

OUR RESPONSIBILITY

Arla Foods' Corporate Social Responsibility Report

2012



Closer to Nature™

Content

- 1 **Foreword**
- 2 **About Arla**
- 4 **Responsible company**
- 6 Business principles
- 8 Operational principles
- 10 *Case study*
- 12 Procurement
- 14 Market conduct
- 16 **Confidence in products**
- 18 Food safety
- 20 Food and health
- 22 *Case study*
- 24 **Care for the environment and animal welfare**
- 26 Environment and climate
- 28 *Case study*
- 30 Agriculture
- 32 **Respectful relations**
- 34 Workplace
- 36 Community relations
- 38 Human rights
- 40 *Case study*
- 43 Reference to Global Compact

Unless otherwise indicated, the facts and figures in this report cover Arla Foods' fully owned dairy companies in 2012. Some examples from fully owned subsidiaries and joint venture dairy companies are also included. The report's chapters correspond to the eleven areas of Arla Foods' Corporate Social Responsibility Code of Conduct, which was first published in the spring of 2008. More information is available at www.arla.com.

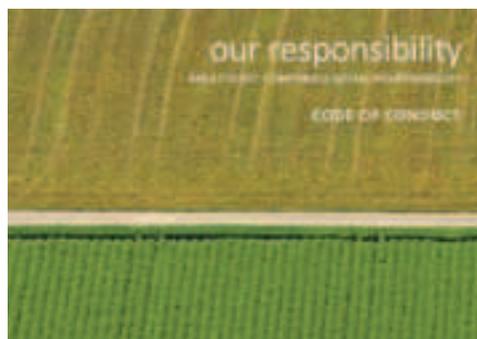
©Arla Foods amba, 2013 *Project coordinator:* Arla Foods *Production management:* Anna Michélsen
Text: Arla Foods in collaboration with Anna Michélsen *Graphic design:* Waldton Design *Graphic production:* Formalix
Translations: Amesto Translations *Photography:* Thomas Carlgren, Torben Hjulmand (28), Thomas Rolsted (36), Niels Aage Skovbo (29), Gustav Winblad (10), Martin Zetterquist (23, 28) and Arla's archive *Printing:* Scanprint A/S, 2013
Email: csr@arlafoods.com



Working responsibly in Arla

The Code of Conduct governs Arla's responsibility work

Arla's principles for ethics and sustainable development are contained in Our Responsibility – Arla Foods' Code of Conduct. Arla's Board of Directors approved the Code of Conduct and it is now available in eight languages and can be downloaded from www.arla.com. The Code serves as both a tool and a compass, guiding us on how we should behave and take responsibility within our business.



Responsibility through our entire value chain

Arla strives to work in a responsible manner throughout its entire value chain, from the work at the farms, through to operations and distribution, even including recycling of packaging material.



Organisation and embedding the culture

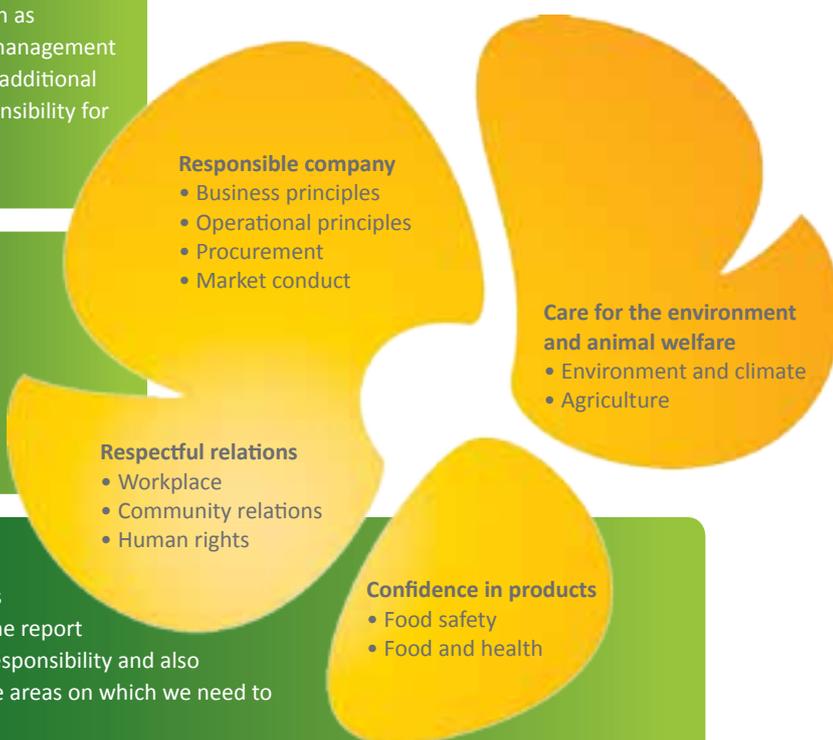
To ensure commitment to the Code internally, we have established a CSR committee with CEO Peder Tuborgh as chairman and with representatives from the senior management team. The committee prioritises the areas that need additional focus to ensure the company's commitment to responsibility for the long term.

A holistic approach

The 11 areas that the Code describes are the ones covered in this report, from business principles to human rights. This year we have chosen to group these areas under four themes, see the illustration to the right.

Welcome to our 2012 CSR report

Arla is a global company. Each of our business groups deliver content and material to this annual report. The report describes how we are succeeding in our work with responsibility and also gives us the opportunity to readdress, and clarify, the areas on which we need to focus in the future.



Arla's increasing responsibility

Arla is growing, and the larger and more global our company becomes, the greater our responsibility. It is very reassuring therefore to know that our company is based on a strong, responsible foundation. All our colleagues, owners and partners play their part in ensuring that Arla is, and continues to be, a sustainable company, which is imperative for our success in the long term.

I am proud to report that during the past year Arla has achieved many ambitious goals related to growth and our global presence. We have merged with dairy companies in Germany and the UK, and we have increased in size on several markets. Today Arla is one of the world's leading dairy companies, which means that we naturally have additional opportunities when it comes to our corporate responsibilities. Our approach to running a responsible business now encompasses more countries and more people. This, of course, presents us with challenges and we hope that we can become a source of inspiration to the world around us. We aim to retain our position as a leading dairy company and to maintain our reputation as a sustainable business.

Good progress in sustainability and responsibility

Within the area of sustainability we are pleased to report many examples of our progress. The effects of the environmental strategy we launched last year are now beginning to show. We are saving more energy and water. We are reducing food waste as well as the environmental impact of our packaging. Furthermore, we have significantly improved the processes we apply to ensure that we make responsible purchases. We have also introduced a whistleblowing policy so that all colleagues have an additional means by which to report any deviations from our Code of Conduct.

It is a pleasure to read the results of this year's Barometer survey. Our colleagues' engagement and pride in working for Arla improved again this year. Excellent leadership and committed colleagues are an important precondition for delivering results and achieving high-level responsibility.

Arla supports the UN Global Compact

Five years ago Arla joined the United Nations' Global Compact, a global initiative to promote ethical business practices. As a member, we are committed to aligning the 10 basic principles of the Global Compact to our operations and strategies, and to communicate them to our colleagues, owners, suppliers, partners and the world around us.

This report is part of that work and in it we present a selection of initiatives which have taken place during the past year. This report also forms part of Arla's Annual Report 2012 which is available to download at www.arla.com.

Our focus in the future

Working responsibly at Arla permeates the entire company. In order for us to succeed we will ensure that both existing and new colleagues, especially leaders, embrace the Arla culture and our Code of Conduct and embed these in their way of working. As we work to develop the dairy company of the future, I am certain that our focus on health, naturalness and inspiration, as well as the steps to maintain the sustainability of our company, will be major cornerstones on which to build long-term success. We continue to take responsibility for our actions and to fulfil the role which, quite rightly, is expected of a company in our position.

We take this opportunity to thank you for your interest in following Arla's development towards becoming an even more responsible company.

Aarhus, Denmark, February 2013

Peder Tuborgh, CEO



About Arla

Arla Foods is a global cooperative dairy company owned by dairy farmers in Sweden, Denmark, Germany, UK, Belgium and Luxembourg. Our products are sold under well-known brands in more than 100 countries. We have production facilities in 12 countries and sales offices in 30. Arla is also the world's largest supplier of organic dairy products.

Growing company with more owners

Arla continues to work in pursuit of its growth strategy. During the year, two mergers with other dairy cooperatives completed. The merger with Milk Link in Britain made Arla the UK's largest dairy company, while the merger with the German dairy company, Milch-Union Hocheifel (MUH), made Arla Germany's third-largest dairy company. As a result of these mergers, Arla is the world's sixth largest dairy company with a total of 12,256 owners in six countries.

Farmers face financial difficulties

Arla's objective is to ensure that the owners receive the highest possible payment for their raw milk. During 2012, due to a global surplus of milk, the milk price fell by a total of DKK 0.10 (EUR 0.015), compared to the 2011 level. In addition to the high cost of feed and other materials required on farm, the low milk price means that many dairy farmers are experiencing financial difficulties. During spring 2012 Arla introduced a series of cost-saving measures in order to drive efficiencies throughout the company and create the potential to raise the milk price.

Investing in our future

Competition on the European markets remains tough and consumer spending has reduced as a result of the recession.

However, other markets, including Russia and the Middle East are in growth. We have increased our investments in China and signed an exclusive partnership agreement with China's largest dairy company, Mengniu, the benefits of which include opportunities to increase our exports to China. We will also invest in new and existing sites. For example, work has begun on building the world's largest fresh milk dairy at Aylesbury, just outside London in the UK, and in Germany, Pronsfeld dairy is to be expanded. The milk powder facility at Vimmerby in Sweden will also be extended to allow for more production to increase export to non-European countries.

Closer to Nature™ gains momentum

Arla's overarching Closer to Nature™ commitment continues to gain momentum throughout the company. Closer to Nature™ aims to ensure that our products are as natural as possible and that our supplying farms and Arla's own processes have as little impact on the environment and climate as possible.

New vision and revised strategy

In January 2013 a new vision, mission and revised strategy for Arla were announced. Read more at www.arla.com.



Owners

Arla Foods is an agricultural cooperative owned by 12,256 dairy farmers in Sweden, Denmark, Germany, UK, Belgium and Luxembourg.

Management

Chairman:
Åke Hantoft
Vice chairman:
Jan Toft Nørgaard
CEO: Peder Tuborgh
Vice CEO: Povl Krogsgaard

Number of colleagues, average full time employed

Denmark	7,536
Sweden	3,599
UK	3,017
Germany	1,135
Finland	362
Netherlands	361
Other countries	2,102
Total	18,112

As of 31 December 2012, the total number of colleagues employed by Arla was 19,646.

Net revenue

DKK 63.1 billion, of which 72 per cent comes from our core markets of UK, Sweden, Denmark, Germany, Finland and the Netherlands.

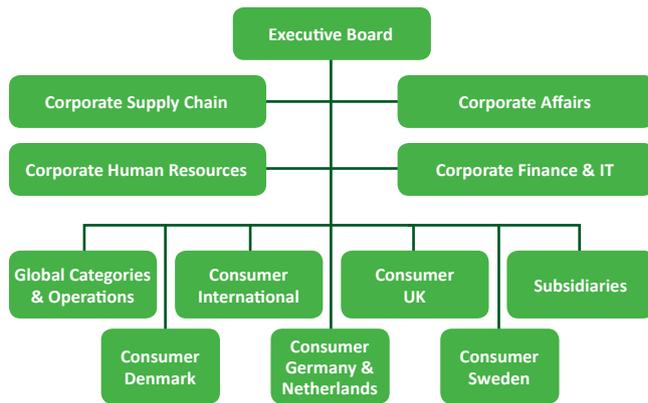
Profit for the year

DKK 1.9 billion.

Raw milk in million of kilos

Denmark	4,419
UK	2,342
Sweden	2,059
Germany	917
Finland	226
Netherlands	200
Belgium	53
Luxembourg	27
Other countries	166
Total	10,409

Organisation of the Arla group



Corporate Supply Chain handles contact with owners, global supply chain efficiency, global procurement and investments under the management of Povl Krogsgaard.

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

Consumer Business Groups are responsible for the production of fresh produce, logistics, marketing and sales of Arla products in the different areas.

Consumer Denmark, under the management of Peter Giørtz-Carlson.

Consumer Sweden, also including Finland, under the management of Christer Åberg.

Consumer UK, under the management of Peter Lauritzen.

Consumer Germany & Netherlands, under the management of Tim Ørting Jørgensen.

Consumer International, including countries outside core markets, under the management of Finn S Hansen.

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

Corporate Finance & IT handles finance, IT and legal affairs under the management of Frederik Lotz.

Global Categories & Operations has general responsibility for Arla's three global brands – Arla®, Lurpak® and Castello® – and responsibility for global innovation, quality and environment. This business area also handles milk planning and logistics, industrial sales, production of cheese, butter and spreads and milk powder in Scandinavia, as well as production of cheese in Germany (formerly Allgäu) under the management of Jais Valeur.

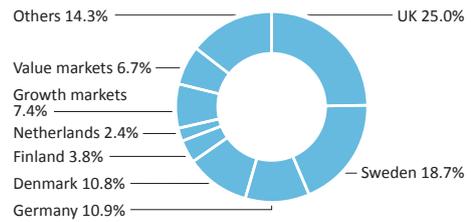
Subsidiaries wholly owned by Arla: Arla Foods Ingredients, Rynkeby Foods, Cocio and Dairy Fruit.

Owner democracy



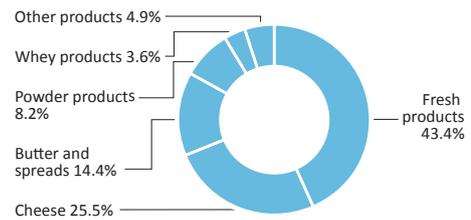
Following the new owner situation, a review of owner representation will be conducted during 2013. All elections and polls are held according to the 'one member, one vote' principle. The Board of Representatives is Arla's top decision-making body.

Revenue by market



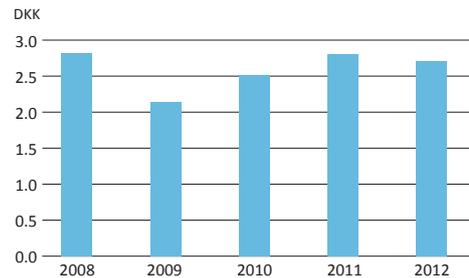
Arla's total revenue has increased by 15 per cent since 2011.

