

CORPORATE RESPONSIBILITY REPORT

2018

Our Responsibility



Arla Foods is a **global dairy company** owned by more than 10,300 dairy farmers in seven European countries. We believe **sustainability** and **profitability** go hand in hand, and that our dedication benefits both society and our business.

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Dairy farming in a changing world

Sustainable dairy production is top of the agenda in Arla, and will continue to be so for the foreseeable future. The environmental footprint of dairy farming was also increasingly debated among consumers during the year. Being a cooperative with a collaborative mindset Arla has already come a long way and are well prepared to continue our contribution to making dairy production even more sustainable.

For me, as the new chairman of Arla Foods, it is important that we as farmers actively address social and sustainability agendas as these are core to our business, our cooperative, and the global industry. We have worked with these agendas for many years, and during 2018, we made incremental progress towards our 2020 targets across our business.

2018 presented challenges and opportunities for dairy production on many levels, and the warm and dry summer affected dairy farming in most of Northern Europe. Therefore, it was encouraging that our strong balance sheet allowed the Board of Directors to propose paying out the entire 2018 net profit to our farmer owners.

In 2019, we will go further towards the new ambitious targets beyond 2020, set by Arla's management and Board. I am looking forward to the discussions

about how we can develop our dairy production in a responsible and sustainable way, including milk quality and animal welfare, while, importantly, also allowing farmers to continue to invest in the development of their business.

We have strong collaborations with the scientific community and, together with Aarhus university, have established a professorship and a five year research project investigating how milk production can become more sustainable. The target is to find solutions to key challenges in dairy production, looking into the possibilities to reduce the environmental and climate impacts while delivering healthy products to a growing population.

True to the DNA of the cooperative mindset, Arla collaborates with farmers around the world to support local dairy industries. Examples of this include our



project in Nigeria, focusing on the development of a sustainable dairy value chain, and our involvement in China, where Arla is working together with local farmers, sharing our expertise in dairy farming and improving herd health. More than 1,000 farmers have already been involved in these activities.

In Arla Foods, we are committed to being open and transparent. Consumers and customers demand it and it is essential to securing dairy as an important part of the future. An example of how we set targets for transparent milk production is Arlagården® Plus, which ran its first full year in 2018, and which by the end of 2018 covered 96 per cent of the Arla milk pool. Together with our overall quality programme Arlagården® this will be an important tool to create even higher quality, better animal welfare and sustainable dairy production.

We think about sustainability in the broadest sense: Respect for the environment, developing healthy products for feeding the world's rapidly growing population while respecting human rights. This report will give you an insight into how our efforts, contribute to our corporate responsibility commitments and our overall mission. "To secure the highest value for our farmers milk while creating opportunities for their growth."

Jan Toft Nørgaard
Chairman of the Board of Directors

Taking action on sustainability is key

During 2018, public awareness of climate change increased in intensity and the urgency to act continues to build. At Arla, we are committed to accelerating the transition to sustainable dairy production and building confidence in dairy as part of a healthy and sustainable diet.

Eating habits are changing and the world's growing population is increasing the need for a more sustainable and nutritious diet. The Food and Agriculture Organisation within the United Nations (FAO) has stated that dairy, due to it being nutrient dense, makes a significant contribution to global health and recent FAO analysis shows that milk production continues to become more efficient and sustainable.

Through investments, new technology and optimised production and farming methods, Arla and its farmer owners have contributed to this result by continuously working to produce quality milk while reducing emissions. This has resulted in an average Arla emission intensity per kilo of milk being less than half the global average.

It is, however, obvious that Arla, as a major dairy farming cooperative, needs to improve further. In October 2018, UN's Intergovernmental Panel on Climate Change (IPCC) released a report that calls for drastic

action between now and 2030. At EU and national government levels climate strategies have been the main focus of discussions throughout the year. At the COP24 in December, a range of measures to make the Paris Agreement operational in 2020 were agreed.

To accelerate our transition to sustainable dairy farming and production, we will be rolling out our new environmental strategy in 2019. It focuses on better climate, clean air and water and more nature. It is guided by science based targets in line with planetary boundaries and will replace our current environmental strategy towards 2020.

In 2018, we joined the global celebration of the 70th anniversary of the Universal Declaration of Human Rights. Respecting human rights and welcoming diversity are integral to the way we grow our business and gives us a broader perspective on the needs we strive to meet around the world, not least in emerging markets. Some of the examples include our



engagement in Nigeria, supporting the local dairy industry and creating opportunities for local farmers, and our social enterprise programme in Bangladesh, generating jobs for female micro-entrepreneurs selling Arla's affordable nutrition in rural areas.

Our overall sustainability strategy focuses on the three areas on which we have the greatest impact and on which we can make the most important contributions to delivering UN's Sustainable Development Goals: Increase access to dairy nutrition, Inspire good food habits, and Improve the environment for future generations.

In 2018, we have inspired better food habits in core markets and we are aiming to use our learnings to build educational programmes in other markets in and outside Europe. Our main focus is to empower children to make good food choices and gain knowledge, which can be applied throughout life. A better understanding of how food is produced and how it can be prepared

and eaten enables our younger generation to make more informed choices, not only in terms of their own health but also when it comes to the health of the planet.

Arla is committed to adapting the way we conduct our activities to the 10 basic principles of the United Nations' Global Compact, and to communicate these principles to our stakeholders and the surrounding world. This report is part of that work.

Taking further action on sustainability is key for Arla and I am proud of the progress delivered by the organisation and our farmer owners during 2018, as described in this report. I look forward to working together to drive more change in the years to come.

Peder Tuborgh
CEO

Arla's foundation for sustainability, and how we go forward

Arla's Code of Conduct – Our Responsibility – is our foundation for sustainable development. It covers all aspects of our business and is at the heart of every decision made in our company.

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

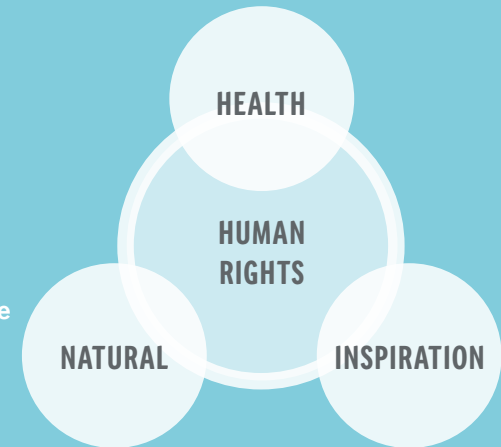


Vision

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

Sustainability strategy

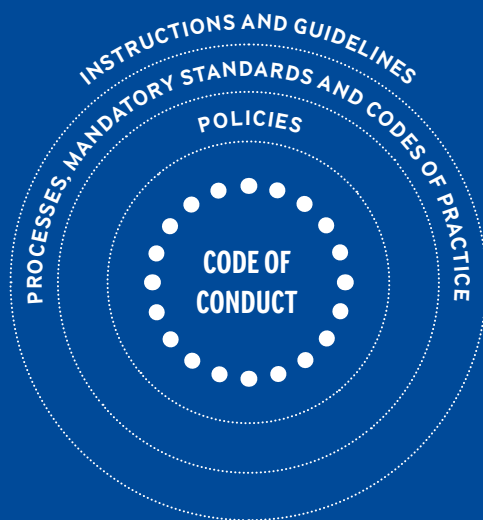
Our sustainability strategy supports the focus areas in our vision – Health, Inspiration and Natural – and at the core of the strategy we have our commitment to respect international human rights principles. In this report, you find examples of how we work to grow our business, while acting responsibly in every step.



How we work responsibly

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

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



Good Growth strategy 2020

Our strategy to reach our vision is called Good Growth 2020. Everyone at Arla is committing to growing the business in a good way.

We grow the value of our farmer owners' milk by developing our position as a leading global dairy company.

Read more about Good Growth 2020 on arla.com.



Our business model – contribution to society

Arla Foods is a global dairy cooperative, with farmer owners in seven European countries. Our business impacts society in various ways, and through our collaborative business model, we promote sustainable development and good citizenship. We create jobs around the world, ensure livelihoods for farmers, and run a transparent and resource efficient business.

People, production and logistics

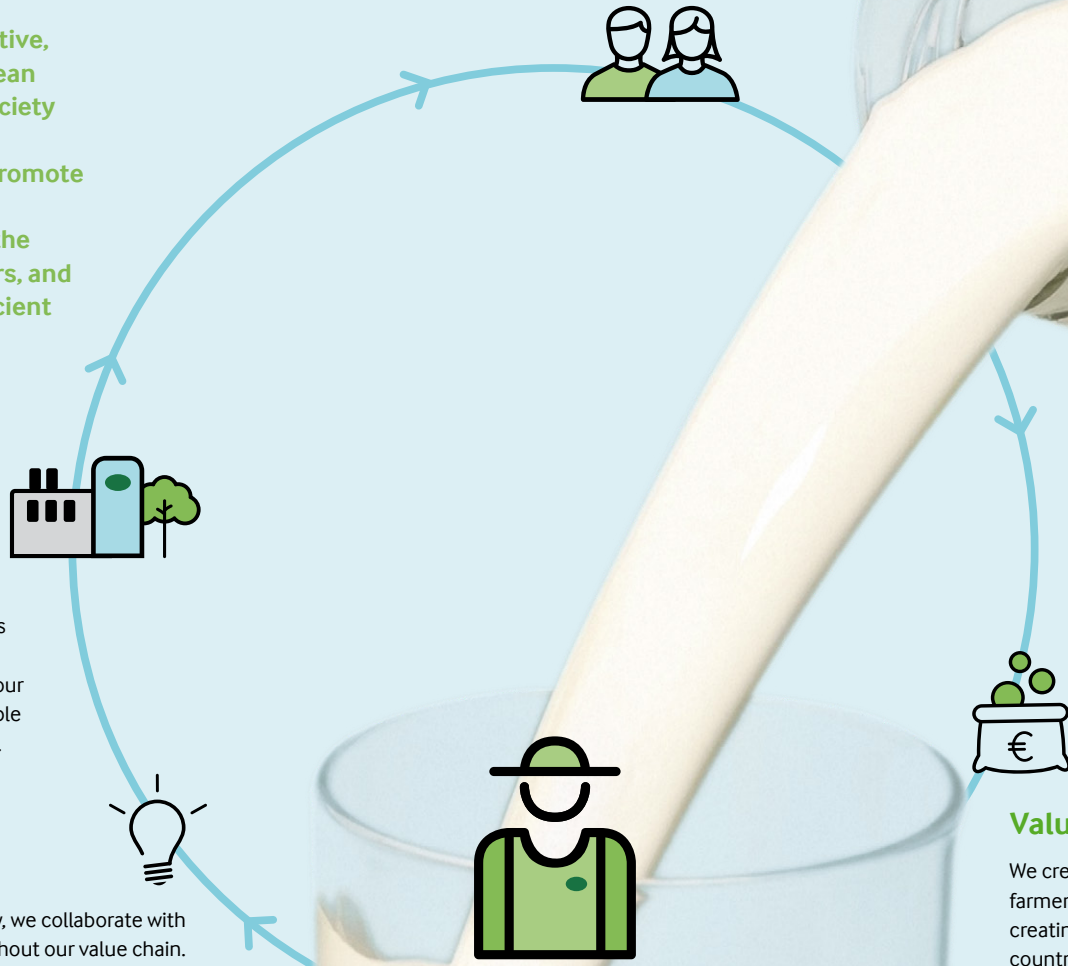
We provide a safe and healthy workplace for our approximately 19,000 engaged colleagues who work to improve our business – from ensuring world-class food safety standards in our production, to resource efficient and sustainable production, transportation and administration.

