

2013

Corporate
Responsibility
Report

Our Responsibility

We want to grow
and we care about
how we do it.



Content

3

Foreword

4

About Arla

6

Responsible company

Business principles 8
Operational principles 10
Procurement 12
Market conduct 14
Case study 16

18

Confidence in products

Food safety 20
Food and health 22
Case study 24

34

Respectful relations

Workplace 36
Community relations 38
Case study 40
Human rights 42

26

Care for the environment and animal welfare

Environment and climate 28
Case study 30
Agriculture 32

44

Reference to Global Compact
Which market is mentioned where?

Unless otherwise indicated, the facts and figures in this report cover Arla Foods' fully owned dairy companies in 2013. Some examples from fully owned subsidiaries and joint venture dairy companies are also included. The report's chapters correspond to the 11 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.

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We want to **grow** and we **care** about **how** we do it. We address **ethical** and **quality** matters in a **sustainable** and **responsible** manner, to safeguard the company's **reputation**, **profitability** and **growth**.

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 our CEO 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. We have chosen to group these areas under the four themes: Responsible company, Confidence in products, Care for the environment and animal welfare and Respectful relations.

Welcome to our 2013 **Corporate Responsibility 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.

Sustainability and profitability go hand in hand



More owners, more colleagues, new facilities and new markets. We continue to grow, and we care about how we grow. A responsible approach is a prerequisite for Arla's long-term success.

In 2013, Arla laid the foundations for continued growth, something for which we have long been striving. Previously merged companies are now integrated into the organisation, milk volumes have increased and, at the turn of the year, we welcomed more farmer owners. Furthermore, we have succeeded in increasing the amount we pay our owners for their milk. Equally as important as these achievements is that we have continued to work responsibly.

Progress in sustainability and responsibility

This year is the seventh year that we are presenting a sustainability report at group level. Over the years, our responsibility efforts have evolved and now naturally form part of daily life at Arla. *Responsible* is one of the four cornerstones in our identity, and we will continue to work to strengthen and broaden the understanding of what this area means to us. We are also applying this holistic approach as we expand into new markets and when we open new facilities.

As this year's report demonstrates, our efforts in relation to processes, procedures and monitoring have become increasingly standardised and global and, as a result, transparency within our business is increasing. Procedures for evaluating suppliers, tools to ensure food safety and the implementation of the Arlagården® quality programme in more countries are just three examples. We have also taken a more global approach with our management training programmes and we strive to increase the diversity of our workforce when recruiting.

Our democratic structure has been reviewed in light of a growing number of owners from an increasing number of countries. This has resulted in a model that better satisfies the interests of all our owners. The impending adaptation of regulations and adjustment of our owner payment models will also ensure the equal treatment of all Arla farmers.

The development of the democratic structure is a good example of working collaborately, which is a characteristic of the second cornerstone: *cooperative*. The two remaining cornerstones are *healthy* and *natural*, and we have increased our focus on health and continued our development of natural products during 2013.

Arla supports Global Compact

Six 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 corporate culture and strategies, and communicating these to our colleagues, owners, suppliers, partners and the world around us.

In this report, which is part of this work, we present a selection of the initiatives that have taken place during the past year. This report also forms part of Arla's Annual Report 2013 which is available to download at www.arla.com.

Our focus going forward

Our new vision, mission and strategy for Arla, which were presented at the beginning of the year, have evolved from words to action. By being clear about what we're doing and why we're doing it, we are achieving our goals more easily.

Health will continue to be important to us, as will continuing our environmental work, particularly further improvements in sustainable dairy farming. We also have plans to develop a global initiative for community involvement that the whole of Arla can collectively embrace. Furthermore, we will, in the coming year, assess our global performance against the United Nations' Guiding principles for Human Rights.

In all areas of responsibility, we want to be as open and transparent as possible. On-going dialogue with all our stakeholders is important, and we will strive to communicate with ever more clarity what we are doing and how and whether we are delivering on the commitments we have made.

May 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 2014

Peder Tuborgh, CEO

About Arla

Arla Foods is a global dairy group and cooperative owned by dairy farmers in Sweden, Denmark, UK, Germany, Belgium and Luxembourg. Our products are sold under well-known brands in more than 100 countries. We have production facilities in 11 countries and sales offices in 30. Arla is the world's sixth largest dairy company and the world's largest supplier of organic dairy products.

New vision, mission and strategy

In January 2013, Arla presented its new vision, mission and strategy. Arla's new vision reads: Creating the future of dairy to bring health and inspiration to the world, naturally. Our mission clarifies our purpose, which is to secure the highest value for our farmers' milk while creating opportunities for their growth.

Strategy 2017 outlines Arla's increased focus in Russia, China, the Middle East and Africa and its aim to double the sale of ingredients to the food industry. Innovation and profitability are the key areas of focus for Arla's core markets in Northern Europe.

Larger companies and more owners

In Northern Europe, Arla has focused on streamlining production and integrating new businesses in Germany and the UK. In Pronsfeld, Germany, an already large facility has been extended to handle milk powder and butter and, at the end of the year, the world's largest fresh milk dairy began production just outside London in Aylesbury, UK. At the turn of the year 2014, Arla welcomed approximately 1,300 new owners from the UK, increasing security of access to raw milk in this key market.

Higher milk price for owners

During 2013, the overall milk price increased by DKK 0.34 compared to 2012. This increase was possible due to increased global demand

for dairy products. Arla has also implemented a series of internal cost-saving measures in order to improve the potential to raise the milk price.

New democratic structure

At the start of the year, the Board of Representatives – Arla's most senior decision-making body – voted to introduce a new model for the democratic membership organisation. Key changes are the revised distribution of seats within the Board of Representatives, fewer members on the Board of Directors, and the introduction of national councils as sub-committees to the Board.

Quality assured and sustainable milk production

Arla is continuing its focus on high quality milk and sustainable milk production. The Arlagården® quality programme, which has been in place in Denmark and Sweden for the last decade, has now been introduced in Germany, Belgium and Luxembourg. Starting in 2014, Arlagården® will also be adopted by the British owners. In addition, there have been continued efforts to develop a strategy for sustainable milk production. This new strategy will be presented in 2014.

Owners

Arla Foods is an agricultural cooperative owned by 12,629 dairy farmers in Sweden, Denmark, UK, Germany, Belgium and Luxembourg.

Management

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

Net revenue

DKK 73.6 billion (EUR 9.86 billion), of which 71 per cent comes from our core markets of UK, Sweden, Germany, Denmark, Finland and the Netherlands.

Number of colleagues, average full time employed

Denmark	7,503
UK	3,852
Sweden	3,466
Germany	1,865
Netherlands	301
Finland	297
Saudi Arabia	808
Eastern Europe	496
North America	426
Other countries	563
Total	19,577

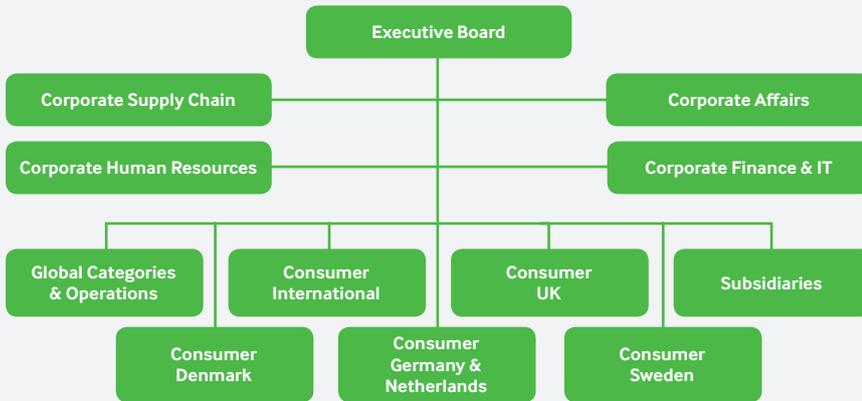
Profit for the year

DKK 2.2 billion (EUR 295 million).

Raw milk in million of kilos

Denmark	4,508
UK	3,580
Sweden	2,016
Germany	1,547
Finland	275
Belgium	253
Netherlands	220
Luxembourg	111
Other countries	166
Total	12,676

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.

Corporate Human Resources handles colleague and organisational development matters 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.

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

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

Consumer Sweden, also including Finland, under the management of Christer Åberg, until July 2013, followed by Henri De Sauvage from December 1, 2013.

Consumer UK, under the management of Peter Lauritzen.

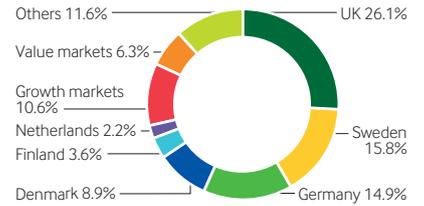
Consumer Germany & Netherlands, under the management of Tim Ørting Jørgensen.

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

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.

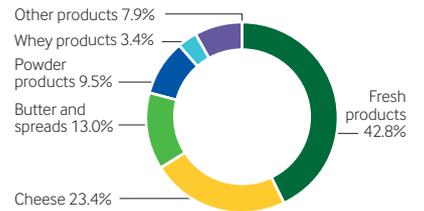
Subsidiaries wholly owned by Arla: Arla Foods Ingredients, Rynkeby Foods, Cocio and Dairy Fruit.

Revenue by market



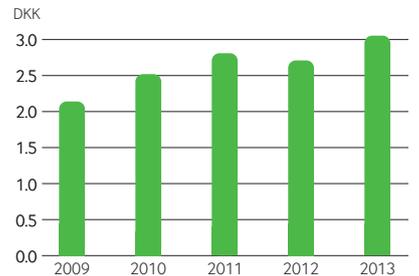
Arla's total revenue has increased by 16.6 per cent since 2012.

Revenue by product group



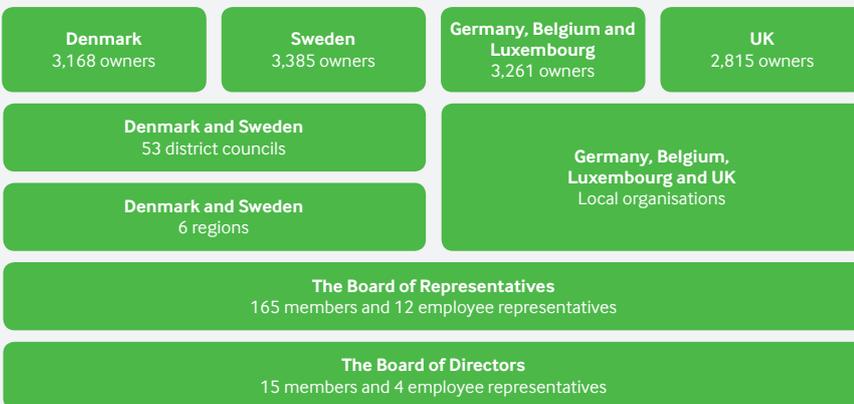
Powder products have increased their contribution to Arla's total revenue, reflecting the development on the global dairy market.

Milk price



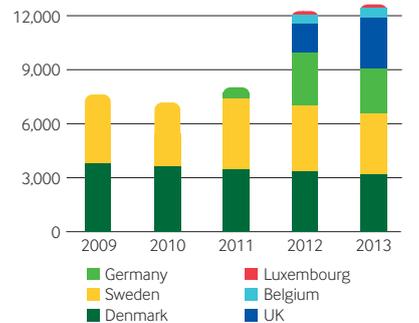
The diagram shows the average price per kilo of milk paid to owners during the year, including supplementary payments.

Owner democracy



The chart shows the number of members/owners on December 31, 2013, including the 1,291 new British owners. 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.

Owners in Arla



For the year 2013, the diagram shows the number of owners, including the 1,291 new British owners. Compared to December 2012, this is an increase of three per cent.

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, Great Britain, Germany, 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 8.

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 10.

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 manner. See page 12.

Market conduct

We must constantly adapt to the increasingly competitive, fast-moving and international marketplace. 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, consumers and other stakeholders, we create the right conditions for trust. See page 14.

The photograph shows the Pronsfeld site in Germany.



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

BUSINESS PRINCIPLES

Fair business and good citizenship

- Strengthened foundation for compliance
- New gender balance legislation
- Support for Global Compact

Focus on competition law compliance

Arla is committed to meeting or exceeding all applicable laws, rules and regulations in force in the countries in which we are active. Therefore, compliance is an important part of our commitment to being a responsible business.

One element is our compliance with competition laws. Arla has implemented a compliance policy and systematically trains relevant colleagues globally. The compliance training materials and tools are continually updated and we have increased the amount of training we conduct over the years. During 2013, more than 570 colleagues have participated in the face-to-face training. Arla's commitment to competition law compliance is undisputed. However, the pace of the group's expansion across several legal jurisdictions inevitably puts pressure on the implementation of the competition law compliance programme. For this reason, in 2013, we decided to increase our level of ambition in respect of competition law compliance training and activities, and to strengthen the foundation elements of the compliance programme. As part of this exercise a global Compliance Manager has been appointed.

The compliance and control culture in Arla

As Arla grows one of the challenges we face is ensuring that our ethical values and Arla's Code of Conduct are adopted in new parts of the company. Standardised global processes and a sound foundation from which to make decisions are also prerequisites for being able to act responsibly as an increasingly global business. Arla is constantly working to enhance its control mechanisms as it grows. Internal controls that begin at the top of the organisation and span the various business groups serve to increase transparency and minimise our exposure to risk. These controls will add value to our business and ensure that we maintain our commitment to comply with our business principles.

As part of this strong control culture in Arla, the Global Risk and Compliance function has visited companies within Arla to verify compliance with the internal control framework, internal guidelines and policies. The conclusions from the visits have been communicated and formalised in reports to the Executive Management Group and are reported annually to the Board of Directors.