Revenue by product group



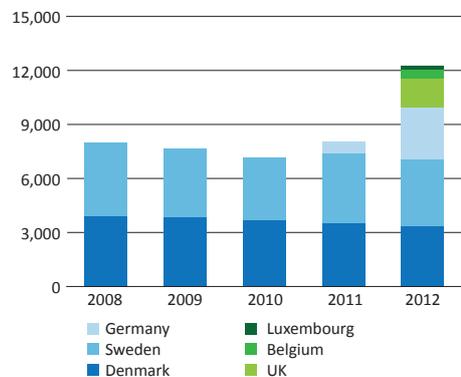
Fresh products, cheese, butter and spreads have increased their contribution to Arla's total revenue.

Milk price



During the year, the milk price changed repeatedly, both increasing and decreasing, due to changes in demand on the global market. The diagram shows the average price per kilo of milk paid to owners during the year, including supplementary payments.

Owners in Arla



During the year, the number of owners has increased by 53 per cent, mainly due to the mergers with the dairy cooperatives Milch-Union Hocheifel (MUH), Germany, and Milk Link in the UK.



Arla

Responsible company

Is it possible to run a profitable business ethically? At Arla, the answer is a resounding YES. But it's not something that simply happens – it takes know-how, will power and hard work.

Business principles

Arla is an international business as well as a dairy cooperative owned by farmers in Denmark, Sweden, Germany, Britain, Belgium and Luxembourg. We comply with local legislation in all the countries in which we operate and we are also committed to the principles contained within our Code of Conduct. This enables us to act credibly and with integrity and sets a good example of responsible business conduct. See page 6.

Operational principles

Arla will create value for its owners. In the democratically governed farmer cooperative, all owners have an opportunity to influence significant decisions. Owners elect representatives to the company's governing bodies. The Board of Directors is responsible for making decisions about the company's general strategies and for ensuring that the company is managed with the cooperative owners' best interests in mind. See page 8.

Procurement

Arla sources goods and services across the world. Our ambition is for our suppliers to meet our code of conduct for suppliers, which governs ethical, social and environmental responsibilities. We encourage them to support us to meet our aim of procuring goods and services in a sustainable way. See page 12.

Market conduct

We must constantly adapt to the increasingly competitive, fast-moving and international market place. It is essential that consumers trust us if we are to sell our products. By acting responsibly, communicating openly and maintaining an ongoing dialogue with customers and consumers, we create the right conditions for trust. See page 14.



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

Business principles

Support for Global Compact | Two new cooperative members | Whistleblowing policy implemented

Fair business and good citizenship

Compliance in every situation

Arla is committed to meeting or exceeding all applicable laws, rules and regulations in force in the countries in which we have operations. Compliance is therefore key to Arla being a responsible company.

Compliance with competition laws is one such area. Arla's management teams are committed to ensuring the group's compliance with the competition laws in force at any time. In 2012, as in previous years, training seminars have been conducted throughout the organisation to ensure that all colleagues concerned are fully informed of the requirements of competition law and to assist them in complying with the rules.

Also during the year, we have implemented a new global policy on the legal review of contracts. The aim of the policy is to ensure that an appropriate policy for the mandatory legal review of substantial commercial contracts covered by the scope of the policy, prior to signing, is in place in order to manage inherent risks. One such risk is the potential violation of national legal requirements and laws. By ensuring prior legal review of substantial contracts Arla supports its commitment to abide by the national laws in force.

Arla's support for Global Compact

Arla Foods' Code of Conduct complements the 10 basic principles of the UN Global Compact initiative. As a participant of Global Compact, Arla undertakes to

incorporate this initiative and its principles in its strategy and company culture and to communicate this commitment to colleagues, owners, suppliers, partners, customers and the public. To learn more about the 10 principles, see page 43.

Our commitment to Global Compact also means that every year Arla has to report, openly and honestly, how the company is adhering to its Code of Conduct. This report describes the progress Arla has made over the year and where it sees opportunities for improvement. Arla is also an active member of the Global Compact Nordic Network.

Whistleblowing policy in place

In 2012, a global whistleblowing policy was approved by the Board. The whistleblowing function provides an additional opportunity to report information about possible irregularities and is in addition to the traditional channels already in place. The function is available to all Arla colleagues. They have the option to report on other Arla colleagues' conduct in relation to issues covered by our Code of Conduct, either via a weblink or by an externally managed telephone service. Reports may be made anonymously. The identity and interests of both the reporter and the subject of the investigations is protected.

The whistleblowing system was implemented in April 2012. Since its implementation 10 cases have been reported, and half of these have been anonymous. All 10 cases were reviewed and three reports led to further investigations.

CSR Committee development agenda

Arla has a CSR Committee, chaired by CEO Peder Tuborgh. The purpose of the Committee is to ensure Arla maintains its commitment to develop as a responsible company and the Committee's tasks include addressing issues related to the adherence to the Code of Conduct.

Initially the CSR Committee was heavily involved in the revision and implementation of the Code of Conduct, now its focus is on increasing the pace of Arla's development agenda in respect of issues associated with the ethical dilemmas arising from implementing the Code. As part of this development, in 2012, the CSR Committee invited colleagues to share the experiences and dilemmas they faced when doing business in different countries.

Two new cooperative members of Arla Foods amba

On September 27, 2012, the EU Commission approved the merger between Arla and Milk Link Limited in the UK and on September 28, 2012, approved the merger between Arla and Milch-Union Hocheifel eG in Germany. Following the implementation of the two mergers Milk Link and Milch-Union Hocheifel are each a cooperative member, as is Hansa Arla Milch eG (formerly Hansa-Milch) with which Arla merged in 2011.

Following the mergers with Milk Link and Milch-Union Hocheifel, Arla's owners have discussed the cooperative's future democratic structure. Read more on page 8.

CSR Performance Ladder certificate in the Netherlands

In February 2012, Arla Nijkerk in the Netherlands was certified according to the national standard CSR Performance Ladder. The standard recognises other standards such as ISO 26000 and GRI, Global Reporting Initiative, and takes a holistic view to sustainability work, including stakeholder dialogue. The certificate demonstrates that Arla Nijkerk has a management system in place for CSR that systematically addresses stakeholders' expectations. Arla Nijkerk is the first dairy to receive this certification in the Netherlands. Experiences gained will provide valuable input into the further development of the CSR agenda.

Code of conduct for suppliers

Arla only enters into contracts with suppliers that comply with the laws prevailing in the countries in which they conduct operations, and which support and respect internationally recognised human rights.

The options available to Arla in case of a breach of contract by a supplier under the code of conduct for suppliers are extensive. Not only is Arla entitled to terminate any contract, the company can also reject products which have been manufactured by or for the supplier in breach of its obligations.

In 2012, Arla did not experience any breach of the code of conduct for suppliers.



Merger conditions

The approval of the merger in Sweden between Arla and Milko in 2011 was subject to Arla divesting Milko's plant in Grådö, Sweden, and some of Milko's trademarks. These divestments were made in 2012. The merger between Arla and Milk Link in the UK required a similar remedy. Read more on page 14.

The merger with Milch-Union Hocheifel did not raise any market concerns and subsequently no remedy has been required.

Protection of Arla's brands

Arla has a well established global Intellectual property policy outlining our general and global view on how we make use of intellectual property within the business. The policy ensures that intellectual property aspects are considered, if relevant, from merger and acquisition activities to products.

Bribery and facilitation payments

In 2010, Arla implemented its policy on bribery and facilitation payments globally and educated colleagues on issues concerning bribery, facilitation payments and gifts. Instructions on the application of the policy were reissued to Arla's 300 most senior leaders during the course of 2012.

The policy includes reporting requirements and the need for managerial review in respect of all facilitation payments and serves to take active steps to eliminate such payments.

In 2012, as in 2011, there were no incidents of either bribery or facilitation payments reported.

Disputes

Arla is very rarely involved in legal disputes. It is the policy of Arla to seek to avoid or resolve all disputes in an amicable fashion, with due account being taken to the rights and obligations of the company.

Global Compact

Please see page 43 for more information on Global Compact and its fundamental principles.





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

Operational principles

More new members | Review of democratic structures | Performance price under pressure

More dairy farmers join the cooperative

Mergers and new cooperative members

On 1 October, Arla merged with the German dairy company Milch-Union Hocheifel eG (MUH) and the British dairy company Milk Link. Both mergers have been approved by the EU competition authorities. As a result of the mergers, Arla has gained new members in Germany, Belgium and Luxembourg, the three countries in which MUH members operate, and, for the first time, members in the UK. The mergers have added a total of 4,300 new dairy farmers and 2.4 billion kilograms of raw milk per year, which is in line with Arla's growth strategy and the company's growing milk requirements.

Following debates and meetings of the members where concerns were aired and many questions asked, the decision to merge was approved by the vast majority in Arla, MUH and Milk Link. Milk Link and MUH members continue to be members of their respective cooperatives. Both companies are cooperative members within the Arla group as is Hansa Arla Milch, with which Arla merged in 2011. The new owners are represented on the Arla Board of Directors and on the Board of Representatives. Milk Link has two seats on the Board but only one vote, and 10 seats on the Board of Representatives. MUH also has two seats on the Board and nine seats on the Board of Representatives.

With effect from 1 October, the new owners, as a group, receive the same account price as the Swedish and Danish owners. At an individual level, however, the previous payment models will continue to be applied. Following the completion of the mergers, all owners receive the same owner information via Owner Update, a newsletter which is distributed in five languages – Danish, Swedish, German, English and French.

New democratic structure under discussion

Following the mergers with Milk Link and MUH, Arla's owners have discussed the cooperative's future democratic structure. Arla's corporate philosophy is founded on the basis that all its cooperative owners exercise democratic influence via a dynamic and structured process. The purpose of Arla's democratic structure is to ensure that Arla remains a cooperative with modern and well-structured processes, in which the owners are properly represented and committed to Arla's future.

It is anticipated that the owners' discussions will lead to a decision in February 2013 regarding the future structure of the Board of Directors, the number of seats on the Board of Representatives, how representation is distributed between the different electoral divisions, and proposals for the

future structure of the cooperative member committees. Arla Foods amba's Articles of Association will be amended in accordance with the Board of Representatives' decision. Employee representation on the Board of Directors and on the Board of Representatives is also being discussed in a process involving EWC, Arla's European Work Council.

Performance price under great pressure

Arla's performance price (the payment made to owners plus consolidation) in 2012 amounted to DKK 2.71 (EUR 0.358), a fall of DKK 0.10 (EUR 0.015) compared to Arla's performance price 2011, which was DKK 2.81 (EUR 0.373) per kilogram of milk. The main reason is due to supply outstripping demand on the world market, which adversely affected prices, predominantly in the first half of the year. The price reductions put significant pressure on members, not least because the price of animal feed and diesel, for example, rose during the same period. For some Arla members this resulted in them suffering serious financial difficulties. Many aired their frustration and, for example, in the UK protests took place. Towards the end of the year, there was an upturn in the global market making milk price increases

possible. During the last quarter of 2012, the milk price increased by DKK 0.23 in two steps.

Training for elected representatives

All elected representatives in Arla are offered training and they can take part in a mentor programme. In 2011–2012 newly elected members of the Board of Representatives took part in a two-part introductory programme called Arla Kick In. Part one was a general introduction to the Arla business and part two was a mentor programme in which newly elected representatives from Sweden, Denmark and Germany were paired with a mentor from another country. During 2012 there were 36 pairs. After the 2013 elections, a new mentor programme will begin, in which representatives from all countries will take part. The purpose of the mentor programme is to help newly-elected representatives have the best possible induction into their new role on the Board of Representatives. As part of the mentor programme, the mentor pair visit one another's farms to learn more about the conditions facing Arla farmers in countries other than their own.



Owner and supplier facts

	2010	2011	2012
Owners, total	7,178	8,024	12,256
- of these in Sweden	3,529	3,865	3,661
- of these in Denmark	3,649	3,514	3,354
- of these in Germany, Belgium and Luxembourg (Hansa Arla Milch and MUH, 2012)	–	645	3,657
- of these in the UK (Milk Link, 2012)	–	–	1,584
AFMP members in the UK	1,362	1,330	1,232
Suppliers in Finland	1,060	1,000	813
- of these under contract	260	243	223
Suppliers in Germany (Arla Foods Käseereien)	–	1,338	1,388
Motions to the Board of Representatives meeting	5	1	2
Participants in owner seminars	380	200	0
Appeals to Appeals Committees in Sweden and Denmark	43	13	21

At the end of 2012 the number of owners totalled 12,256, which is a 53 per cent increase compared with the previous year. During the year, the volume of milk supplied by owners increased by 16 per cent compared with 2011.

About 60 per cent of Arla's 400 elected representatives take part in our training programmes each year. During the training season 2011/2012, 494 training days were held (342 in 2010/2011). Participation in the introductory programme is almost 100 per cent.

Owners' seminar

The owners' seminar is run by elected representatives for new or old members. The seminars aim to increase members' knowledge of Arla's business. Participants meet in small groups so that everyone has an opportunity to express an opinion. During the year new material for the owner seminars has been produced but no owner seminars were held. New seminars are planned for 2013.

Competition for raw milk

During the year, approximately 50 Swedish owners asked to leave Arla in order to supply milk to another company. During the same period 30 new owners from other dairy organisations in Sweden joined Arla. In Denmark, about 10 owners have asked to leave to supply milk to another dairy.

Arla sold the former Milko dairy in Grådö to a Swedish supermarket chain. The sale was a condition of the Swedish competition authority's approval of the Arla-Milko merger in 2011. Arla wanted to retain all its members and all the milk in this area and this was communicated by letter and at member meetings in the region but approximately 35 members chose to leave Arla.

New functions in the Owners' Net

The Owners' Net is a website for Arla owners in Sweden and Denmark. During the autumn, two new functions were added to the Owners' Net, which allow owners to see data and test results for the milk they supply to Arla. The information is clearly presented as diagrams and tables. The Owners' Net also features digital archives which contain all the data registered for individual farms. The owners requested both the new functions and users' reactions have been positive. Corresponding websites containing owner information established within former Hansa-Milch, MUH and Milk Link will continue to be used until a common solution is in place.

Changes to the Board of Directors

In April, two employee representatives on the Board of Directors stepped down due to a breach of the Board's rules of procedure following them sharing sensitive information from a meeting. Two Danish trade unions protested against the consequence of the breach, however the case was settled in October. Two new employee representatives have been appointed to the Board.

Member Services cuts

The department in Arla responsible for contact with the owners was affected by the cost-reduction initiative introduced in Arla during last year. For example, a number of services were cancelled and Arla's presence at agricultural fairs reduced.