Innovation

Creating the future of dairy, we collaborate with many stakeholders throughout our value chain. With a strong innovative approach, we respond to the growing demand for healthy, affordable and sustainable products. We develop, use and share our knowledge about dairy farming, nutrition and production technologies.

Consumers and customers

We use our knowledge and dedication to meet the needs of consumers and customers around the world. We inspire good food habits, support our consumers in making informed choices and share knowledge about the origin of food.



ONE milk pool

ONE milk pool from well-kept animals, with the same quality requirements across countries, in combination with a resource efficient production chain, enables us to meet consumer expectations for safe, sustainable, nutritious and natural products.

Value creation

We create sustainable growth opportunities for our farmer owners. We source and trade responsibly, creating livelihoods for farmers and workers in many countries, and we create value for consumers by offering products to fulfill their demands.

Farmer owners

Arla farmers are at the core of our business, as both raw milk suppliers and owners of the cooperative. Together, we work to continuously improve dairy farming practices, and to further develop a well-functioning and transparent democratic organisation.

About this report

In this report we summarise our sustainability activities and progress for the financial year 2018. We cover the significant social, ethical and environmental commitments and results we made in 2018 and some of the actions planned for 2019.

Reporting scope

The scope for this report is Arla colleagues and companies where we have management control, unless otherwise stated. Joint ventures and other entities over which Arla does not have management control are not covered in the quantitative reporting. However, we work with our partners to ensure an ongoing focus on sustainability issues.

During 2017, we updated our materiality analysis. We invited main stakeholders to prioritise the importance of 22 defined aspects related to our sustainability activities, see page 38. The outcome, in combination with continuous dialogue with key stakeholders, helps us improve the scope and focus of our work, reporting and communication processes. Furthermore, it serves as basis when relating to the Global Reporting Initiative (GRI) guidelines.

Governance

Our Executive Management Team governs our strategies. Daily implementation of strategies and policies to support sustainable development lies with relevant functions. Strategic issues in particular in relation to farm management are discussed and agreed with our Board of Directors.

Risk management

Our approach to due diligence is integrated in the way we work and do business along our value chain. We identify, prevent and mitigate risks related to our activities to help minimise adverse impact on people, society and business. We focus on reporting on progress in relation to social and employee issues, environment, climate, corruption, human rights and other topics material to us.

The report serves as our annual communication on progress against the UN Global Compact and as the statutory statement on CSR in accordance with Section 99a of the Danish Financial Statements Act.

This English master version has been translated into several languages.

For further information, please visit arla.com and read Arla's Annual Report 2018.

HEALTH

We use the *power of milk* to influence millions of consumers' food habits. Our extensive range of tasty and nutrient rich products can contribute to healthier diets for consumers around the world.



HIGHLIGHTS 2018

- ▶ External review of health strategy – provided input for further development.
- ▶ Launch of on-the-go products, mixing grains, vegetables and dairy.
- ▶ Successful food safety focus – resulted in only two product recalls worldwide.

Dairy products are recommended as part of a daily diet from childhood to old age, across the world. The starting point for our health strategy is our commitment to promote and offer healthy and affordable dairy products around the world. Milk naturally contains one of the richest combinations of nutrients you can find in a single food source, such as calcium, vitamins B₂ and B₁₂, iodine, a high content of protein and a broad range of other vitamins and minerals.

Food safety comes first

We want to help people to eat healthily, but first and foremost, we want to ensure that eating or drinking our products is always safe. Our continuous efforts resulted in a significant reduction in product recalls and withdrawals from ten in 2017 to two in 2018. To further increase our accountability as a world class supplier of premium foods, we established a quality and food safety board at top management level.

Control of product lifecycle

We are improving how we capture quality parameters and other sustainability aspects of our products, throughout their lifecycle, by implementing a system of Product Lifecycle Management (PLM). PLM integrates people, processes, data and systems to increase

100%

Food safety and customer centricity is core to our business. 100 per cent of our production volume is manufactured at sites with GFSI (Global Food Safety Initiative) certification or similar, and in 2018, we had more than 100 customer audits on production sites. In 85 per cent of these audits, Arla received top rating, demonstrating a clear alignment between our customers' expectations and our performance.

efficiency and speed. It also helps us to improve transparency and control of our product data and our ability to share information about our products internally as well as externally. The roll-out of PLM across Arla will continue for a further three years.

Product innovation

As part of our health strategy, we are continuously exploring how we can help people eat healthily and we are developing new products to meet consumer's needs. We have recently launched a range of products to deliver small and healthy in between meal options. One example is our new single-serving porridge with yogurt. Another innovative product features a mix of grains, legumes and vegetables to provide a better on-the-go product.

Health strategy review

As part of our constant work to improve our products, we invited a group of experts within different fields of nutrition and health to critically review our health strategy. The objective was to further strengthen the validity of the strategy and to propose changes or adaptations.

The experts pointed out that one of the strengths is that the strategy has a preventive mindset and focuses on good food habits and the role our diet plays in relation to health. Furthermore, the review indicated that the strategy would benefit from an increased level of transparency in relation to consumer brands. Work now continues to further improve our health strategy.

Nutritional benchmarking

Access to Nutrition Index (ATNI) is a tool used by the Access to Nutrition Foundation, an independent non-profit organisation to measure the world's top 22 food and beverage companies' contribution to good nutrition against industry best practice. We have improved our overall ATNI score during the last two years, and our current position ranks us as number 11 (2016: 14).

Nutrition Criteria for Arla® branded products

The Arla® Nutrition Criteria secure the content of dairy protein and calcium, while limiting the amount of added sugars, salt and fat. The criteria are the guiding principles that support the development of healthier Arla® branded products, and thereby increase availability of healthier dairy products to our consumers.

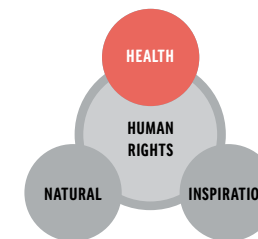
We constantly strive to ensure our products fulfil the Arla® Nutrition Criteria. Our ambition is to increase the percentage of products complying with the criteria and achieve 95 per cent by 2020. In 2018, 91 per cent of the Arla® Branded products in the milk, yogurt and everyday cheeses categories comply with the criteria. This is a result of a decrease of plain milk sales and an increase of non-compliant yogurt volumes compared to 2016. The affordable and flavored milk categories improved by 16 per cent and the cheese category improved by 2 per cent, compared to 2016.

Sugar reduction

Arla® branded yogurts are leading the way when it comes to sugar reduction and we are continuously working to further improve our portfolio. In 2018, we made further progress by launching a series of flavoured yogurts with no added sugar, sweeteners, additives, stabilisers or concentrated fruit juices. The products are the first on the market to contain only natural yogurt and fruit.

Guidelines for natural ingredients

Our technical guidelines support our efforts towards using natural ingredients when possible. We do, however, use artificial ingredients, for example to secure the safety of products that are transported long distances and for providing calorie-reduced products that deliver health benefits to our consumers. We are striving to reduce our use of artificial ingredients and are continuously searching for natural alternatives.



Responsible marketing and health communication

As part of our efforts to make it easier for our consumers to eat healthily, we align our health communication with our nutrition criteria. To secure its relevance, health communication is only used in association with Arla® branded products that fulfil our nutrition criteria.

We have a big responsibility in relation to the marketing of our products, especially towards children. In 2017, Arla joined the EU pledge initiative on responsible food marketing to children. In 2018, the EU initiative performed an external audit on our compliance to this commitment, and the report will be available in 2019. External audits of this nature provide the impetus for continual development and fuel our desire to step up our performance.

Collaborative research

We collaborate with several stakeholders within health and nutrition to enhance our knowledge and to jointly develop new solutions that will bring benefits to our consumers. The public-private partnership in nutrition research – Arla Food for Health – in cooperation with Copenhagen and Aarhus University in Denmark has continued its studies of the health effects of dairy, dairy ingredients and dairy's role in a balanced diet.

In 2018, the partnership launched its third open research call to search for research projects that will deliver insights into how dairy and dairy components can be part of the solution to deliver health and well-being for people of all ages. Currently 10 different research projects are ongoing, and the initial results were published in 2018. Read more about all the projects here:

www.arla.com/company/arla-food-for-health

At Steno Diabetes Center, Aarhus University Hospital, Denmark, a new university professor position in

nutrition has been created, with support from Arla. The position will support the investigation of the relationship between nutrition and health in diabetic and pre-diabetic individuals and contribute to further improvement of public health.

Benefits of a good breakfast

In Sweden, we have collaborated with a municipality and two high schools in a socio-economically challenged area to serve breakfast in the classroom during morning lessons. The initiative aimed to give insights into the relationship between breakfast and school performance, and assessed the well-being, learning ability and focus of the students. The evaluations show that eating breakfast increased the students' ability to concentrate and teachers concluded that the classroom environment improved. A further outcome of serving breakfast during the morning class was that more students were in attendance compared to when breakfast is served in the canteen prior to their first class.

We have also completed a research study in Ghana in collaboration with Washington University School of Medicine. About 1,000 children, between the ages of six and nine years, were served breakfast porridge, either plain or enriched with milk protein, or a combination of milk- and rice protein. In this study, the children vulnerable to malnutrition benefitted from all three versions of porridge provided by the intervention. The study further showed that the children who were given milk protein-enriched porridge, equivalent to one daily glass of milk, performed better in cognitive tests than the children in the other intervention groups. This indicates that it is relevant to continue exploring how milk and dairy products, in combination with plant-based proteins, can create both healthy and affordable solutions that will improve the nutritional status and cognitive performance in vulnerable population groups.

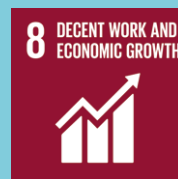


PRIORITIES 2019

- ▶ Further improve and deliver on our health strategy, including Arla® Nutrition Criteria.
- ▶ Continue focus on food safety performance.
- ▶ Further define Arla's ambition to limit added sugar.

INSPIRATION

We inspire consumers around the world to eat well, and we find that new ideas, creative solutions and good decisions often come from collaboration and knowledge sharing.



HIGHLIGHTS 2018

- ▶ 230 million consumers engaged online.
- ▶ 140,000 school children visited a farm – learning about the origin of milk.
- ▶ Increased focus on research and collaboration on sustainable dairy farming.

Our business is fueled by inspiration. From our farmer owners sharing experiences on new farming practices to consumers feeling inspired to try new recipes or products to match their lifestyles. We also want to inspire future generations to create a better relationship with food, and one of the ways is through our open farm activities where children and adults can learn where milk and dairy products come from.