In 2013, we increased our efforts to strengthen our compliance and control culture with the following measures:

Establishment of a Compliance and Control Committee whose purpose is to ensure that Arla maintains its commitment to remain compliant as we continue to grow globally.

Launch of a Global Anti-fraud Policy. During its implementation, fraud inspections of companies within Arla were conducted to verify compliance.

Creation of a Global Fraud Response Plan that clarifies the responsibilities of managers in Arla.

Launch of Fraud Awareness Programme to continue awareness training for colleagues as an essential element in effectively communicating the company's antifraud position and fraud related policies.

The work on strengthening the antifraud culture in Arla has only begun recently and will be supported by further activities in 2014.

New legislation for gender balance

In April 2013, new legislation came into force in Denmark, requiring the largest Danish companies to report on the actions they are taking to ensure that more women are leaders at senior management level. As a Danish cooperative, Arla Foods a.m.b.a, falls within the scope of the new legislation and is therefore required to adopt a policy on how to increase the number of women in top and upper management positions and the number of women on the Board of Directors. Arla must also adopt fixed target levels for gender diversity within these groups and report annually on the current status and the progress being made.

In 2010, Arla developed its general strategy for diversity and inclusion and set out long-term targets to take us to 2020. We have now increased our emphasis on this area and set more

targets for 2017 to meet the requirements of the new legislation. In our 2013 annual report we report in accordance with this. The target for gender composition in the Board of Directors will be decided in a long-term process by the Board during 2014. For more information on diversity and inclusion and gender targets, please see page 42.

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.

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.

Since 2008, Arla has been an active member of the Global Compact's Nordic Network. 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).

Whistleblowing reports

In 2012, a whistleblowing function was implemented in Arla. The function provides an additional opportunity for colleagues to report information about possible irregularities and is an additional tool for them to voice their concerns if they feel that they cannot share these with their manager or they feel that management has not adequately addressed their concern. The function is available to most Arla colleagues globally and we plan to make it available to all parts of the former MUH and Milk Link organisations, which joined the Arla group in 2012.

The team of four Arla whistleblower case handlers has, since the start, received 16 reports from five different countries, mainly regarding theft, accounting, health and safety as well as inappropriate behaviour. All reports have been reviewed by the case handlers. In some cases the case handlers have concluded that, following investigations, the reported misconduct could be verified and corrective actions have been taken. In other cases the reported conduct was either out of scope or the investigations concluded that the reported conduct could not be substantiated.

Bribery and facilitation payments

In 2010, Arla adopted a policy on bribery, facilitation payments and gifts. In April 2013, the CSR Committee discussed the level of implementation of the policy and concluded that the policy has been diligently implemented and that the level of awareness in the group is satisfactory, although

there still needs to be continued focus and management attention in this area. As in 2011 and 2012, no reporting of facilitation payments has been made in 2013.

Contracts focus on Code of Conduct

Arla is committed to ensuring that its Code of Conduct is an integral part of doing business with third parties. Throughout the year, there has been continued focus on deploying the principles in the Code of Conduct in relation to Arla's suppliers. During the revision of Arla's global model for procurement contracts and model contracts for investments and capital expenditure, we have maintained continued focus on the implementation of the Code of Conduct when working with suppliers.

Different opinions on Arla Wellness®

In Sweden, Arla has appealed against a decision taken by the Stockholm Environment and Health Board regarding the labeling of the Arla Wellness® products. The Board believes that the labeling is not fully compliant with the regulations governing nutrition and health claims and that Arla should make some changes. Arla does not believe this to be the case.

Selection model for partnerships

As part of its growth strategy, Arla is continuously establishing partnerships around the globe with local partners which sell our milk-based products. A partnership selection model has now been developed whereby potential local partners are

screened and measured against predetermined financial, legal and corporate social responsibility criteria.

Potential partners which pass through this stage of selection successfully then undergo an initial screening before a due diligence process is undertaken and a more detailed analysis takes place. The findings are used as an important parameter in the selection of business partners and aim to ensure that our business partners satisfy our requirements to commit to fair business practises and good citizenship.

CSR committee focus in 2013

At the CSR Committee's ordinary meetings in 2013, the findings and consequences from the 2012 CSR Report have been discussed as well as matters relating to the safeguarding of the company's values and the responsibility Arla has when entering new partnerships and emerging markets. How to ensure continual progress with regards to diversity and inclusion has also been on the agenda.

30

countries where Arla has production and/or sales offices.



OPERATIONAL PRINCIPLES

A cooperative which reflects the interests of all owners

- **A new democratic structure**
- **Milk price increases**
- **More British owners**

A new democratic model

Following mergers with Hansa Milch, Milk Link and MUH, in recent years, Arla's owners have discussed the cooperative's democratic structure. The aim has been to establish one global set up that promotes the interest of all owners. In February 2013, the Board of Representatives, Arla's highest decision-making body, took the decision to introduce a new democratic organisation based on the member democracy that has been the core of the company for more than 100 years. In the new organisation, the company's decision-making bodies, the Board of Representatives and Board of Directors, will remain the same but seats will be allocated differently. The allocation of seats between corporate members (Hansa Arla Milch, Arla Milk Link and MUH Arla) and owners in Denmark and Sweden, respectively, will be based on capital contributions. The Danish and Swedish seats will be allocated according to milk volumes and member numbers.

The Board of Representatives adopted new, clearer rules for governance in 2013. It was also resolved that the number of directors would be reduced and that national councils would be introduced to serve as sub-committees to the Board of Directors.

The purpose of national councils is to ensure that adequate

attention is paid to issues close to the farmer, primarily global, but also issues of national interest, and ensure balance between national and global perspectives. National councils have been established in Denmark, Sweden and the UK along with a single council for Germany/Belgium/Luxembourg. The four national councils make recommendations to the Board of Directors.

As part of working with Strategy 2017, Arla will be undergoing several changes over the next few years. For that reason it is a challenge for the cooperative to ensure that all members have a good understanding of Arla's business and feel that they have influence. Another principle is that the same rules and requirements should apply to all Arla farmers, regardless of country, and a regulatory framework will, in time, be developed and implemented.

A higher milk price for our owners

Arla increased the price it pays its owners for their milk in 2013. The price was increased six times. Arla's performance price (the payment to members plus consolidation) for 2013 was DKK 3.05 per kg milk, which is an increase of 13 per cent on 2012. The higher milk price is due to an improved global market situation and rising demand for milk products. Retail prices of dairy products were also raised during the year.

Arla's milk price is still affected by the economic recession in Europe, where consumers are showing a preference for low-price products over our branded products. The strong increase in

demand is taking place in markets outside Europe, which is why Arla's 2017 Strategy focuses on growth in these markets. While the higher milk price paid to Arla's owners has improved the financial situation for farmers, many Arla farmers' finances are still under pressure due to the increased cost of purchases for the farm, such as animal feeds and fuel.

The same rules for all

Corporate members of the cooperative in the UK and Germany receive the same price for the milk they supply as individual owners in Denmark and Sweden, however corporate members distribute the payment according to their local settlement models. In order to ensure that the same rules and requirements are applied to all Arla milk, regardless of country, a project called One Arla Settlement has been initiated. The objective is to develop a proposal, through discussions in the national councils, for a model for calculating the milk price that is equitable and easy to understand.

Developing a model that works in all countries is a complex task. We expect the new settlement model to be implemented step by step in the coming years.

New British owners

In summer 2013, Arla's Board of Directors presented a proposal to the UK supplier group Arla Foods Milk Partnership (AFMP) for it to become a corporate member of Arla with the aim of strengthening Arla's UK business. In October, the proposal was accepted by Arla's Board of Representatives as well as AFMP, which means that 1,291 British farmers became owners of Arla at the turn of the year 2014. The decision was preceded by discussions on how to structure the offer to ensure that existing owners were not disadvantaged. Over the coming two years our new British owners will pay a levy and they will, like all other owners in Arla, also contribute to annual consolidation in Arla.

Arla now has four corporate members: Arla Milk Cooperative Ltd (UK) with 1,291 individual members, Hansa Arla Milch eG (Germany) with 750 individual members, Arla Milk Link Limited (UK) with 1,524 individual members and MUH Arla eG (Germany) with 2,511 individual members.

Owner and supplier facts

	2011	2012	2013
Owners, total	8,024	12,256	12,629
- of which in Sweden	3,865	3,661	3,385
- of which in Denmark	3,514	3,354	3,168
- of which in Germany, Belgium and Luxembourg	645	3,657	3,261
- of which in the UK	–	1,584	2,815*
Members of AFMP in the UK	1,330	1,232	–
Suppliers in Finland	1,000	813	609
- of which are under contract	243	223	408
Suppliers in Germany (Arla Foods Käsereien)	1,338	1,388	1,253
Motions to the meeting of the Board of Representatives	1	2	10
Participants in owner seminars	200	0	1,047
Appeals to the Arlagården® appeal groups in Sweden and Denmark	13	21	17

*As of December 31, 2013, 1,291 farmers became members/owners of Arla.

At the end of 2013, the amount of owners/ members was 12,629. Compared to December 2012, this is an increase of three per cent. In 2013 the volume of milk received from Arla's owners increased by 26 per cent compared with 2012.

Each year approximately 60 per cent of Arla's 500 elected members take part in training programmes. During the 2012/2013 training period the number of training days was 446 (494 in 2011/2012).

Visits to other countries

In addition to the visits organised within the framework of the introduction programme for new elected representatives, Arla farmers from different countries visited one another in 2013. In November, Danish Arla farmers were visited by 25 young farmers from Germany, followed by 35 elected members from the UK in December. The agenda included visits to dairies and farms, presentations on Arla's business, meetings with members of the Board of Directors and other visits, for example a supermarket.

Communication with Arla farmers

All Arla farmers in the six member countries receive our Owner Update newsletter, which is published fortnightly. The newsletter, which contains, for example, articles about initiatives linked to Strategy 2017 and about events in our national markets, is published in six languages. We also offer web-based solutions that give our owners important information on subjects such as milk quality and milk prices.

Owner seminars

Owner seminars are arranged by elected representatives for new and existing members. The seminars are designed to increase knowledge about Arla's business, and background material is available in four languages. Seminar participants meet in small groups, giving everyone a chance to express themselves. In 2013, 56 owner seminars were held with a total of 1,047 participants. In 2012 no seminars were arranged due to cost reduction initiatives and reorganisation activities, but in 2011, 200 people took part in owner seminars.

Training for elected members

On a bi-annual basis Arla's owners elect members to the Board of Representatives and Board of Directors. 2013 was an election year, and all representatives and directors are appointed for a term of two years. The newly elected members of the Board of Representatives were invited to participate in an induction and mentoring programme, Arla Kick In, which covers the role of elected representatives, knowledge about the company and meetings of the members of the six owner countries. This means that the newly elected members of the Board of Representatives from Sweden, Denmark, Germany, Luxembourg, Belgium and the UK have been assigned a mentor from another country. The mentor is an experienced member of the Board of Representatives. As part of the training programme, the mentor and the newly elected representative visit one another's farms.

The aim of the programme is to give the newly elected representatives the best possible introduction to their work on the Board of Representatives. The programme is also an important tool for improving understanding among owners in different countries. Nearly all newly elected representatives have enrolled on the programme, with 47 mentor/new elected pairs taking part in 2013–2014.

12,629
farmers own Arla.



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

PROCUREMENT

Holistic view on sustainable sourcing

- Global standardisation of supplier auditing
- Towards preferred suppliers
- Palm oil in focus

Preferred suppliers

The global procurement department has overall responsibility for procurement in Arla. The external spend handled by the department represented around 76 per cent of our total spend in 2013, compared to 67 per cent in the previous year.

Arla now has approximately 1,030 (930 in 2012) 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. During 2013, we have strengthened our requirements for documentation relating to preferred suppliers. Furthermore, in 2013, ensuring the compliance of purchases from preferred suppliers, was a key focus area across Arla, the aim being to reduce risk and complexity as well as releasing capital and decreasing costs.

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 preferred suppliers, a total of 85 per cent, in relation to spend, have signed the code, which is the same share as last year.

Holistic view on procurement

Arla has been operating a Total Cost of Ownership, TCO, approach for many years. The process helps us to identify cost saving opportunities for the entire life cycle of products and services purchased. This is achieved by optimising specifications, standardising and rationalising materials and ensuring alignment across categories and business units. Cross-functional teamwork is crucial in the process and close cooperation between purchasers and the primary users of the goods or services to be purchased, as well as between suppliers and Arla, are the cornerstones of the process. The aim is to achieve a greater degree of transparency, as well as improved purchasing terms with suppliers. TCO provides a holistic perspective that includes considerations in relation to sustainability, ethics and social responsibility when selecting a supplier.

For example, TCO has been used to develop the recommended standard for LED lighting, initially used in Denmark and Sweden. The cost of the investment is recouped quickly through reduced energy consumption. Similarly, the purchase of external server capacity led to more energy-efficient hardware within our IT system.

Another collaborative efficiency programme is Design to Value. The purpose is to optimise product profitability with no, or only minor, impact on a consumer's experience of the product. The main focus is on cost optimisation and the process addresses the product's entire production chain and seeks to optimise specifications of product features with regard to packaging, ingredients, recipes and pack size, for example.

Standardised ingredient specifications

During 2013, we have established a new global standardised ingredient specification management framework. Our ambition is to ensure an effective process to prevent potential risks associated with ingredients. This is important as ingredients purchasing is decentralised which has led to variations in information quality and many specifications not being updated, resulting in uncertainties and audit deviations. The introduction of a global approver function with a limited number of appointed approvers across the company, will improve the validity of specifications.