Democracy put to the test as Arla's ownership grows

More owners in more countries. Following this year's mergers, Arla has become the world's sixth largest dairy company. Two of Arla's owners share their impressions of the challenges facing the business.

The mergers that have taken place in the last two years have almost doubled the number of Arla owners, from approximately 7,000 to about 12,000 dairy farmers. Arla has developed from being a purely Danish-Swedish cooperative to now having owners in Germany, the UK, Belgium and Luxembourg. The cooperative company structure remains. What does an original and a new owner think about the mergers?

The farmers decide the future

Christina Winblad runs the Womtorp Farm outside Eskilstuna in Sweden with her husband. She has supplied milk to Arla since 1990 and is currently Chairman of the Board of the East Region and has a seat on the Board of Representatives. Christina Winblad was on the Board of Representatives when the decision to merge Swedish Arla and Danish MD Foods was made in 2000.

"The mergers in the past year fit well with Arla's strategy to achieve profitable growth," says Christina

Winblad. "We need to grow to ensure as good a milk price as possible. That is what is most important. The milk price has been unacceptably low in recent years. But we must not forget that there is a definite risk for Swedish dairy farmers in establishing a European milk price because our cost levels are relatively high. This will demand continuous rationalisations on farms. However, having more owners means that there are more farmers to invest in the company, which is a good thing. We have to build long-term security for both the owners and the company."

Ahead of the decision, not all Swedish owners were as convinced as Christina Winblad. She believes that there are owners in Sweden who do not think that Arla needs to continue to grow. They think Arla has grown too big already and is too complex.

"I am convinced that it is still worthwhile exerting an influence as an elected representative in Arla," concludes Christina Winblad, "even though the company is now bigger and has more owners in more countries."



Christina Winblad has 275 dairy cows and 430 hectares including pasture on her farm in Sweden. Her British colleague Simon Banfield has 160 dairy cows, 300 beef cattle and 300 hectares. Both have seats on the Board of Representatives.

Mergers between complementary companies

Christina Winblad stands firm in her conviction that the way Arla should tackle the milk surplus in the EU, which is estimated to become even greater when EU milk quotas are abolished, is to move into emerging markets, such as China. She believes that Arla has to find new markets for its milk and for this reason the company has to grow.

“The two new companies, MUH and Milk Link, have excellent products and facilities,” says Christina Winblad. “For example, MUH, which is Germany’s largest producer of long-life milk and invests in milk powder production, is well-equipped to serve a market like China.”

One dairy farmer who was enthusiastic about the merger with Arla was Simon Banfield, who runs Admiston Farm, an hour’s drive west of Southampton on the south coast of England. His farm has delivered milk to Milk Link since the cooperative’s formation in 2000. Simon Banfield held a seat on the Milk Link board for eight years. Following the merger, he has a seat on the Arla Board of Representatives.

“Milk Link had a growth strategy for some years and when the potential of a merger with Arla arose, it was quickly apparent that the two companies were an excellent strategic fit,” says Simon Banfield. “We are the UK’s largest producer of cheese and Arla is the country’s largest processor of fresh milk. We make a strong team – and we will grow larger and stronger still.”

Milk price to the owners must be raised

Both owners agree wholeheartedly on what is now most important for Arla; to reap the benefits of the mergers in the form of synergies, and to deliver a good milk price to make the owners feel confident and secure on their farms.

“I feel that Milk Link and Arla have incredibly similar cultures and focus,” adds Simon Banfield, “and, above all, we are owner-oriented. This means that the company never pays more for milk than it can afford. Overpaying has always been the beginning of the end. We have seen several tragic examples of this in the UK.”

Review of the democratic structure

Even before the mergers were realised, Arla had started the process of reviewing the cooperative’s democratic system. There are proposals to reduce the number of representatives on the Board of Directors and current discussions are also addressing the structure of the district and regional organisations.

Since merging with Arla, both MUH and Milk Link have been represented on the Arla Board of Directors and Board of Representatives. Simon Banfield believes that Milk Link is well represented and he is well aware how much work a seat on the board entails.

“It is important to find farmers who are keen to work on the Board, as there is a lot of travelling and reading to do in preparation for meetings. In fact, only a few farmers have the resources to do this, and even fewer of them are ready to stand and be counted,” he says. “In the past, a farmer may only have had to drive a couple of hours to get to a meeting. Nowadays a meeting may mean you’re away from home for a number of days. And let’s not forget these are farmers who have livestock to care for around the clock.”

“In Sweden, we have had to reshuffle the deck, so to speak. We have had to find ways to work more efficiently and more case-oriented,” says Christina Winblad. “We need a smaller Board and we have proposed that the regional Board should work in a different way.”

Farmer solidarity

Both Christina Winblad and Simon Banfield believe that there is much to be gained from meeting colleagues in other countries and getting new insights, but also from realising that they share many similarities.

“Regardless of which country they come from, once you have gathered a group of dairy farmers in a room, they will ask first about the milk price, then about the weather, and finally about the dairy company. There are very minor differences in our outlook. Dairy farmers across the globe have a common language which surmounts cultural differences. I am very much looking forward to visiting other farmer owners in our respective countries,” concludes Simon Banfield.



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

Procurement

Towards preferred suppliers | Supplier assessment improved | Only certified cocoa

Improved programme for sustainable sourcing

Preferred suppliers

The global procurement department has overall responsibility for procurement in Arla. The purchases made by the department represented around 67 per cent of our total spend in 2012, compared to 69 per cent in the previous year.

Arla now has approximately 930 preferred suppliers that are approved by the global procurement department. Signed contracts govern the relationship between Arla and these suppliers and they are Arla's first choice suppliers.

We continue to work towards our target of 100 per cent of all preferred suppliers having signed our code of conduct for suppliers. Of all the suppliers handled globally, a total of 85 per cent (spend-wise) have signed the code, which corresponds to a two per cent improvement compared to 2011.

Supplier assessment process

The global procurement department aims for a procurement process that is transparent and coherent across the Arla group. This will send the unified message both internally and externally to suppliers and customers that sustainable sourcing is of great importance to us.

Since 2009, we have been developing tools and processes for sustainable sourcing for all the countries in which we operate. Following tests and further

developments, the supplier assessment process is now being applied in Denmark, Sweden, the UK and the Netherlands. One of the obstacles for implementing assessments in more countries is the, so-far, limited access to common IT platforms.

In 2011, we assessed ingredient and packaging suppliers considered to be in high-risk categories in terms of product quality and social responsibility. In 2012, ingredient and packaging categories classified medium risk were assessed as well as suppliers who did not comply in 2011. The scope of our assessment is continuously broadened and it now also includes logistics, cold storage, pest control, employment agencies, canteen provision and laundry services.

The supplier assessment process is robust and as a consequence we are seeing a decreasing requirement for audits, allowing us to focus on suppliers who do not comply with our standards. The assessments have also led to the phasing out of existing suppliers and exclusion of potential suppliers, which do not meet our requirements.

Improved questionnaire

As part of the supplier assessment process, suppliers are requested to complete an assessment questionnaire

regarding their ethical and social accountability, environmental commitments, food safety and product quality. The social responsibility section has been significantly strengthened and a new version of the questionnaire was rolled out at the end of the year.

Supplier audits in 2012

We carry out a number of audits every year, during which we visit suppliers and carry out inspections of relevant areas. In 2012 we conducted approximately 60 audits globally, which is approximately the same number as last year.

Transparent and coherent sourcing

By the end of the year we had determined a global standardised requirement for third party certifications for each sourcing category. Specific certification requirements have been decided for ingredients and primary packaging materials. The requirements were implemented in the global procurement department's standard contracts.

Another part of the global standardised requirements is a programme for pre-selection of potential new suppliers. Suppliers will be required to take part in a screening process, which looks at their management of selected key areas within

social responsibility and product quality. Suppliers will have to pass this screening in order to be considered as a supplier to Arla. The programme was launched at the end of 2012.

Sourcing of ingredients for Dairy Fruit

Arla's subsidiary, Dairy Fruit, is using Arla's programme for supplier assessment. To date, 46 per cent of its suppliers have been assessed according to the programme. During 2013, Dairy Fruit expects all its 190 suppliers to be assessed. During 2012, Dairy Fruit conducted 14 audits, compared to 25 in the previous year.

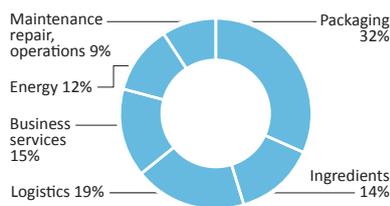
Dairy Fruit sources agricultural products from around the world. For example, ingredients such as spices and berries are sometimes sourced from China where Dairy Fruit has an agent that screens potential suppliers. The agent is fully aware of Arla's requirements and its code of conduct for suppliers. Potential new suppliers are visited by Dairy Fruit representatives and, if a supplier meets the company's requirements, an audit is carried out.

Today, Dairy Fruit has a small number of suppliers in China, including two suppliers of strawberries. When strawberries are harvested, the work is supervised by representatives of the Chinese agent to ensure that Arla's requirements are met.

Arla's ambitions and processes for sourcing in China are similar to those of Dairy Fruit.



Global contracts



The diagram shows the external spend handled by Arla's global procurement department, distributed across product and service categories. Compared to 2011 the share for ingredients reduced, while all other categories have increased. Our 10 largest suppliers account for 19 per cent (same figure as in 2011) of our total external spend. In 2012, the following companies were our five largest in order of size of spend: Tetra Pak (packaging materials and processing and packaging machinery), IBM (IT services), Elopak (packaging materials and machinery), Logoplaste (packaging materials) and DS Smith Packaging (packaging materials).

Audit checklist

A new audit checklist with a strengthened social responsibility element is being prepared and is due to be ready for use at the beginning of 2013. The purpose of the project is to ensure that only one global audit checklist is used for suppliers and third party manufacturers, as well as internally and as part of due diligence assessments before mergers and acquisitions. Auditors should be chosen and trained thoroughly, as we acknowledge that it requires specialist skills to conduct audits.

UTZ certified cocoa

Since the beginning of 2012 all our branded products containing cocoa have been produced with UTZ certified cocoa. For Cocio branded products, this has been the case since 2011. At the end of 2012 almost all cocoa was certified. We reached 99 per cent of the cocoa used by the Arla group being UTZ certified. The remaining one per cent is organic cocoa that will be certified in the first quarter of 2013. Read more about cocoa production on the Ivory Coast on page 40.



Follow up on palm oil

Since 2011, Arla has been buying Green Palm Certificates covering the entire use of palm oil and palm oil related ingredients. Over the last few years, palm oil usage has increased. Our aim is to support the development of sustainable palm oil production. As a consequence, we revised our palm oil statement during 2012 and, as part of this, applied for membership of RSPO (Round table for Sustainable Palm Oil).





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

Market conduct

Mergers in Germany and the UK | Tough competition | Own brands increasing

Continuing growth on the global market

Growth means increased responsibility

Arla continues to deliver its growth strategy. Two mergers were completed during the year and both have been approved by the EU competition authorities. On 1 October the merger between Arla and the British dairy company, Milk Link, came into force, resulting in the company becoming the UK's largest dairy company. Official approval of the merger is subject to Arla selling Milk Link's Crediton dairy and, until its sale, Arla must operate the business at Crediton as a separate, independent business. Crediton dairy produces long-life milk and cream, flavoured dairy drinks and fresh bulk cream.

Coinciding with the development in the UK, a merger with the German dairy company, Milch-Union Hocheifel (MUH), also completed. MUH produces fresh and long-life dairy products at Pronsfeld in western Germany, close to the border with Belgium and Luxembourg. The merger means Arla is Germany's third largest dairy company.

When Arla merged with the Swedish dairy company Milko in autumn 2011, the Swedish competition authority approved the merger on the condition that Arla sold five of the Milko brands and the Milko dairy at Grådö in Sweden. During 2012 Arla fulfilled these obligations and sold the brands and the dairy to purchasers approved by the authority.

Different strategies on different markets

The mergers in the UK and Germany have enabled Arla to achieve two of its strategic goals for 2015 – to become the largest dairy company in the UK and one of the three largest dairy companies in Germany. We are the market leader in Denmark and Sweden, while in Finland and the Netherlands we are number two. Within all of these relatively mature markets we continue to face strong competition.

In emerging markets, such as China and Russia, the situation is markedly different. In these markets our products are sold primarily as premium products. Our goal first and foremost is to build Arla's global brands in selected cities and regions.

Arla has been present in the Middle East for several decades, and is still gaining market shares. Butter, cheese and cream have the strongest market positions.

Arla exports processed products and milk powder to many other countries and strives to make nutritional foods available in poorer countries, for example, Bangladesh and Nigeria. To make products with the same nutritional content at a lower price, we work with different ingredients.

No matter our position in the markets in which we operate, we endeavour to act ethically and professionally and always in accordance with applicable competitive regulations.

Closer to Nature™ gains momentum

Arla's Closer to Nature™ ambitions continue to be embedded throughout the company. Closer to Nature™ aims to ensure that our products are as natural as possible, that milk is produced on the farms in harmony with nature, and that Arla's own processes impact the environment and climate as little as possible. We have clearly defined, long-term goals for activities within the framework of Closer to Nature™ and an in-house system to monitor our progress.

Reviews of both ingredients and packaging developments are conducted at both national and global level, while other activities are subject to different focus in different countries. For example, this year in Denmark, Arla has made special efforts to reduce food waste, see article on page 28. The USA and Canada have focused on saving energy and Arla in the UK has launched many different eco-friendly initiatives. In the UK and Germany, Arla has also conducted activities which aim to encourage children and young people to spend time in the natural environment. In Finland and Sweden we have launched major campaigns to promote organic products this year. In many countries we have focused on spreading knowledge about how dairy farms work and carried out a series of activities in partnership with the dairy farmers. To learn more about environmental initiatives in Arla, see page 26.

In surveys carried out in Denmark, Sweden and Finland to understand what consumers expect from Closer to Nature™, their response was first and foremost that we should offer products without additives and that our processes have as little impact on nature as possible.



Dialogue with consumers

Consumers can voice their complaints and opinions via Arla Forum, our consumer contact service. The service also responds to questions on various subjects including product quality, packaging, advertising campaigns and recipes via telephone, email and letter. In general, the different types of issues that are raised in different countries and often reflect the topics being debated in society at that time. It is therefore important that we respond on a national basis. During the year several countries also have intensified consumer dialogue via social media channels, for example, Twitter, Facebook and blogs.