Knowledge about life on dairy farms

In today's world, many consumers are disconnected from food production. We provide insight into the origin of our products and the work that takes place at our owners' farms, as we believe more knowledge leads to better food choices.

We do this by using our farmer owners in external communications, from TV-commercials to on-pack information, to stress the importance of the origin of milk, as well as of being a farmer-owned cooperative. Our farmer owners in Denmark, Sweden, Germany, Belgium and the UK, hosted open farm days, attracting more than 500,000 people in total. When cows are put out to pasture in the spring in Denmark and Sweden it is even an online event, reaching more than 2 million followers in 2018.

Over the years, our 'little farmer programmes', in which we invite school children to our owners' farms, have educated more than one million children about life on farm. The visits are usually combined with study material for children to work with at school before and after the visit. In 2018, Denmark, Sweden and Germany hosted more than 140,000 children on farm.

Organic focus

Arla wants to offer healthy and natural dairy products to meet the needs and preferences of consumers around the world. We are the world's largest supplier of organic dairy products and have driven the organic dairy market for decades in Sweden and Denmark. Part of our company strategy is to continue growing the organic dairy category globally.

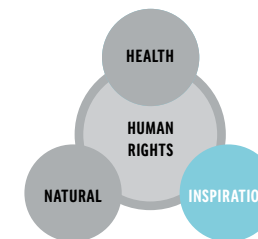
Our organic strategy also includes a strong focus on product innovation. In Germany, we have launched a new organic yogurt consisting only of organic yogurt (75 per cent) and organic fruit (25 per cent). To further strengthen our organic position and increase availability of organic dairy products to UK consumers, we have acquired the rights to use the Yeo Valley® brand for milk, butter, spreads and cheese.

In the Middle East, consumers are also looking for new products. Launching Arla® Organic in MENA was a response to the raising consumer trend and a way for us to provide our retail partners with added value to a traditional and commoditised milk category.

Cooking inspiration

We believe inspiration and knowledge about cooking is the best way to develop good food habits. Our recipe services provide cooking inspiration on our national websites, in brochures and via online apps. In our core European markets, we see a positive development in the number of consumers who believe that Arla helps them eat healthily.

In Denmark, our independent body, Arla Foundation, annually arranges food camps for 1,600 school children aged 13–14 years. The evaluation of these is positive, showing increased confidence in cooking among the young chefs as well as an interest in for example tasting new vegetables.



To broaden our contact with Danish school children, we also provide study material, which aims to improve the culture around school meals, for example focusing on enough time to eat in a calm environment and encouraging an open attitude to trying different foods. The material is developed by Arla Foundation and in 2018, 400 classes worked with it.

Inspiring consumers to waste less

During the year, food waste has become an even more hot topic and the source of debate in many countries. Although we cannot quantify the effect of our efforts, Arla has worked for years targeting food waste among consumers. Examples include offering tips and tricks online and on the back of milk cartons, about how to avoid food waste, and we give inspiration for cooking with leftovers in recipe databases and through apps and weekly meal planning tools.

In 2018, Arla Sweden began labelling fresh dairy products including milk, cream and yogurt 'Best before, often good after'. This was to inspire and encourage consumers not to discard products only based on date. It is fine to consume many products that are beyond the best before date, especially if they have been stored at the correct temperature.

500,000

We see great consumer interest in visiting farms and gaining an insight into the origin of dairy products and the work that takes place at the farm, with more than 500,000 visitors in 2018.



Increasing the recycling of packaging, especially plastics, is another frequently discussed topic and essential in limiting waste. In the UK, Arla has joined forces with a customer to inspire consumers to recycle plastic milk bottles. Shoppers can scan the packaging to find out how to correctly recycle them. In Sweden, Arla engages in a recycling contest for school children and is using the backs of milk cartons to explain the recycling process and encourage consumers to contribute.

Engaging consumers on social media

In markets where Arla® is a well-known brand, social media is now the main platform for consumers to pose questions and share opinions. In Northern Europe, our consumer relations services received more than 80,000 enquiries in 2018. Our digital sites had 230 million visits (2017: 148) resulting in interaction.

Arla is increasingly using short films to engage consumers in cooking, and sharing tips and tricks, and also to raise topics including sustainable farming and increased recycling of packaging. To increase engagement and knowledge about farming among 15–25-year-olds in Sweden, two new social media initiatives were launched during the year.

Engaging farmers in the cooperative

As a strong and visionary cooperative, Arla needs a pool of future farmer representatives. With the training programme, Arla Next, we want to inspire more Arla farmers to become elected representatives, and we offer an international network within the cooperative. The current training programme will conclude early 2019 with 55 participants. Participants will be able to put themselves forward in the forthcoming 2019 elections.

In our mentoring programme, elected members of the Board of Representatives pair with newly elected representatives from another country. The current mentoring programme has 38 pairs and will conclude at the Board of Representatives meeting in February 2019.

At Arla local farmhouse meetings (earlier referred to as Arla Seminars) farmer owners meet in smaller groups to discuss current topics. Each market has specific targets for the share of farmer owners attending these meetings.

Further improving farm management skills

We support our farmer owners to improve their management skills to handle the challenges of dairy farming, including the volatility of the global dairy industry. In the UK, we have launched the Arla R500 Resilience Programme with a strong focus on improving people management and strengthening technical and financial skills. Over 300 farmer owners are working within 16 benchmarking discussion groups across the UK, sharing best practice.

Partnering to advance local dairy production

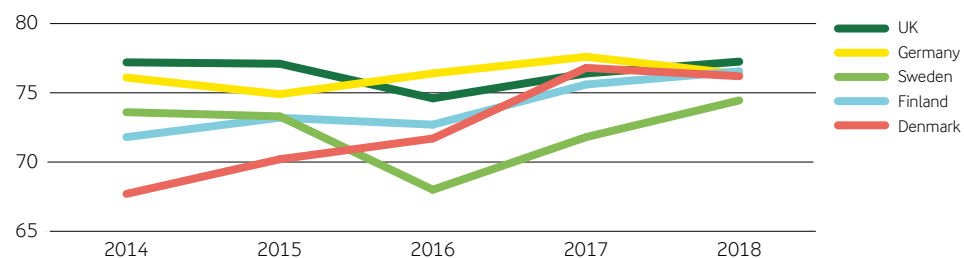
Since 2012, Arla has cooperated with China's Mengniu Dairy Company to improve animal welfare, milk quality, food safety, environmental impact, know-how and knowledge in Chinese milk production. In 2018, the main focus for the cooperation has been on improving the skills and knowledge of both farmers, farm workers and employees working in the support system of dairy production. This has been done by hosting different seminars with over 1,000 participants in total,

through several on farm workshops, advisory work on local farms and by publishing a monthly newsletter containing advice and articles on dairy production.

The partnership has been in charge of a project, which aims to save costs in milk production, with seven participating farms, with close to 30,000 dairy cows in total. The goal is also to improve farm income and employee skills. Furthermore, it is establishing know-how amongst local advisors and qualifying them to expand the approach to more farms. Following the success of our partnership it has been extended for an additional three years, to continue collaborating on farm efficiency improvements.

Embracing our role as a global food company and cooperative, Arla is now broadening this kind of collaborative approach to other markets.

Market reputation



The diagram shows the overall scores 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 2018.



In Bangladesh, where local dairy production only meets 40 per cent of local demand, Arla has signed an agreement to support further development of local dairy production with our knowledge about sustainable dairy farming, food safety and technology.

Cooperation with suppliers

As a cooperative, we value the strength of working together with others to develop our business. In collaboration with suppliers we can improve both their and our performance in terms of quality, efficiency and environmental impact.

Arla has identified palm oil as a risk ingredient and is aware of the environmental, social and human rights' challenges on many palm oil plantations. To improve working conditions in Indonesia, we supported local workshops in collaboration with our main supplier of palm oil. Our primary objective has been to strengthen supplier understanding of labour issues and improve plantation management practices. Through the workshops, suppliers also gain a deeper understanding of responsible sourcing expectations.

Supplier collaboration can also improve processing efficiency and reduce resource use. A project together with a supplier of cleaning detergents has resulted in 95 per cent of our sites optimising their processes delivering savings on water, chemicals, heating, product waste and energy. 62 projects have been completed and more than 300 are in the pipeline.

Sharing experiences on responsible sourcing

We participate in a two-year pilot project to test new guidelines for strengthening responsible sourcing and supply chain management practices globally. The guide was launched by OECD (Organisation for Economic Co-operation and Development) and FAO (Food and Agriculture Organisation of the United Nations). It aims to minimise risks related to, for example, human

and labour rights, animal welfare and to promote technology and innovation.

Collaborative research and development

Arla is an active member of global networks and organisations with the ambition to contribute to increased knowledge and precompetitive developments within the industry. In 2018, we engaged in a project in the Sustainable Agriculture Initiative in which we developed and tested a business-to-business model which assesses the company implementation of the Dairy Sustainability Framework, a joined initiative from the global dairy industry.

Our pilot consisted of five Arla customers who have engaged in a close dialogue with us on our approach to drive sustainable dairy farming. The goal is to find

a model that captures that work in a robust and rational manner, for the collective benefit of our customers, Arla and other suppliers of responsible dairy products.

We also engage in and support research at universities and institutes, to further strengthen the sustainability performance of dairy farming and to better understand the role of dairy in sustainable diets. Examples include:

- A four-year research programme on dairy in sustainable diets from sustainable food chains, together with the Swedish farmers' foundation for agricultural research.
- A five-year professor position and research project on improved feed efficiency and sustainable milk production at Aarhus University's Centre for Circular Bioeconomy, sponsored by Arla.

PRIORITIES 2019

- ▶ Continue focus on inspiring good food habits.
- ▶ Knowledge sharing with farmers and suppliers.
- ▶ Inspire consumers to reduce waste from food and packaging.



NATURAL

With our focus on sustainable dairy production, future generations of a growing world population will be able to enjoy the benefits of nutritious dairy products.



HIGHLIGHTS 2018

- ▶ 9,000 farmer owners evaluated their cows quarterly – focusing on animal welfare.
- ▶ Increased focus on packaging to reduce climate impact and improve recyclability.
- ▶ Developed long-term environmental strategy – beyond 2020.

Together with our farmer owners, we are in the unique position of being able to work with every step in our value chain, to make a positive contribution to a more sustainable future. We take our planet's challenges seriously and work continuously to reduce the negative impact of our production.

We know that dairy production has a climate impact and for many years we have worked with this as one of our most important issues to mitigate. Therefore, we have goals and target emissions at farm level in our sustainable dairy farming strategy as well as in our value chain with our environmental strategy 2020 targets.

Sustainable dairy farming progress

The goal in our sustainable dairy farming strategy is to reduce the emission of greenhouse gases from farms by 30 per cent per kilo milk, from 1990 to 2020. In 2018, we have continued our work with carbon assessments on farms, giving farmers the opportunity to receive recommendations on how to further reduce such emissions. Farm level emissions were reduced by 24 per cent in 2017 (2016: 23). Carbon assessments are reported one year after.

