emissions (scope 1) and emissions related to purchased energy (scope 2) should be reduced by 63% in absolute terms. For indirect emissions from sourcing of raw milk, ingredients, packaging materials, transportation (scope 3) the target is to reduce the carbon footprint at farm level by 30% per kg standardised milk and whey, being the most important raw materials.

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

For packaging for Arla's branded products, we work towards having 100% recyclable packaging by 2025. Packaging used for Arla's branded products can be collected, processed and returned to use in the form of raw materials or products,

not necessarily into food packaging (based on ISO Standard 14021).

We also work towards 0% fossil based virgin plastic used in our packaging by 2030. By virgin plastic we mean any plastic content used in our packaging which is material derived from fossil resources, such as crude oil or natural gas.



Progress

Water consumption

In 2021, water consumption in Arla increased by 1% compared to last year mainly driven by expanded production at international sites. Water efficiency has not improved, indicating need for more focus going forward.

Water consumption (Thousand M3)	2021	2020	2019	2018	2017
Water purchased externally	11,057	10,918	10,589	10,484	10,862
Water from internal boreholes	7,803	7,745	7,470	7,600	7,808
Total	18,860	18,663	18,059	18,084	18,670

Waste

In 2021, solid waste increased to 33,500 tonnes compared to 32,975 tonnes last year mainly driven by expanded production capacity in Bahrain. The share of recycled waste is similar to 2020, but the share of waste to landfill has increased from 3.6% to 5.7%. Continued focus on increased recycling is needed.

Solid waste (Tonnes)	2021	2020	2019	2018	2017
Recycled waste	21,640	21,402	21,651	20,233	19,699
Waste for incineration with energy recovery	8,679	8,991	10,011	12,546	11,088
Waste for landfill	1,921	1,204	988	933	897
Hazardous waste	1,260	1,378	1,063	888	924
Total	33,500	32,975	33,713	34,600	32,608

Food waste

	2021	2020	2019	2018	2015
Proportion of purchased materials, %	2.4%	2.8%*	1.9%	2.2%	2.6%

In 2021, we wasted approximately 31,000 tonnes less edible raw materials compared to 2015. It is important to continue the focus on moving volumes from food waste destinations such as anaerobic digestion to better use as food or feed.

Sent to anaerobic digestion/biogas production, tonnes	374,043
Animal feed and reprocessing, tonnes	1,008,706
Donations to charity, tonnes	1,347

**Errors in the 2020 reporting of food waste have now been corrected, increasing food waste proportion of purchased materials from 2.0 to 2.8%. Additionally, for 2020 we did not capture all materials sent to animal feed and reprocessing and anaerobic digestion/biogas production, amounting to 902 and 352 thousand tonnes, respectively.*

Packaging – Recyclability

At the end of 2021, 90% of our packaging material (as defined above) was recyclable by weight compared to our 2020 baseline of 85%, indicating that we are on track towards our 2025 ambition.

Packaging – Virgin fossil-based plastic

At the end of 2021, 84% of our packaging material (as defined above) was virgin fossil plastic, compared to our 2020 baseline of 85%, indicating that we still have to strengthen efforts towards our 2030 ambition.

ENERGY & CLIMATE



Progress

Greenhouse gas emissions (million kg)	2021	2020	2019	2018	2017
CO₂e scope 1					
Operations	368	381	366	400	408
Transport	79	93	97	90	84
CO₂e scope 1	447	474	463	490	492
CO₂e scope 2					
CO₂e scope 2 – market-based*	286	277	399	456	438
CO₂e scope 3**					
<i>Purchased goods and services:</i>					
Milk	16,386	16,645	16,524	16,548	16,809
Whey	1,751	1,133	1,032	1,162	1,002
Packaging	417	396	384	383	384
Purchased goods and services	18,554	18,174	17,940	18,093	18,195
Fuel and energy related activities	125	120	110	108	105
Upstream transportation and distribution	348	306	312	326	345
Waste generated in operations	24	25	25	26	26
CO₂e scope 3	19,050	18,625	18,387	18,553	18,671
Total CO₂e	19,783	19,376	19,249	19,499	19,601
<i>CO₂e Scope 2 – location-based</i>	<i>243</i>	<i>237</i>	<i>274</i>	<i>263</i>	<i>313</i>
<i>Total CO₂e – location-based</i>	<i>19,741</i>	<i>19,336</i>	<i>19,124</i>	<i>19,306</i>	<i>19,476</i>

* In 2020, Arla switched to market-based accounting and the 2020 figures are based on the new method. The renewable energy share based on national averages (location-based method) was 35% in 2020 and is shown on a separate line.

** Only the material Scope 3 emissions are included in the table. Please read the ESG-report for details on the different emissions' categories.

Greenhouse gas emissions

Since 2015, scope 1 and scope 2 CO₂e emissions decreased by 25% well in progress to reach our scope 1 and 2 science-based reduction target of 63% by 2030. In 2021, total CO₂e emissions increased to 19,859 million kilos compared to 19,376 million kilos last year. The development is explained by an increase in externally purchased whey in Arla Foods Ingredients and increased emissions related to expanding production capacity at our production site in Bahrain. These factors were partly offset by increased purchase of biogas certificates. Continued focus on reducing total emissions is key to achieve our Science Based Targets.