We have completed many initiatives in 2013, but we still have a challenge in identifying an IT system that supports the set-up and we need to integrate all European sites during 2014–2015.

Auditing tools and processes

As the system for supplier approval and assessment has been developed and implemented for all Arla’s preferred suppliers, the focus is now on global standardisation of supplier auditing tools and processes. Outside Denmark and Sweden, this has previously been handled by each country separately. The integration of supplier assurance programmes is about to start at all other European sites and began with Käsereien in Southern Germany in 2013.

Central coordination has led to an audit dedicated to the relevant aspects of the business. However, there is work in progress concerning the development and implementation of

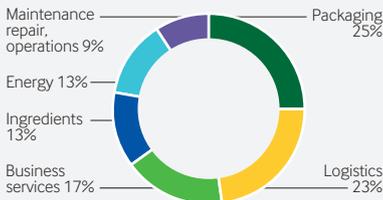
global tools as well as defining clear roles and responsibilities for managing supplier auditing globally. Next steps will be the appointment of a global supplier auditing team and mapping of specialist skills as well as training of auditors and the integration of the tools and processes in all business groups.

Supplier audits in 2013

We carry out a number of audits every year, during which we visit suppliers and carry out inspections of relevant areas. In 2013, we conducted approximately 40 audits globally, (60 audits 2012) focusing on using our resources on suppliers who are new in Arla, or with whom we experience difficulties. In addition to this, we have held a number of meetings with suppliers, not registered as audits, but which have had the same broad focus.

During the year it was brought to Arla’s attention that a pineapple producer was suspected of using forced labour. We immediately checked to ensure that we did not purchase goods from the producer in question. It later emerged that products from this producer were included in ingredients that we purchase from another supplier; despite us being very clear that we will not buy from this particular producer. Following this incident, we conducted a thorough review of all our pineapple suppliers and producers. This has resulted in us formulating specific requirements for producers of tropical fruit and a reduction in the number of our approved suppliers.

Global contracts



The diagram shows the external spend handled by Arla’s global procurement department, distributed across product and service categories. Compared to 2012 there is an increase in logistics. Our 10 largest suppliers account for 16 per cent (19 per cent in 2012) of our total external spend. In 2013, the following companies were our five largest suppliers in order of size of spend: Tetra Pak (packaging materials and processing and packaging machinery), IBM (IT services), Carat (media), Logoplaste (packaging materials) and PCL transport (distribution).

Follow up on palm oil

Since 2011, Arla has been buying Green Palm Oil Certificates in relation to the entire use of palm oil and palm oil related ingredients. In addition, we have become a member of RSPO (Round Table for Sustainable Palm Oil), an organisation that works to support sustainable production of palm oil.

The RSPO principles and criteria are developed through stakeholder dialogue and are regarded as the most comprehensive set of demands supporting sustainable palm oil production. However, they have received some criticism. Some RSPO members have been accused of collaborating with companies implicated in the Indonesian forest fires and in the clearance of peat land during 2013. These issues are being investigated by RSPO.

During 2013, Arla has started to use Certified Segregated Palm Oil (CSPO), equivalent to approximately 20 per cent of total volume. As the name suggests, this is certified palm oil that is physically separated from non-certified palm oil beginning at the certified mill right the way through to the end user. In 2014, the bulk of the palm oil used by Arla will be CSPO from RSPO certified plantations. There are still some specialised oils that are not yet available as certified. It is Arla’s ambition that, in 2015, all the palm oil it uses is CSPO.

WWF (World Wildlife Fund) monitors the development of palm oil production and usage of sustainable palm oil. This is presented every second year as a palm oil ranking in which companies that use palm oil are evaluated. In 2013, Arla received a score of 11. The maximum score attainable is 12.

UTZ certified cocoa

At the end of 2012, almost all the cocoa used in Arla’s own products was certified by UTZ, a certifying organisation which ensures that cocoa production is financially, environmentally and

socially sustainable. The remaining one per cent was organic cocoa which was certified in early 2013. Non-certified cocoa is still used in private label products.

New bottles with less plastic

New Eco bottles that weigh 15 per cent less than their predecessors were introduced during the year in the UK and are an example of successful cooperation between Arla’s purchasers, packaging experts and suppliers. The roll out of the new bottle design is the largest packaging project Arla UK has ever undertaken. Significant investment has been made to accommodate the new bottles, for example, to modify filling lines, conveying systems and trolley packers. The Eco bottle innovation will deliver a packaging weight reduction of over 3,000 tonnes per year. The plan is for all Arla’s UK sites to be using the new lightweight packaging and our ultimate goal is to produce plastic bottles using 50 per cent recycled plastic.



of preferred suppliers have signed the code of conduct for suppliers.



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

MARKET CONDUCT

Continuing to grow on the global market

- **Tough international competition**
- **Different market approaches**
- **Culinary inspiration**

A clearer Arla identity

Arla has a rich history and our business is based on many strong values. In 2013, we initiated a programme to clarify and refine our global corporate identity. Our ambition is to bring together, in a single shared identity, important things which matter to us: Our cooperative philosophy, our responsible work practises, our natural and healthy products, and our responsibility for the environment and for our colleagues.

Developing a global corporate identity to which both new and existing stakeholders can relate is a challenge. But since the identity is built on existing core values and our long history, we feel certain that it will be easily recognised by all stakeholders and soon embedded in our global organisation.

Expanding in a competitive market

In an increasingly global dairy market Arla is now the world's sixth largest dairy company in terms of volume of processed milk. Although our sales are influenced by local dairy companies, it is in competition with the big global companies that our goals will be achieved. For that reason, it is important that we continue to focus on our three global brands, Arla®, Castello® and Lurpak®.

A key difference between Arla and many of our major competitors is that Arla is a cooperative that is owned by dairy farmers who are also our suppliers. This means that Arla's goal is always to pay its owners as much as possible for their milk, in both the short and long term. One benefit of our cooperative model is that the close link to our owners gives us secure access to milk, which is essential to our continued growth. In November, for example, British farmers forged closer ties with Arla when Arla Foods Milk Partnership (AFMP) took up the opportunity to become part owners of Arla. When Arla gains access to more milk, the challenge is to utilise it as profitably as possible.

Different strategies in different markets

With northern Europe as its base, Arla is striving to become an increasingly global player. Operating across a diverse spectrum of markets, we have different marketing strategies for different markets. In our more mature core markets in Europe we offer a wide range of products in all product categories. We sell branded products as well as products under retailers' own labels, and ranges are adapted to each local and regional market. In Germany, for instance, naturalness is a strong influence. Here, our organic product launches have proved successful, as has been the case in Finland. Interest in low-fat and high-protein products is growing in Denmark and the UK. High protein content is a trend in Sweden, where higher-fat products are also in demand. The UK market has continued to be affected by a weak economy, with customers

demanding low-cost dairy products. The same is true in the Netherlands, and Denmark, too, has experienced significant price pressures on dairy and juice products.

In other markets we are focusing on branded products within specific categories. In Russia we have strong positions in white cheese, blue cheese and fresh cheese. The white cheese category Arla Apetina® is the biggest selling product in the country. In the article on page 16 we give an account of the growth of Arla's business in Russia. Exports of milk powder and long-life milk to China are increasing steadily and demand for certified organic milk is especially strong as it is considered a safe alternative.

In establishing a presence in new markets and in emerging economies, we follow a tried and tested strategy to ensure that our business principles and code of conduct are adhered to. We begin

by establishing a partnership with a carefully selected local partner with whom we can mutually develop. We let the business grow gradually as we learn more about the local market.

Arla and own labels

In our core markets, the share of dairy products sold under retailers' own labels varies from country to country. In Germany and the UK, for instance, 80 per cent of fresh milk is sold under these labels, in Denmark 55 per cent, while the figure is much lower in Sweden, 15 per cent. In Sweden and Finland the market for own-label dairy products is growing. In Denmark retailers' own labels are no longer growing as quickly, with demand shifting to strong brands.

Dialogue with consumers

Our consumer relations service receives complaints and comments and answers questions covering everything from product quality and packaging to advertising campaigns and recipes and it does so by telephone, email and letter. On average, the consumer relations service receives around 250,000 individual enquiries.

In general, it is the case that different types of issues are raised in different countries and these often reflect the topics currently being debated in society. In Sweden and Finland the origin of the raw milk used in production has been an issue of concern, and in Sweden the discussion about how much the farmers receive for their milk has also been highlighted. In the UK we have received many questions about lactose-free products. In Denmark animal welfare and the nutritional content of products have engaged consumers. Russian consumers predominantly ask about products, recipes and ingredients while US consumers ask about gluten, allergens and the origin of additives.

In many countries our dialogue with consumers has, to a large extent, shifted from traditional communications channels to social media, mainly Facebook and Twitter. It is a challenge to engage in different dialogues across multiple channels, and we acknowledge that it is important to meet consumers where they are.

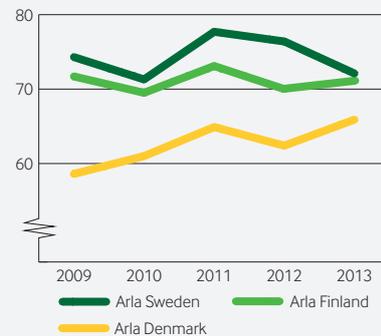
Consumers' views of Arla

For a number of years we have been conducting annual surveys to monitor what consumers think about Arla in Denmark, Sweden and Finland. Last year the survey was also carried out in Germany. Generally, Arla has a good reputation and the highest scores we are awarded relate to our products. Consumers' perceptions of Arla's work in relation to social and environmental responsibility (citizenship) and the way in which we run our company with regard to ethics and transparency (governance) are becoming increasingly important.

Arla is still relatively unknown in Germany, but the German consumers that responded to the

survey are familiar with Arla and have a positive impression of the company. We received particularly high scores for good, natural and healthy products.

To improve our reputation, consumers say we should pay dairy farmers more, offer a wider range of organic products and improve animal welfare. Respondents also said clearer marketing communication about our products could improve reputation.



The diagram shows the overall score on a scale of 0–100, with 100 being the highest and above 70 considered strong, awarded to Arla by consumers in a survey conducted by Reputation Institute in spring 2013. Arla in Germany scored 75.8.

In addition to the survey of consumer perception of Arla, research was carried out to understand stakeholders' expectation of Arla. The results highlight that Arla is expected to act in a way that is fair, ethical and in the best interests of the environment. We should set ambitious goals, act globally and with boldness. We should also work to promote health and food safety by leading the debate, sharing our knowledge and being able to demonstrate how we deliver in these areas.

Customers' perception of Arla

Strong relationships with all our customers are essential, and many of them express their respect for us as a partner and supplier. In our core markets we are the largest, or one of the three largest dairy

companies. We gather our customers' views in many different ways. Continuous dialogue with customers is important, and we take their views and wishes very seriously. In Denmark, for instance, interest in sustainability issues has increased.

In the UK, we are ranked as the best dairy supplier in the Advantage Group Survey and was also awarded the title Best Overall Own Label Supplier. We have also received several awards in recognition of our efforts to reduce our environmental and climate impact.

In our Swedish market, customers' confidence in Arla declined in the spring and summer due to variations in the quality of deliveries. This was due to the relocation of production and a major overhaul of IT systems. An action programme was activated, and the situation improved substantially in the autumn.

Discovering the joy of cooking

Providing inspiration is part of Arla's vision. By this we mean we want to help people to enjoy cooking and making good food. That's why, in many countries – the Nordics as well as Saudi Arabia and Russia – Arla is working to spread knowledge about cooking, diet and products, by offering recipes and cookbooks and through other activities.

Arla also supports cooking competitions, including the official Swedish Chef of the Year event for 30 years, and a similar competition for pastry chefs. In Finland we support the Finnish national team of chefs. For customers such as food retailers, schools and commercial kitchens, Arla Sweden arranges the Arla Guldko (Golden Cow) competition. The competition aims to highlight shining examples which can inspire others.

Closer to Nature™

Our Closer to Nature™ concept has evolved from an initiative to being part of everyday life at Arla. The concept continues to inspire our business and has, for instance, influenced the content of our products, milk production requirements and our own production, in an increasingly environmentally friendly direction.

“Everyone we work with needs to understand what we stand for”



Hans Christensen, senior vice president.

The Russian market offers huge potential for Arla. But how does the company ensure that its values and Code of Conduct are adhered to, while seeking to accommodate differences in culture and leadership?

ARLA'S JOURNEY in Russia, which began 20 years ago, has been purposely cautious. Before investing its initial 75 per cent stake in a joint venture with the Russian distributor Artis, Arla worked with the distributor for more than 10 years. At first, Arla focussed heavily on understanding the market and building a relationship with its new partner.

Strong growth in a promising market

Since 2007, the business has expanded rapidly. It now employs approximately 150 people and generates annual sales of around DKK 900 million. In 2013, Arla acquired the remaining 25 per cent, and Arla Foods Artis became a fully owned subsidiary. In early 2014, Arla will begin production of yellow cheese in the country in collaboration with Russia's third largest dairy company, Molvest Group.

Over the past five years Arla has grown sales by more than 20 per cent a year in Russia, says Hans Christensen, senior vice president within Consumer International with responsibility for Arla's operations in Russia and North America. It has taken time and required significant investment, but the operation is generating profit and the plan is to continue this growth.

“The reason things have gone so well is due to good entrepreneurship and thorough knowledge of the retail sector. But we have also been very careful when choosing our business partners. Everyone we work with needs to understand what we stand for. We don't do business with anybody,” Hans Christensen says.

Respect for Arla's Code of Conduct

Hans Christensen describes the process which took place as the Russian business looked for business partners and potential acquisitions over the past three years. To assist in the search, Arla engaged consultants who were educated in Arla's Code of Conduct, business principles and core values.