No of contacts	2010	2011	2012
Denmark	20,500	20,300	20,600
Sweden	28,000	26,500	26,400
Sweden (web)	40,000	45,000	45,000
UK	24,000	25,000	27,000
Finland	16,000	15,000	14,000
Germany	–	8,000	18,000
The Netherlands	5,800	6,100	5,500
USA	1,400	160	250
Canada	–	800	1,500

Consumer perception of Arla

In Denmark, Sweden and Finland we measure consumer perception of Arla annually. In general our products are awarded top scores. In all three countries consumer perception of Arla has decreased slightly. This appears to be a general trend which also applies to other companies. In Sweden and Finland we continue to have a very good reputation.

Consumers' feedback is that we should improve communication of our activities and aims, where our products originate, and how they are processed. Many believe that we should become more closely engaged in society and engage more in organic production and eco-friendly packaging.

	2010	2011	2012
Arla in Denmark	61.0	64.9	62.4
Arla in Sweden	71.3	77.7	76.4
Arla in Finland	69.5	73.1	70.5

The table shows the total scores on a scale from 0 to 100 (where 100 was best), which consumers gave Arla in a survey carried out by Reputation Institute, spring 2012.

Arla and own brands

In our core markets, the share of dairy products sold under customers' own labels varies from country to country. For example, in Germany and the UK, 81 and 85 per cent respectively of fresh milk is sold under the major retailers' own brands. In Denmark and Sweden this figure is lower, as 39 and 10 per cent respectively of fresh milk is sold under retailers' own brands.

The trend for products to be sold under retailers' own brands is likely to continue as has been the case in recent years, with the recession resulting in consumers increasingly choosing lower-priced products. For Arla it is important that producing products under both our own and our customer's brands is profitable. For example, in the UK and the Netherlands, we work in long-term partnerships with customers on product and range developments for mutual benefit.

Food inspiration

Knowledge of cookery, diet and ingredients are key to a healthy lifestyle, and Arla contributes in different ways, for example by providing recipes inspiring the general public to cook. Arla also contributes to cookery competitions, for example, the official Swedish Chef of the Year competition and a similar competition for confectioners. In Finland we sponsor the Finnish national cookery team. In 2012 the Danish recipe service, Karolines Køkken, celebrated its 50th anniversary with a new cook book and many cookery events.

In Sweden, Arla organises Arla Guldko, a competition for customers including retailers, schools and caterers. The competition aims to highlight shining examples, which can inspire others.

Customer's perception of Arla

Good relationships with all our customers are essential, and many of them express their appreciation for us as a partner and supplier. This reflects the fact that we take our responsibilities seriously and we play an active role in developing the industry. In Denmark, Sweden and the UK, Arla ranks as one of the top three suppliers to the retail sector. In Sweden for the second year in succession Arla is the company that wholesalers in the restaurant and catering industry prefer. In the UK Arla was awarded the title of 'Own Label Dairy Supplier of the year 2012'. In the Netherlands we took first place in a survey of the country's largest retailers, called the Advantage Report. In Spain we rank as one of the four best suppliers in terms of developing our product category. In many other countries, including the United Arab Emirates, Oman and Qatar, we measure customer satisfaction among our most important customers. In countries where our products are sold via distributors, it is more difficult to get a clear picture of what our customers think of us.

Arla subsidiary Rynkeby Foods is number 13 of the 20 largest suppliers to the Danish retail sector.



Confidence in products

Supplying safe products is Arla's top priority. And we strive to do more – we aim to make it possible for consumers to make their own informed choice of products based on clear information and knowledge.

Food safety

As a responsible food manufacturer we are dedicated to ensuring that eating and drinking our products does not cause illness or injury. We make every effort to ensure that our processes are safe and that high quality standards are maintained throughout the entire supply chain, from the raw material to the finished product. In the event of an issue we have full traceability of our raw materials, ingredients and end products enabling us to take immediate action. See page 18.

Food and health

Arla is committed to meeting consumer demand for healthy products and reliable nutritional information. We inform our consumers about the ingredients in all our products so they can choose those that best suit their tastes and fulfil their needs. Through research, we aim to increase our understanding of the role of dairy products in a balanced diet. See page 20.



*We meet consumer demand
for safe dairy products.*

Food safety

Food safety in focus | Quality philosophy becomes an export | Antibiotic awareness campaign

Safe products are our top priority

Well-established food safety tools

Food safety is a top priority at Arla and we have well-established procedures and methods to ensure that we can guarantee the quality of our products at all times. Within the group we are constantly increasing the number of production facilities in our portfolio and sometimes transfer production between different sites. Such activities naturally present extra challenges. However, one of Arla's advantages is that we can exploit a wealth of know-how within the group to take food safety to the next level.

To prevent hazards of any kind in processing, we employ a HACCP system (Hazard Analysis and Critical Control Point). All our dairy colleagues receive food safety and food hygiene training on a regular basis and relevant colleagues are trained in the use of the HACCP tool. Another important focus area is how to respond to incidents quickly and efficiently in order to limit the impact. We are working to introduce a common global set of rules, a Code of Practice, describing how to deal with incidents, for use at all Arla facilities around the world.

Allergen risk management and control are already well implemented in Arla. Dairies and product developers can turn to Arla Foods' Allergy Network for support. This is a cross-organisational group of specialists, whose aim is to gather knowledge, prevent allergy-related risks and ensure that this knowledge is put to good use in the organisation.

This is a sub-group of Arla's larger Food Safety Network, which works with food safety issues across the organisation.

During the year the number of customer and consumer enquiries about **chemical substances**, for example, Bisphenol A, phthalates, pesticides and heavy metals have increased. Analytical methods have improved, and we expect to see growing demand for more expertise in this area. To improve our skills, we engage with external specialists. We are also constantly striving to reduce the risk of contamination by, for example, making specific demands of our suppliers.

The **materials** used at the dairies for equipment and packaging are monitored to ensure that those which **come into contact with our products** do not constitute any risk. During the year we have improved equipment monitoring procedures and suppliers' documentation. Documentation is a challenge facing everyone in the industry and we share our knowledge internally and with other food companies.

Tracing raw materials and ingredients is also important. We continue to work to improve our procedures and evaluate proposed changes to production. In this way we can quickly and safely trace raw materials and products even though the task is becoming ever more complex because our facilities are increasing in size and there are more frequent product changes on the production lines.

Food safety certificates

One method by which to systematically increase food safety is to qualify for food safety certification. 51 of Arla's 74 production sites are certified according to the ISO 22000 food safety management standard. In the USA and Canada our dairies are certified according to the SQF (Safe Quality Food) Programme. Sites that remain to be certified according to ISO 22000 all meet national standards for food safety. During the year, in response to requests from customers, a number of sites have also been certified according to the new versions of BRC (British Retail Consortium) and IFS (International Food Standard). Maintaining several different types of food safety certificates is challenging, therefore Arla's long-term strategy is to apply the new FSSC 22000 food safety standard, which encompasses several other standards, including ISO 22000 and ISO/TS 22002-1/PAS 220. Dairy Fruit and some other plants are already working with FSSC 22000, and several of our dairies plan to do so in coming years.

Our production sites in the USA already meet the new requirements of the American Foods Safety Modernisation Act (FSMA). The revised legislation involves a shift in focus from control to preventive work. FSMA will, however, also bring about an increase in the number of inspections at facilities outside the USA, which may put more pressure on resources in Arla. During 2012 FDA (U.S. Food and Drug Administration) completed an inspection of some of our Danish sites, which received excellent feedback. They were praised for their high food safety standards.

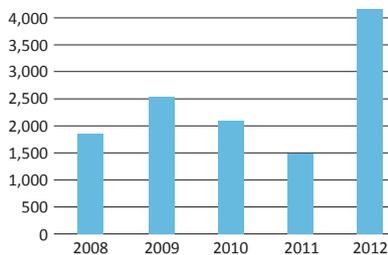
In Denmark a new law on heat-treating raspberries has been introduced following outbreaks of Norovirus sickness caused by contaminated raspberries. Rynkeby Foods and Dairy Fruit already meet the new requirements.

New Danish-Chinese knowledge centre

In partnership with Chinese Mengniu, Arla has created a knowledge centre promoting food safety, read more on page 31.



Discarded milk with antibiotics
tons/year in Sweden and Denmark



Sick animals are sometimes treated with antibiotics. Milk from the cow is discarded during the period of treatment and for a period of time afterwards. To ensure that no antibiotics remain in the milk we carry out checks and any milk containing antibiotics is discarded. During 2012 the volume of discarded milk increased and during the year milk has been discarded on 39 occasions.

During the spring the volume of milk discarded increased in Denmark. The increase led to a campaign among milk producers and their advisers to inform them in how to improve the way they handle medicines. We are continuing to focus on this issue. We have also carried out more tests and revised the guidelines for safe milking. The number of positive incidents registered on farm samples shows a slightly decrease throughout the year compared to 2011. However, despite these initiatives, more than twice the volume of milk has been discarded this year in Denmark compared with the previous year. In Sweden the volume of milk discarded continues to fall.

Product recalls

If we have to recall a product from consumers or stop a product that has been delivered to our customers, we have procedures in place to ensure that we can act immediately.

Despite our efforts and food safety routines, we have recalled products on six occasions during the year, since the products did not meet required standards.

	2008	2009	2010	2011	2012
Recalls	2	4	0	4	6

Recent research

Through research and development work, we strive to improve and refine our food safety analysis methods. Here are some examples:

Raw milk inspection Since 2010, Arla has worked with the dairy company Fonterra, and a leading supplier of analytical equipment to develop a method by which to test if raw milk has been deliberately contaminated. Pilot tests carried out this year were successful and the method will soon be tested at Mengniu's dairies in China. This will be one of the first tasks for the new China-Denmark Milk Technology Cooperation Centre. The aim of the centre is to promote food safety in the Chinese dairy industry. Read more on page 31.

Food safety maintenance During the year we have improved the predictive microbiology method we use to help estimating the microbiological shelf-life of our products. The method makes it easier and faster to develop new products while maintaining food safety standards.

Focus on listeria

The European authorities have intensified efforts to follow up on how companies meet the EU regulations regarding the *Listeria monocytogenes* which may cause serious disease. The regulations have been interpreted differently by the authorities in different EU member states. Arla has been working to reduce the risk of listeria in the factory environment for many years and we have well-established inspection and risk prevention procedures, which ensure that we reliably meet the EU requirements.

Longer shelf life, same quality standard

To make both our customers' and our own logistics and planning easier to manage, we strive to extend the shelf life of our products while maintaining their quality. One example is a milk drink produced at Stourton dairy in the UK. By making changes to the production process, we have increased shelf life from 15 to 20 days.



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

Food and health

Milk + exercise = health | Lactose-free expansion | New recipes for healthier products

Dairy products for everyone

Milk and physical activity

Arla aims to offer consumers not only healthy products but also information about their impact on health. During the year in Sweden, Denmark and the UK, we worked actively to communicate milk products' nutritional benefits in combination with physical activity. We sought to inspire our consumers to train and exercise, and, for example, some of our activities were linked to the London Olympic Games. Read more on page 22.

New EU health claims regulations

In May 2012 the EU published a new list of approved health claims. The new regulations restrict health communication on packaging and in advertising. The majority of the claims on the approved list concern vitamins and minerals and their effect on the body's physiological functions.

Arla has a range of products which contain bacteria which have a positive health impact, called probiotics. As yet no health claims relating to probiotic bacteria have been approved in the new legislation. Any company which wishes to make health claims for probiotic products must specifically apply for approval. The clinical studies on which the applications are founded must be carried out in accordance with the recently published EU guidelines. Arla has 40 years' experience in research and development into products with probiotic bacteria and we are now performing the studies needed to attain an approved

health claim for our products containing our own bacteria, *Lactobacillus casei F19*.

New health brand launched

In September we launched our new health brand Arla Wellness® in Sweden, initially. During its creation our product developers, marketing colleagues and research, nutrition and food legislation specialists worked closely to create products that have communicable health claims. Arla Wellness® is a product range comprising milk and yogurt products with added vitamin D, vitamin C, calcium and/or fibre. The products also contain lactic acid bacteria. We can make health claims about these products in relation to bone health, digestion and the immune system. However, the marketing communication, based on the new EU regulation on nutrition and health claims, has been questioned by a consumer organisation.

Healthy alternative products

In our efforts to offer consumers healthy alternative products, we strive to reduce the sugar, salt and fat content of existing products.

Following the natural stevioglycosides sweetener, which is extracted from the plant *Stevia rebaudiana*, or sweet leaf, being approved for use in the EU in autumn 2011, we have introduced products sweetened with Stevia on several European markets. Stevia is 300 times sweeter than

sugar and is used to replace artificial sweeteners in low-calorie products. One of the challenges in using Stevia as a sweetener is that its taste profile works better with some fruit flavours than with others. To ensure that taste isn't compromised, yogurt products are sweetened with a combination of Stevia and sugar.

It is difficult to reduce the amount of **salt** in cheese without jeopardising its flavour and consistency. In Denmark in particular, the salt content in cheese has been widely discussed and we have made special efforts to reduce it. By November 2013 we are confident that all our Danish cheeses will meet the Danish authorities' maximum thresholds. A higher salt content will be permitted for cheeses primarily intended for export and therefore sold only in limited quantities in Denmark. Between 2012 and 2015, Arla's global research and development unit will run a project to find an alternative to reduce the salt content in cheese. In the UK the salt content in butter has been reduced.

A number of products with a lower **fat content**, including butter, crème fraîche and several cottage cheeses, have been launched in the UK.

The so-called 'fat tax' introduced in Denmark in 2011 was withdrawn at the end of 2012, but this will not have any effect on Arla's efforts to continue to develop low-fat products.



Lactose-free expansion

Consumer interest in lactose-free products continues to increase. In volume terms, Sweden and Finland are by far our biggest markets for lactose-free milk – both fresh and long-life. Sales of lactose-free milk in Sweden have trebled since 2008 and doubled in the UK, whereas sales in Denmark have grown five-fold, although from a relatively modest level. Sales are approximately 10 times higher per person in Sweden than in Denmark. Finland is the country where Arla supplies the largest number of lactose-free products.

No. of lactose-free products

	2009	2010	2011	2012
Finland	20	31	30	37
Sweden	15	19	32	32
UK	8	9	11	11
Denmark	–	1	3	3
Germany	–	–	2	8

Consumer dialogue important

By listening to our consumers and acting on their feedback we have an excellent opportunity to adapt and develop products that suit their needs. On our European markets there is widespread interest in natural products and many people enquire about additives in our products. Another frequently asked question is which products are suitable for vegetarians. Public debate in different countries has an impact on our dialogue with

consumers. Various types of allergies have been discussed in Denmark, Germany, Finland and other countries. The health properties of homogenised milk have been discussed in Sweden. Lactose intolerance is another topical subject.