Energy consumption and share of renewable energy

The total energy use has increased, indicating that continued focus on optimisation is needed. Share of renewable energy has increased by 2% in 2021 to 33%, using market-based accounting. The ratio was positively impacted by the purchase of additional green electricity and biogas in Denmark.

Energy purchased for production (Thousand MWh)	2021	2020	2019	2018	2017
<i>Non renewable sources:</i>					
Natural gas, fuel oil and gas oil	1,773	1,816	-	-	-
Electricity	634	626	-	-	-
District heating	19	5	-	-	-
Non renewable sources	2,426	2,447			
<i>Renewable sources:</i>					
Biogas and biomass	563	559	-	-	-
District heating	210	119	-	-	-
Electricity	421	432	-	-	-
Renewable sources	1,194	1,110			
Total energy purchased for production	3,620	3,557	-	-	-
Renewable energy share, market-based*	33%	31%	-	-	-
<i>Renewable energy share, location-based</i>	<i>32%</i>	<i>35%</i>	<i>33%</i>	<i>27%</i>	<i>24%</i>



Impact

On society

The use of energy, water and packaging materials in processing risk contributing to climate change, depletion of non-renewable resources and air- and water pollution. Waste related to our business, both at dairy sites and at consumer level, cause multiple environmental impacts.

On Arla

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

On Sustainable Development Goals And Targets

6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION
6.3, 6.4	7.2, 7.3	12.2, 12.3, 12.5	13.1

For in-depth info please click on icons

RESPONSIBLE SOURCING



Policy/ambition

Our ambition is for our preferred suppliers to follow our code of conduct for suppliers, which governs environmental, social and human rights aspects. Furthermore, to support a more sustainable production of raw materials with particular challenges, we have sourcing policies for soy, palm oil, cocoa and forest fibre.



Targets

All preferred suppliers to sign our code of conduct for suppliers.

100% responsible sourcing of palm oil, soy, cocoa and forest fibre, defined as certified products according to internationally recognised third party certification systems. Palm oil ingredients must be certified according to the standard of Round Table of Sustainable Palm Oil (RSPO), segregated certified.

Soy in animal feed must be certified according to the standards organic, ProTerra or Round Table for Responsible Soy (RTRS) or covered with RTRS credits. Cocoa must be UTZ/Rainforest Alliance for Arla® branded products and Cocio®. Forest fibre used on our European markets must be FSC or PEFC certified.



Progress

Responsible Sourcing

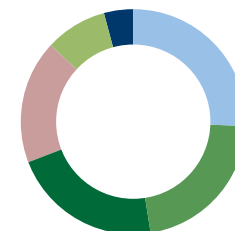
Preferred suppliers	1,781
Preferred suppliers have signed our code of conduct for suppliers	95%
Supplier audits with a focus on CSR and food safety have been performed. This is a 13% increase compared to 2020, due to an increased number of tenders and new suppliers.	85
Share of certified soy	100%
Share of certified palm oil*	86%
Share of certified cocoa	100%
Share of certified forest fibre in Europe	98%
External spend managed by the procurement department	83%

* the share of certified mass-balance was 13% and 1% was covered by RSPO-credits. There is a slight increase in the use of mass-balance, due to an increasing production in markets with lack of availability for segregated certified products.

External spend

The diagram shows the external spend handled by Arla's procurement department, divided across product and service categories. Our 10 largest suppliers account for 16% (16% in 2020) of our total external spend.

In 2021, the following companies were our five largest suppliers in order of size of spend: Elopak (packaging materials and machinery), SEAS-NVE (energy), Berry Superfos (packaging materials), SIG Combibloc (packaging materials and machinery), and Tetra Pak (packaging materials and machinery).



■ Packaging 26%
■ Ingredients 22%
■ Logistics 22%
■ Business services 18%
■ Energy 9%
■ Maintenance, repair, operations 4%



Impact

On society

Sourcing of both goods and services is identified as having important environmental, socio-economic and human rights' impacts on societies. We acknowledge our opportunity to influence suppliers, and thereby also societies, through our demands on sustainable and responsible business practices.

On Arla

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

On Sustainable Development Goals And Targets



For in-depth info please click on icons

FOOD SAFETY



Policy/ambition

We are committed to never compromise the safety, quality or compliance of food and feed. This commitment requires everybody to understand their responsibility and importance in delivering safe and good products to our customers and consumers.



Targets

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



Progress

Product Recalls

	2021	2020	2019	2018	2017	2016
Recalls	0	1	4	2	10	7

In 2021 we succeeded with zero public recalls of our products.

We have improved this trend over the years and work with a strict processes on other type of incidents as well to identify clear root causes and to prevent re-occurrences. These ways of working is part of our positive Quality and Food Safety Culture, which we continue to develop.

Decisions on whether to recall a product from the market will always be taken based on consumer safety.