Many Arla farmers produce renewable electricity based on solar, wind or biogas. The amount produced is comparable to 61 per cent of the annual use on farm. From January 2019, our organic farmers in Denmark will cover their net electricity use on farm by buying renewable electricity certificates. This is already the case for organic farmers in Sweden.

One important way Arla farms contribute with positive environmental impact, i.e. ecosystem services, is the uptake of carbon in grasslands, hedges and pasture lands, which mitigates climate change. Nevertheless, there is not scientific consensus on how to calculate carbon sequestration in dairy farming. To develop a method for estimating carbon sequestration on farm



we have initiated a project together with other large companies within the food industry. The ultimate deliverable is to have a method that will support and encourage farmers to adopt and implement activities and practices that promote carbon sequestration.

Furthermore, we invest in research for a more sustainable dairy production. In Denmark, Arla is funding a professor position in collaboration with Aarhus University's Centre for Circular Bioeconomy, to lead a five year research project aimed at reducing the climate impact of dairy production. And in Sweden, Arla is funding research into sustainably produced dairy as part of sustainable diets, in collaboration with the Swedish farmers' foundation for agricultural research. Five projects are addressing how to reduce negative

impacts of dairy farming, how to measure and increase the positive effects and methodology developments to forward the debate on sustainable foods. Please see page 14 for more examples of research collaboration.

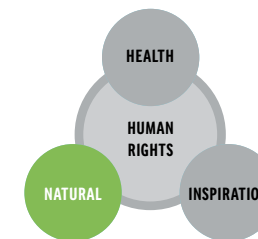
Increased transparency with Arlagården® Plus

Arlagården® Plus is our digital documentation centre, which increases our transparency and helps farmer owners to make continuous improvements on farm. Every quarter Arla farmers enter detailed information about their farm, for example about animal welfare – using the systematic approach to assess the wellbeing of each cow individually. The value of this is an increased focus on individual cow welfare, and targeted actions to mitigate problems. The farmers also enter information about farming practices, renewable energy

production and information on land use. At year-end 2018, 84 per cent of our farmer owners had registered, representing 96 per cent of farmer owners' milk pool.

The experience of working with the documentation centre, which was introduced in late 2017, is positive, and the information is a useful tool for farmers to benchmark animal assessments and other farm performance.

We are developing an animal welfare index in cooperation with Copenhagen University, Denmark. The index will create a common ground for discussing and working systematically with animal welfare on farm, and further improve animal welfare. The index is based on indicators from Arlagården® Plus.





In addition to supporting our farmer owners' management of their dairy cows, the documentation centre provides Arla with information that can be used to further strengthen our dialogue with consumers and customers who are increasingly interested in the sustainability performance of our products, specifically related to caring for the cows, feeding and land use.

Climate impact quantification

Together with external experts we have developed Arla's Science Based Targets, which is an increasingly used approach to take responsibility for achieving the Paris Agreement ensuring a maximum temperature increase below 2 degrees Celsius. In November, we sent our committed targets to SBTi (Science Based Targets Initiative).

As part of that process, we have calculated Arla's total climate impact for milk production, transport, production and packaging to be 18.4 million tonnes greenhouse gas emissions, based on information from 2015. This work to quantify our impact forms a basis for our target setting beyond 2020.

Structured work to reduce food waste

Food waste is an important issue which has recently gained increased attention in the public debate. For years, Arla's ambition has been to halve food waste in production and at consumer level. However, only recently has a methodology for quantifying and reporting food loss and waste been agreed. Arla has decided to adhere and report according to this standard for our production chain, using 2015 as the base year. The results show that we have reduced food waste below 2 per cent of raw material use.

We cannot quantify food waste at consumer level in an aggregated way right now, but we are actively developing methods to handle this complexity and are also in dialogue with expert organisations such as the Waste and Resources Action Programme (WRAP) in the UK. For the time being, we proactively work to influence consumers to reduce food waste. For more information on how we work, see page 12.

The most important measure to reduce food waste is to maximise the amount of raw material sold as products.

In 2018, a food waste mapping model for our sites was introduced to identify food waste points, identify causes and facilitate plans to target food waste in a structured manner.

When products cannot be sold, we prefer to donate them to charitable food banks, preferably members in the Food Banks of Europe. Other preferred uses of our surplus products and of by-products from production, is animal feed and reprocessing. The most common use of our food waste is anaerobic digestion followed by sewer and land application. Keeping track of volumes and destinations enables Arla to identify improvement potential in moving resources up the value hierarchy, making better use of the valuable nutrients in the raw materials.

In 2018, we joined the initiative Friends of Champions 12.3, a network of organisations and companies focusing on halving food loss and waste by 2030. Additionally, we take part in a project at the Royal Swedish Academy of Engineering Sciences in Sweden, with the goal of creating a national reporting system for food waste along the food value chain.

Environmental strategy 2020

For Arla's own operations, our environmental strategy 2020 sets the objectives for our environmental and climate work. Working towards our goals, we experience both possibilities and challenges. We have committed to reducing greenhouse gas emissions by 25 per cent by 2020 within operations, packaging and transport, compared to the 2005 level. Since 2005, Arla's total climate impact has decreased by 22 per cent, despite increased production.

Energy-efficiency and renewable energy

By far the biggest project being initiated in 2018 (to be finalised in 2020) is the energy performance boost at Nr. Vium in Denmark. A net investment of 23 MDKK is

being made to deliver significant savings in the use of natural gas.

Our ambition is to use at least 50 per cent renewable energy at corporate level by 2020, taking into consideration national legislation and availability. The share of renewable energy in 2018 was 27 per cent, indicating that more action is needed. However, we continued to work across sites with projects to improve energy efficiency, and thereby reduce climate impact. The performance for 2018 from our operations has been reduced by 25 per cent since 2005, thus achieving this target two years ahead of time.

Water efficiency

In 2018, Arla focused on supporting sites where environmental permits may limit production or expansion plans. We continuously seek possibilities to increase efficiency. During 2018 we made significant water consumption reductions of about 1 million m³ compared to 2017.

Transport improvements

Our climate target for transport remains challenging as biofuel availability is low and costs are high in many countries. Overall, Arla reduced its climate impact from transport by 12 per cent from 2005 to 2018.

84%

At year-end 2018, 84 per cent of our farmer owners had registered data in Arlagården® Plus.



In 2018, EU-regulation on biofuels changed with potential impacts on both availability and costs going forward. For Arla it is important that stable policies guide our investments. In Sweden for example, we invest in vehicles that can run on different fuels, as we are eager to safeguard our fossil free transportation commitment.

Packaging climate goal achieved

We have already achieved our environmental strategy 2020 goal of reducing climate impact from packaging by 25 per cent from a 2005-baseline. This is the result of continuously decreasing the weight of individual packaging formats, without impacting functionality, as well as increasing the percentage of renewable and recycled packaging material. We have also continued to take responsibility for sourcing responsibly produced packaging materials, for example, carton and paper which is FSC (Forest Stewardship Council) certified.

In response to the 2018 debate on plastics, insufficient recycling and littering, we re-focused our packaging goals and efforts to deliver further improvements in

relation to climate impact reduction and improved recyclability.

For many of our products, plastic is currently the best choice of packaging material for several reasons including food safety and shelf life. Where food safety regulations permit, we work to increase the use of recycled plastic, plastic made from renewable sources and plastic materials suitable for material recycling. This way we contribute to a more circular flow of plastic in society and a reduction in the climate impact of the plastic materials we use.

Recycling of packaging material

Our goal is that 100 per cent of our packaging material is recyclable in 2020. Currently 89 per cent of Arla's packaging is possible to recycle in one of our core markets. To close the last challenging gap and reach this ambitious goal, we work with our research and supplier network to find innovative packaging materials and solutions.

The possibilities to recycle varies between countries and municipalities. To improve recycling opportunities, Arla contributes to various initiatives, for example, working with municipalities in Denmark to improve recycling systems and avoid littering, contributing to funding of recycling systems in Sweden and Germany and pushing developments in the UK through the voluntary Courtauld commitment.

A dilemma related to packaging is the export of products to markets where packaging waste handling and recycling systems are lacking or are not optimal.

In these markets, our products' packaging may contribute to littering and disturbance of ecosystems. One of the examples is in Bangladesh where milk powder is sold in portion size sachets. The product helps address malnourishment of vulnerable consumer groups, as it is an accessible and affordable nutritious product. However, there is a risk that the sachets are not discarded properly and end up as litter. To mitigate the negative effects, we have initiated a dialogue with NGOs on how we can collaborate to find a way to improve packaging waste handling together with local stakeholders.

Our green ambitions

Arla has developed a new long-term environmental strategy, focusing on three areas: Better Climate, Clean Air and Water and More Nature. These areas are prioritised because they are the ones on which Arla has the highest impact, quantified in the Environmental Profit and Loss study conducted in 2015, and in other research. They are also the areas where Arla risks contributing to the so-called planetary boundaries being exceeded, causing the Earth's systems to destabilize. In addition, these are also areas which enable us to contribute to several of the UN Sustainable Development Goals.

Detailed targets and plans will be developed for each of the areas during 2019, ahead of the new environmental strategy being executed in 2020 and onwards.

PRIORITIES 2019

- ▶ Focus on environmental strategy 2020 goals, including sustainable dairy farming.
- ▶ Further packaging improvements, including product development and innovation.
- ▶ Continue development of new environmental strategy beyond 2020, including Science Based Targets.

Improved packaging

Producing millions of products every day, small step-by-step packaging improvements can have a large aggregated impact. Also, when we implement new innovative solutions, there is an opportunity to scale them across the company, contributing to change.

We have three guiding principles for further improving our packaging: Fossil to renewable, Circular economy and Cooperation in the value chain. In 2018, we have launched several new packages that deliver on these principles. In particular, our focus has been on plastics. We want to shift to renewable raw materials and our packaging should be recyclable. We also want to increase the use of recycled plastic, while safeguarding food safety. Contributing to a market for high quality recycled plastic materials is important to creating a more circular society.

3 WAYS
TO IMPROVED PACKAGING



We reduce greenhouse gas emissions from our packaging by using less fossil based plastic and more renewable sources. Our milk cartons with brown paperboard, launched in Sweden in 2017, have now been introduced in Denmark and the Netherlands. Combined with the use of renewable plastic, this innovation has reduced greenhouse gas emission per package by up to 35 per cent.



Our packaging must be recyclable in core markets where sold and contain more recycled materials. In Nijkerk dairy in the Netherlands, products that were previously packed in white HDPE-plastic (High Density Polyethene) are now packed in clear PET with PET sleeves. In addition to improving recyclability, the bottle weight has been reduced by approximately 20 per cent.



Aylesbury dairy in the UK is leading the industry's campaign on improved packaging with the introduction of 40 per cent recycled material in existing bottles.



The clear plastic lids on crème fraiche and on-the-go pots now consist of 85 per cent recycled PET, lowering climate impact by approximately 70 per cent.



We have a close collaboration with our packaging suppliers for further developments. We also engage with stakeholders such as municipalities and NGOs to improve recycling of our packaging and we depend on consumers to contribute.