Cheese for vegetarians

We are frequently asked by vegetarians what kind of rennet/cheese enzymes we use in our hard and cream cheeses. Animal rennet is an enzyme extracted from calf stomachs. It coagulates the milk to form cheese curd. There are also microbial cheese enzymes. By using a microbial cheese enzyme, the cheese becomes suitable for vegetarians, and the cheese and whey protein can also be kosher-certified and Halal. The trend in the dairy industry is to use more microbial cheese enzyme and at the end of 2012 most of Arla's cheeses were produced using microbial enzyme. Exceptions include a number of protected brand-name cheeses in Sweden which continue to be produced using animal rennet. These product's recipes are protected and currently permit the use of animal rennet only.

AFESAC – new research committee

Arla has established a research committee, Arla Foods Executive Scientific Advisory Committee (AFESAC), whose members are leading global specialists in food, microbiology, technology, packaging, nutrition and consumer

High protein products

Consumers in Scandinavia are currently showing a great deal of interest in high protein products. During the year Arla launched milk, yogurt and yogurt drinks with extra milk protein. Cocio launched a protein-enriched chocolate milk. These products are suitable for people who engage in frequent physical training as the protein is beneficial for restitution and building muscle mass. They also facilitate an even protein intake throughout the day.

New whey product

Arla Foods Ingredients has developed a new whey-based product which can be used in pH-neutral drinks. The product opens new opportunities for developing clinical nutrition products, for example, products beneficial for building muscle mass and rehabilitation after illness. The product is unique because it can withstand the high temperatures necessary to produce products with a long shelf-life.

Arla launches organic infant formula

Arla Baby&Me® is a new range of organic infant formula and baby food which has already launched in Denmark and will soon be launched in Finland and China. During the development of the new product range, we followed in the footsteps of several mothers to study their daily lives, which gave us unique consumer insight.

behaviour. The research committee's task is to challenge Arla's research and development unit to push the barriers, and to ensure that the right strategic decisions are made to achieve continued growth in Arla.

Research project

Arla supports and plays an active part in a series of research projects which aim to develop good, high-quality and healthy food products, exemplified below.

The effect of probiotics administered to children in infancy. An EU project in partnership with Norrland's University Hospital in Umeå, Sweden.

Nutritional value in relation to environmental sustainability. A doctoral thesis at University of Copenhagen, Denmark, partly funded by Arla.

Innovative salt content reduction. In cooperation with other cheese producers and the universities in Aarhus and Copenhagen, Denmark.

A comparative study to evaluate a food supplement based on whey protein with a conventional food supplement based on peanuts and soy.

Tested as a treatment for undernourished children. A clinical study in cooperation with an American aid organisation.





Can milk provide more than nutrition?

Arla's goal is not only to sell milk and milk products, it is also to ensure that these contribute to consumers' well-being.

Arla works to make milk products available for as many people as possible, including consumers with lactose intolerance, for example, and people who must follow a special diet. One example is Arla Foods Ingredients which has developed a whey protein for use in the healthcare industry to accelerate the healing of muscle injuries. Arla also wants its products to contribute to consumers' well-being, but how do you do that when it is something beyond the company's sphere of influence?

"Well-being can be achieved in different ways," says Annika Strömberg who is health manager at Arla in Sweden. "If we think about well-being as health, Arla can work to communicate and provide information about the role of milk and milk products in a healthy and balanced diet. But we can also offer advice about how to lead a healthier lifestyle in general, such as the importance of exercise and good eating habits."

Milk as part of a balanced diet

In Northern and Western Europe, for example, milk has long been a staple commodity that has been available to

most people. In this part of the world, demand is in decline even though milk is a relatively inexpensive food with high nutritional value. This is despite consumer interest in nutritious diets increasing globally.

"In Sweden, new findings about possible negative effects of dairy consumption receive a lot of attention, making people unsure about the healthiness of milk. It has also been easy to pick on milk by saying that it is uncool or only for kids," says Annika Strömberg. "However in other countries, such as Spain, milk has been promoted as a healthy drink for adults, especially women."

In the Nordic region, new nutritional recommendations will be presented in 2013. These will focus on the importance of a balanced diet, in which milk provides a good and nutritious element. Despite the fact that current research cannot point to any clear link between saturated fat from milk and poor health, the recommendation from the authorities remains unchanged – we must reduce our consumption of saturated fat.

"There is so much in milk that is good. It is a natural source of 10 different vitamins and minerals that we need



Three British Olympic gold medalists (left) were part of a campaign to promote the benefits of milk, explains Ash Amirahmadi (middle), vice president for milk and member services and marketing at Arla in the UK. Annika Strömberg (right), health manager at Arla in Sweden, is convinced of the importance of milk as part of a balanced diet.

every single day,” says Annika Strömberg. “In Sweden and Finland, the majority of milk is also enriched with vitamin D, which many people in Northern Europe do not consume in sufficient quantities. Skimmed milk also contains very little fat. Those who exclude milk and milk products altogether from their diets can suffer from insufficient calcium intake.”

Milk + exercise = health

What has Arla been doing to communicate this message? For many years, the company has been contributing towards activities encouraging children and young people to exercise and be active, such as the Aktiv Rundt programme in Denmark, which aims to stimulate children to undertake physical activity, eat well and get the right amount of sleep. In the UK, Arla has been taking part in a joint industry campaign since 2010 aimed at young people – Make Mine Milk. The campaign uses well-known artists, actors and TV celebrities photographed with milk moustaches and talking about the benefits of milk. British athletes have also spoken about their training and milk’s goodness.

“Combining milk and sports is nothing new, but the campaign has definitely helped to reverse the negative trend of decreased milk consumption in the UK,” says Ash Amirahmadi, who is vice president for milk and member services and marketing at Arla in the UK. “Studies are now showing a distinct change in attitude among consumers. Today, milk is seen as a much ‘cooler’ drink. The fact that it has a low fat content and is highly nutritious also seems to have been accepted.”

The British campaign also explained in an easily understandable way what effect the different nutrients in milk have on the body. The link between milk and training was given a particular boost when three Olympic gold medalists, Laura Trott, Nicola Adams and Jade Jones [pictured], were used in the campaign in the autumn of 2012 directly after the Olympic Games in London.

“The campaign was primarily about grabbing attention, but once we reached the consumer, the main message was about milk’s nutritional content combined with the low fat content. By combining products with an active lifestyle, we

believe that consumers can achieve well-being and this is what we hope to inspire them to do,” says Ash Amirahmadi.

Arla sponsors Olympic venture

Another similar campaign has been taking place in Sweden, where Arla was chosen as official supplier to the Swedish Olympic Committee as well as a partner in a project that is aimed at bringing to life Olympic dreams among children and young people. The cooperation has enabled more active athletes to train to an elite level and has contributed to the Committee’s efforts to inspire children and young people. In conjunction with this, Arla’s packaging was redesigned to carry an Olympic theme and on the internet and in advertisements, sports stars talked about their training and what they ate before and after exercise in order to perform at their peak. Advice on diet and exercise was also shared.

“The nutritional content of milk makes it a suitable sports drink. It is a natural source of vitamins, minerals and carbohydrates, and the protein helps to rebuild muscles after exercise,” concludes Annika Strömberg.



Link for more information
www.makeminemilk.co.uk



Care for the environment and animal welfare

From international climate summits to turning the cows out to pasture on individual dairy farms. At Arla we address a wide range of environmental and agricultural issues. And our goal is always the same – to work consistently towards reducing our environmental and climate impact, and maintain high animal welfare standards.

Environment and climate

Food production and the transportation of products invariably affect the environment by discharging substances into the air, the fields and the water. Our ambition is therefore to minimise this discharge and continually reduce our environmental impact within the entire supply chain in order to contribute to sustainable development. See page 26.

Agriculture

We want to ensure that farms supplying milk to Arla operate in a way that shows respect for milk quality, animal welfare and the environment. Our milk suppliers must therefore adhere to our high standards when it comes to milk production, animal health and feed quality. See page 30.



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

Environment and climate

Reduced climate impact | Testing new fuels | Investments in energy-saving technology

Environmental strategy stimulates continual improvement

Environmental Strategy 2020 – in word and deed

Arla's current environmental strategy was launched in 2011. The strategy can be downloaded from www.arla.com. It is now beginning to make a difference. The strategy covers products' complete life cycle, from milk production on the farm to how consumers deal with packaging and leftovers. The section of the strategy focusing on the farm is described in the Agriculture chapter on page 30.

Lower greenhouse gas emissions

Within the framework of its environmental strategy, Arla's goal is to reduce greenhouse gas emissions from production, transportation and packaging by 25 per cent by 2020, compared to the 2005 levels. Emissions of greenhouse gases have continued to decrease during 2012. In 2013 further focus will be placed on reaching the 2020 goals.

Lower emissions from transportation

Arla is consistently working to optimise transportation and minimise fuel consumption. We have invested in new and larger vehicles to gain efficiencies. We have also revised routes and increased pumping speeds on our tankers to minimise idle running and therefore fuel consumption.

The merger of Milko and Arla in Sweden could have resulted in longer milk collection routes however, a

comprehensive review of the routes means our transport network is now more efficient.

Butter production at Westbury Dairies in the UK has increased, generating efficiencies. One of our biggest climate improvements has been the transfer of production of Anchor butter from New Zealand to the UK, where it is sold. It is now made in the UK from milk from UK farmers.

We strive to reduce our climate impact in different ways, for example, we are testing various types of fuels and alternative types of vehicles. In the UK, 11 lorries are so-far equipped to run on liquid natural gas and diesel. Liquid natural gas emits 24 per cent less carbon dioxide. In the UK we have also tested and now put into everyday use, a lorry that is a combined tanker and refrigerated vehicle which means it carries finished product on one leg of its journey and raw milk on its return to the dairy, which means it never runs empty and its performance is now being analysed.

In Denmark and Sweden, each milk collection truck driver is trained every five years in the use of energy-efficient driving techniques.

Difficult to achieve climate goal for packaging

Packaging innovations are enabling Arla to continue to reduce its climate impact in the UK. For example, during the autumn, new plastic bottles were evaluated and will

be introduced in the beginning of 2013. These weigh 15 per cent less than their predecessors and are made of 15 per cent recycled plastic. Our goal is to produce plastic bottles using 50 per cent recycled plastic.

For a long time now in Scandinavia and the Netherlands, Arla has packed liquid products in cartons and a large proportion of our packaging consequently has a low climate impact. This means that achieving a 25 per cent reduction in greenhouse gas emissions from packaging is a challenge. Paramount to any packaging developments is its ability to meet food safety, shelf life and logistics requirements. Furthermore, consumers expect packaging to be functional, for example, it must be easy to open and close.

Reduced consumption of water and energy

Arla's environmental strategy targets a reduction in water and energy consumption of three per cent a year until 2020. Also by this date, half of our energy consumption must originate from renewable energy sources. The consumption of water has decreased by 2.5 per cent and energy by 1.9 per cent, despite higher production volumes. Renewable energy usage has decreased from 17 to 16 per cent due to newly acquired sites using less renewable energy.

During the year DKK 133 million has been invested in special environmental and energy-saving initiatives. For example, Arla's milk powder plants Akafa and Arinco in

Denmark, and Visby in Sweden as well as Hollandtown dairy in the USA and the Cocio chocolate milk facility in Denmark have all adopted a variety of energy-saving changes, mainly by introducing heat recovery from production and optimising ventilation. Another energy-saving measure is switching to LED lighting. This has been done at several plants this year including Jönköping (Sweden), Stourton (UK), and Hollandtown (USA). The investment in new low-energy lamps has a 2–3 year payback.

In terms of renewable energy, during the year the milk powder plant in Visby now receives about 40 per cent of its energy as biogas, which is purchased from a unit that generates biogas mainly from manure from farms.

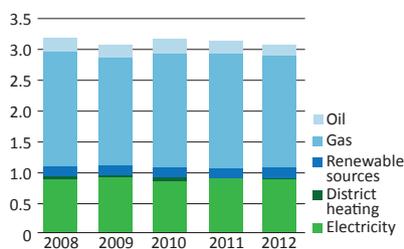
Smaller volume of waste

Another of the goals in the environmental strategy is to drastically reduce food and packaging waste. At Skövde in Sweden, the dairy has invested in new curdling tanks, which reduce product waste and considerably optimise the production processes. Another example is Kruså dairy in Denmark where production processes have been improved so that less cheese curd is wasted.

To enable consumers to waste less, milk cartons in Sweden and the Netherlands have carried information about how consumers should recycle the packaging. Learn more about Arla's intentions to help consumers minimise food waste on page 28.



Energy consumption
TWh



The diagram lists all Arla facilities at the end of 2012. Previous years' data has been updated. During 2012 improved production and energy efficiency has resulted in lower energy consumption despite larger production volumes.

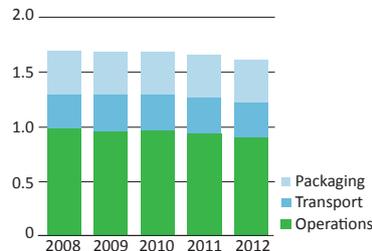
International climate partnerships

Arla participates in several international initiatives, the purpose of which is to minimise climate impact throughout the dairy supply chain. These include the Global Dairy Platform, International Dairy Federation and Sustainable Agriculture Initiative.

Discharges from plants

At Trolldhede dairy in Denmark there was an accidental discharge of sludge due to a defective seal. The damage was immediately repaired to ensure that the accident will not be repeated.

Climate impact
millions of tons CO₂-e



The diagram above lists Arla's main operational areas at the end of 2012. Since 2005, Arla's total climate impact has decreased by 7.8 per cent, this is despite increased production volumes. The greatest challenges to achieving the climate goal lie within the transport and packaging areas.

FSC-certified packaging

The transition to FSC cardboard in our liquid carton packaging has been initiated in Denmark, Sweden and the Netherlands. The Forest Stewardship Council (FSC) certificate means that the cardboard is produced from responsibly forested timber. We aim for all our liquid cartons to be made from responsibly forested timber.

Environmental awards

We frequently receive awards for our efforts to protect the environment and climate. During the year Arla in the Netherlands received the Dutch Lean & Green Star Award. In the UK we received several awards, including Recycling Business of the Year and Best Environmental Sustainability initiative, both for our zero waste to landfill achievement. Furthermore, the company has become the first major dairy processor in the UK to achieve the Carbon Trust Standard, which is awarded by one of the leading global organisations, that verifies companies' reduced greenhouse gas emissions.