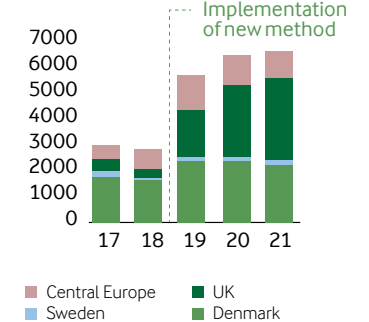
Sourcing raw milk quality

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

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

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

Discarded milk, tonnes



Impact On society

Unsafe foods pose serious risks to consumers' health. Food safety is therefore important for the general health, daily life, economic development, and social stability in a society. Arla's role is to ensure that our products are safe for consumers to eat and drink, and that the content of the product is clearly labelled on the packaging.

On Arla

Food safety incidents can pose a serious business risk. Incidents can impact customer and consumer trust negatively and may also involve legal risks and severely damage Arla's reputation. Food safety problems can also lead to reduced production efficiency, increasing food waste along the value chain.

On Sustainable Development Goals And Targets



2.1

SUPPORTING COMMUNITIES – NUTRITION AND AFFORDABILITY



Policy/ambition

Access to adequate, affordable and healthy food is a basic human right, and we want to provide high quality products that match consumers' nutritional needs around the world. Our Arla® Nutrition Criteria are the guiding principles that support the development of healthier Arla products.

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



Targets

Nutrition: Our target is to increase the volume of products fulfilling our Nutrition Criteria, our target is to increase by 60,000 tons in 2026 compared to 2019.

Affordability: By 2026 reach 94 million low income consumers in Nigeria and Bangladesh (defined as segment D and below, based on national SEC segmentation). In addition we plan to introduce a new affordable dairy product in Nigeria, which we expect will further increase access to affordable and nutritious food for low income consumers.



Progress

During 2021, we increased the volume of products that meet our Nutrition Criteria by 40,000 tonnes compared to 2019, delivering above expectation.

Affordability: 84 million low income consumers in Nigeria and Bangladesh was reached, based on data from Kantar Worldpanel. This is by far meeting all expectations, and is mainly due to extra-ordinary sales and distribution in Bangladesh.



Impact

On society

One of the most important factors for a healthy life is our diet. Physical as well as cognitive health through all stages in life depend on quality nutrition. By offering a wide range of nutritious products for different needs and at different cost-levels, Arla contributes to healthy eating patterns as well as addressing different aspects of malnutrition.

On Arla

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

On Sustainable Development Goals And Targets



2.1



3.4



SUPPORTING COMMUNITIES – INTERNATIONAL DAIRY DEVELOPMENT



Policy/ambition

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



Targets

By the end of 2022, Arla's international dairy development programmes have enrolled 2150 farms. Enrollment is defined as the number of farms (farm households) who have signed an agreement to participate to a program where Arla is a business partner.

A farm household varies in size of people, but for this KPI, we count 1 household as 1 farm.

By the end of 2022, Arla's international dairy development programmes have impacted 8000 participants in trainings. Training is defined as trainings organised by Arla or the partners, and participants include all people impacted/reached. Including individuals from farm households and any other stakeholders.



Progress

Sustainable dairy development programmes in 2021:

1,853 farms were enrolled mostly from in Nigeria and Indonesia.
Up to 7000 farmers participated in training.



Impact

On society

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

On Arla

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

On Sustainable Development Goals And Targets



CARING FOR PEOPLE – HEALTH AND SAFETY



Policy/ambition

Our overall ambition is to provide all colleagues with safe and healthy working conditions. We are committed to preventing accidents, injuries and work-related illnesses. We apply a systematic approach to setting targets, tracking progress and work in close dialogue with colleagues to mitigate problems and reduce risks.



Targets

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

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



Progress

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

Our reporting include head offices in Denmark, Sweden, UK and Germany, and operation and logistics globally.

Accidents

(per 1 million working hours)

Accident frequency

2021	2020	2019	2018	2017
4	5	6	8	9



Impact

On society

We have a complex and long value chain and offer a large variety of jobs across geographies and societies. One part of our license to operate is our ability to ensure safe and healthy working conditions.

On Arla

Not safeguarding the health and safety of our colleagues poses a business risk to Arla in terms of loss of efficiency, profitability and the opportunity to attract competent colleagues. Further, the ultimate risk related to safety is serious injuries and fatalities, which pose business risks such as legal action, reputational damage and loss of license to operate.

On Sustainable Development Goals And Targets



8.8

CARING FOR PEOPLE – DECENT WORK

This section covers gender diversity in management in accordance with section 99b of the Danish Financial Statements Act.



Policy/ambition

Diversity is key to the success of the business. Arla's policies do not differentiate between genders when it comes to promotion opportunities or remuneration. We want to ensure a workplace with a diverse workforce, characterised by mutual respect and trust, promoting equal opportunities allowing colleagues to live up to their full potential.

Our policies on Human Rights, Diversity, Harassment and Parental leave govern how related issues are handled in a structured manner. Further, our Works Councils, at both a local and global level, help secure workplace decisions are made in the best interests of both colleagues and company.



Targets

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

In 2021, Arla set a 4-year target to achieve a female representation on the Board of Directors of at least 20%.