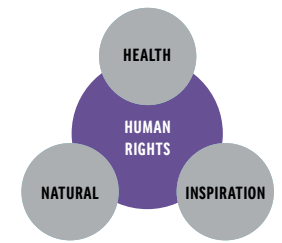
HUMAN RIGHTS

We are committed to respecting human rights and to positively impacting people and societies along our value chain in line with our values and commitments.



HIGHLIGHTS 2018

- ▶ Conducted workshop in Nigeria to identify human rights risks in the dairy value chain.
- ▶ Continued partnerships with GAIN Nordic and DanChurchAid in Zambia and Ethiopia.
- ▶ Included commitment to work against forced labour in our farmer owners' membership terms.



Advancing respect for human rights is key to sustainable development. During recent years, we have strengthened our focus on human rights, especially in emerging markets, but also in more mature markets. Our continuous human rights work minimises Arla's risk of having adverse human rights impacts, and also contributes to the UN Sustainable Development Goals, through for example creation of decent jobs.

Governance and policies

Arla works to ensure that we respect human rights, and we continuously embed our human rights policy in our business processes and plans. This is part of our compliance with the UN Guiding Principles on Business and Human Rights. Human rights is a reoccurring topic on our top management's agenda as it is Arla's priority to stay focused and continuously raise competences within the area.

Human rights due diligence process

During the year, we have continued the systematic implementation of our human rights due diligence process in compliance with UN Guiding Principles on Business and Human Rights, see illustration below.

As a multinational dairy company, we have a large number of entities in our value chain. We have therefore prioritised focus on our non-European growth markets where we face the highest risk of negative impacts due to national contexts and complexity in business operations.

It is essential to Arla to operate in a responsible manner and we expect our business partners to live up to the same standards. Whenever we enter into a new joint venture in these markets, we roll-out the entire due diligence process to assess areas where Arla could potentially cause, contribute to or be directly linked to adverse impact.

In Indonesia, for example, our focus this year has been to support the business integration process to prevent adverse human rights impacts in our joint venture operations. At the end of the year, our business partner faced sanctions by the certification body Roundtable on Sustainable Palm Oil (RSPO) on the grounds of adverse human rights impacts in palm oil plantations. We have been in dialogue with our partner, received updated documentation, encouraged a constructive approach and an open dialogue with RSPO. We follow-up on this matter and expect our partner to demonstrate compliance.

Furthermore, we prioritise to conduct human rights assessments in markets where we have production facilities, including Saudi Arabia and Bangladesh.

Training and coordinating

To further embed our human rights policy and processes in the business, several non-European functions have been trained on how to integrate human rights in their daily business operations.



Human rights due diligence process

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



This includes commercial and supply chain competences as well as quality and legal managers.

To assess our non-European growth markets, we have established a core team with competences relating to joint ventures and contract manufacturing, security, quality and corporate responsibility. We ensure exchange of findings, alignment of mitigation plans and improved follow-up through regular on-site visits. One of the outcomes in 2018 was the mitigation of identified security risks related to Arla drivers in Saudi Arabia. Through training courses, we ensure that Arla drivers possess the adequate competences to fulfill their work duties and to minimise the risks of accidents.

Follow up in Nigeria

In 2015, Arla performed the first human rights due diligence in Nigeria. Following this, the project Milky Way Partnership was initiated to improve market driven sustainable growth in the local dairy value chain. In 2018, we conducted a workshop in Nigeria for involved project partners to identify human rights risks within the project's dairy value chain.

To improve milk quality, the project introduces new milking technology, which will change the traditional hand milking to milking in parlours. Traditionally, the women own the milk and the introduction of new technology might adversely impact their job and income opportunities. Other risks identified are the involvement of children in traditional small-holder farming, health and safety risks at the dairy plant, and food safety risks. A joint mitigation plan was defined at the end of the workshop.

Decent work and accommodation

In the Middle East, we employ a vast number of migrant workers. These colleagues are potentially in a vulnerable position as they live and work in host countries and are thereby at risk of not being granted the same legal rights as national workers. We acknowledge our particular responsibility as employer to respect the human rights of these colleagues.

The process of improving the housing facilities that Arla provides in the Middle East has continued in Qatar, Oman, United Arab Emirates and Saudi Arabia. All remaining non-compliance issues in Qatar have been

resolved. During 2018, improvements have been made in Oman and United Arab Emirates. However, minor issues are still outstanding, and will be a priority for 2019.

In Saudi Arabia, new employer-provided accommodation has been rented to ensure that we comply with ILO (International Labour Organisation) standards. Fifty per cent of our colleagues in Riyadh moved to the new accommodation during autumn 2018, with remaining colleagues moving gradually during 2019.

Supporting diversity

We believe a diversified workforce enhances productivity and innovation, no matter where in the world. At our site in Saudi Arabia, we have actively strived to attract and hire more female colleagues. We attend career fairs to meet potential candidates and we accommodate the working hours and work environment required to attract female colleagues, for example we ensure equal remuneration and benefits in contrast to local customs.

Partnerships for sustainable development

During the year, we have strengthened our involvement in partnerships with civil society organisations to promote sustainable dairy sector development. We have also enhanced our dialogue with national governments to ensure that our local engagement actively supports national plans to implement the Sustainable Development Goals.

Joining complementary partnerships facilitates the pooling of knowledge, expertise, technology and financial resources, to support the achievement of the Sustainable Development Goals in developing countries and to strengthen Arla's long term presence in the growth markets. Examples of partnership projects in which we are participating:

Better access to affordable nutrition in Bangladesh

Arla is the lead commercial partner in a project to create a last-mile-distribution network of 5,000 female micro-entrepreneurs in Bangladesh. The four-year project, supported by the Danish development cooperation Danida, aims to increase access to our affordable dairy products for approximately 1.8 million rural low-income consumers. BoP Innovation Centre is the lead non-commercial partner, and two Bangladeshi organisations, dNet and iSocial, will recruit, train and manage the network of female micro-entrepreneurs.

Calf rearing in Indonesia

Together with our Indonesian business partner, we have initiated a calf rearing project on East Java, where the first model stable has been established. In autumn 2018, a capacity building seminar for Indonesian dairy farmers on sustainable and efficient cow management was conducted.

Milky Way Partnership project in Nigeria

Arla is the lead business partner in a partnership project to develop a sustainable dairy value chain in Nigeria in cooperation with SEGES, Danish Agricultural and Food Council, Care DK, CORET, a Nigerian farmer association, and Milcopal, a farmer cooperative. Supported by the Danish development cooperation Danida, the five-year project aims to increase the livelihoods of pastoralist farmers through training and milk off-take agreements with Arla. During 2018, the four farm clusters were selected as pilot sites, innovative milking parlors were designed and ordered, and trainers for capacity building of farmers were hired.

Arla Foods Ingredients partnerships

Arla Food Ingredients has continued partnerships with GAIN (Global Alliance for Improved Nutrition) Nordic and DanChurchAid in 2018. Projects include:

Nutritious long-life drink in Zambia

The UK Department for International Development is funding a GAIN Nordic project to establish local production and sales of a nutritious long-life drink to address malnutrition among children and women in Zambia.

The drink will be made from local milk and will include additional whey permeate, which will both enable higher production volumes and increase nutritional value. As a GAIN Nordic partner, Arla Foods Ingredients has designed the drink and provided training to a Zambian dairy.

Sustainable dairy supply chain in Ethiopia

Arla Foods Ingredients is the lead business partner in another GAIN Nordic Partnership project that is working to develop a sustainable dairy supply chain in Ethiopia in cooperation with a local dairy and dairy farmers. Supported by the Danish development cooperation Danida, the three-year project aims to bring safer and better dairy nutrition to low-income families.

During 2018, Arla Foods Ingredients supported the development of affordable, nutritious yogurts that are planned for market launch by the end of 2019. In the autumn, all project partners attended a workshop in Denmark. This provided an opportunity for Arla Foods Ingredients to train representatives from the Ethiopian dairy in yogurt production.

Local production of nutritious food in Ethiopia

Arla Foods Ingredients and DanChurchAid have entered a partnership agreement to share knowledge and expertise and develop new affordable food concepts. The first joint initiative is the Sustainable Food Platform, a project to promote local production of nutritious food for people living in or around refugee camps. Ethiopia is the primary country in focus, with links to Uganda and Kenya.

In 2018, the Sustainable Food Platform was awarded funding by P4G – a global forum that supports public-private partnerships with a focus on accelerating sustainable development. P4G is funded by the Danish government and hosted by World Resources Institute.

Modern slavery

Modern slavery is a serious challenge in our supply chains. Since the publication of our first modern slavery statement in 2017, we have taken steps to further strengthen our processes to mitigate the risks, including improved internal data checking and procurement.

We have trained UK colleagues in awareness of forced labour and human trafficking, and initiated communication in our global functions. Our commitment to work against forced labour has been included in the membership terms for all our farmer owners, and we have shared knowledge about how to spot the signs of modern slavery with farmer owners in the UK. In our training and communication, we have also included how to escalate concerns either through our whistleblower function, or other reporting channels. There were no reports in relation to this during 2018.

PRIORITIES 2019

- ▶ Finalise housing upgrade project in the Middle East.
- ▶ Establish last-mile-distribution network in Bangladesh.
- ▶ Continue modern slavery communication and training.



ABOUT ARLA

Key facts and figures about our business, and about the farmer owners and colleagues who make it happen.

About Arla

Arla Foods is a global dairy company and a cooperative owned by dairy farmers in seven European countries. Our products are sold under well-known brands around the world.

COMPANY PERFORMANCE

Results 2018

Arla's net revenue in 2018 amounted to EUR 10.4 billion, compared to EUR 10.3 billion in the previous year. The profit for the year was EUR 301 million, compared to EUR 299 million in 2017.

The dairy industry is volatile and to secure future growth and a long-term competitive milk price for our farmer owners, we have initiated a three-year transformation programme. The purpose of the programme is to transform the way we work, reduce bureaucracy, cut unnecessary costs, reinvest more in selected strategic initiatives, and save EUR 400 million during the period. The programme is already delivering and contributing positively to the company's milk price to farmer owners.

Pay out of net profit

Given the positive development of Arla's financial balance sheet, a proposal to pay out the entire 2018

net profit has been prepared by Arla's Board of Directors. It recognises that many Arla farmers are facing a tough financial situation due to the summer's drought in Europe, and that it is in Arla's best interest for this year's net profit to be paid out to the farmer owners. The final decision is taken at the Board of Representatives meeting in February 2019. An approval would be a one-year only deviation from the company's usual profit appropriation policy.

Market development

Arla maintains its position as the world's fourth largest dairy company in terms of volume of milk intake. The global dairy market is increasingly competitive and fast-moving putting pressure on us to continuously deliver on customer and consumer expectations. We maintain our strong position by focusing on consumer demands and continuous innovation of products and packaging, a more diversified product portfolio and product launches in new markets. Arla is expanding sales in South East Asia and in Sub-Saharan markets.

Milk price

In 2018, the average performance price decreased by 4.5 per cent to 36.4 EUR-cent/kg, compared to 38.1 EUR-cent/kg last year. This decrease was largely driven by lower commodity market prices, impacting our milk price particularly in the first quarter of the year.