“The consultants needed to understand the framework within which we operate,” Hans Christensen explains. “There was no point in them presenting partners that didn't respect our requirements for ethical behaviour. That's why a key task was to translate Arla's Code of Conduct into Russian as soon as possible.”

Hans Christensen believes that making the effort to translate the Code of Conduct into local languages is crucial for building credibility in all new markets where Arla wants to establish a presence. He takes the example of the initial discussions regarding a production partnership with Molvest Group. In the early stages, Hans Christensen chose to present Arla's Code of Conduct and explain that adherence to the code was an essential requirement for the partnership.

Thorough training in laws and regulations

Training colleagues, especially those who have contact with customers and suppliers, in Arla’s Code of Conduct and values has been another key step. “Just like in all of Arla’s other markets,” Hans Christensen is keen to add.

“We have invested money and energy in bringing people together from all regions of Russia to train them and inform them about what applies and where the line is drawn between what is permitted and what is not. They are also informed of what the consequences are for those who fail to comply with the applicable laws and regulations,” Hans Christensen says.

Contract writing, legal review of contracts and compliance with competition laws are key focus areas in the training programmes.

Suspicious taken seriously

In 2012, Arla introduced a global whistleblowing function, which gives all colleagues an opportunity to anonymously report any incidents which violate the company’s Code of Conduct. Hans Christensen says that the opportunity is good, but he describes a more proactive approach when it comes to handling suspicions regarding potential wrongdoing in the Russian business.

“For us it is key that we watch out for all types of signals rather than waiting for somebody to blow the whistle, which is quite unusual here. If we suspect something we take action,” he says.

As soon as a sign that a potential wrongdoing has occurred reaches management, an internal process is launched to investigate the suspicion. The suspect is offered legal assistance, presented with the suspicion and given an opportunity to

explain him/herself. If suspicion that the Code of Conduct has been violated remains, the person in question will be given an opportunity to exonerate themselves or leave Arla.

“We are very clear on this point,” Hans Christensen says. “Because our colleagues know the rules, someone leaving Arla also sends a clear message. The result is the same, of course, if a colleague breaches the Code of Conduct in Denmark or Sweden, but the process is different here.”

Today, many of the people employed by Arla in Russia have worked for Western companies previously, so for them this is nothing new, neither the internal process nor the fact that the company’s Code of Conduct is taken very seriously.

Big differences in leadership

When asked what is the biggest difference between working in Russia compared with Denmark, Hans Christensen points to corporate culture and leadership as examples. He explains that it is important to respect the local culture and that the Russian style of leadership needs to be preserved if Arla’s business in the country is to function successfully.

“But, at the same time, we embed everything that Arla stands for,” Hans Christensen says. “In addition to the Code of Conduct, this includes the values expressed in Our Character and our leadership philosophy, as described in Our Leadership. We offer these tools, which are integrated in our business at the pace that our Russian leaders deem appropriate. We are gradually combining the two cultures and paying mutual respect to each.”



“We communicate very clearly to our partners that failing to comply with our Code of Conduct can have very serious consequences for our relationship,” says Hans Christensen, senior vice president within Consumer International (page 16). To the right, a culinary session with Arla Apetina®, the biggest selling white cheese product in the country.

Confidence in products

Supplying safe products is Arla's top priority. And we strive to do even 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 20.

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 22.



We meet consumer demand for safe dairy products.

FOOD SAFETY

Safe products are our top priority

- Focus on product quality
- Global perspective
- Continued antibiotic awareness

Global product quality strategy

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. In October 2013, a new global product quality strategy was established. The strategy will be a fundamental part of our work to ensure continuous food safety and product quality throughout the group.

The strategy aims to ensure that Arla continues to be at the forefront of food safety and always prevents potential risks. By establishing a global culture of product quality, Arla continuously strives to be the preferred partner for customers worldwide.

The strategy safeguards that our dairies are supplied with raw materials, ingredients and water, for example, in compliance with Arla's specifications and requirements. It also covers our manufacturing processes to ensure that no pathogens, foreign bodies or contaminants compromise food safety and product quality. Similarly, sensory and functional quality must also comply with our requirements as well as with customer specifications and standards. Finally, the strategy ensures that our distribution channels protect the quality and safety of our products.

One global product quality management system

As Arla grows, one of the challenges we face is the move from a local to a global mindset. We need to ensure that our operations in all countries follow the same overall safety principles and processes, as well as programmes for HACCP (Hazard Analysis and Critical Control Point) and crisis management, for example. Our goal is to have one global product quality management system and agreed global standards relating to risk. The process to achieve this is ongoing, for example, our document control system is now implemented in Denmark, Sweden, the UK and Finland. Arla's Code of Practices for HACCP, Listeria and crisis management are being implemented globally. Global IT systems that support these processes are desirable and being investigated. The costs and the complexity of such systems are a challenge.

Arla's global certification standard is ISO 22000, to which 53 of Arla's 73 production sites are certified. Sites that remain to be certified according to ISO 22000 all meet national standards for food safety. Some sites are also certified according to national food safety programmes such as SQF (Safe Quality Foods), internationally recognised standards including ISO 9001, BRC (British Retailer Consortium), IFS (International Food Standard) or customer-specific standards. Our ambition is to simplify the certification schemes and work towards one single certification standard that covers both quality and food safety.

Focus on chemical contaminations

As increasing numbers of new substances and materials become available, it is an ongoing challenge to manage contaminants. On the other hand, detection methods are constantly being improved.

We believe we have well established methods to detect chemical contaminants and we fulfil legal requirements, however, we strive to increase our understanding of potential chemical contaminants that can affect our products. We continuously work to identify and prioritise emerging and relevant risks using external and internal experts. For example, we are aware of the concerns and risks of bis-phenol A, BPA. Typically, BPA is used as a lacquer in metal tins and is one of a number of chemicals that is suspected to have the potential to interact with hormones in the body. We are working with the industry to identify ways to phase out the use of BPA. The packaging used by Arla for child nutrition products does not dispose a BPA product contact risk.

We have introduced processes and tools to capture emerging risks in a proactive way. For example, we have established a

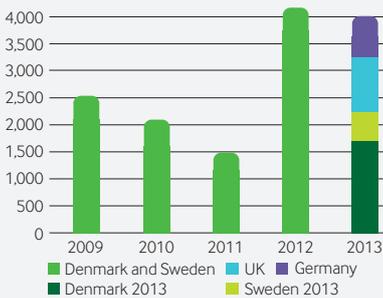
screening programme for relevant products to assess the level of DEHP. DEHP is a phthalate which is used as a plasticizer and is suspected to damage fertility. To manage risks and avoid incidents, we have identified risk areas and set up specialist groups around specific themes.

Quaternary ammonium compounds, QAC, is a component in many cleaning and disinfectant agents used in the dairy industry. EU has reduced the permitted threshold in infant foods. Arla is going further than EU legislation and phasing out the use of all cleaning and disinfectant agents containing QAC at all its production sites.

Safe development of new products

One of Arla’s overall goals is that new products deliver 10 per cent of annual turnover. To ensure that potential risks are foreseen and handled, we have established a process that integrates food safety and product quality awareness into the development of new products.

Discarded milk with antibiotics
tons/year



Sick animals are sometimes treated with antibiotics. Milk from the cow is discarded at the farm 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. The table shows the volume of discarded milk at our dairies in Denmark and Sweden, and in 2013 includes the UK and Germany. The volume of discarded milk in Denmark and Sweden decreased during the year and milk has been discarded on 39 (last year 39) occasions in these two countries. In the UK and Germany on 105 occasions, although with much smaller batch sizes.

Arla takes seriously the management of the treatment of cows and the presence of antibiotics in milk. We have continued with our information campaigns and our advisory service in order to improve the management of medicine, and can see the result in the decreasing volumes in Scandinavia. We have had different set ups in different countries and are now working towards a common quality standard for milk suppliers’ milk. A decision about the standard is expected in 2014. In connection with this, a framework for antibiotic testing in Denmark, Sweden, the UK and Germany will be established. The aim is to introduce a global standard that ensures the same requirements, monitoring and sanctions for all Arla’s milk suppliers.

The standard must also align with the requirements of customers and the laws of all individual countries.

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 seven occasions during the year, as the products did not meet required standards.

	2009	2010	2011	2012	2013
Recalls	4	0	4	6	7

Six of the recalls were minor volumes in a domestic market and one was a recall that affected five markets.

Improved risk assessment

As part of shelf life testing and to be able to shorten the time to market for new products, we use a method for undertaking microbiological risk assessments. The method is less time consuming than traditional methods. As we grow our exports to global markets, being able to extend shelf life is increasingly important. During the year we have received promising results in relation to improved quality and the shelf life of white cheese from Kruså dairy in Denmark after adding a protective culture.

Food safety training

Continuous training and education is important to maintain Arla’s food safety standards. In the UK, Arla has worked with key industry partners to develop and accredit a new nationally recognised food safety qualification for dairy manufacturing. It covers and examines knowledge critical to dairy, including pasteurization, shelf life, cross contamination, microbial growth and temperature control. The first participants of the programme received their certificates during the year.

New analysis method

Arla has entered the final phases in the development of an analytical method to test whether milk has been deliberately tampered with, in cooperation with Fonterra, another major dairy company, and Foss, a supplier of analysis equipment. The initial phase of the development project has proved that the analytical method is able to detect adulteration of milk rapidly, with high sample throughput, and satisfactory sensitivity. The analytical method combines a proactive and corrective approach that will enable us to detect contaminants, even those of which we are currently unaware.

The analytical method is in the final test phases in Denmark, Sweden and China and is being verified ahead of being introduced on a commercial basis. The test in China is carried out via the China-Denmark Milk Technology Cooperation Centre. The collective vision of this project is to develop a method that will be applied by the global dairy industry.

Danish-Chinese knowledge centre

The food safety knowledge centre that Arla created in partnership with Chinese Mengniu in 2012 is now working on activity to support its vision of promoting food safety in China and to grow consumer confidence in dairy products globally. For example, Chinese food inspectors have been trained in the application of European industry codes of practise for dairy production and the inspections of dairies. High level meetings with participants from the ministries of agriculture and universities in Denmark and China have also been held.

22000
ISO 22000 is Arla’s global certification standard.



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

FOOD AND HEALTH

Dairy products for all consumers

- Supporting better breakfast habits
- Protein products popular
- Reducing salt and sugar

Encouraging better breakfast habits

Arla wants to offer consumers healthy products as well as information about its products' health benefits. In several markets around the world, including Denmark and Sweden, as well as Saudi Arabia, Lebanon, the United Arab Emirates, Bangladesh and new markets in Africa, we have been providing information and inspirational messages about the importance of eating a good breakfast. Our communication centres around good breakfast habits and that these are good for health and helping you to face the day ahead. We have arranged breakfasts at schools, run campaigns in social media and created inspiring breakfast recipes. A particular emphasis has been placed on changing the breakfast habits of children and young people for the better.

Our global breakfast message is an example of one of the opportunities Arla has to spread information about the role of dairy products in a well balanced diet and for a healthy life. In an increasingly urbanised and more physically inactive world we see an increased need for knowledge about the connection between diet, physical activity and health. See next page for more examples of our information campaigns in relation to food and health.

Cutting down on salt, sugar and fat

We strive to offer healthier alternatives for consumers which is why we are working to reduce the content of sugar, salt and fat in our products. This is also a consideration when we develop new ones.

In 2013 we have, for example, launched a series of fruit yogurts in Denmark, Sweden and the Netherlands with a reduced amount of added **sugar**. In Arla Denmark the whole Yoggi® range is now sweetened with less sugar and uses stevia as a sweetener, which has reduced our sugar usage by 500 tonnes a year, corresponding to 30 per cent. Arla's global research and development unit, the Arla Strategic Innovation Centre (ASIC), has launched a project aimed at finding new, innovative solutions for offering products with less added sugar. In the project we are collaborating with external partners and institutes.

Reducing the amount of **salt** in cheese is difficult to achieve without impairing the taste and consistency of the product. ASIC has continued its efforts to find methods to reduce the amount of added salt in cheese and other dairy products without affecting quality. This work is continuing despite consumers generally appearing to have a limited awareness of the link between salt and health. In Denmark we have worked to ensure all our products are in line with the levels recommended by health authorities. In the UK we have launched Anchor® Spreadable Unsalted, spreadable product which contains no salt and we have also reduced the salt content in two Cheddar cheeses.

We are continuing to develop products with a low **fat content** while reducing the fat content of some of our existing products, such as our Danish Kærgården® mini, in which the fat content has been reduced from 43 to 40 per cent.

Another way of helping consumers to make healthier food choices is to offer **portion sizes** which correspond to their requirements. In 2013, Arla has, in addition to a 200g cream cheese pack, launched four x 50g cream cheese packs, for instance, with the aim of helping consumers to cut their calorie intake while also preserving the freshness of the product and reducing the amount of food that goes to waste.

Continued interest in proteins

Interest in products with a high protein content remains strong. In Denmark, Sweden and Finland demand for naturally protein-rich products such as cottage cheese, quark and skyr has grown, as has demand for protein-enriched milk and yogurt products. In the UK we have launched a chocolate drink with 40 per cent more protein than similar drinks. Read more about the development of protein-enriched products in the article on page 24.

Over the past two years we have communicated messages on the beneficial properties of dairy products in connection with

physical activity in the UK and Sweden, for instance that milk is a good recovery drink and 'nature's own sports drink'. We are beginning to notice a growing awareness among consumers of the positive connection between dairy products and physical activity.

Health claims on our products

Arla wants to inform its consumers about the nutrients naturally present in milk and the health effects of milk and dairy products. Following the EU presenting new, approved health claims in 2012, our use of these claims has increased, both in our basic product range and on speciality products.