Progress

Gender diversity in management

	2021	2020	2019	2018	2017
Share of female at director level or above	27%	26%	26%	23%	22%

Gender diversity in Executive Management Team

	2021	2020	2019	2018	2017
Share of female in executive management team (EMT)	14%	14%	29%	29%	29%

Gender diversity on Board of Directors

	2021	2020	2019	2018	2017
Share of females on Board of Directors	13%	13%	13%	13%	12%

Gender diversity for all employees

	2021	2020	2019	2018	2017
Total share of female	27%	27%	27%	27%	26%

In 2021, Arla set a new 4-year target to achieve a female representation on the Board of Directors of at least 20%. The Board of Directors is elected by the Board of Representatives every second year in an open democratic process. The election in 2021 was postponed to 2022 due to Covid-19, thus the share remains as in 2020.

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

There are significantly fewer women than men among our top managers. Only 18% of vice presidents and senior vice presidents are female, which is far from the 27% among all colleagues. The share of female representation on the Board of Directors has not yet changed towards the new target. For further information about diversity at Board level, see Arla's ESG report note 3.1. In general women are underrepresented in the blue collar workforce of Arla, and to a lesser extent in the white collar workforce as well.



Impact On society

We recognise our responsibility to respect basic human rights in the workplace and across markets, to contribute to sustainable societal development. We want to ensure that both current and future colleagues are treated in a fair non-discriminatory manner, which will in turn support prosperous societies.

On Arla

We respect basic human rights in the workplace by ensuring an open inclusive dialogue, taking the perspectives and innovative approaches of people with diverse backgrounds into account. This approach mitigates significant business risks to Arla, as well as the risk of legal actions and reputational damage.

On Sustainable Development Goals And Targets

		
5.1, 5.5	8.5, 8.7	17.8

For in-depth info please click on icons

LEGAL AND FOOD REGULATORY COMPLIANCE



Policy/ambition

Arla is committed to complying with applicable legislation and regulation in all the countries in which we operate. We develop our policies to capture relevant legislation and provide training for employees in policies and processes relevant for their job function, and we track and act upon non-compliance.



Targets

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



Progress

Competition law

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

Data Privacy

Number of incidents of non-compliance with regulations resulting in fines	0
Number of incidents of non-compliance with regulations resulting in non-monetary sanctions	0

Competition law training

Number of colleagues trained face-to-face and virtually	782
---	-----

Substantiated complaints concerning breaches of customer privacy	0
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Number of incidents of non-compliance with regulations and/or voluntary codes resulting in fines

Incidents regarding product information and labelling	1
Decisions regarding marketing	0

Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area	0
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Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the environmental area	0
--	---



Impact

On society

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

On Arla

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

ANTI-CORRUPTION & BRIBERY



Policy/ambition

Conducting our business in an honest and ethical manner is key to maintaining our license to operate, our reputation and responsible growth. Arla's Anti-bribery policy sets out our zero-tolerance approach to bribery and corruption and our commitment to upholding all relevant laws in all jurisdictions in which we operate.

Similarly, Arla has a zero tolerance of fraud, and we want to enhance Arla's internal controls. Gifts and hospitality to and from third parties are controlled by rules and must be registered.



Targets

Our overall target is to ensure zero corruption, bribery and facilitation payments.

We conduct yearly self-assessments across our non-European entities and compliance reviews in selected entities each year.

Our target for 2022 is to continue yearly self-assessments and conduct compliance reviews in 7 entities. Our compliance reviews ambition is to reach all non-European entities within a 5 year cycle.



Progress

Strengthened processes

We continuously strengthen our internal controls and monitoring activities, to ensure compliance with our Code of Conduct and policies and the adequateness of the controls we have in place.

We conduct self-assessments, with questions not only covering fraud, bribery etc., but also questions on for example awareness about Code of Conduct, grievance mechanism and contracts and wages are included.

Since 2020 we have conducted self-assessments in our non-European markets, and shared results with our external auditors. In 2021, we also conducted compliance reviews in 6 entities. Each review is concluded with a report of findings and recommendations. We follow up on the progress, and use this insight for further planning of our internal compliance work.

Payments fulfill the 4-eye principle, meaning the approval of two people. We continuously work to strengthen this process.

Reporting through Whistleblowing function

Openness and trust are among our core values and incorporated into our Code of Conduct. If employees believe that the Code of Conduct has been violated, we encourage them to report these violations. Concerns can be raised by reporting to relevant management, HR or other relevant function.

We also offer anonymous reporting for employees and as of 2021 also for other stakeholders, through our improved grievance mechanism, EthicsLine, applying strict principles of confidentiality and non-retaliation.

Since its inception in 2012, Arla has received 146 reports from its whistleblowing function. In 2021, EthicsLine received 16 reports, all were further investigated.

Depending on the outcome of the investigation, appropriate measures have been taken.



Impact

On society

Bribery and corruption present risks to societies by undermining trust in public institutions and the mishandling of resources. Where funds and priorities are diverted to activities that will benefit corrupt individuals, fair competition is undermined. With our global presence, and long and diverse value chain, we impact societies across the world, and have an opportunity to

contribute to positive societal development by honest and ethical business conduct.