Brexit preparations

Arla is the biggest dairy company in the UK and will continue to be a significant player in the UK dairy industry after Brexit, supporting thousands of jobs, and being home to 25 per cent of our farmer owners. Every year, 10,000 Arla containers cross the UK border, and Arla is focusing on maintaining free trade and minimising the negative effects of a potential increase in bureaucracy.

Acquisition in the Middle East

At the end of the year, Arla announced the planned acquisition of a processed cheese business in the Middle East region, currently licensed under the Kraft® brand. The acquisition also gives Arla full ownership of a state-of-the-art cheese production site in Bahrain. The deal is expected to take effect by the end of May 2019.

Revenue by product group



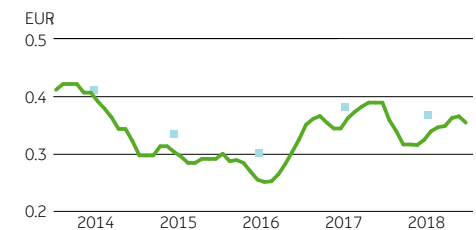
The revenue by product group was similar to 2017.

Revenue by segment

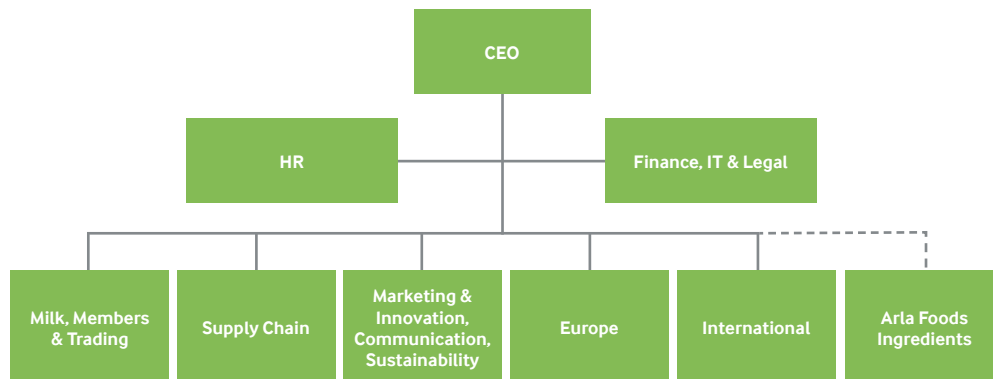


Arla's total revenue has increased by 1 per cent since 2017. For further information, see Arla's annual report.

Milkprice



The graph shows the prepaid price, and the dots the average performance price.



Chairman Jan Toft Nørgaard CEO Peder Tuborgh

OWNERS

Democratic organisation

Arla's mission is to create value for its farmer owners. All farmer owners have the opportunity to influence important decisions through the democratically governed farmer cooperative.

Arla has 10,319 owners in seven countries: Denmark, Sweden, UK, Germany, Belgium, Luxembourg and the Netherlands. All elections and polls are held according to the 'one owner, one vote' principle.

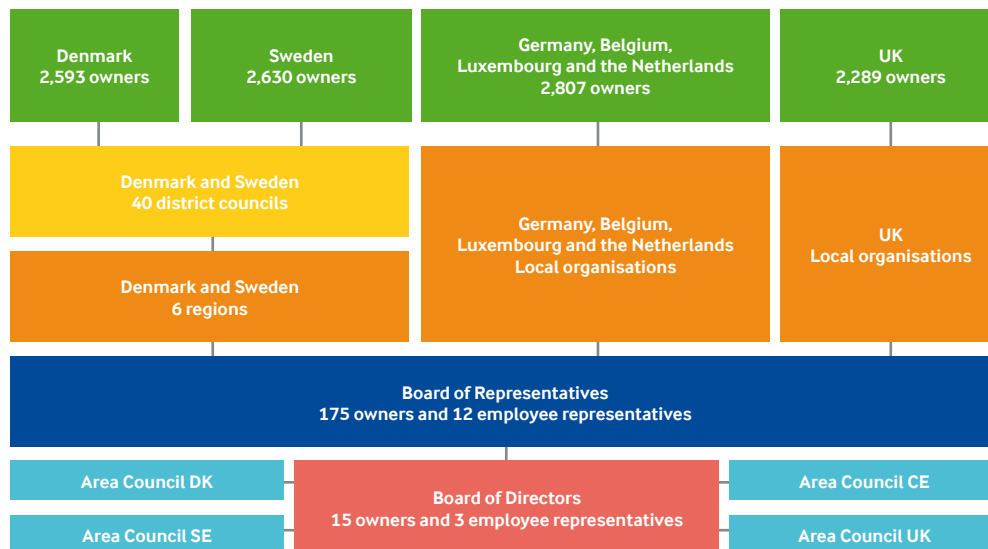
In July the chairmanship in Arla changed. Former vice chairman Jan Toft Nørgaard was appointed new chairman and Heléne Gunnarson new vice chairman. The new chairmanship stated their focus will be to ensure a

strong Arla for the benefit of current as well as future generations of farmer owners and ensure a stronger dialogue between farmer owners across the borders.

During 2018, among other things, elected representatives have been involved in workshops, discussing Arla's future environmental strategy.

Owner strategy

The purpose of Arla's owner strategy is to ensure a well-functioning and transparent democratic structure. The strategy includes the ambition of the same democratic governing body and rules for all individual farmer owners in Arla, taking into account local variations in the four geographical areas (Denmark, Sweden, the UK and Central Europe).

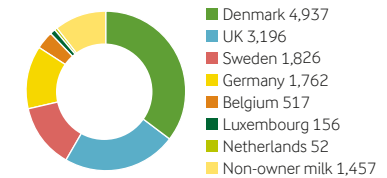


Following the ambition that all farmer owners will be members of one area, one region and one district, farmer owners in the UK and Central Europe have voted 'yes' to becoming direct members of Arla Foods amba. As a result of the vote, these farmers will now fully align with Danish and Swedish members who, as founding members, already have direct membership status of Arla Foods amba.

Entrance fee

Farmers joining Arla pay an entry fee of 7.5 eurocents per kilo of milk produced during the first year. The fee reflects the value new farmer owners get access to as a member of the cooperative with its capital, products, brands, dairy facilities etc. However, the entry fee is not paid by a farmer who takes ownership of an existing Arla farm.

Raw milk intake, million kilos



Arla's total milk intake amounted to 13,903 million kilos in 2018, which means that the milk intake is almost unchanged compared to 2017. Owners' milk represents 90 per cent of total milk intake.

The chart shows the number of owners/members as of December 31, 2018. All elections and polls are held according to the 'one owner, one vote' principle. The Board of Representatives is Arla's top decision-making body.

COLLEAGUES

Transforming the business

Part of the current transformation programme is the continued streamlining of our corporate operations and support functions. This process was initiated in the first half of the year, with significant changes implemented across global functions. This included changes in teams, responsibilities, ways of working and also resulted in almost 340 full-time positions being made redundant, the majority at the head office in Aarhus. Many of the redundancies were handled by closing vacancies or natural exits to minimise the number of affected colleagues as much as possible.

Throughout the year, the European Works Council's Select Committee has been closely involved in dialogue about the changes. Our Works Councils on national and local level were informed before changes were executed.

Colleague engagement survey

The annual engagement survey, Barometer, was conducted in October and sent to 17,784 colleagues in 15 different languages. The response rate was 85 per cent, eight per cent less than last year. The Barometer result continues to be strong, but this year the results also reflect the uncertainty, which follows the changes the company is undergoing. For the first time in years, the Barometer scores have dropped. The focus areas for the coming year are: communication, leadership and decision making.

Recruitment policy

Arla has a global recruitment policy that outlines talent acquisition processes across all markets. The process ensures validated tools as well as a smooth candidate experience. We use assessment tools that support our

efforts to minimise bias in selection and assessment, and our hiring managers are supported by HR resources throughout the recruitment process.

Safe colleagues

We want all our colleagues to stay safe at work, our target is zero work accidents, and we have for many years worked systematically to prevent accidents. To advance this work, we introduced a step change programme 'Arla Cornerstones' in 2017. The basic principle of the programme is that most accidents are a result of unsafe behavior, and it focuses on rooting global operating standards, boosting operational safety competences and embedding our existing behaviour safety programme.

During 2018, 'Arla Cornerstones' has been further developed, and we have seen an increase of almost 25 per cent in positive safety metrics such as near miss reporting and behavioral observations, coupled with a decrease in the accident frequency by almost 17 per cent. All production sites have conducted a series of workshops to both understand and influence behaviors. Furthermore, we have completed a successful pilot of 'Arla Cornerstones' in our logistics operations and we have set the ambition for all our drivers starting their Cornerstones journey in 2019. We strive to further increase awareness on workplace safety through colleague collaboration in labour relation forums.

In cooperation with our partners we make sure all colleagues who travel as part of their role, expats and their families are safe before, during and after they travel. We develop, manage and execute consistent strategies and programmes that promote and enhance colleague security, safeguard company assets and respond to security related incidents.

Training at all levels

Continuous training of colleagues at all levels is important. During the year, we have continued our focus on training in work environment, dairy technology and local training within functions and roles, which also includes the 'train the trainer approach'.

In Denmark, we have set aside funds to train dairy workers for the past 12 years. The funds are financed through the collective agreements, so the workers use some of their salary for their own training. The unions see the benefits of investing in their members' competencies and employability and every year more than 2,000 course enrollments are paid for by these funds.

In other countries, we try to create a similar shared training agenda. We hope that in the future, we will witness the same level of training financed through joint training funds in our other core markets.

Talent programmes

Over the last three years, we have recruited 50 graduates from 26 different countries and five continents to our international graduate programmes (Future 15 and Production Management). The gender split is more or less even with a small overweight of female graduates.

We have not made any new recruitments for our internal talent accelerator programmes, but continued the on-going training with 53 participants representing 14 nationalities. Furthermore, a total of 455 colleagues (186 females, 269 males) have participated in Arla's leadership development, people management and change programmes.

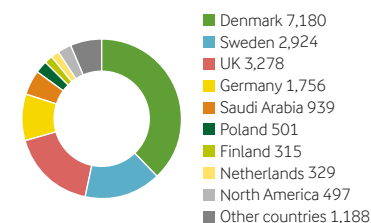
Cooperating with unions

A good forum for internal dialogue is our Works Councils, at both local and global level. The councils normally consist of employees as well as employer representatives and work to secure the conditions necessary for the company's continued competitiveness and development, and for the well-being and safety of all employees.

The European Works Council (EWC) is our high level forum for open dialogue and for discussing corporate matters in Arla. The EWC comprises employee representatives from each of the EU countries in which Arla has more than 150 employees. Arla's CEO, Executive Vice President for supply chain and Executive Vice President for human resources represent the company management at these meetings. The **Select Committee** of the EWC is always informed prior to major changes in the Arla organisation.

To strengthen the global perspective of business practices, Arla continues its dialogue with International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations International (IUF). In 2018, our dialogue with IUF focused on the prevention of gender-based violence (including sexual harassment).