An example of a speciality product is our Arla Wellness® brand, launched in Sweden at the end of 2012. Arla Wellness® is a range of milk and yogurt products with added vitamin D, vitamin C, calcium and/or fibre. The products also contain lactic acid bacteria. Our marketing communication for these products is based on the new EU rules but has been challenged by a consumer organisation. Read more about this in the chapter Business principles on page 8. In 2013, we added more products to our Arla Wellness® range and several of these have been launched in Denmark under the Arla Cultura® brand and in Finland under the Luonto® brand.

Focusing on young people's dietary habits

The Danish Arla Foundation, launched in 2012, works to help young people aged 10–14 to establish healthy eating habits. In 2012, the Arla Foundation arranged a number of events aimed at strengthening the target group's knowledge about food and physical activity. Read more in the chapter Community relations on page 38.

Different focus in different markets

Consumers' questions and suggestions enable us to adapt and develop popular products. In our German market, for example, naturalness is a strong driving force. Here our organic product launches have been successful, as have regional brands.

As a result of previous product safety issues, many consumers in China have little confidence in Chinese dairy products. The long-life organic milk which we launched in China in 2013 has been certified by both Chinese and European regulators. The market for imported milk is growing rapidly in China.

Information campaigns examples

UK A partnership, via our brand Cravendale®, with the British government's to inspire people to choose healthier food.

Denmark A collaborative effort with a Danish nutrition association aimed at putting malnutrition among elderly and ill people on the agenda.

Sweden Arla is working with the Swedish Olympic Committee to promote the nutritional benefits of milk products in connection with physical activity.

Growing interest in lactose-free products

Consumer interest in lactose-free products continues to grow. In terms of volume, Sweden and Finland are by far our largest markets for both fresh and long-life lactose-free milk. In Denmark and Germany sales of lactose-free products have increased strongly, albeit from a relatively low level. In the Netherlands, Arla has launched four lactose-free products, the first of their kind in that market.

Number of lactose-free products

	2009	2010	2011	2012	2013
Finland	20	31	30	37	46
Sweden	15	19	32	32	35
United Kingdom	8	9	11	11	13
Denmark	–	1	3	3	8
Germany	–	–	2	5	5
Netherlands	–	–	–	–	4

In addition, yellow cheeses are considered naturally lactose-free.

Little awareness about salt

A Danish study conducted on behalf of Arla's global research and development unit shows that consumers are moderately interested in buying dairy products due to a reduced salt content. They are more inclined to try reduced-salt products when they are presented with health arguments that support the products, provided that the taste of the products is not affected. The study also shows that consumers would like to see more credible information from public authorities on the importance of reducing salt intake as health messages from private companies have low credibility.

Dairy products for malnourished people

Arla Foods Ingredients is currently engaged in several research projects that are looking at how dairy products could help people suffering from malnutrition. We are also exploring opportunities to improve the nutritional value, and taste of food, that is distributed as emergency aid. By adding ingredients from dairy products to foods for people in need, it is possible to increase protein, minerals and lactose content.

In Malawi, Arla is engaged in a research project with the Washington University School of Medicine, USA. The project is a comparative study between a whey-based nutritional supplement and a traditional peanut and soya-based nutritional supplement. The supplements have been given to malnourished children and the initial results are very encouraging. Read more in the article on page 24.

500

tonnes less sugar used in Danish fruit yogurt, Yoggi®, a reduction of 30 per cent.

“Development of products with specific health functions is a priority area for us”



Karin Arkbåge, nutritionist Ph.D.

New research findings show that milk and dairy products can help to improve the health of individuals both in the western world and in developing countries. A key focus area is milk proteins.

A GROWING NUMBER of elderly people in the population, and a world where some societies have more than enough food readily available and others too little, are two current global challenges. Consequently, malnutrition and health are both issues with growing global importance. For Arla, the health benefits of milk products are so important that they are referenced in the company’s vision: “Creating the future of dairy to bring health and inspiration to the world, naturally.” Arla believes that milk is one of nature’s most nutritious foods and that those who eat or drink milk products daily, consume many of the nutrients that the body needs.

“Making sure you have sufficient proteins to enable your muscles and bones to function properly is important. Milk protein is a high-quality, good-tasting protein that is available in both solid and liquid form, and it doesn’t require cooking either,” says Karin Arkbåge, nutritionist at Arla’s research department.

Protein exists in large quantities in food that comes from animals, such as milk, fish, meat and eggs, but also in plant foods like peas, beans and cereals. The proteins that are present in milk and other animal foods have a composition that is suited for human needs. Ordinary milk is an important source of the proteins we need, as is fermented milk and yogurt while cheese, quark and skyr are particularly rich sources.

Milk products for all

Arla is working to offer consumers tasty and healthy products in all of its markets. Arla’s researchers and product developers are also striving to fulfil the dietary requirements of specific target groups, for example the elderly. For this growing sector of the population, milk proteins have proved to have many positive effects.

“Globally, we have an increasing number of upper middle-aged people who are keen to stay fit and healthy for as long as possible,” Karin Arkbåge says. “Small changes in dietary and exercise habits can have a big impact and improve quality of life. As well as traditional dairy products such as milk, yogurt and cheese, which are all naturally rich in proteins, vitamins and minerals, Arla also offers a range of protein-enhanced products.”

Nutrition for an ageing population

Malnutrition among the elderly and people who are unwell is a growing problem all over the world. In wealthy countries in the EU it is estimated that around 10 per cent of all people over the age of 65 are malnourished. This is putting pressure on welfare systems as the share of elderly people, relative to the rest of the population, is increasing year on year. Malnutrition has therefore become a public health issue as well as a socio-economic issue. People need

to eat well to feel good and be as healthy as possible for as long as possible. Arla can contribute both knowledge about the health effects of dairy products and provide nutritious tailor-made milk-based products.

“Food can be as important as medicine for elderly and sick people,” Karin Arkbåge says, “and diets have to be adapted to the needs of each individual.”

When people grow old or fall sick they often suffer loss of appetite. And it is at these times when it is especially important to ensure that they still consume sufficient amounts of protein, fat, calcium and vitamin D, for example.

“It is also important to ensure that the food tastes good. Most elderly people don’t need to avoid fat for healthy reasons. That extra knob of butter on their potatoes could be just the thing,” says Karin Arkbåge.

The newly published Nordic dietary recommendations emphasises the importance of protein intake for people, over the age of 65. Research has also proved that protein, evenly distributed over the day, with 20–30 grams for breakfast, lunch and dinner, is beneficial for muscular development. For most people this means increasing their protein intake at breakfast and at lunch.

With the aim of enabling elderly and sick people to recover more quickly, Arla Foods Ingredients has developed a product called Protin®, in collaboration with two Danish hospital kitchens. It is a natural product made from milk and cream, enriched with additional milk protein that can help those who do not want to, or are unable to, eat enough to maintain their protein intake at an appropriate level. Protin® has the same nutritional values as alternative clinical products and is a good energy and protein supplement. An additional benefit, that has emerged during testing, is that it tastes nice, which can be very important for people who have lost their appetite.

Arla Foods Ingredients has also developed a new way to use the protein in whey, a by-product from cheese production. Whey protein is one of the most interesting proteins in milk. It is

absorbed rapidly by the body and is good for muscle development. Thanks to innovation and research, whey has gone from being a by-product with no value to a key ingredient in new milk products.

Whey protein as a treatment for malnutrition

Research has also shown that whey protein and a mineral-rich by-product from whey can benefit malnourished children. Together with Washington University School of Medicine, USA, Arla is currently conducting a comparative study between a whey protein-based nutritional supplement and a traditional peanut and soya-based nutritional supplement, which are being given to malnourished children in Malawi. The preliminary results point to a rapid recovery in children who are given the supplements, but it is still too early to say whether there are any differences between the two.

“We view our research and the opportunities that exist in this area as another way of contributing to society,” Charlotte Sørensen, senior project manager at Arla Foods Ingredients, says. “The development of products with specific health functions is a priority area for us, and it is well supported in our Code of Conduct. It also feels good to be working on something that can make the world a slightly better place.”

In April, Arla initiated and organised an international conference on food aid. Some of the world’s leading experts in this area presented research findings, demonstrating that milk components can be a key source of nutrition for malnourished people. The conference was very appreciated and resulted in the development of a network for researchers in this field.

ARLA FOODS INGREDIENTS is a specialised supplier of advanced, innovative milk-based products. The company also conducts clinical studies into the nutritional properties of milk components.



Karin Arkbåge, nutritionist Ph.D. at Arla’s Innovation centre (page 24), and Charlotte Sørensen, senior project manager at Arla Foods Ingredients (to the left), explains how milk proteins can help to improve the health of individuals, for example malnourished children in Malawi (to the right).

Care for the **environment** and animal welfare

From international climate summits to turning the cows out to pasture. 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 28.

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 32.



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

ENVIRONMENT AND CLIMATE

Environmental strategy drives continual improvement

- Reduced climate impact
- Testing new vehicles
- Focus on the zero waste strategy

Environmental Strategy 2020

Arla's environmental strategy, launched in 2011, is the guiding principle for all environmental and climate work within the company. The strategy covers the complete life cycle of products, from milk production on the farm to how consumers handle packaging and leftovers. The section of the strategy focusing on the farm is described in the Agriculture chapter on page 32. The strategy can be downloaded from www.arla.com.

It is a challenge to constantly reduce our overall environmental and climate impact, but we also see possibilities to increase the use of renewable energy within production, by increasing the amount of energy recycled within our value chain. The structural changes within dairy production, approved during the year, and the new dairy outside London will contribute to achieving our strategy.

Production responsible for less greenhouse gas emissions

At several production facilities in Denmark and Germany, switching from oil to gas has reduced greenhouse gas emissions. In Bad Wörishofen and Sonthofen in Germany, in less than a year, investment in heating systems has been offset by the cost savings these have generated. At Nijkerk in the Netherlands, purchasing

green electricity and natural gas as well as adopting an energy saving programme, have reduced greenhouse gas emissions by a third since 2010.

By 2020, half of our energy consumption must originate from renewable energy sources. The facility in Linköping, Sweden, has converted from oil to district heating, of which at least 85 per cent is generated from renewable sources. However, during 2013, our total renewable energy usage has increased from 16.0 to 16.5 per cent and the 2020 target is a challenge. An energy task force has been established to develop new solutions. One initiative is a planned use of farm-produced biogas at sites in Denmark.

Transport improvements

Optimising transportation and minimising fuel consumption are still areas where we can make improvements. A trailer that combines both a raw milk tanker and refrigerated section for finished products has been a success. It carries finished product on one leg of its journey and raw milk on its return to the dairy, which means it does not run empty. During 2013, 20 new combination vehicles have been put into operation in the UK. We are currently investigating if it is possible to adapt the trailer to comply with national regulations in our other European markets.

Furthermore, Arla has put a new milk tanker into operation in the UK which has a greater milk carrying capacity and its milk collecting system halves the time it takes to collect milk on farm. This means less fuel is used and less time is spent idling on farm.

This tanker will be introduced in all European markets. We are also testing high efficiency trailers for distributing finished products from our new dairy in Aylesbury, outside London.

To reduce emissions further, we test different fuels. In Sweden, the use of 100 per cent RME biobased fuel has increased. In the UK, we currently have 11 dual fuel tractors which use both diesel and liquified natural gas. These deliver a 15 per cent reduction in greenhouse gas emissions compared to standard tractors.

Packaging in focus

In many core markets our customers are becoming increasingly interested in sustainable packaging. Our own ambition is to reduce green gas emissions by 25 per cent within packaging by 2020, compared to the 2005 level. In the UK we have made great progress by reducing the amount of plastic in our packaging. Read more about this in the Procurement chapter on page 13. In countries where cartons are used for packaging liquid products the ambition is a challenge as the environmental impact of cartons is already low. Furthermore, the demand for packaging for convenience products increases the use of plastic.

Continued energy and water savings

Arla's environmental strategy includes efficiency targets of three per cent annual reduction in both water and energy consumption up to 2020. Consumption of water and energy has remained unchanged, despite higher production volumes, and the efficiency

target was reached. An important step to further reduce energy consumption is the energy mapping programme which will be concluded for all Arla sites in 2014. This will result in an aggregated master plan which will serve as the basis for identifying improvement opportunities and investment prioritisation.

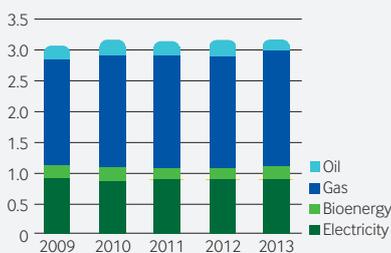
The new dairy in Aylesbury, UK, which started production in November 2013, has set new global standards in terms of carbon efficiency and uses the latest technology for energy efficient processing. At our site in Nijkerk in the Netherlands, we have succeeded in reducing the amount of water used by a third during the last three years due to water saving initiatives.

Less waste

Another goal within our environmental strategy is the significant reduction of food and packaging waste. Working with researchers we are investigating the relationship between food waste and the role of packaging with consumers.

Waste from our sites has also been a priority. By sending mixed waste from our Sipoo facility outside Helsinki, Finland, for recycling into energy, more than 700 tonnes of waste is diverted from landfill per year. In Canada, we have made good progress by utilising various recycling methods to divert 61 per cent of waste from landfill. Waste of milk from Stourton creamery and dairy in the UK has been reduced by 2,600 tonnes, as part of a continuous improvement project.