On Arla

Any kind of involvement in bribery or corruption would present risks of heavy legal fines and loss of business opportunities. A finding of involvement in bribery would be damaging to our reputation and impacts the business environment.

On Sustainable Development Goals And Targets



16.5

CONCOLIDATED ENVIRONMENTAL, SOCIAL AND GOVERNANCE DATA

Sustainability at Arla

At Arla we have been working with sustainability for many years. We aim to deliver healthy and nutritious dairy products to consumers globally while also striving to fulfil our commitments to constantly reduce our environmental impact.

In 2021, we raised our climate ambition and at the end of the year, the Science Based Targets Initiative (SBTi) approved our ambition to be consistent with the reductions required to keep global warming at 1.5°C, the most ambitious goal of the Paris Agreement. This translates into doubling our reduction target for scope 1 and 2 emissions by 2030. Beyond the Science Based Targets, Arla also has an ambition to become carbon net zero by 2050.

Being science-based and data driven is fundamental to our approach and we are proud to be the first large dairy company to receive reasonable assurance on our complete ESG data, including scope 3 emissions, in 2021.

Our ESG figures were selected based to their materiality, and following the most recent reporting guidelines published by the Danish Finance Society/CFA Society Denmark, FSR – Danish Auditors, and Nasdaq. We are working to include more of the KPIs recommended by the these professional bodies when maturity and improved data quality allow. As an example, and even though it is a material issue, Arla is not reporting on total water consumption, mainly due to lack of data on the water use at farm level.

Please see Arla's ESG report for further information on our figures, and the auditor's reasonable assurance report [L](#)²

* Including all board members, those elected by the general assembly, employee representatives and external advisors, the share of females was 20 per cent as of 31 December 2021.

Five-year ESG overview

Environmental data

CO₂e emissions

CO₂e reduction scope 1 and 2 (baseline: 2015)

CO₂e reduction scope 3 per kg milk and whey (baseline: 2015)

CO₂e scope 1 (million kg)

CO₂e Scope 2 – market-based (million kg)

CO₂e scope 3 (million kg)

Total CO₂e (million kg)

CO₂e scope 2 – location-based (million kg)

Total CO₂e – location-based (million kg)

CO₂e scope 3 per kg of standardised milk and whey (kg)

CO₂e reduction (scope 1 and 2) location-based

Energy mix

Renewable energy share (%) market-based

Renewable energy share (%) location-based

Waste and water

Solid waste (tonnes)

Water consumption (thousand m³)

Animal welfare

Somatic cell count (thousand cells/ml)

Share of audited farmers with no major cleanliness issues

Share of audited farmers with no major mobility issues

Share of audited farmers with no major issues with injuries

Share of audited farmers with no major issues related to body condition

Social data

Full-time equivalents (average)

Total share of females (%)

Share of females at director level or above (%)

Share of females in Executive Management Team (%)

Gender pay ratio, white-collar (male to female)

Employee turnover (%)

Food safety - number of recalls

Accident frequency (Per 1 million. working hours)

Governance data

Share of females, Board of Directors (%)*

Board meeting attendance (%)

ESG note	2021	2020	2019	2018	2017	
	-25%	-24%	-12%	-4%	-5%	
	-7%	-7%	-7%	-7%	-6%	
	447	474	463	490	492	
	286	277	399	456	438	
	19,050	18,625	18,387	18,553	18,671	
1.1	19,783	19,376	19,249	19,499	19,601	
	243	237	274	263	313	
	19,740	19,336	19,124	19,306	19,476	
	1.20	1.21	1.21	1.20	1.22	
	-20%	-16%	-14%	-12%	-6%	
	33%	31%				
	32%	35%	33%	27%	24%	
	1.3	33,500	32,975	33,713	34,600	32,608
	1.4	18,860	18,663	18,059	18,084	18,670
1.5	191	194	196	198	194	
1.5	98.4%					
1.5	99.5%					
1.5	100%					
1.5	99.8%					
	2.1	20,617	20,020	19,174	19,190	18,973
	2.2	27%	27%	27%	27%	26%
	2.2	27%	26%	26%	23%	22%
	2.2	14%	14%	29%	29%	29%
	2.3	1.03	1.05	1.05	1.06	-
	2.4	13%	10%	12%	12%	11%
	2.5	0	1	4	2	10
	2.6	4.3	5.2	6.0	7.9	9.3
3.1	13%	13%	13%	13%	12%	
3.2	98%	99%	96%	99%	99%	



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



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

MATERIALITY ANALYSIS

During 2021, we completed our materiality analysis, which is now based on the concept of double materiality. This means that we are exploring the impact Arla has on stakeholders in relation to social, environmental or economic issues, as well as the impact of these issues on Arla's business.

Our materiality analysis helps us understand what is most important to our internal and external stakeholders, and we use the analysis to inform our strategic thinking, assess our activities and improve the focus of our reporting and communication. Furthermore, the study serves as a basis when relating to the Global Reporting Initiative (GRI) guidelines.