Colleagues per country



The average number of full-time employees (FTEs) in Arla was 19,190 in 2018. The diagram shows FTE figures at year-end 2018 and differ from the average FTE figures.

AMBITIONS AND PROGRESS

We are committed to sustainable development, to work towards ambitions and targets and to report transparently on progress.

Ambitions and progress

FOOD/FOOD SAFETY

Policy/ambition As a global food company, food safety is key to Arla. It is identified as our most material aspect by internal as well as external stakeholders. We are dedicated to ensuring that our products are safe to consume and work across our value chain including at farm level.

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

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

Targets No discard of milk due to antibiotic-residue. No unsafe products sent to market – no recalls.

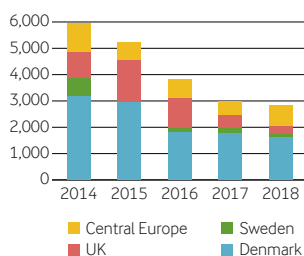
Progress 2018

Product recalls	2014	2015	2016	2017	2018
Recalls	6	7	6	10	2

Despite our strict quality and food safety routines, we have recalled products on 2 occasions during the year, as the products did not meet required standards.

Compared to previous years, there was a significant reduction of recalls. This improvement is a result of combined efforts in different areas. Among other things, we have worked in a structured way with some strategic suppliers as well as at our production sites. Our focus has been improved standardised work as well as structured problem solving to prevent repeated failures with major impact on our performance.

Securing raw milk quality, tonnes



The diagram shows the volume of discarded milk at our dairies in our owner countries.

Cows maybe treated with antibiotics when they are ill. We have procedures to prevent milk from treated cows reaching the consumer. This milk is discarded at the farm during the treatment period and for a period afterwards.

As an extra precaution, all milk is tested before it is unloaded at the dairy. If it contains antibiotic residues it is discarded.

The volume of discarded milk continues to decrease.

FOOD/NUTRITION

Policy/ambition Access to adequate, affordable and healthy food is a basic human right, and we want to provide high quality products that match consumers' nutritional needs around the world. Our Arla® Nutrition Criteria are the guiding principles that support the development of healthier Arla® branded products. The nutrition criteria secure the content of beneficial dairy protein and calcium, while limiting the amount of added sugar, salt and fat.

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

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

Targets Arla® Nutrition Criteria: 95 per cent of Arla® branded products fulfill the criteria in 2020. Affordability: By 2030, we have reached 30 million people in the lower income segment with a daily serving size of 7 gram skimmed milk.

Progress 2018 Arla® Nutrition Criteria: Currently 91 per cent Arla® branded products fulfill the criteria. Affordability: Currently we reach 15 million people in the lower income segment with a daily serving size of 7 gram skimmed milk.

Impact on Sustainable Development Goals and Targets



2.2 By 2030, end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons



3.4 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being

Impact on Sustainable Development Goals and Targets



2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round

PEOPLE /HEALTH AND SAFETY*

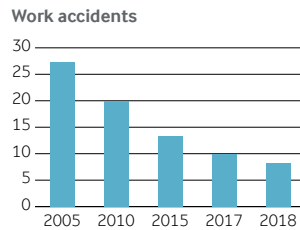
Policy/ambition Our colleagues are key to the success of our business. Our overall ambition is to provide all colleagues with safe and healthy working conditions. We are committed to preventing accidents, injuries and work-related illnesses. We apply a systematic approach to setting targets, tracking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

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

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

Targets Our target is zero work accidents.

Progress 2018



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

We do not have specific statistics for road traffic accidents, but continuously train drivers in safe driving.

Impact on Sustainable Development Goals and Targets



3.6 By 2020, halve the number of global deaths and injuries from road traffic accidents



8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

PEOPLE/DECENT WORK

Policy/ambition We want to ensure a workplace with a diverse workforce, characterised by mutual respect and trust, promoting equal opportunities allowing colleagues to live up to their full potential. Our policies on Human Rights, Diversity and Anti-harassment governs how related issues are handled in a structured manner. Further, our Works Councils, at both a local and global level, help secure workplace decisions are made in the best interests of both colleagues and company.

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

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

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

Progress 2018

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

Gender balance, female percentage, %	2016	2017	2018
Directors and above	22	22	23
Vice president and above	16	12	14

There are significantly fewer women than men among our top managers. Only 14 per cent of vice presidents and senior vice presidents are female, which is far from the 28 per cent among all colleagues. For information about diversity at Board level, see Arla's Annual Report.

Our formal grievance mechanism has in 2018 worked with two cases. For both cases, measures have been taken, and the cases are closed.

Impact on Sustainable Development Goals and Targets



5.1 End all forms of discrimination against all women and girls everywhere.

5.5.2 Proportion of women in managerial positions



8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value




8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms

17.9 Enhance international support for implementing effective and targeted capacity-building in developing countries to support national plans to implement all the sustainable development goals, including through North-South, South-South and triangular cooperation

*) Currently, sites in Nigeria, Senegal and Bangladesh are not fully integrated in our reporting.

RESPONSIBLE BUSINESS/ANTICORRUPTION AND BRIBERY

Policy/ambition	Conducting our business in an honest and ethical manner is key to maintaining our license to operate, our reputation and responsible growth. Arla's Anti-bribery policy sets out our zero-tolerance approach to bribery and corruption and our commitment to upholding all relevant laws in all jurisdictions in which we operate. Gifts and hospitality to and from third parties are controlled by rules and must be registered.
Impact on society	Bribery and corruption present risks to societies by undermining trust in public institutions and the mishandling of resources. Where funds and priorities are diverted to activities that will benefit corrupt individuals, fair competition is undermined. With our global presence, and long and diverse value chain, we impact societies across the world, and have an opportunity to contribute to positive societal development by honest and ethical business conduct.
Impact on Arla	Any kind of involvement in bribery or corruption would present risks of heavy legal fines and loss of business opportunities. A finding of involvement in bribery would be damaging to our reputation and impacts the business environment.
Targets	Zero corruption and bribery, zero facilitation payments.
Progress 2018	<p>Strengthened processes</p> <p>During 2018, our internal controls and policy monitoring activities have been further strengthened in order to ensure that all payments from Arla to external parties are valid and have a proper business purpose.</p> <p>Payments fulfill the 4-eye principle, meaning the approval of two people. Currently we are looking into further strengthening this process to manage risks.</p> <p>Reporting on Whistleblowing function</p> <p>Since its inception in 2012, Arla has received 96 reports from its whistleblowing function. In 2018, the whistleblowing function received 18 reports of which 8 led to further investigation. Depending on the outcome of the investigation, appropriate measures have been taken. 10 reports could not be handled in the whistleblower system due to legal reasons. The reporter is informed about alternative reporting channels.</p>
Impact on Sustainable Development Goals and Targets	 <p>16.5 Substantially reduce corruption and bribery in all their forms</p>

RESPONSIBLE BUSINESS/COMPLIANCE

Policy/ambition	Arla is committed to complying with applicable legislation and regulation in all the countries in which we operate. We develop our policies to capture relevant legislation and provide training for employees in policies and processes relevant for their job function, and we track and act upon non-compliance. During 2018, we have had a special focus on compliance to the new General Data Protection Regulation (GDPR).																														
Impact on society	In order to contribute to a sustainable societal development, it is important that Arla complies with laws and regulations in general. Managing the risks associated in particular with the protection of personal data, in our increasingly digitalized societies, is a key area, as breaches may lead to privacy and human rights being violated.																														
Impact on Arla	There are multiple business and reputational risks associated with non-compliance to laws and regulations in general. To mitigate risks in our value chain in relation to GDPR, such as adverse actions from governmental entities, for example, fines and sanctions Arla has put in place processes for handling personal data.																														
Targets	No fines or sanctions – to comply with legislation and regulation.																														
Progress 2018	<table border="1"> <tr> <td colspan="2">Data privacy</td> </tr> <tr> <td>Share of white-collar employees having completed e-learning on data privacy</td> <td>98 %</td> </tr> <tr> <td>Number of incidents of non-compliance with regulations resulting in fines</td> <td>0</td> </tr> <tr> <td>Number of incidents of non-compliance with regulations resulting in non-monetary sanctions</td> <td>0</td> </tr> <tr> <td colspan="2">Competition law training</td> </tr> <tr> <td>Number of colleagues trained face-to-face</td> <td>557</td> </tr> <tr> <td colspan="2">Substantiated complaints concerning breaches of customer privacy</td> </tr> <tr> <td></td> <td>0</td> </tr> <tr> <td colspan="2">Number of incidents of non-compliance with regulations and/or voluntary codes resulting in fines</td> </tr> <tr> <td>Incidents regarding product information and labelling</td> <td>0</td> </tr> <tr> <td>Decisions regarding marketing</td> <td>0</td> </tr> <tr> <td colspan="2">Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area</td> </tr> <tr> <td></td> <td>0</td> </tr> <tr> <td colspan="2">Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the environmental area</td> </tr> <tr> <td></td> <td>0</td> </tr> </table>	Data privacy		Share of white-collar employees having completed e-learning on data privacy	98 %	Number of incidents of non-compliance with regulations resulting in fines	0	Number of incidents of non-compliance with regulations resulting in non-monetary sanctions	0	Competition law training		Number of colleagues trained face-to-face	557	Substantiated complaints concerning breaches of customer privacy			0	Number of incidents of non-compliance with regulations and/or voluntary codes resulting in fines		Incidents regarding product information and labelling	0	Decisions regarding marketing	0	Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area			0	Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the environmental area			0
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SOURCING*

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

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

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

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

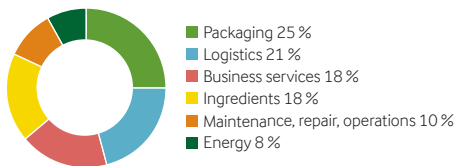
100 per cent responsible sourcing of palm oil, soy and cocoa, defined as certified products according to internationally recognised third party certification systems. Palm oil ingredients must be certified according to the standard of Round Table of Sustainable Palm Oil (RSPO), segregated certified. Soy in animal feed must be certified according to the standards organic, ProTerra or Round Table for Responsible Soy (RTRS) or covered with RTRS certificates. Cocoa must be UTZ-certified for Arla® branded products and Cocio.

Progress 2018

Responsible sourcing

Preferred suppliers	1,500
Preferred suppliers have signed our code of conduct for suppliers	92%
Supplier audits with a focus on CSR and food safety have been performed (This is a 30 per cent reduction compared to 2017 due to the internal transformation project)	42
Share of certified soy	100%
Share of certified palm oil	98%
Share of certified cocoa	100%
External spend managed by the procurement department	80%

Global contracts



In 2018, the following companies were our five largest suppliers in order of size of spend: Elopak (packaging materials and machinery), Tetra Pak (packaging materials and machinery), PCL Transport (distribution), Superfos (packaging materials and machinery) and Dentsu Aegis London (media).

The diagram shows the external spend handled by Arla's procurement department, divided across product and service categories. Our 10 largest suppliers account for 18 per cent (19 per cent in 2017) of our total external spend.