Energy consumption
TWh



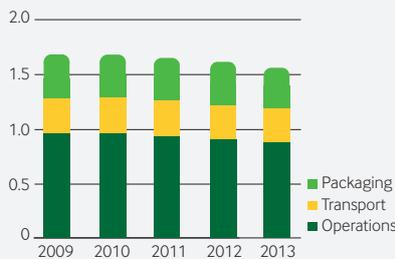
The diagram lists all Arla facilities at the end of 2013. Previous years' data has been updated. During 2013, production volumes have increased, while energy consumption was unchanged.

International networks

Arla has collaborated with other global dairy companies in the Global Dairy Platform (GDP) to develop a Dairy Sustainability Framework. The aim is to promote innovation in approaches to address sustainability.

Arla has contributed to the work of the International Dairy Federation (IDF) in revisiting the carbon footprint guide for dairy products. In addition, we have contributed to the development of an IDF Biodiversity Framework.

Climate impact
millions of tons CO₂-e



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. Since 2005, Arla's total climate impact has decreased by 11 per cent, despite increased production. In 2014, further focus will be placed on reaching the 2020 goals. The greatest challenges to achieving the climate goal lie within transport.

Breach of duty at two plants

Increased demand for cottage cheese has led to increased production at Skövde dairy, Sweden during the last three years. In response to the increase the dairy applied for an extended environmental permit. The authority has neither decided on permission, neither has it demanded that production be limited. However, the increased

production volumes have led to prosecution. Since there was deemed to be no environmental breach of duty, the charges were dropped in 2011. Decisions are yet to be taken for 2012 and 2013. The production of cottage cheese is to be moved to Falkenberg dairy, also in Sweden, starting 2014.

In Jönköping, Sweden, a limited product leakage contaminated a small stream. The accident caused no permanent damage, but the incident resulted in a notification of environmental breach of duty, which is being investigated.

Criticism of climate compensation

In late 2012, in Sweden, Arla was criticised for the carbon offsets being carried out for Yoggi Yalla® and many organic products. Claims were made that farmers who manage tree plantations in Mozambique had not been paid as agreed and that we over-promised in our marketing of the initiative. In 2013, Arla conducted an external review of the project and put tighter controls in place for gathering feedback from our partners in the project. The review showed that the farmers have been paid, although once this was later than usual due to a lapse in administrative routines. The routines have now been improved and the project fulfills its purpose. Minor adjustments have also been made to the marketing communication. Arla has decided for a step-wise transition to two projects in Uganda. In the autumn of 2013, Arla also visited the projects in Mozambique and Uganda.

“Efficient production is greener”



Harald Jansen, head of engineering and technology.

When Arla assessed its facilities for energy efficiency and environmental performance, its dairy in Pronsfeld, Germany, achieved top scores in several areas.

PRONSFELD DAIRY is Arla’s main producer of long-life dairy products and is also Europe’s largest supplier of long-life milk for retailers’ own brands. The dairy has the capacity to receive 1.7 billion kilos of milk per year, which, put into perspective, is only slightly less than Arla’s entire production in Sweden. The dairy is one of the largest and most modern in Europe.

“Pronsfeld is like a racehorse,” says Harald Jansen, head of engineering and technology at the plant, with technical responsibility for the dairy. “Our aim is to be the best when it comes to processing large volumes of milk quickly and efficiently. Our size and capacity have many benefits, but also some weaknesses.”

The plant’s benefits are that it is able to process large quantities of milk efficiently, thanks to an automated production process that keeps costs down. This ensures the dairy is a reliable supplier for its customers. One of the downsides of being big, according to Harald Jansen, is that it does not permit the same flexibility to reorganise production, for example, to quickly re-adjust and begin production of small product runs or have many product changes. Continuing to draw on the metaphor of the horse, he says that the plant isn’t able to come to a sudden halt and quickly change direction. It is within large production runs that profitability lies, both financially and environmentally.

A top-ranking plant

Compared to Arla’s other dairies, Pronsfeld achieves especially high scores on energy and water consumption relative to production volumes. Why is that?

“It’s a combination of several factors,” Harald Jansen explains. “One is that our technology is the best available for the nature of our production and we also have a very good understanding of this technology. Another is that we have strict environmental standards with which to comply, both from the regulators and that we set ourselves.”

“But there is another factor that is a strong driving force for us,” Harald Jansen adds, “and that is the current price pressure in our market segment. This compels us to continually optimise everything we can, and to invest in the future.”

Harald Jansen points to energy recovery in steam production and frequency-controlled electric motors throughout the plant as examples of measures aimed at improving energy efficiency. The plant also extracts biogas from sludge from waste water treatment for use in steam production and recovers energy from product cooling processes. Another reason behind the impressive figures, he believes, is that the equipment within the plant was developed on site, giving Pronsfeld colleagues direct influence over specifications and design.

The plant, which is located approximately 10 kilometres outside the municipality of Pronsfeld, has its own treatment facility for waste water. After purification, the water is discharged into a river, where measurements are taken continuously to test that the water quality of the river is not affected. (See image on page 34.) One of the regulators' environmental requirements is that these measurements are available online. If the water quality is affected the plant has a very short time in which to address the problem before the regulators intervene and production is stopped.

Investments to gain market share

Arla's goal is to develop its existing dairies with the aim of increasing production of profitable products. In 2011, Pronsfeld began work to extend its production facility with a new unit for the receipt and processing of milk as well as a drying tower for the manufacture of milk powder. In early 2014, a new, modern butter facility will also open. All these new operations use enhancements to existing technology, especially for energy recovery. The heat from cooled products, for instance, will be recycled for use in milk processing and for heating the premises.

Investments require capital, however. Over the past two years more than DKK 800 million has been invested in Pronsfeld. Money has also been made available to make production more environmentally friendly through environmental improvement initiatives.

"Because our plant is so big, it has been possible to invest in efficient technology," Harald Jansen says. "That's why our

environmental and climate figures are so good. Efficient production is greener. We benefit from making few product changes, and we are constantly striving to reduce the amount of milk that is wasted. That's a key focus for our process engineers."

Optimising distribution

From a global perspective, transport to and from the dairy are also very important. Harald Jansen believes the dairy's location, between its major customers as well as the port in the Netherlands, creates many opportunities. And, because customers buy large volumes, vehicles nearly always travel full. Despite this, the dairy continues to work to optimise distribution.

"Several smaller dairies would make many more journeys to smaller customers," Harald Jansen reasons. "By training our drivers and carefully selecting the vehicles, we have succeeded in reducing our diesel consumption significantly over the past few years."

At Pronsfeld, caring for the environment and climate is not just about optimising the facility and distribution. To compensate for the trees that were felled during the extension of the dairy, the same acreage of trees has been planted at another location in the area. This was another regulatory requirement and it also contributes to the environment of the local community.

So what is Pronsfeld's biggest challenge in the years ahead?

"To continue to reduce our energy consumption and the amount of water we use at the plant," Harald Jansen concludes.



Head of engineering and technology, Harald Jansen (page 30), shares his view on the reasons behind the success and the limitations for a site as large as Pronsfeld. Photographs on this page show long-life milk packaging lines at the site.



We support sustainable agriculture.

AGRICULTURE

Towards increasingly sustainable dairy farming

- Same quality programme for all farmers
- Focus on sustainable dairy farming
- Organic production unchanged

Arlagården® launched in Germany

Our quality assurance programme, Arlagården®, is a strong contributing factor to the good reputation Arla has established when it comes to environmental impact, animal welfare, milk quality and food safety. In 2013, Arlagården® celebrated its tenth anniversary, and the programme has been adopted by Arla farmers in Denmark and Sweden for the same amount of time. As of October 2013, Arlagården® is being implemented in Germany, Belgium and Luxembourg too. The first farm audits in Germany were initiated in the autumn and this round of audits is expected to be completed in 2016. To ensure that everyone understands Arlagården®, the programme has been translated into German, French and Flemish. It is already available in Danish, Swedish and English.

In 2014, the roll out of Arlagården® will begin among Arla's British owners. In 2013, work began on producing a comparison between Arlagården® and the UK industry standard, Red Tractor Farm Assurance Dairy Scheme. As in other owner countries, the British version of Arlagården® must comply with national legislation.

Arlagården® is Arla's way of ensuring that all milk suppliers meet the same high standards regardless of the country in which

they are based and that we meet all customer requirements in an effective way. One common quality programme also makes it easier for us to move milk across national borders.

Working on a strategy for sustainable dairy farming

Work on a new strategy for sustainable dairy farming continued in 2013. This is an important part of the environmental strategy presented by Arla in 2011. The fact that we operate on a sustainable basis throughout the chain of production is also increasingly of interest to our customers. The strategy for sustainable dairy farming, which has been proposed, has four main elements:

Animals Animal welfare demands in the Arlagården® quality programme is mandatory for Arla farmers. Advice and new knowledge will help to ensure that standards of animal welfare improve further.

Climate The aim is to reduce emissions per kg milk from supplying farms by 30 per cent by 2020 compared with 1990 levels. The focus is on improved resource use. All farmers are offered climate impact assessments free of charge.

Resources A target for reduced use of resources will be set in 2016 once improved data is available. The focus is on consumption of animal feeds, energy and water per kg of milk.

Nature The overall goal is to protect and promote biological diversity. Arla will be supporting nature conservation projects and activities and continues to promote responsible soya bean farming.

As we want all Arla farmers to contribute to the goals of the new strategy, many workshops have been held during the year. The UK has made most progress so far, holding nearly 200 workshops. Denmark and Sweden, which began the process slightly later, have both held about 40 workshops. Many farmers have also implemented Arla's voluntary climate impact assessment at their farms, with nearly 1,500 assessments completed to date.

Fulfilling all elements of the strategy is a major challenge, and more research is needed. Arla is participating in several international collaborations, including being part of working groups under the international SAI Platform (Sustainable Agriculture Initiative) and the Global Dairy Agenda for Action, which is formulating recommendations for sustainable agricultural production. In Sweden, we are also taking part in the Climate-smart Milk Production project run by the Swedish University of Agricultural Sciences which aims to reduce emissions of greenhouse gases in milk production.

Continued demand for organic milk

Arla is the world's largest supplier of organic milk products. In Denmark, organic milk accounts for eight per cent of all milk delivered to Arla's dairies and in Sweden the figure is 16 per cent. In the UK, Germany and Belgium the share is between one and three per cent. In Sweden the number of organic farms has decreased slightly, partly due to new loose housing requirements for large stocks. This has resulted in some organic farms choosing not to expand while others have opted to cease milk production.

The overall volume of organic milk in Sweden remains unchanged, however.

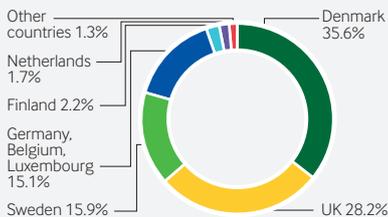
To ensure long-term security of supply for customers as well as farmers, Arla has produced a demand forecast for organic milk stretching to 2017. The conclusion is that the surplus of organic milk in Denmark and Sweden will be sufficient to cover increased demand in Germany and China.

In Germany, Arla's first organic product range launched under the name of Arla BIO®, and is made from German and Danish organic milk from certified suppliers. Demand for organic milk in Denmark declined over the year, but has stabilised following increased activity to spread information about Arla's environmental efforts. After a period of decline, sales of organic products have increased in Sweden. Arla exports organic milk powder from Denmark to China, where it is mainly used in baby formula.

Milk forecasts improve Arla's profitability

In the UK, we use a system under which some dairy farmers can submit forecasts for their milk production for 24 months, at six-monthly intervals. During 2013 this was also introduced in Denmark and Sweden. The forecasts enable improved production and workforce planning as well as more efficient production and logistics. This is particularly important in the run-up to the major changes that we expect when EU quotas are removed in 2015.

Milk delivered to Arla dairies



About 14,500 farms deliver milk to Arla in Denmark, Sweden, the UK, Germany, Finland, Belgium and Luxembourg, accounting for 97 per cent of Arla's total volume. In these and other markets, where we also buy milk from local suppliers, we ensure that the milk meets our quality requirements. The total volume of milk delivered to Arla's dairies increased by 22 per cent over the year.

Responsible farmed soya

In January 2012, Arla decided to bring forward the transition to responsible soya in view of the negative impact of soya bean farming on humans and the environment in South America. The goal is to ensure that all soya used as animal feed for cows at Arla dairy farms is farmed according to the principles and criteria defined by the Round Table on Responsible Soy Association (RTRS) by 2015. In 2013, we engaged with key stakeholders in Denmark, Sweden and the UK to find common opportunities to enable full use of responsible soya.

Action plans have been drawn up for our four largest core markets as part of our strategy for sustainable milk production. Arla Netherlands has already reached the target of 100 per cent sustainable soya in farmfeed.

Improved milk quality

Arla is working long-term to improve the quality of milk at our owner farms. As part of this effort, we engage in testing and advisory activities to minimise the amount of heat-tolerant (thermo-resistant) bacteria. If the bacterial count is too high, this can create problems at the dairies. Experience from our advisory activities shows that the key measure for maintaining a low bacterial count is thorough cleaning of the milking facility and milk tank on farms. Continuous information has been included in the owner's newsletter and an information sheet which summarises the key findings relating to the cleaning of milking equipment has been distributed to Arla farmers in Sweden and Denmark.

R&D in sustainable development of farming

Arla supports the following current projects:
Nitrogen use A research alliance to identify new ideas to optimise nitrogen use at farm level. In cooperation with Aarhus University, Denmark.
Reprolac A research project that aims to develop a feeding/production strategy with less feed input per kg milk produced. In cooperation with Aarhus University, Denmark and INRA, France.

H2AD Third generation anaerobic digestion unit that can handle slurry and convert it into biogas, energy and fertiliser. In cooperation with Lindhurst Engineering, UK.