Each topic in the materiality matrix represents a wider agenda and underlying issues, which are identified from relevant ESG/sustainability frameworks, and qualified through insights from Arla's strategy process including global sustainability trends, mapping of customer and peer sustainability strategies, and insights on consumer preferences, expectations and behaviour. This extensive input was evaluated by the sustainability team and with internal key stakeholders with specific sustainability competences along the Arla value chain, as well as with colleagues responsible for e.g. branding and consumer insights. Based on this, a draft matrix was sent out to a wider group of selected external and internal stakeholders for further comments and dialogue to get a validated matrix. The external stakeholders include, top 20 customers, elected farmer owners, NGOs and financial institutions in Denmark, Sweden, the UK and Central Europe, and internal key competences.

The stakeholders were asked to reflect on whether the matrix is complete in terms of topics, and if the topics are placed correctly relative to each other. It further included a question on the completeness of the matrix, and an opportunity for the stakeholders to propose new material topics. Lastly, we asked them to consider the topics they see as most material for Arla's value creation.

After gathering the reflections from our stakeholders, the matrix was adjusted to ensure the most representative result.

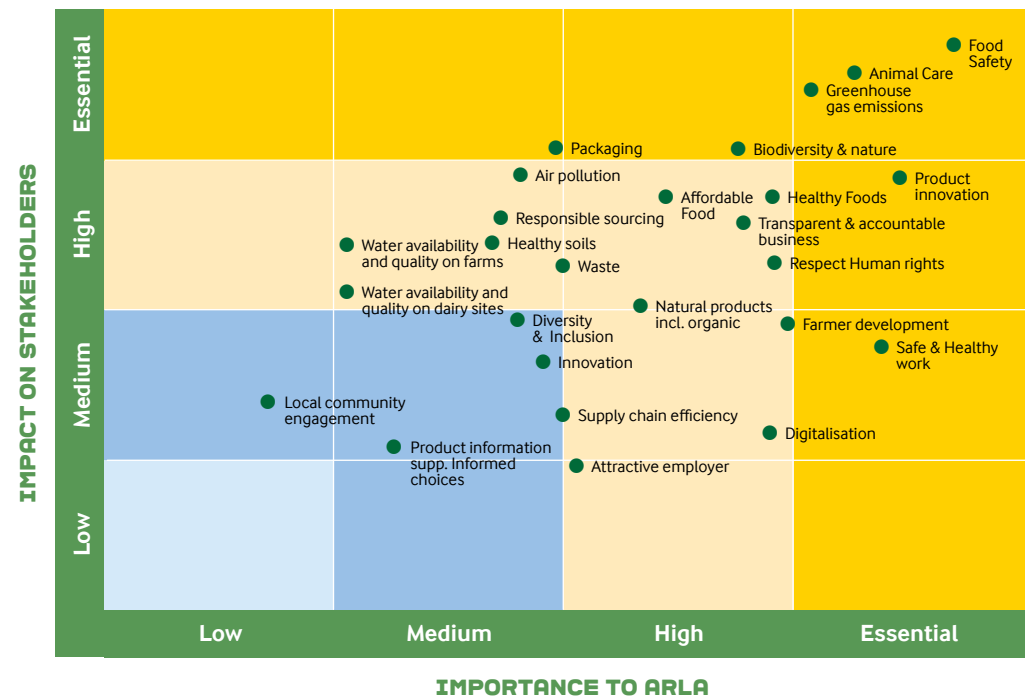
We had a higher response rate from internal than from external stakeholders, but bearing in mind that the issues were qualified through extensive external input, through the strategy process, we assess the matrix to display a balanced picture.

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. Over the latest years, biodiversity has moved up the list, and continues to stay in focus, together with transparent and accountable business and product innovation.

We also saw increasing expectations in relation to water, which is why we have now expanded this topic and include water availability and quality for both production sites and farms.

The more significant change this year is an increased focus on healthy foods and respect for human rights.

This indicates a slightly changed focus from stakeholders, which may be related to the pandemic, where it has become more obvious that the access to healthy food is of high importance, and also the general attention on the need to respect the human rights of all people.



ESG ACCOUNTING PRINCIPLES

1.1 Greenhouse gas emissions (CO₂e)

Calculating CO₂ equivalents

Greenhouse gases are gases that contribute to the warming of the climate by absorbing infrared radiation. Besides the widely known carbon dioxide (CO₂), there are two other major greenhouse gases associated with dairy production: Methane (CH₄) and nitrous oxide (N₂O). In order to calculate the total greenhouse gas emissions (the carbon footprint) of Arla, different greenhouse gas emissions are converted into carbon dioxide equivalents (CO₂e). The conversion of different gases reflects their global warming potential.

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

1 kg of carbon dioxide (CO₂) = 1 kg of CO₂e
 1 kg of methane (CH₄) = 28 kg of CO₂e
 1 kg of nitrous oxide (N₂O) = 265 kg of CO₂e

The majority of Arla's emissions are methane from digestion and manure storage, nitrous oxide from fertilizer 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.