Adverse criticism of climate compensation

Since 2009 Arla has compensated for emissions from Yoggi Yalla® production and during 2012 we also started to compensate for all Swedish organic products marketed under the Arla Eko® brand. We compensate for the impact we have on the climate by planting trees in Mozambique in partnership with the Plan Vivo foundation. At the end of 2012, Arla was criticised for this with one claim being that the farmers in Mozambique are not paid in accordance with the agreement and that our marketing promises more than we can deliver. Arla has taken this criticism seriously and we have launched an internal investigation.



Can Arla influence how much food is wasted?

In Europe, more than 25 per cent of the food is wasted.

The EU and other institutions have launched campaigns to reduce the waste. What can Arla do to help?

In recent years there has been significant focus on the vast amount of food that goes to waste. In Western countries food waste is calculated to be as high as 25–30 per cent. The fact that food waste accounts for 14 per cent of global greenhouse gas emissions further highlights the need for this to be addressed. In Arla's Environmental Strategy 2020, which was introduced in 2011, one of the four main points is an intention to reduce food waste. Arla wants to help consumers halve the amount of dairy products that are wasted, and the company also aims to reduce waste in its production processes.

"The kick-off for Arla in Denmark was the Environmental Strategy and, almost simultaneously, we signed an agreement with the Ministry of Environment in which, along with others in our industry, we promised to introduce a series of specific measures to reduce food waste," explains Maja Møller, who is responsible for stakeholder dialogue at Arla in Denmark.

While Arla can reduce waste internally, it is a big challenge to influence consumers when you don't have

complete control over their behaviour.

"We quickly realised that this complex issue needs to be approached from many different angles. To begin with, we decided that we could encourage consumers to purchase the amount of products they need, handle them correctly, use them before the 'best-before' date, and, above all, use up everything they buy. We aimed to make it easier to waste less!"

Many activities in a wide-ranging campaign

During 2012 work focused on creating awareness of the problem, finding solutions and producing new packaging to reduce waste. Karolines Køkken, Arla's Danish cookery service, focused on creating new recipes to make it easier to plan shopping and create meals using left-overs. To date Arla in Denmark has 160,000 subscribers to the weekly meal plans, which make sure that no ingredients are wasted. Even milk cartons are used to spread the eco-wise message.

"We have also upgraded our Smartphone recipe application to include an 'Empty fridge' function. For



Arla wants to help consumers halve the amount of dairy products that are wasted, explains Maja Møller, who is responsible for stakeholder dialogue at Arla in Denmark. For example, Arla has developed recipes that make it easier to plan grocery shopping as well as create meals using left-overs.

example, you can scan bar codes using the app to get good ideas for how the products in your fridge can be used in cooking. The idea was conceived after Christmas. We asked people on Facebook to tell us what they had left in their fridges and responded by posting short YouTube videos showing how to cook with the product, for example cheese left over after Christmas.”

In the coldstores at Arla sites there are sometimes products with a shelf-life that is too short to be sold in stores. One solution to avoid throwing the products away is to donate these products to charities, which distribute them to those in need. In Denmark, Arla cooperates with Fødevarebanken (The Food Bank) and there are similar partnerships on several Arla markets, including the Netherlands, Germany, Finland, the UK and Canada.

In terms of packaging that helps to reduce food waste, Maja Møller believes there’s still a long way to go. In Scandinavia Arla has traditionally marketed its products to households with children, and adjusted pack sizes accordingly. However, society has changed. Today there is also a need for packs suitable for smaller households. This presents Arla with a dilemma because the company faces tough competition for space on supermarket shelves, which limits the number of products it can supply. At the same time, Arla has to ensure that production is rational.

“One change which directly reduces waste is the reduction we have made to the size of butter packs, from 10 to 8 g. Studies revealed that as much as 40 per cent of each pack was wasted. We have also introduced a new yogurt carton, which makes it easier to use every last drop.”

Complementary campaigns

In Denmark the media has focused heavily on food waste during 2012 and each campaign has been superseded by another. Suddenly food waste has become a household term, which people can relate to, but does everyone react positively?

“The reaction to our initiative has generally been positive,” says Maja Møller, “and clearly what we are doing does benefit a lot of people. We aim to get close to

our consumers and this kind of issue makes this possible. Food waste is also a part of our supply chain so, as food producers, we believe it is a natural step for us to take.”

“There will always be people who react negatively – people who don’t like to use left-overs. To get to these consumers, we believe we should spread a more positive message. We aim to inspire people to use our products in new ways and we are working to change people’s attitudes. Maybe we are giving traditional housekeeping a modern twist? Basically, it’s all about planning. And if you plan well, you save time, which is in short supply for most of us.”

At Arla in Denmark, many different departments have been following up on how they have worked towards the goal of reducing food waste: sales, marketing, communications, production and logistics, to name but a few. Maja Møller believes that this is one of the reasons that the campaign has been so powerful and holistic, and that Arla in other countries and other organisations can learn much from the Danish initiative.

“Our goal is ambitious. The most important thing is that we work towards it and that we believe we can achieve it. We will only achieve our goal if we work together, both internally at Arla and, of course, with the consumers, and with others who share our interest, for example, the Danish organisation Stop Spild af Mad (Stop Wasting Food). We all have a duty to act socially responsibly.”



Reduced waste in Arla production processes

Reducing waste is one of the four main points in Arla’s Environmental Strategy 2020. On the one hand, this involves supporting consumers and, on the other, and equally importantly, reducing waste in Arla’s processes. Read more about this in the Environment and climate section on page 27.



We support sustainable agriculture.

Agriculture

Farmers' role in the environmental strategy | Organic milk surplus | Common quality programme

Towards even more sustainable dairy farming

Sustainable milk production in progress

Within the framework of the Arla environmental strategy presented in 2011, we continue the development of sustainable milk production. Four focus areas have been selected:

- **Feed** – Sustainable feed provision
- **Fertilizers & Nutrition** – Effective handling and usage
- **Energy** – Efficiency and renewable sources
- **Livestock & Nature** – Animal welfare and biological diversity

During 2013 new common goals for Arla's supplying farms will be identified, including the percentage by which the Arla farmers, in total, will be expected to reduce their greenhouse gas emissions. Members will be offered the opportunity to have their greenhouse gas emissions calculated at farm level and to receive advice and suggested areas for improvement. The aim is to include all Arla dairy farmers in this endeavour. However, for practical reasons, the initiative was launched initially in the UK, Denmark and Sweden. In the UK, meetings were held with about 30 per cent of the farms which belong to the Arla Foods Milk Partnership (AFMP). In Denmark and Sweden the majority of farm meetings are planned for the first quarter of 2013.

One of the most important inspirations for Arla's work to reduce climate impact is a research project written by a Ph.D. student employed at Arla. Through this research we have new knowledge about the factors which impact the climate at every stage of the dairy supply chain ending with the finished product. Now that we are equipped with new knowledge of these factors and the potential for improvement, actions can be prioritised. The research project was presented this year in a doctoral thesis, which attracted international attention.

Tough times for organic milk – and new opportunities

Arla is the world's largest supplier of organic milk but in the last two years the demand for organic milk has decreased significantly in Sweden, and to a lesser extent in Denmark. Organic farmers are feeling the effects of this reduced demand as the extra payment they receive for supplying organic milk, decreased in 2011 and again in 2012.

To boost the organic business, Danish organic milk is now being sold on the German market. Some Danish farms are certified in accordance with the German Naturland organic labelling scheme. Special marketing efforts have also been made in Denmark to coincide with the annual EcoDay in April, when the cows are turned out to pasture.

In Sweden, the wholesale price of organic milk has reduced and the price of conventional milk raised in order to narrow the gap. We have also intensified marketing efforts and updated the packaging of our basic range of organic products. In Sweden we compensate for the impact of producing these products on the climate by planting trees in Mozambique. Tree-planting also contributes to social development and biological diversity in Mozambique. This has been criticized, see page 27.

No new organic farms have been recruited since 2011.

The Arlagården® quality programme to Germany

Arla's quality assurance programme for milk production on the farm is important for us and also for our customers. The Arlagården® quality programme is applied in Sweden and Denmark and during the year we worked closely with representatives of our German members with a view to introducing the programme in Germany. An updated version of Arlagården® was introduced this winter and it will apply to all the German Arla members by the end of 2014. All German farms will be visited in 2013 and 2014.

In the UK all the farms which supply milk to Arla use the Red Tractor Farm Assurance scheme which is very similar to Arlagården®. In the future Arlagården® will also be introduced in the UK.

Quality philosophy becomes an export

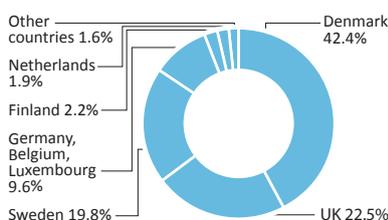
In partnership with Chinese Mengniu, Arla has opened a knowledge centre, called the China-Denmark Milk Technology and Cooperation Center. The centre, which has the support of both the Danish and Chinese authorities, will encourage cooperation between the dairy industries in both countries with the overall goal of promoting food safety. The Arlagården® quality programme was a contributory factor in reaching the agreement. Chinese companies are interested in learning from Arla's know-how and experience of maintaining high milk quality, traceability and monitoring milk quality on farm.

Sustainably cultivated soy

In January 2012 Arla decided to accelerate the transition to responsibly-produced soy in response to the adverse effects of soy production in South America on people and the environment. By 2015 all soy used to feed cattle on Arla farms must be cultivated in accordance with the principles and criteria of the RTRS, the Round Table on Responsible Soy. During the year, we engaged in dialogue with important stakeholders, initially in Denmark and Sweden, to find a common path towards the exclusive use of responsibly cultivated soy. For several years now, Arla has also supported Nordic research on alternative compound feed.



Arla's milk inflow



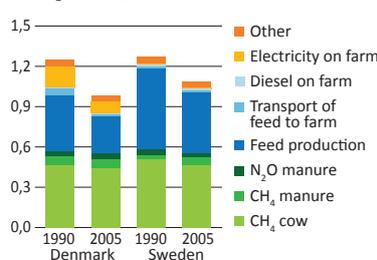
Approximately 15,600 farms supply milk to Arla in, Denmark, Sweden, Germany, the UK, Finland, Belgium and Luxembourg. This amounts to about 92 per cent of Arla's total volume. In these and other markets we also buy milk from other local suppliers which meet our quality standards. The total inflow of milk increased by 13 per cent during the year.

Improved milk quality

Arla is working to improve milk quality on farms in the long term. For example, we visit farms to give advice and test for heat-resistant (thermoduric) bacteria. In Sweden we visited about 90 farms and, as a result of the advice we gave, the incidence of bacteria reduced by approximately 60 per cent on these farms. In Denmark the visits reduced the average level of bacteria by 70 per cent. High milk quality gives a higher milk price per litre and therefore increases farmers' profitability.

Reduced climate impact

kg CO₂-e per kg milk



Arla works closely with the farmers to reduce the climate impact of dairy farming. We have developed a model for calculating the greenhouse gas emissions from farms. Arla has chosen 2005 as the year from which we will measure our continuous improvement activities. The diagram indicates by how much emissions have been reduced between 1990 and 2005 in Denmark and Sweden.

Technical advice for dairy farms

Arla provides technical advice, for example on milk storage room design, to Danish and Swedish dairy farmers. We have produced a check list for refurbishments, which includes guidelines for structuring such a process so that the equipment delivered meets the expectations of the farmer who ordered it.

Number of cows per farm

	2010	2011	2012
Denmark	134	141	153
UK	121	123	126
Sweden	62	66	70
Germany	45	47	49
Finland	24	25	28
Belgium	51	52	54
Luxembourg	57	57	58

Source: National industry organisations.

The number of cows per farm is a calculated average which includes all milk producers in each country.





Respectful relations

Arla has relationships with people, organisations, communities and countries. No matter what the relationship is, we are committed to maintaining mutual respect.

Workplace

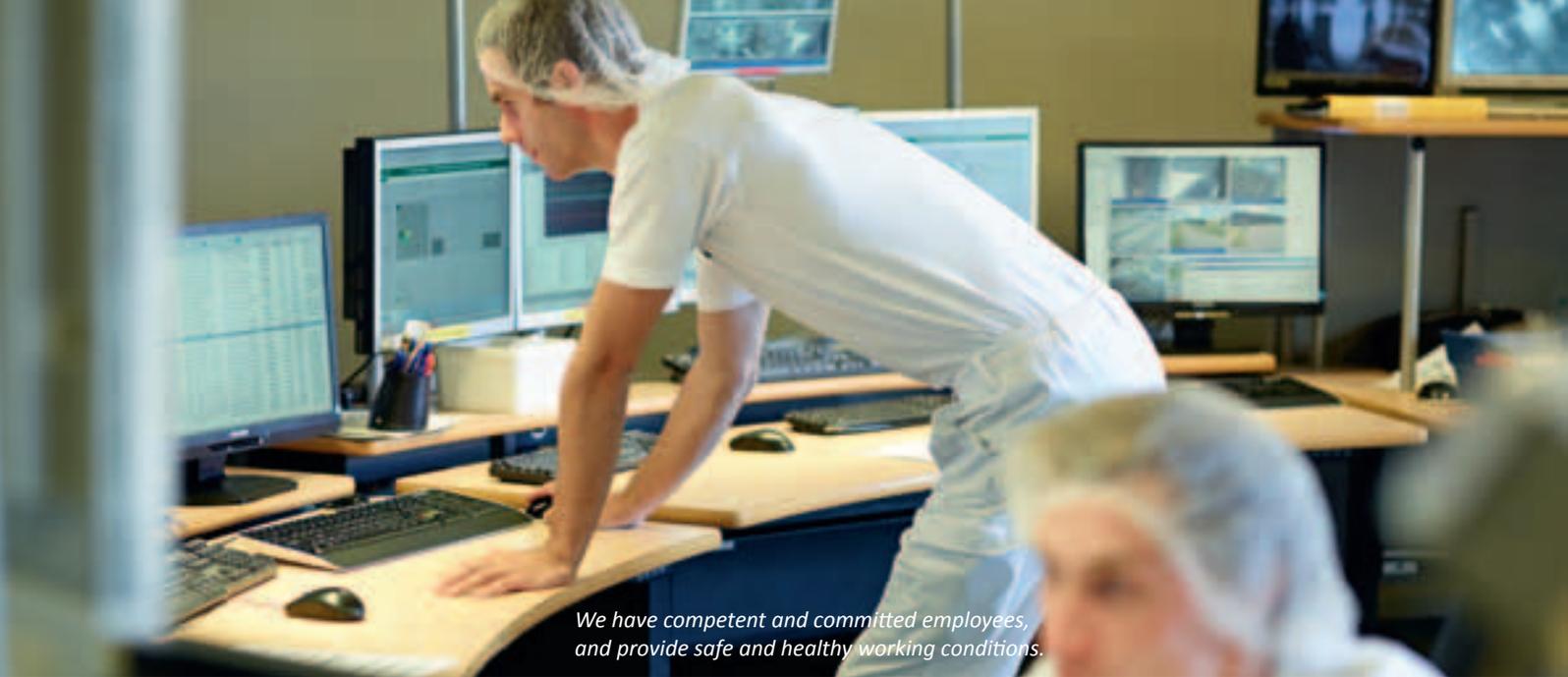
Arla has 19,600 colleagues in 30 countries throughout the world. We strive to continually improve our work environment and organisation. We also work to strengthen our corporate culture, Our Character, which describes what we stand for and how we behave in order to achieve our common targets, uniting us despite differences in historical and cultural backgrounds. If all colleagues enjoy good working conditions, and are committed to their work, together we can do the best job possible. See page 34.