Climate-smart milk production The aim is to contribute to the reduction of greenhouse gas emissions from milk production in a life cycle perspective. In cooperation with the Swedish University of Agricultural Sciences, Sweden.

Number of cows per farm

	2011	2012	2013
Denmark	141	153	160
United Kingdom	123	126	127
Sweden	66	70	74
Germany	47	49	52
Finland	25	28	29
Belgium	52	54	56
Luxembourg	57	58	59

Source: National trade associations

The number of cows per farm is an average which includes all dairy farmers in each country.

1,500
climate impact assessments completed.



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 36.

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 38.

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 42.

Testing the water quality outside the Pronsfeld site in Germany. Cooperation between the dairy's representative, to the left, and the authority's, to the right.



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

WORKPLACE

Concern for colleagues in a more global company

- High colleague engagement
- New talent programmes launched
- Global leadership in focus

Barometer colleague survey

The annual colleague survey, Barometer, was conducted in November. The survey was sent to over 16,700 colleagues in 27 countries and in 14 different languages. The response rate was 85 per cent. This year we have introduced a new category – Agility – to understand if we are well prepared for change and thereby ready to fulfil our strategic targets for rapid global growth.

The results show continuously high colleague engagement and improvements in almost all areas of measurement. Colleagues are aligned with the global strategy and, at the same time, would like to receive more information about what is happening within Arla as a whole. They also expressed a wish that the business groups' goals are more clear. The new Agility score is very satisfying, however colleagues said they would like to be more involved in changes. Bureaucracy continues to be raised as an issue which requires management focus. The results also show the importance of an ongoing dialogue with colleagues about their individual professional development. The largest decline concerned the question about individual professional development.

The single most improved result is in relation to colleagues experiencing the benefit of diversity in their department, followed

by trust in leadership and appreciation that work is organised to minimise stress and absence.

Challenges being a more global company

Arla is in a rapid transition phase, transforming from a group of several strong national dairy companies to a major global player in the industry. Rapid development brings many changes and our challenge is to maximise the output of the skills and development potential of every colleague and leader. It is Arla's ambition to continue to be an attractive workplace and to create good working conditions for colleagues at every level.

As Arla becomes ever more global, the need for international leaders, who are willing to move to new countries and continents, increases. However, we are finding it a challenge to ensure sufficient management mobility.

It is important for Arla that its leaders are well prepared as their role becomes gradually more global. With this in mind, Arla has launched a Global Talent Accelerator Programme. Its purpose is to develop a strong and competent leadership pipeline. More than 480 colleagues were nominated and 29 were selected to join this year's programme. Participants are leaders, senior leaders and top leaders coming from six different countries. Of the group, 19 are male and 10 are female.

The two year graduate programme, Future 15, continues, and the on-going Future 15 programmes have 28 participants with 11 different nationalities. In addition, we have begun a three year

Supply Chain Leader Talent Programme, combining leadership skills and technical competence with candidates from the UK, Denmark, Poland and Greece.

Continued leadership training

It is of great importance that all leaders in Arla know and act according to the company’s core values and practices. Therefore, specific leadership courses have been arranged for leaders in the relatively new German-Dutch organisation and for leaders from Milk Link with which we merged in the UK.

The ALP (Arla Leadership Programme) for middle managers and managers in Arla has now been running for four years. The aim of the training is to reinforce the connection between the company’s ambitious strategy for growth and managers’ individual areas of responsibility. In 2013, 256 colleagues enrolled on one of the three ALP programmes – Arla specialist, Leading others and Leading leaders. The senior management programme, Leading functions, has 49 new participants from Arla globally.

Colleague development

Arla needs highly qualified colleagues and therefore contributes actively to education and training courses. In the UK, the EDEN (European Dairy Education Now) professional dairy qualification, for which Arla was one of the driving forces, has attracted

24 colleagues. Ten of these later enrolled at a new education programme – EDEN Engineering – which is a combination of dairy and engineering training. We strive to recruit students local to our sites.

In Sweden, Arla has launched a new dairy course similar to the Danish dairy technologist education at Kold College in Denmark, on which Swedish students are currently enrolled. In addition, we are providing training for our partner company Mengniu, where we have facilitated training in Lean and in category management for 100 colleagues in Chinese Mengniu’s sales organisation.

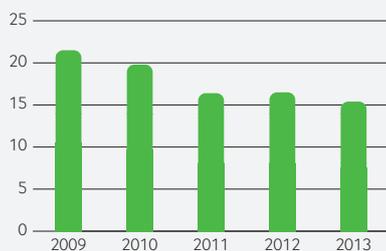
Continuous skills development

In Denmark, assessing the reading, writing and mathematics skills of colleagues has continued and more than 3,700 colleagues have taken part in the assessment. Approximately 600 of these have continued with further education to increase their basic skills. We strive to raise the level of basic competences of all colleagues and have helped many with dyslexia. A similar program has run in Oakthorpe dairy in the UK.

Since 2009, almost 900 drivers in Denmark have participated in a training programme which focuses on both driving skills and food hygiene. This training is now being extended to the UK business.

Accidents at work

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



The total number of workplace accidents has decreased by seven per cent since last year, even more at some sites, but unfortunately increased at others. The total number has decreased with almost 30 per cent since 2009, and in Sweden with a third since last year, from an already low level. Both UK and Sweden report a total accident frequency of 11. Previous years’ data has been updated. The frequency per individual site differs between zero and more than 60.

Progress in occupational health and safety

We are currently developing a global system for reporting and following up illness rates, based on our common definition. Furthermore, in all parts of the organisation, we focus on reducing the number of accidents and creating a safe workplace, both by working with attitudes and behaviour-based safety and by eliminating technical risks.

In Denmark, the Working Environment Authority ruled that two accidents violated the Danish Working Environment Act and subsequently

imposed fines. One was a fall from a truck, the other due to insufficient shielding on a machine.

Since 2012, Nijkerk dairy in the Netherlands has put increased emphasis on accident reduction. The dairy has introduced a new and improved risk assessment tool in order to further support the safety, health and wellbeing of colleagues.

Closer to Arla

During the year, we have launched our new global colleague magazine, Closer to Arla, in eight versions: English International, English UK, Danish, Swedish, German, Dutch, Finnish and Russian. The magazine enables us to share stories, case studies and inspiration globally in addition to localised content in each edition.

Attracting the best talent

Arla’s goal is to be employer of choice among potential candidates in our target groups in order to recruit and retain the best talent. Consequently, we are working to become better known among students to build a talent pipeline. For this reason we have established a number of partnerships with key universities in our core markets. In addition, we offer internships, thesis cooperation, and student workplaces, for example.

During the last few years we have taken steps to strengthen our image as an employer by creating media strategies for employer branding and communication based on target group analysis. Our improved communications are having the desired effect and our rankings among students and young professionals have improved, particularly in Denmark and Sweden.

Strong colleague engagement

At Concord dairy in Canada, Arla has successfully improved colleague’s engagement in, and ownership for, the products they produce. New leadership practices, involving colleagues, creating new competencies and improvements to the facility have delivered very positive results.

Outplacement and hiring

Due to dairy closures and relocating operations, we continue to offer job seeking training in Denmark, Sweden and the UK. We also contact other companies to help colleagues, whose position has been made redundant, find alternative employment. During the year, approximately 300 positions in Denmark, Sweden and the UK have been made redundant due to structural changes and rationalisation initiatives.

It has been a very different scenario at our new dairy in Aylesbury, in the UK where there has been a lot of positions to fill. To encourage employment of residents from the Aylesbury area we have held local assessment centres and an open evening for people from the local community to talk to Arla colleagues and learn about the new site and the jobs available.

85%

was the response rate for the annual colleague survey, Barometer.



We maintain good, respectful and constructive community relations.

COMMUNITY RELATIONS

We build lasting relationships

- Local commitment with a global perspective
- Arla Foundation launched
- Farm visits popular

Engaging with society locally and globally

Arla's primary contribution to society is the food we produce, but also the creation of jobs and influencing economic growth in those localities and countries in which we operate. We strive to be a good employer and a reliable member of society. We also engage in areas that are closely related to our value and production chain, such as milk and where it comes from, milk as a nutritious food product, inspiration for cooking and a healthy lifestyle, and nature and the environment.

We would like to unite the company around an initiative with which we could engage colleagues all around the world but, to date, priority has been given to local activities linked to our various focus areas, see fact field. Local anchorage is important to us which is why companies in the group contribute to their local community in the way they feel is most appropriate and fosters most colleague involvement.

Engaging in public debate

As a representative of the food industry and the dairy farmers who are our owners, Arla has a responsibility to engage in public debate. In Denmark and Sweden Arla is a well-known company, which puts

us in a position to drive important issues. During the year we have been in active dialogue with politicians, ministers and government representatives, members of the European Parliament and other parties. The aim has been to draw attention to issues relating to the dairy industry's opportunities to take responsibility for promoting sustainable development. In Denmark, Arla's chief executive is chairman of the government's growth group for the food industry and he is deputy chairman of the board of governors for Aarhus University, Denmark.

Another way to spread knowledge about our products' origins and what happens at the farm is to invite the public to visit our owners' farms. Every year, in Sweden, we invite about 50,000 schoolchildren to our owners' farms and we provide teaching materials about life on the farm free of charge. Since the start in 1993, more than 900,000 children have visited an Arla farm. Similar activities take place in Denmark, Germany, Belgium and Luxembourg.

The Arla Foundation gives knowledge for life

In late 2012, in Denmark, Arla launched a long-term initiative called the Arla Foundation. The Foundation will actively support children aged 10 to 14 to learn more about cooking, natural produce and outdoor physical activities in the countryside. The goal is to inspire this generation to adopt a healthy and sustainable lifestyle.

In 2013, a number of children's camps focusing on cooking, resource saving and the joy of food were organised on a pilot basis.

The teaching integrates knowledge about food with core subjects such as natural sciences and mathematics. The ambition is to offer 10 per cent of all Danish children aged 12 to 13 the opportunity to attend a camp.

Team Rynkeby is growing

Since 2002, Rynkeby Foods has arranged the Team Rynkeby cycling event, which raises money for the Children’s Cancer Foundation. The charitable event has grown over the years and, in 2013, around 1,000 people representing 21 teams from Denmark, Sweden, Finland and Norway participated. Everyone takes part on a non-profit basis and participants spend seven days cycling from Scandinavia to Paris in France. This is in addition to many hours spent training, engaging sponsors and collecting money for the charity. Collectively, the participating teams raised DKK 23 million, which was donated to the Children’s Cancer

Foundations in Denmark, Sweden, Finland and Norway. Rynkeby Foods contributes about DKK four million to the event.

Milk cartons as a communication channel

The backs of milk cartons are a channel for spreading knowledge and inspiration and are used in Denmark, Sweden, Finland and the Netherlands. In Denmark we have, for instance, published information about recycling packaging and ways to reduce the amount of food that is wasted. In Sweden we have printed similar messages along with a series which is designed to stimulate interest in learning about everything from natural phenomena to mathematics. Sharing knowledge about work at the farm and various sports are other recurring themes. In Finland and the Netherlands the backs of cartons are used mainly for product information.

A variety of local activities

Below we present a selection of local community relations activities from all over the world, including some minor and other more comprehensive examples.

Supporting charity

Since 2008, Arla has been running a long-term project called **Children for Life**, which aims to give children a better future by providing food and supporting their education. Since its launch we have been working with SOS Children’s Villages in the Dominican Republic. In Bangladesh our commitment continues in partnership with a local charity organisation.

The humanitarian organisation **Médecins sans Frontières (MSF)** 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.

Every year, Arla also takes part in charitable projects in support of local charities. Many of our colleagues engage in non-profit work in their free time. Arla’s **Community Challenge** in the UK contributes money to projects to which colleagues devote their free time. In 2013, 28 projects (2012: 37) received support.

In the Netherlands, Arla has been one of the initiators of the Do Social foundation, which aims at giving support to the elderly and those needing care. In Canada and the USA we sponsor events where the money raised is used for cancer research and in the UK, we work with a national cancer care charity. In Russia we provide support to children’s homes and hospitals and in Sweden we sent a Christmas gift to the Children’s Cancer Foundation. In Denmark, Rynkeby Foods has supported a UN campaign aimed at raising awareness about positive and tangible results of aid projects.

Arla farm visits

Number of visitors	2011	2012	2013
Cows out to pasture, Denmark	63,000	86,000	92,000
Cows out to pasture, Sweden	100,000	125,000	150,000
Farm visit for school classes, Denmark	15,000	11,500	11,600
Farm visit for school classes, Sweden	43,000	50,000	50,000
Farm visit for school classes, Germany	5,800*	9,500**	12,000

* Hansa Arla Milch ** Hansa Arla Milch and MUH

Visiting our owners’ farms in the spring, when the cows are let out to pasture, is a very popular activity in Denmark and Sweden. In 2013, the number of visitors was higher than ever. In Denmark, open days at farms and nature festivals have also attracted 130,000 visitors (2012: 126,000). In Finland, a few farm visits for schoolchildren have been arranged when the cows are let out to pasture. In Denmark and the UK we invite schoolchildren to visit our dairies. Some dairies in Germany also host such visits.

Food as charity

Reducing the amount of food that goes to waste, in our own operations as well as in consumers’ homes, is part of our environmental strategy. In several countries, including the UK, Germany, the Netherlands, Canada, Denmark and Finland, we are working with organisations to ensure that good quality surplus food, which does not meet the retailers’ minimum shelf life requirements, is distributed to those in need.