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

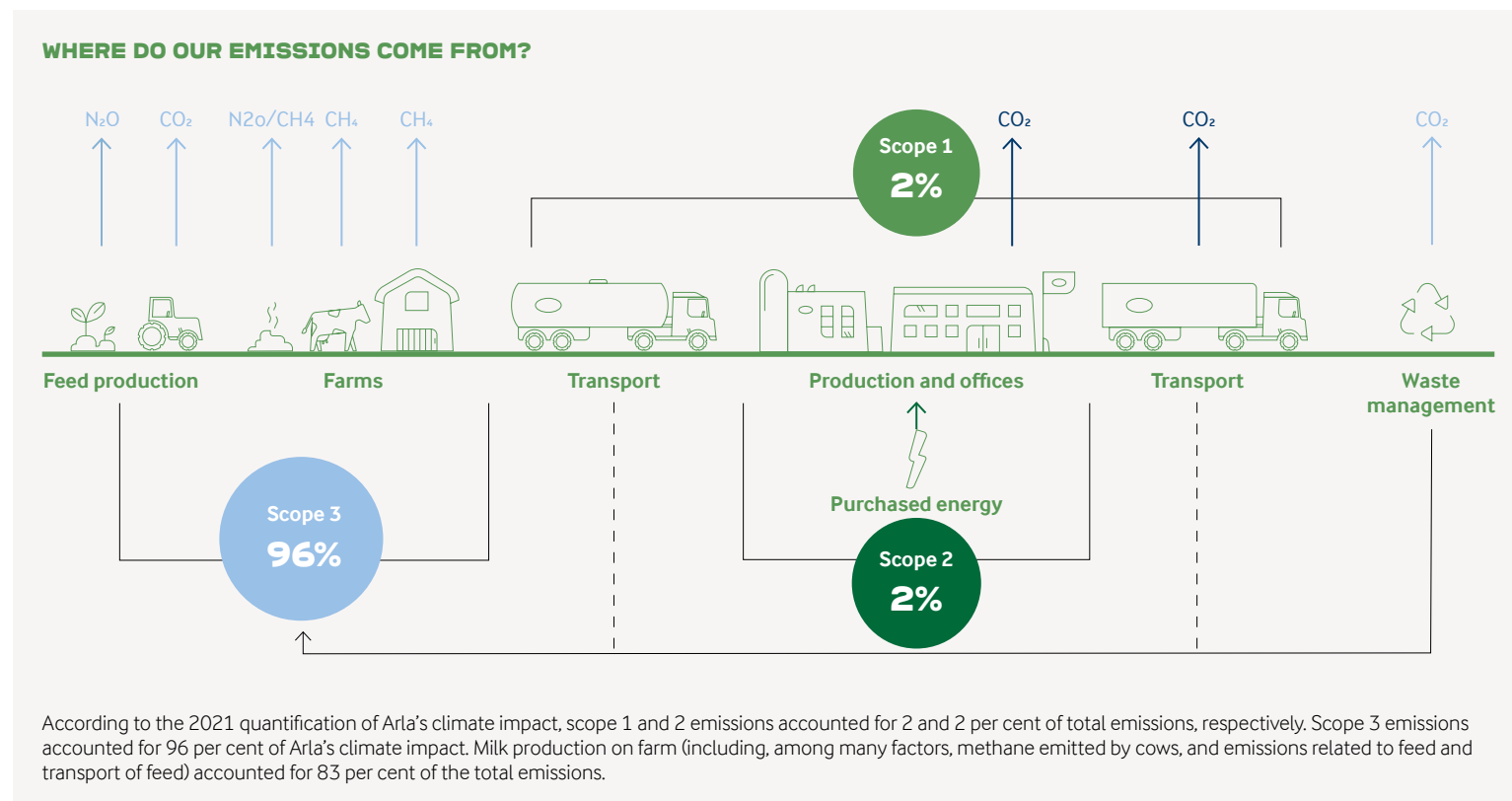
country average. In accordance with the GHG Protocol, Arla discloses scope 2 emissions according to both the market- and location-based method (also known as dual reporting).

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 sites. Scope 3 emissions are, in line with GHG protocol, calculated by applying emission factors to Arla-specific activity data.

Emissions from whey relates to externally purchased whey for the largest sites of Arla Foods Ingredients. Included whey is standardised and recalculated based



* The IPCC (Intergovernmental Panel on Climate Change) is the United Nations' body for assessing the science related to climate change.

ESG ACCOUNTING PRINCIPLES

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 2022. For transport, operations and packaging emission factors are obtained from Sphera, an industry-leading consultancy firm. The emission factors are updated annually to the most recent complete data set for the same year, in this case 2017. Emission factors are unchanged compared to 2020 due to changes in delivery time from Sphera. Farm-level emission factors are obtained from 2.-0 LCA Consultants. For non owner milk emission factors was unchanged at 2015 levels.

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) has been developed during the last decade in collaboration with 2.-0 LCA Consultants, a Danish consultancy firm formed by academics. For detailed descriptions on 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, Cnienan 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 fertilizer 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 is wetland with a high CO₂e content. when soils are drained and used in crop production CO₂ and N₂O are released. The emission figure related to raw milk presented in this report is a weighed 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. Farms visited by external climate experts are statistically representative of all Arla farms.