Human rights

We have production facilities in many countries and our products are sold throughout the world. We also operate in countries that do not yet have fully recognised human rights or that do not yet live up to them. Regardless of the country in which we have operations, we maintain a firm conviction that the human rights of every individual should be respected and upheld. See page 38.

Community relations

We accept extensive responsibility for community relations within the framework of our core business. In addition, we endeavour to involve ourselves in wider social issues which are relevant to our business activities. We want to contribute to the development of communities and do so by building long-term relationships with people, businesses and organisations. See page 36.



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

Workplace

More Arla colleagues | Barometer improvements | Fewer accidents at work

Concern for colleagues' safety and well-being

An organisation for the future

Last spring a comprehensive programme of change was implemented throughout the company. The purpose being to make the organisation more transparent and flexible in order for it to take advantage of new strategic opportunities and economies of scale. A number of colleagues' positions primarily in Denmark, Sweden and the UK, were affected by organisational changes and redundancies in order to improve the company's competitiveness. To assist colleagues in finding new employment, Arla offered a number of activities, including coaching, CV writing and job search training.

Following rationalisation initiatives, mergers and acquisitions during the year, the total number of people employed at Arla increased to 19,600 colleagues.

The Barometer – the annual colleague survey

The Barometer 2012 was carried out in November and the results were available in mid-December. The survey was sent to over 14,000 colleagues in 29 countries and in 16 different languages. The response rate was 88.2 per cent.

The overall results from the survey show both highly engaged colleagues and a wish for senior leaders to communicate strategy and vision more clearly, to ensure

even better alignment. Although the 2012 results show improvements, colleagues still want less bureaucracy in Arla. The only score that has not increased is that for work environment. When it comes to change and the information about change, colleagues feel there is room for improvement.

Dairy education

Arla needs highly qualified colleagues and therefore contributes actively to education and training courses in Denmark, Sweden and the UK. At Kold College in Odense, Denmark, Swedish and Danish students are currently enrolled on dairy courses. Arla was among the companies behind this initiative and we continue to help develop the training. During 2012, 18 Danish students, all of them with upper secondary qualifications, began this training. Next year we hope to recruit students with the same level of schooling to at least 23 of the 60 places financed by Arla.

Arla in the UK was one of the driving forces behind EDEN (European Dairy Education Now), which is a broad-based professional dairy qualification which meets European standards. At present 25 Arla colleagues are taking part in dairy technology training courses through EDEN. Eight international students are also training to become dairy engineers at Copenhagen University in Denmark.

High score for leadership training

The ALP (Arla Leadership Programme) for middle managers and managers in Denmark, Sweden and the UK began in 2010. The aim of the training is to reinforce the connection between the company's ambitious strategy for growth and managers' individual areas of responsibility. As in previous years, participants give the programme a high score, averaging 4.4 on a five-point scale.

In the Middle East and Africa we continue to develop our managers and two ALP modules were delivered during the year. Commercial Roadmap training courses have also been conducted, which drives commercial excellence.

During the year we launched three additional leadership training schemes in Denmark, Sweden and the UK. One is for recently promoted managers and one for experienced managers who are new to Arla. ALP4 (Arla Leadership Programme for Functional Managers) was also introduced this year. This is a leadership training course for senior managers with responsibility for functional areas, for example, marketing directors, HR directors and dairy managers. Part of the course takes place at London Business School, which participants consider to be very positive. The course received top scores. Arla also offers Arla Specialist training (ASP) for the leaders of high-level specialist functions who are not line managers.

Continued focus on work safety

We are continuing to work with risk prevention at all our facilities. During the past two years, Arla in the UK has successfully reduced the number of workplace accidents by 40 per cent. One contributory factor has been that ambitious and clear goals for safety in the workplace are included in the company's business plan. During the year, increased attention has been placed on risk and incident reporting.

In Sweden, a system is in place which aims at systematically and continually improve the workplace. Initiatives include increased reporting of risks and incidents with a view to reducing the number of workplace accidents in the long term. In Denmark, the number of serious accidents with long term absence has decreased.

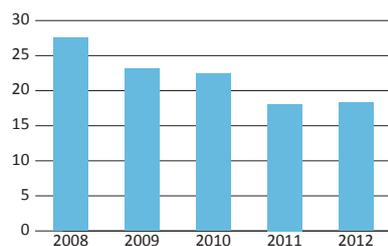
Focus on employer branding

It is important that Arla can attract and retain qualified colleagues. Even though our products are well-known, public awareness of what it is like to work at Arla can be further improved. Increased emphasis is being placed on the need to strengthen Arla's image as an employer. For example, during the year we attended job fairs and other similar events and colleagues are often invited to be guest speakers. We are also asking colleagues to be ambassadors for Arla as we know that the image projected by them plays an important part in the public's perception of the company. Our goal is for Arla to be considered an employer of choice which can attract the best talent.



Accidents at work

The number of workplace accidents involving more than one day's absence per one million working hours.



The total number of workplace accidents is approximately the same as last year, even though the number has increased in some countries. The total number has decreased by nearly a third since 2008.

Integrating the new companies

In May 2012, the integration programme for activities in Sundsvall and Östersund, Sweden, was finalised following the merger with the Swedish dairy company Milko. We worked hard to help the new Arla colleagues to adjust as quickly as possible and feel that they belong to the new organisation. Participants gave the introduction programme a score of 4.8 on a five-point scale.

Following the mergers in the UK and Germany during autumn 2012, a variety of activities are planned to ensure that new colleagues in the group understand the company's core values, culture and working methods.

Absence and colleague turnover

At Arla's facilities in Denmark, colleagues are now offered free treatment by a physiotherapist, chiropractor or masseur. This initiative has reduced short-term absence due to illness by 15 per cent and long-term absence by 20 per cent.

Absence due to illness has also been reduced in the Netherlands, where it is thought to be due to colleagues being offered training sessions led by a physiotherapist.

At Kruså dairy in Denmark, colleague turnover in 2012 was only a quarter of the turnover 2008, following the introduction of flexible working hours. During the high season, colleagues work every second Saturday and during the low season they can take part in training courses. In addition to the dairy's work with Lean (a method which engages colleagues in change processes), the workforce has become more engaged and productivity has increased.

Work environment awards

Three British former Milk Link creameries, Tuxford & Tebbutt, Reece's and Llandyrnog, each won the prestigious British Safety Council Sword of Honour award.

Birkum dairy in Denmark is nominated for the European Agency for Safety and Health at Work's work environmental prize for companies with fewer than 100 employees. The award is presented for good practice within risk prevention and management-employee cooperation.

Continuous skills development

In Denmark a survey has been carried out to map the reading, writing and mathematics skills of 4,000 colleagues. To date about 3,000 have taken part. About 20-25 per cent of these will be offered training with a view to improving their basic skills. A similar programme has been introduced at Oakthorpe dairy in the UK.

The Barometer results

Please read more about the results from the colleague survey on page 39.





We maintain good, respectful and constructive community relations.

Community relations

Broad social engagement | New youth health foundation | Popular farm visits

We build lasting relationships

Engagement is important

In markets where we are a major player it is even more important that we communicate our engagement in society. Increasing numbers of consumers study the companies responsible for the products they buy so it is imperative that we account for our actions and behaviour both in business and in other commitments linked to the company.

Arla's primary contribution to social development is to create jobs and economic growth in the areas in which we operate. Local heritage is important to us and therefore companies in the group are free to contribute to their local community in the way they feel is most appropriate and fosters most colleague involvement. There are several examples of local initiatives in the fact box on next page.

After the UK, Sweden and Denmark are the markets in which we have the highest turnover. In both countries Arla is a well-known company, which means that we have many opportunities to exert an influence on important issues. In Denmark, Arla's CEO chairs the government's food industry growth committee and he is also vice chairman of the Board of Aarhus University. During the year, in Denmark and Sweden, we have actively engaged in dialogue with politicians, members of the European parliament and government environmental and agricultural committees with a view to raising issues related to conditions in the dairy industry so that we can shoulder responsibility for sustainable development. In both countries we also interact

with, for example, The World Wild Fund for Nature (WWF) and nature preservation associations.

Another important area for us is disseminating knowledge of our products' origins, work on the farms and how milk is produced. In Sweden we invite about 50,000 schoolchildren a year to visit our farms and we provide teaching materials about life on the farm free of charge. Similar activities are offered in Denmark, Germany, Belgium and Luxembourg. In the UK and Denmark we also invite schoolchildren to visit our dairies.

As an international company we can contribute to education at different levels. In several countries we offer practical work experience placements, and subjects and tutorials for students as part of their examination work. Several of our colleagues are also guest lecturers for higher education training courses. Read more page 34.

The Children for Life project

Arla has run the Children for Life project since 2008. This is a long-term aid project, which aims to give underprivileged children a better future by providing food and sponsoring their education. From the outset we have worked with SOS Children's Villages in the Dominican Republic and since 2011 in Honduras too. In Bangladesh we continue to work in partnership with a local charity organisation.

The Children for Life project is intended to involve our colleagues in the local areas in which we operate and to

contribute to their development. We aim to find ways of providing aid that are connected with our products and that really do make a difference.

New foundation to promote youth health

In 2012, in Denmark Arla launched a new and long-term initiative: the Arla Foundation. The foundation will actively contribute to teaching 10 to 14-year-olds more about food, natural ingredients and physical exercise in order to inspire this generation to adopt a healthy lifestyle.

The foundation will work with other bodies involved in young people's eating habits and lifestyle. The foundation's Board comprises key Arla colleagues and external experts, whose specialist areas are relevant to the work of the foundation. In connection with the establishment of the foundation, Arla in Denmark has decided to reprioritise its other sponsor activities in order to increase its focus on encouraging young people to adopt a healthy lifestyle.



Arla farm visits

No. of visitors	2010	2011	2012
Cows out to pasture, Denmark	40,000	63,000	86,000
Cows out to pasture, Sweden	80,000	100,000	125,000
School farm visits, Denmark	10,000	15,000	11,500
School farm visits, Sweden	42,000	43,000	50,000
School farm visits, Germany	–	5,800*	9,500**

* Hansa Arla Milch ** Hansa Arla Milch and MUH

Visiting one of our supplying farms in the spring, when the cows are turned out to pasture, has become a very popular event. In 2012 there were more visitors than ever in Sweden and Denmark, and for the second consecutive year, visits to see the cows turned out to pasture were organised in Finland. In Denmark there were also open days on farms and festivals with a focus on nature, which attracted 126,000 visitors (2011: 145,000). In the UK we support our dairy farmers to make it possible for schoolchildren to visit their farms.

Communicating via milk cartons

In Sweden, Denmark and the Netherlands too, we use the back of milk cartons as a channel through which to educate and inspire consumers. Topics during the year included ecology, reducing food waste, information about the WWF Earth Hour and tips for an active lifestyle.

Food as charity

For quite some time, Arla has focused on reducing the volume of product wasted within the business and by consumers. In several countries, including the UK, Germany, Poland, Denmark, Finland and Spain, we cooperate with organisations, which ensure that products with a shelf-life that is too short to be sold to customers are donated to charity.

Arla as neighbour

At locations in which we already have operations and where we build new facilities, we acknowledge that we have an impact on the local area. In February 2012 construction began on the new dairy at Aylesbury in the UK. We involve local community representatives as much as possible at every stage of the project, and have regular meetings and publish a newsletter. Local people do raise concerns about the building and we respond as quickly and clearly as possible to the issues raised.

Arla's subsidiary Rynkeby Foods is currently building a new high bay warehouse, which has received criticism from local residents. We have done our utmost to ensure that building work creates as little disturbance as possible and we have held open meetings. The dilemma we face is that if we did not build the high bay warehouse, we would have to move the facility elsewhere.

Out and about in the natural environment

Arla is strongly committed to the natural environment and several of our projects aim to increase public interest in our forests, fields and lakes. Here are some examples:

Canada We sponsor nature experiences for schoolchildren. Colleagues contribute to the local area by collecting litter.

The Netherlands We encourage children to appreciate the value of biological diversity through tree-planting projects.

UK We encourage children to explore nature through our Kids Closer to Nature programme.

Germany We contribute to children's nature projects.

Sweden We offer school programmes including teaching materials and visits to the countryside.

Sport and a healthy lifestyle

Arla is keen to encourage people to adopt a healthy lifestyle. Here are some examples:

Denmark Football schools and projects, which encourage children to be physically active.

Poland Fun runs and training events for children and young people.

Russia Junior football tournaments.

Saudi Arabia We support projects, which aim to teach schoolchildren the importance of eating breakfast.

UK We sponsor a rugby team, whose members talk to schoolchildren about leading a healthy lifestyle.

Sweden We sponsor ski schools and children's ski competitions, and football and basketball tournaments for young people.

Sport, outdoor pursuits and charity partnerships

Arla takes part in a large number of projects for charity. Our engagement has a positive effect on our colleagues' pride and engagement as they can work together on activities, which are often outdoors and in addition to their everyday role.

Community projects

In the UK Arla's colleagues contribute to local communities via the **Community Challenge initiative**. In 2012 Arla contributed to 37 (2011: 46) different Community Challenge projects to a total value of DKK 145,000 (2011: 140,000). Another example is the Danish **Team Rynkeby** cycling event, where 790 riders in 13 Danish and four Swedish teams raised DKK 16 millions for the Children's Cancer Foundation in Sweden and Denmark. More examples of charity projects:

The Dominican Republic We help to pay for scientific literature and further training for doctors.

Canada We sponsor events where profits are donated to cancer research.

UK We partner a national cancer charity for which colleagues raise money.