Arla as a neighbour

In those places where we have facilities or where we build new ones, we acknowledge we have an impact on the local environment, and we are always keen to ensure that we maintain good relations with local residents and the local community. In the article on the next spread we describe how the issues and concerns raised by local residents were handled prior to and during the construction of our new dairy in Aylesbury, in the UK. Another example is our large dairy in the countryside close to Pronsfeld, Germany. Here, like in many other places, we need

to ensure that we are a good member of society and an attractive employer.

Community activities

In several markets we arranged breakfast gatherings to raise awareness about the importance of eating a good breakfast. Read more on page 22. Promoting a sustainable environment is another goal on which we have focussed. In Denmark and Sweden, for instance, we have a dialogue with the World Wide Fund for Nature (WWF). In these countries and in the Netherlands we are also working with nature conservation groups.

We have also contributed to many local sports events and wildlife experiences. In the **Netherlands** we are supporting two nature conservation projects close to our Nijkerk plant and encourage children to help promote biological diversity through tree planting projects. In **Russia**, we support parks in St Petersburg and an aviary in a park in Moscow. We are sponsoring a rugby organisation in the **UK** which works to stimulate an interest in sport among children and young people. We are working with the Swedish Olympic Committee to organise local events where schoolchildren are given an opportunity to try different sports. In **Sweden**, we also support several other sporting events for children and young people, including ski schools and football tournaments. In **Germany** we support local football and volleyball clubs.

446,000

visitors to Arla farms in Denmark, Sweden and Germany during 2013.

“Being a ‘good neighbour’ means being open and honest”



Tim Evans, senior director.

When Arla announced its intention to build one of the world’s largest fresh milk dairies outside London, the proposal received a positive reception and some strong opposition. How did Arla work with those stakeholders who were for and against the project?

GOOD COMMUNITY RELATIONS are an important part of Arla’s Code of Conduct and the cooperative claims to take its role as an employer and corporate citizen very seriously. In 2010, when Arla announced its intention to build the world’s largest fresh milk dairy in Aylesbury, outside London, community relations were put to the test as several local residents were concerned about the effects of the site and against the change the new site would bring to the area. While change was going to be inevitable, the benefit of the dairy to the local community is the provision of approximately 700 new jobs when the dairy operates at full capacity, in addition to almost 1,000 construction-related jobs during the site’s development.

“A project of this size is new for us and we did everything we could to secure a positive outcome in the planning process and to ensure that all local stakeholders had the opportunity to engage. It was very important to us that we incorporated their input in the final plan,” explains Tim Evans, Arla’s senior director for supply chain development, with overall responsibility for the Aylesbury project.

Involvement of local residents

The consultation process prior to the final planning application being submitted was thorough. Arla was committed to ensuring opportunities for people to share their views on the proposal. Measures included the development of a dedicated Aylesbury section on the Arla UK website that included all plans and exhibition materials. Three public consultation events were also held, attended by almost 300 local residents.

“At the meetings, we handed out comment forms for residents to provide feedback,” says Tim Evans. “We also held many individual meetings with key stakeholders, for example Parish Councils, and we posted out a brochure that outlined our full proposal and a key facts document to all local residents.”

Initially, the major concerns from residents were traffic and the look of the facility. With an average of 20 trucks per hour entering and leaving the site and several hundred people making the journey to work at the site, residents were worried this would be disruptive and create congestion. Thorough preparation allowed Arla to respond to all the questions it was asked. For example, in terms of transport, it was able to share the routing strategy for Arla vehicles. It could allay concerns that lorries would not use local village roads by communicating the strategic road network routes being adopted and explain it would be investing in the local highway to improve the flow of traffic. Arla clarified that Aylesbury was chosen as it provides the optimal location between the farmers supplying the milk and the consumer base in the densely populated south east of England.

Change of master plan

Having listened to all the concerns, many changes were made to the master plan. For example, the scale of some of the buildings was reduced as well as the height of the raw milk silos. The colour of the proposed buildings and silos was adjusted. Additional woodland and planting was included to provide a screen around the entire site. A noise mitigation strategy was established to ensure that there is no discernible noise impact. In addition, roof lights were removed and no sodium lights allowed, for example, to reduce any light impact to a minimum.

Continuous engagement with stakeholders

Following the submission of the planning application Arla sought to continue to engage with stakeholders in different ways. Quarterly community liaison meetings were established to open up communication channels and a newsletter was created.

“Concerning the improvements to the road network,” says Tim Evans, “we issued a press release in advance of these beginning to raise awareness. We also posted a letter to all affected residents to inform them of the works and included a plan to show the changes so that they were fully informed of the work being undertaken and the outcome of this.”

Since construction began, the main resistance continues to be associated with the roadworks, including the noise from the machinery and the timings at which the work took place. In hindsight, Tim Evans acknowledges that Arla could have been more specific in the letter about the noise that would be generated as the levels did draw several complaints.

Also associated with the roadworks, there has been some negative criticism about two roundabouts being replaced with

traffic lights. This was a requirement of the planning application, the intention being that this would not only help ease the impact of the proposed Arla traffic, but would also improve the existing operations at the junctions. Other complaints have been construction vehicles using the wrong roads and complaints about the mud on the road on which the dairy is situated, which was dirtying cars using this route. Arla responded and put measures in place to rectify the situations, for example, paying a professional company to regularly clean the road.

Another source of contention was in spring 2013 when a section of a canal, adjacent to the dairy, collapsed and there was speculation as to whether the construction of the dairy contributed to this. The investigation as to the cause of the collapse is still ongoing. Arla has been cooperating fully with the investigation and supported the repair of the canal lock by granting access via the site.

From decision to production in three years

In November 2013, the first milk for retail customers rolled off the filling lines. Arla will continue its dialogue with the liaison group. What advice would Tim Evans give to those managing construction projects of this kind?

“Engage with local stakeholders at the earliest opportunity so that they are fully consulted with, know what is happening and have an opportunity to share their views. Also, be in no doubt that communication is crucial right from the very outset of the project. It cannot be done retrospectively – you will lose credibility. Be upfront, honest and open. People don’t like surprises. Being a ‘good neighbour’ means being open and honest, even if reality is going to be met with resistance,” he concludes.



Tim Evans, Arla’s senior director for supply chain development (page 40), with overall responsibility for the Aylesbury project, gives his view on community relations in relation to the construction of the new dairy outside London, UK.



We respect and support internationally recognised human rights.

HUMAN RIGHTS

Firm belief in respect for human rights

- **Continuous focus on diversity**
- **More female colleagues in Saudi Arabia**
- **Barometer results on behaviour**

Equal rights for all

As Arla expands in new markets all over the world, we acknowledge the challenge that can arise regarding cultural differences in different countries. However, regardless of the country in which we operate, we maintain firm in our conviction to always respect human rights.

Following up our diversity strategy

Arla began working, systematically and globally, with diversity and inclusion in 2010 and, since then, has increased its focus in this area. 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. In addition, we believe that diversity among our colleagues, each of whom has different views on the world around us, positively benefits the company's development.

Our main undertaking in 2013 has been to further implement the strategy developed in 2011. We have conducted several competence building sessions and have trained leaders and managers at different organisational levels, as well as HR colleagues. Members of the Board of Representatives and Board of Directors have also been involved in

discussions and engaged in the process. In total, 240 colleagues and elected representatives have participated.

During 2013, a revised recruitment process and policy have been implemented. We have continued to improve awareness internally of how to attract potential new colleagues and recruit them in order to ensure a more diverse pool of candidates. Part of this has been achieved by evaluating the images and language used in our job advertisements. In addition, managers have been trained in how to avoid personal or cultural biases when selecting candidates. The recent mergers and the globalisation of the business have improved awareness among leaders and colleagues of the importance of diversity in the company.

Arla's corporate language policy was finalised in 2012, stating English as our corporate language. Focus during 2013 has been on ensuring that colleagues in Arla national offices, for example, who do not speak the local language, are not excluded. As soon as a colleague not speaking the local language is present, the conversation is held in English. The same is applied to written communication.

The single most improved result in this year's colleague survey, is that colleagues have experienced the benefit of diversity in their department.

Gender diversity targets

The agreed target for 2017 for gender diversity at Arla's top and upper management levels is for women to hold 20 per cent of Arla's Top 50

positions. The target for gender composition in the Board of Directors will be decided in a longer process by the Board during 2014.

Clear data on diversity

As a result of the company's inability to track nationality, seniority and other key data in Arla's current HR systems, a project called Clarity was defined in early 2013. The objectives of Clarity are to provide relevant and trustworthy HR data, in order to monitor and report key data, for example, the spread of nationalities in a business group or a department, in countries where this is permitted. In addition, we want to be able to track internal mobility to answer questions including, do females have the same access to higher level jobs as males? The ability to answer questions such as these, combined with a global job profiling system, will also enable us to clarify whether females, holding the same positions as males, are being paid fairly. The goal, by 2014, is to enable online tracking of key HR data.

Results from colleague survey

The results of Arla's annual colleague survey, Barometer, were published in December 2013. A number of questions concerning colleagues' perception of how well they feel they are treated were included in the survey. If colleagues answered yes to the question: "In the past 12 months, have you personally experienced unacceptable behaviour that has affected you" we have sought to understand the kind of unacceptable behaviour they have experienced.

In total, 17 per cent said they have experienced unacceptable behaviour (15 per cent the year before). When asked if they had reported it, 44 per cent said yes. Of those who commented on whether the issue had been resolved, 46 per cent reported that it had been and to their satisfaction. The analysis of the results was not finalised when this report was published.

Dialogue in the Third World

When we visit and audit our partners in the Third World, we cover many topics but 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 areas.

During 2013, Arla's representatives have visited all suppliers in Nigeria and Bangladesh, as well as several potential suppliers in Bangladesh. In Nigeria we work with a packing plant and three packaging suppliers. During the visits, we concluded that one supplier was not fulfilling all our requirements. Consequently, we no longer work with this supplier. In Bangladesh, we have replaced one of our suppliers as it was not able to answer our questions satisfactorily.

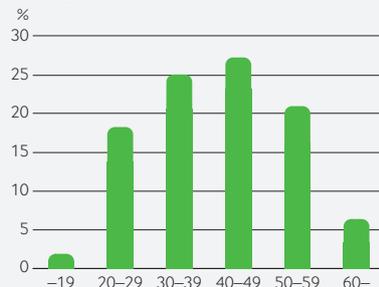
We have updated our audit methodology and increased the number of questions regarding social responsibility. As we have prioritised this area, we will increase the number of audits and follow up visits in 2014.

Share of female colleagues



The share of females varies in different parts of the organisation. Among our top managers there are significantly fewer women than men, and the number hasn't increased during the last few years. At lower managerial levels, the share of women is higher. One of our focus areas is the recruitment of more women to our 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, reflecting the gender distribution in the company as a whole.

Colleagues by age



The spread of ages among Arla colleagues is currently satisfactory. Age should not be, and is not, a factor during recruitment. Arla values the fact that its workforce comprises a balanced mix of ages.

European Work Council

In addition to Arla's cooperation with representatives of trade union organisations at a national level, we have a European Work Council (EWC), which is Arla's European labour relations forum. In the EWC, representatives of 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. The inclusion of new organisations from the UK and Germany, during 2013, has been reflected in the EWC.

The council meets twice a year and discusses relevant issues from all of Arla's sites in Europe,

for example, results and prioritised actions as a result of the colleague survey, integration of new sites and structural changes in the organisation. All colleagues at Arla are able to provide input into the agenda. Colleague feedback and the items suggested for these meetings indicate that most colleagues at Arla feel well represented by the different unions, and that the many years of good working relations between the unions and Arla have continued in the enlarged company.

Female colleagues in Saudi Arabia

Since 2012, in Saudi Arabia, Arla has been able to offer work to women. Developments in Saudi Arabia in recent years have resulted in it now being easier to employ women, although employers have to take special measures. For example, a number of practical issues have to be resolved. In 2013, the number of women employed increased to 36 mainly within production but also in marketing and export departments. The feedback from the women is very positive. Having female colleagues is also valuable as we are able to learn more about Saudi consumers.

27%

of the colleagues at Arla are women.



Arla supports the Global Compact

Six 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 each of the principles.

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 Market conduct Food and health Case study Workplace Community relations Human rights	8–9 12–13 14–15 22–23 24–25 36–37 38–39 42–43
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 Market conduct Workplace Human rights	8–9 12–13 14–15 36–37 42–43
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 Community relations Case study	8–9 12–13 14–15 28–29 30–31 32–33 38–39 40–41
ANTI-CORRUPTION	<ol style="list-style-type: none"> 10. work against corruption in all its forms, including extortion and bribery. 	Business principles Market conduct	8–9 14–15

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 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.

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	8–9	●	●	●	●	●	●	
Operational principles	10–11	●	●	●	●		●	Belgium, Luxembourg
Procurement	12–13	●	●	●	●			
Market conduct	14–15	●	●	●	●	●	●	China, Russia, Saudi Arabia, USA
Case study	16–17							Russia
Food safety	20–21	●	●	●	●		●	China
Food and health	22–23	●	●	●	●	●	●	Bangladesh, China, Lebanon, Malawi, Saudi Arabia, UAE Arla Foods Ingredients
Case study	24–25	●						Malawi Arla Foods Ingredients
Environment and climate	28–29	●	●	●	●	●	●	Canada
Case study	30–31				●			
Agriculture	32–33	●	●	●	●	●	●	Belgium, China, Luxembourg
Workplace	36–37	●	●	●	●	●	●	Canada, China, Greece, Poland, Russia
Community relations	38–39	●	●	●	●	●	●	Bangladesh, Belgium, Canada, Dominican Republic, France, Luxembourg, Norway, Russia, USA Arla Foods Ingredients, Rynkeby Foods
Case study	40–41		●					
Human rights	42–43	●	●	●	●	●	●	Bangladesh, Nigeria, Poland, Saudi Arabia



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