1.2 Renewable energy share

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

Some Arla sites produce and sell excess energy, i.e. electricity and heat. The energy sold was not deducted in the calculation of the renewable energy share. The data presented in ESG table 1.2 is collected monthly from Arla's sites. Data for energy consumption is primarily based on invoice information and automated meter readings at each site, and therefore there is very little uncertainty associated with these figures. Arla does not account for energy losses, therefore all energy purchased is included in the figures.

1.3 Waste

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

1.4 Water

The water consumption covers all water purchased from external suppliers and water from internal boreholes at production sites, warehouses and logistic terminals. External borehole water includes water purchased from external suppliers before internal treatment. Internal borehole water relate to boreholes on sites measured before internal treatment.

1.5 Animal Welfare

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 2021. One owner could potentially receive more than one audit per year if the farmer owns more than one farm or if the farmer receive 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 from 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.

2.1 Full-time equivalents

FTEs are defined as the contractual working hours of an employee compared to a full-time contract in the same position and country. The full-time equivalent figure is used to measure the active workforce counted in full-time positions. An FTE of 1.0 is equivalent to a full-time worker, while an FTE of 0.5 equals half of the full workload.

The average FTE figure reported in Note 1.2 in the consolidated financial statements, and in ESG note 2.1 is calculated as an average figure for each legal entity during the year based on quarterly measurements taken at the end of each quarter.

All employees are included in the FTE figure, including employees who are on permanent and temporary contracts. Employees on long-term leave, e.g. maternity leave or long-term sick leave, are excluded.

The majority of employees in production and logistics are classified as blue-collar employees, while employees

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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.

2.2 Gender diversity

Gender diversity (all employees)

Gender diversity is defined as the share of female FTEs compared to total FTEs. Gender diversity is based on FTEs as at 31 December 2021. It covers all white-collar and blue-collar employees.

Gender diversity (in management)

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

Gender diversity (in Executive Management Team)

Gender diversity in management is defined as the share of females in the Executive Management Team (EMT) as at 31 December 2021.

2.3 Gender pay ratio

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

2.4 Employee turnover

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).

2.5 Food safety – Number of product recalls

In accordance with ESG reporting standards, product recalls are defined as public recalls. A public recall is the action taken when products pose a material food safety, legal or brand integrity risk. Public recall is only relevant if products are available to the consumers in the marketplace.

Public recalls are reported as soon as they happen, and an incident report must be completed about each incident within two weekdays from the first notice of the problem. The total number of public recalls is reported externally on an annual basis.

2.6 Accidents

An LTA is a work place injury sustained by an employee while completing work activities that results in the loss of 1 or more days off from work on scheduled working days/shifts. An accident is considered a lost-time accident only when the employee is unable to perform the regular duties of the job, takes time off for recovery, or is assigned modified work duties for the recovery period.

All employees both Arla employees and agency workers undertaking an Arla job sustaining injury or illness

related to the work place are required to report it to their team leader/manager as soon as reasonably practical, regardless of severity.

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. Accidents reported after the end of the injured party's working day may not be accepted as a workplace accident. The number of accidents is reported monthly to the Board of Directors and Executive Management Team.

3.1 Gender diversity – Board of Directors

The gender diversity ratio is calculated as the share of female members 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.

3.2 Board meeting attendance

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 three employee representatives, two external advisors and 15 owners. When calculating board meeting attendance, all 20 board members are included.

3.3 General accounting policies

Basis for preparation

The Environmental, social and governance (ESG) report 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 for Arla's stakeholders, or which is recommended to be reported by relevant professional groups or authorities.

During 2021, we updated our materiality analysis, which is now based on the concept of double materiality. This means that we are exploring the impact Arla has on stakeholders in relation to social, environmental or economic issues, as well as the impact of these issues on Arla's business.

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 above priorities are reflected throughout the Annual Report: Animal welfare (page 26 and the CSR report), governance principles (page 46-56) and diversity policies (page 55) are reported at length, while in the ESG report, data and accounting policies related to Arla's greenhouse gas emissions (Note 1.1), animal welfare (Note 1.5), food safety (Note 2.5), waste (Note 1.3), and diversity (Note 2.2 and 2.3) are presented, making Arla's business more transparent and accountable.

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



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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 eg. 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 (Note 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 were not included in the total emission figure. This scope also applies to the accident KPI, Note 2.6, however accidents at head offices in Denmark, UK, Sweden and Germany were also included.

Comparison figures

In line with ESG reporting guidelines, environmental data is presented in absolute figures to ensure comparability. Where relevant, a measure for progress towards Arla's previously communicated internal targets is included. Baselines and comparison figures are restated according to Arla's restatement policy. By

default, Arla's baseline emissions are reviewed every five years from the target base year (2020, 2025, 2030), if no significant structural or methodological changes trigger a recalculation before. Every 5 years, Arla assesses if the structural changes (e.g. acquisitions or divestments) in the past years reach the significance threshold when added together in a cumulative manner. Each year, Arla assesses if the structural changes that year reach the significance threshold (see below) by themselves or when added together.

A threshold is defined for each Science Based Target:

- Scope 1 and 2: 5 per cent change compared to the base year
- Scope 3 per kg of raw milk: 3 per cent change compared to the base year

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.



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