Denmark Partnership with the Children's Cancer Foundation, where profits on a juice product are donated to the foundation. We sponsor a UN campaign, which aims to share information on specific results from aid projects.



We respect and support internationally recognised human rights.

Human rights

Continuous work with diversity | Women colleagues in Saudi Arabia | Stress still an issue

Equal rights for all

Focus on increasing diversity

In 2010 we started work on increasing diversity in Arla, and in 2011 we produced a strategy for creating a corporate culture which is diverse and has an inclusive approach. We want to ensure that everyone is treated equally regardless of their gender, ethnicity, social or national origins, race, skin colour, religion or beliefs, sexual orientation, political views, age, disability or marital status.

During 2012 work with diversity has focused on our recruitment processes and leadership training. We are striving to improve awareness of how we recruit. For example, we have considered the fact that all the photographs in our job advertisements show young people with a northern European appearance. As we wish to attract colleagues who represent society's diversity, because they add to our pool of skills and develop the company, we will change this.

More than 100 leaders in Denmark and a group in the Middle East have participated in training in diversity and how to work inclusively. Due to a reduction in the number of colleagues that could conduct the training, fewer people took part than originally planned and no similar training courses have been conducted in other countries.

To avoid communication barriers between the different countries and language groups, Arla has chosen English as our common company language. All company-wide functions must use English as their language of written

communication. Local languages may be used if necessary to reach a specific target group.

More nationalities represented in Arla

We seek to have colleagues at all levels of the company representing many different nationalities. Our systems do not currently allow us to measure the distribution of current and potential colleagues by nationality. A function of this kind will be introduced during 2013 in the countries in which it is permitted.

Following the completion of mergers during the year, Arla gained more owners and more colleagues, which we believe can lead to increased diversity.

Women working for Arla in Saudi Arabia

For several years now it has been Arla's goal to offer work to women in Saudi Arabia. This became possible for the first time last April. Developments in Saudi Arabia in recent years mean that it is now easier to employ women, although employers have to take special measures. For example, women and men are not allowed to work together in Saudi Arabia. This means that a number of practical issues have to be resolved.

At present there are 16 women employed at a packing plant at the Danya Foods plant in Riyadh. To make this possible, the women have a separate department with its own entrance, prayer room, changing rooms and toilet

facilities. Arla also arranges the women's transport to and from the workplace. Furthermore, at Arla's head office in Riyadh, we have employed a group of women to carry out market research.

Having female colleagues is also valuable because we learn more about Saudi consumers. There is great interest in working for Arla in Saudi Arabia and every week we receive a large number of applications from well-educated women.

The Barometer results

In the 2012 survey a number of the questions asked how well colleagues feel they are treated at the workplace. For example, do they believe that Arla takes personal concerns into account, takes care to maintain colleagues' work-life balance and takes action to prevent bullying in the workplace. The results show that despite colleagues acknowledging work is better organised, the incidence of stress has not decreased, similarly, the score for life work balance has not improved. The results show that bullying has decreased.

We have analysed the results from the last three Barometer surveys to establish if the age and gender of the respondent affected their responses. It has transpired that women are slightly more positive to their situation than men, and older people are more positive than younger people.

Dialogue in the Third World

When we visit and audit our partners in the Third World, we focus specifically on human rights issues, including child labour and working conditions. It is important that our business

partners understand our point of view and respect our Code of Conduct, which also encompasses many other issues.

In Nigeria we work with a packing plant and three packaging suppliers. These are visited twice a year, once by our partner and once by an Arla representative accompanied by our partner. During this year's visits there was no cause for concern and we noted that conditions, for example, the work environment and safety at the workplaces, have improved. In our dialogue with the suppliers, we are also aware that Arla is not the only customer requesting better working conditions, which means that workplace improvements are being introduced more quickly.

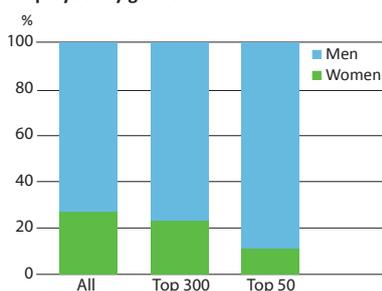
In Bangladesh, for some years now we have audited our packaging supplier twice a year. The audits include monitoring that employees' human rights are respected. In the latest audit, carried out in 2011, there was no cause for concern. In 2012, the organisation changed and the workers were employed by Arla. Therefore we have not carried out an audit but have maintained contact and paid visits as we do to any other department. There have been no obvious deviations from our Code of Conduct and our colleagues in Bangladesh know about the Code and its contents.

Partnership with Médecins sans Frontières

The humanitarian organisation Médecins sans Frontières helps people in crisis across the world. Arla Foods Ingredients has chosen to support this work through an annual financial donation and to inform MSF about our findings of clinical studies into the nutritional properties of milk components.

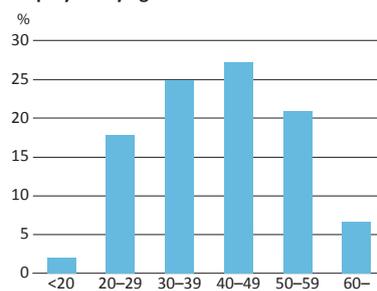


Employees by gender



The ratio of males to females varies in different parts of the organisation. Among our top managers there are significantly fewer women than men. The share of women among the top 300 managers has increased during 2012 from 17 to 23 per cent. At the lower managerial levels, the share of women is higher. One of our focus areas is to recruit more women to the most senior positions. As we have a strong recruitment base, in the longer term it should be possible to achieve a more even gender distribution in top management at Arla.

Employees by age



The variety of ages of Arla colleagues is currently satisfactory. Age should not be, and is not, a factor when we recruit people. Arla values the fact that its workforce comprises a balanced mix of ages.

European Work Council

As an employer, Arla respects the right of employees to form and join trade unions and to engage in collective bargaining. In addition to Arla's cooperation with representatives of trade union organisations at a national level, during the year we also continued to work with the European Work Council (EWC), which is Arla's international labour relations forum. In the EWC, representatives of the labour market organisations in Denmark, Sweden, the UK, Germany, the Netherlands, Finland and Poland meet members of corporate management and HR managers from business groups and functions.



Demand for certified cocoa will improve conditions for growers

Arla has paid attention to cocoa production for a long time recognising that cocoa farmers find it difficult to earn a living and child labour is therefore a very real risk.

Three years ago Arla decided that all the cocoa purchased by the group for its own branded products must be certified. It has taken time to implement this decision because supply has been limited. However, since 2011, all of the cocoa products from Arla subsidiary, Cocio, have been produced using UTZ-certified cocoa from the Ivory Coast, and since 2012 all the cocoa used in Arla branded products has also been certified. UTZ Certified is a certifying organisation which ensures that cocoa production is financially, environmentally and socially sustainable.

“UTZ cocoa costs considerably more, but we buy it because it is the right thing for us to do, not because consumers demand it,” says Mikael Horsbøll, marketing director at Cocio, which produces, markets and sells chocolate drinks. “We do not advertise the fact except for printing the UTZ logo on most of our packaging. We buy certified cocoa because we believe we have a responsibility to improve conditions for the cocoa growers and their families.”

Study tour to the Ivory Coast

In June 2012 Mikael Horsbøll travelled to the Ivory Coast with Arla buyer Jane Hansen and Sanne Vinther, who at the time was responsible for stakeholder relations in Arla. The trip had long been planned and was to follow up an audit in 2009 but it was postponed twice due to political unrest in the country. The schedule comprised visits to Arla’s main supplier, purchasing stations, growers’ cooperatives and agricultural schools, and meetings with a variety of international and local interest groups. The main purpose of the trip for the Arla representatives was to look at ways of counteracting the risk of child labour in cocoa production.

“This was my first visit to the Ivory Coast,” says Mikael Horsbøll, “and I knew that the people who live there do so in very different conditions to those in Europe. What struck me most was that we think so differently. For the cocoa farmers, what matters most is feeding their families here and now. When you realise this, you appreciate how complex the child labour issue really is.”



When the cocoa pods have been harvested they are opened and the beans are collected. The beans are then fermented to achieve the valuable cocoa taste before being dried, explains Mikael Horsbøll, marketing director at Cocio.

Responsible cocoa production

Production in the Ivory Coast faces two basic difficulties: the cocoa farmers are paid little for their crops and yields are low. Farmers can only just survive on the fruits of their labour and there is lack of knowledge of how good agricultural practices can increase yields of higher quality.

“We have learned that cocoa growing has to be achieved in a responsible way and that it has to provide an acceptable level of income. Only when these factors are met, will social conditions, including child labour, improve,” emphasises Mikael Horsbøll. “This is where UTZ Certified comes in.”

UTZ’s overriding strategy is to improve the cocoa farmers’ financial situation and thereby make it possible to continue to address environmental and social issues. To help support the process of certification, Arla’s main supplier runs a programme to develop, aid and support improvement of the cocoa farmers’ social conditions. For example, there are several local educational units with mobile agricultural schools where farmers learn to develop and improve their production in terms of both better yield and quality.

Education is key to prosperity

There is clear evidence that the farmers who attend school are making progress quickly, simply by learning new techniques and improved working methods. Farmers who receive training also become more receptive to other types of knowledge, for example, that children should never lift heavy weights or be exposed to hazards. Children may help to carry out household or other light duties but these should not prevent them from going to school, because gaining an education is most important.

“When you talk to the farmers, you realise that they, like us, want the best for their children and that they know what is best for them. They want their children to go to school, they don’t want them to work in the fields but they have had no choice and no opportunity to improve the situation for themselves.”

“It is clear that we have to support them to make

changes. If we don’t there is a great risk that they are forced to let their own children work to earn money for the family. This is why the UTZ programme works so well – yields are improving as is cocoa bean quality so the farmers are rewarded for the work they put into farming.”

Cooperative makes farmers stronger

Another of Arla’s focus areas is that, as far as possible, the cocoa should come from farmer-owned cooperatives, as this structure provides the most transparent supply chain. The cooperatives pay farmers a fairer price and, in the long term, support the building of financial stability for the individual farmer. Today, for example, an individual farmer can be persuaded to sell at a lower price to a travelling buyer from whom he (or she) gets cash in hand, even though he knows that he would get more for his crop if he sold it to the cooperative. The problem is that he might have to wait a week or more for his money.

“It is very unfortunate that we are unable to guarantee that children will have no involvement in the production of cocoa,” concludes Mikael Horsbøll, “however we are helping to make production sustainable for the farmers so that they can earn sufficient money from their work and avoid having to make their children work.”



About Arla cocoa processing

The bulk of Arla’s production of chocolate flavoured drinks takes place at Arla’s subsidiary Cocio in Esbjerg, Denmark, and at Esbjerg dairy. The products are marketed under brands such as Matilde®, Cocio® and Pucko®.

In addition to its main supplier, Arla works with other suppliers which provide smaller volumes of Arla’s cocoa.

UTZ Certified

For more information about UTZ Certified, visit www.utzcertified.org.



Which market is mentioned where?

The table below shows where information about a specific Arla market or subsidiary can be found in this report.

CHAPTER	PAGE	DK	UK	SE	DE	NL	FI	OTHER
Business principles	6–7		●	●	●	●		
Operational principles	8–9	●	●	●	●		●	Belgium, Luxembourg
Case study – owners	10–11		●	●				
Procurement	12–13	●	●	●		●		Dairy Fruit, Cocio China
Market conduct	14–15	●	●	●	●	●	●	Rynkeby Foods China, Russia, Bangladesh, Nigeria, USA, Canada, UAE, Oman, Qatar
Food safety	18–19	●	●	●			●	Rynkeby Foods, Dairy Fruit China, Canada, USA
Food and health	20–21	●	●	●	●		●	Arla Foods Ingredients, Cocio China
Case study – milk and health	22–23	●	●	●			●	Spain
Environment and climate	26–27	●	●	●		●		Cocio USA
Case study – food waste	28–29	●	●		●	●	●	Canada
Agriculture	30–31	●	●	●	●			China, Belgium, Luxembourg
Workplace	34–35	●	●	●	●	●		Middle East, Africa
Community relations	36–37	●	●	●	●	●	●	Rynkeby Foods Belgium, Luxembourg, Dominican Republic, Honduras, Bangladesh, Poland, Spain, Canada, Russia, Saudi Arabia
Human rights	38–39	●	●	●	●	●	●	Arla Foods Ingredients Saudi Arabia, Nigeria, Bangladesh, Poland
Case study – cocoa	40–41	●		●				Cocio



Arla supports the Global Compact

Five years ago, Arla signed up to the Global Compact, the UN initiative to promote ethical business practices. As a member, we are committed to observing the Global Compact's 10 fundamental principles. The table below shows where the content of this report relates to the 10 principles of the Global Compact.

The Global Compact principles

	BUSINESSES SHOULD...	ARLA EXAMPLES	PAGE
HUMAN RIGHTS	<ol style="list-style-type: none"> 1. support and respect the protection of internationally proclaimed human rights; and 2. make sure that they are not complicit in human rights abuses. 	Business principles Procurement Food and health Workplace Community relations Human rights Case study	6–7 12–13 20–21 34–35 36–37 38–39 40–41
LABOUR	<ol style="list-style-type: none"> 3. uphold the freedom of association and the effective recognition of the right to collective bargaining; 4. the elimination of all forms of forced and compulsory labour; 5. the effective abolition of child labour; and 6. the elimination of discrimination in respect of employment and occupation. 	Business principles Procurement Workplace Human rights Case study	6–7 12–13 34–35 38–39 40–41
ENVIRONMENT	<ol style="list-style-type: none"> 7. support a precautionary approach to environmental challenges; 8. undertake initiatives to promote greater environmental responsibility; and 9. encourage the development and diffusion of environmentally friendly technologies. 	Business principles Procurement Market conduct Environment and climate Case study Agriculture	6–7 12–13 14–15 26–27 28–29 30–31
ANTI-CORRUPTION	<ol style="list-style-type: none"> 10. work against corruption in all its forms, including extortion and bribery. 	Business principles	6–7

Since 2008, Arla has been a member of the Global Compact's Nordic Network, and in May 2009, Arla signed up to Caring for Climate, a voluntary and complementary action platform, which seeks to demonstrate leadership around the issue of climate change. In 2010, Arla's CEO Peder Tuborgh signed a CEO

Statement of Support for the Women's Empowerment Principles, an initiative from the Global Compact and UNIFEM (the UN Development Fund for Women).

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

Arla Foods a.m.b.a
Sønderhøj 14
DK-8260 Viby J.
Phone +45 89 38 10 00
Email arla@arlafoods.com

www.arla.com