Impact on Sustainable Development Goals and Targets



2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment

2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality



6.3.1 Proportion of wastewater safely treated

6.4.1 Change in water-use efficiency over time



8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms

8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment



12.2 By 2030, achieve the sustainable management and efficient use of natural resources

12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment



13 Take urgent action to combat climate change and its impacts

13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries



15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally

*) Currently, sourcing for core markets is fully integrated in our reporting. Middle East, USA and Canada are to be included during 2019.

NATURE/SUSTAINABLE DAIRY FARMING

Policy/ambition Arla's environmental strategy 2020 is targeting sustainable dairy farming as one of the most important areas to address in our value chain together with climate, energy & water and zero waste. The ambition for all areas is to minimise negative and maximise positive impacts by targeted actions at farm level, in production and logistics, and together with consumers.

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

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

Targets To mitigate risks identified at farm level, one of our strategic goals is to reduce climate impact per kilo of milk at farm level by 30 per cent from 1990 to 2020. Further, to improve interaction with nature we engage in the development of methodology to promote biodiversity and ecosystem services, for example. Also, Arla promotes sustainable dairy farming at farmer workshops for sharing of best practice and expertise.

Progress 2018	Sustainable dairy farming			
		Carbon assessments	Energy assessments	Farm workshops
	UK 2010–2017	2,747	–	555
	Sweden 2013–2017	584	372	55
	Denmark 2013–2017	1,190	22	39
	Central Europe* 2013–2017			
	* Germany, Luxembourg, the Netherlands and Belgium.	12	–	12
	Total 2010–2017	4,533	394	661
	UK 2018	310	–	32
	Sweden 2018	24	37	–
	Denmark 2018	149	–	–
	Central Europe* 2018			
	* Germany, Luxembourg, the Netherlands and Belgium.	46	–	–
	Total 2010–2018	5,062	431	693

The table shows the number of activities carried out in line with our sustainable dairy farming strategy.

Progress 2018 (continued)

Arlagården® Plus

Share of farms participating 84 %

Climate impact

Carbon footprint, 2017 data* 1,13 kg CO₂e/kg ECMw

Reduction 1990–2017 24 %

*) Milk volume weighted estimate based on farm data from DK and the UK and national averages from DE and SE. Model for calculation is under continuous development and the absolute figure will change when the model is adjusted. When adjustments are made we always recalculate the baseline to ensure a consistent reporting of progress.

Arlagården® audits

All Arla farms are audited according to our quality assurance programme Arlagården® a minimum of once in every three-year period. In the UK, our farmer owners also adhere to the UK industry standard, the Red Tractor Farm Assurance Dairy Scheme, and are assessed every 18 months to ensure compliance to both standards. In total, 4,770 audits were carried out during 2018 across all seven owner countries.

Impact on Sustainable Development Goals and Targets



2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment

2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality



15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

NATURE/ENERGY AND CLIMATE*

Policy/ambition Arla's environmental strategy 2020 is targeting three areas: climate, energy & water and zero waste, in addition to sustainable dairy farming, reflecting the material environmental impacts identified in our value chain. The ambition for the three areas is to minimise negative and maximise positive impacts by targeted actions in production and logistics, and together with consumers.

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

Impact on Arla Climate change, water stress and malfunctioning ecosystems are threats to our supply chain, mainly to our farmer owners and other farmers providing our agricultural raw materials. In addition, our processing sites depend on access to clean and abundant water resources, energy and other raw materials such as packaging materials. Rising costs and/or declining availability are business risks going forward. Not addressing environmental and climate challenges pose reputational risks as well.

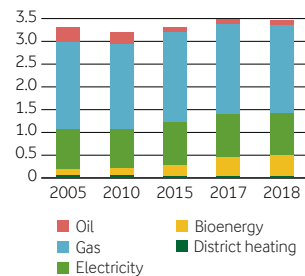
Targets Our environmental strategy sets goals for our supply chain, focusing on climate impact and resource efficiency. Climate targets stipulate a reduction of 25 per cent in greenhouse gas emissions from each of the areas packaging, transport and processing 2005–2020 (scope 1+2+3, see page 36).

Energy targets include an improved energy efficiency of 3 per cent per year at site level, and to use at least 50 per cent renewable energy by 2020. For water the target is to improve water efficiency in production by three per cent annually.

Zero Waste targets include zero waste to landfill from our sites by 2020 and a 50 per cent reduction in food waste in production for 2015–2030. We cannot quantify food waste [of our products] at consumer level but we are addressing it with inspiration and information. For packaging, the target is to have 100 per cent recyclable packaging by 2020, defined as technically possible to recycle in new applications.

Progress 2018

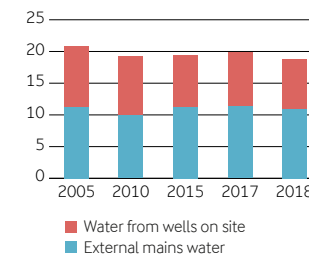
Energy consumption, TWh



Arla's goal is to improve energy efficiency in production by three per cent annually. The increase in energy consumption since 2010 is closely connected to the growth of Arla with more sites, higher production volumes and a greater mix of products. The share of renewable energy has increased continuously and reached 27 per cent 2018. The energy used per ton of processed milk was reduced by 20 per cent between 2005 and 2018. The diagram includes all Arla facilities at the end of 2018. Previous years' data has been updated.

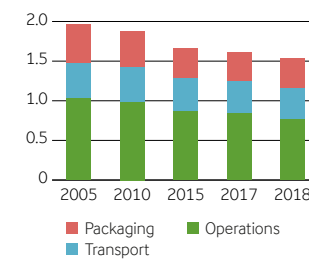
Progress 2018 (continued)

Water consumption, million m³



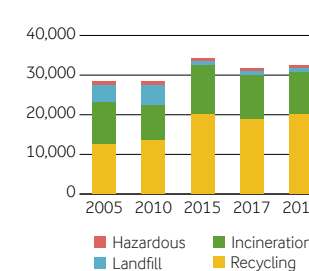
Arla's goal is to improve water efficiency in production by 3 per cent annually. During 2018 the total water consumption was reduced with approximately 1 million m³, compared to 2017. The water used per ton of processed milk was reduced by 3 per cent between 2017 and 2018, and 27 per cent since 2005. The diagram includes all Arla facilities at the end of 2018. Previous years' data has been updated.

Climate impact, million tonnes of CO₂-e



Arla's goal is to reduce greenhouse gas emissions from operations, transportation and packaging by 25 per cent by 2020, compared to the 2005 levels. Since 2005, Arla's total climate impact has decreased by 22 per cent, despite increased production. Most challenging is to reach targets for transportation.

Waste, tonnes



Arla's goal is zero waste to landfill by 2020. The development of total waste from 2005–2018 is directly connected to the increase in number of sites. The proportion of waste that is recycled and incinerated is increasing and waste to landfill has decreased by 77 per cent. The food waste proportion of purchased raw materials, of which most is raw milk from our farmer owners, has reduced since 2015.

*) Currently, sites in Nigeria, Senegal and Bangladesh are not fully integrated in our reporting.

NATURE/ENERGY AND CLIMATE (continued)

Progress 2018 **Renewable energy, %**
(continued)

Total				27
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Food waste	2015	2016	2017	2018
Proportion of purchased materials	2.36 %	1.52 %	1.97 %	1.90 %

The food waste proportion of purchased raw materials has reduced since 2015.

Sent to anaerobic digestion/biogas production	333,209 tonnes
Animal feed and reprocessing	175,055 tonnes
Donations to charity	1,100 tonnes

Impact on Sustainable Development Goals and Targets



6.3.1 Proportion of wastewater safely treated

6.4.1 Change in water-use efficiency over time



7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

7.3 By 2030, double the global rate of improvement in energy efficiency



12.2 By 2030, achieve the sustainable management and efficient use of natural resources

12.3 By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses

12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse



13 Take urgent action to combat climate change and its impacts

13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

Key performance indicators

Arla uses a range of performance indicators to measure its sustainable and responsible business development. The indicators are inspired by the Global Reporting Initiative (GRI) and are in line with the material issues we need to address. This table presents 11 indicators of special interests and their connection to the Sustainable Development Goals and the GRI indicators.

Area	Arla definition	2016	2017	2018	SDG	GRI	Page
Food safety	Number of recalls	6	10	2	2		27
Animal welfare	Top level in udder health ¹	53 %	56 %	53 %	12		16
Nutrition criteria	Arla® branded products fulfilling Arla® Nutritional Criteria (fresh dairy products and cheese)	93 %	– ²	91 %	2		27
Transparency	Fraud or bribery cases (convictions)	0	0	0	16	205-3	29
Responsible sourcing	Signed CoCs for preferred suppliers	76 %	87 %	92 %	12		30
Employee health & safety	Accident frequency ³	11.47	9.85	8.2	8	403-2	28
Climate impact ⁴	Total reduction of GHG emissions (scope 1+2) ^{5,6}	24 %	25 %	30 %	2/13	305-1,2	32
Recycling and waste	Total reduction of waste to landfill ⁵	82 %	77 %	77 %	12	306-2	32
Water consumption	Total reduction of water consumption ⁵	6.1 %	4.8 %	9.5 %	2/6	303-1	32
Renewable energy	Share of total consumption	21.2 %	24 %	27 %	7	302-1	32
Gender balance (female percentage)	Director and above	22 %	22 %	23 %	5/8		28

1 Share of farms reaching top level.

2 Calculated every second year.

3 Accident frequency per 1 million working hours.

4 Scope 1 emissions are the direct emissions from the company transports and facilities.

Scope 2 emissions are the indirect emissions caused by the energy that the company purchase, i.e. electricity, steam, heating or cooling.

Scope 3 emissions are the indirect emissions from purchased goods and services but also from end-of-life processing of sold products.

In 2015, we did the most recent quantification of Arla's total climate impact (scope 1-3). It showed that the total climate impact was approximately 18.4 million tonnes of greenhouse gas emissions, of which scope 1 and 2 emissions accounted for 2 and 3 per cent, respectively. Scope 3 emissions accounted for 95 per cent of Arla's total climate impact. Milk accounted for more than 95 percent of the scope 3 emissions.

5 Baseline 2005.

6 Please see www.lifecycleinitiative.org/starting-life-cycle-thinking/life-cycle-approaches/carbon-footprint/

UN Global Compact

In early 2008, Arla signed up to the Global Compact, the UN initiative to promote ethical business practices. As a participant, we are committed to observing the Global Compact's 10 fundamental principles.

WE SUPPORT



Since 2008, Arla has been a member of the Global Compact's Nordic Network. In May 2009, Arla signed up to Caring for Climate, a voluntary and complementary action platform seeking to demonstrate leadership around the issue of climate change. In 2010, Arla's CEO signed a CEO Statement of Support for the Women's Empowerment Principles, an initiative from the Global Compact and UNIFEM (the UN Development Fund for Women).

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

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.
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.
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.
Anti-corruption	<ol style="list-style-type: none"> 10. work against corruption in all its forms, including extortion and bribery.



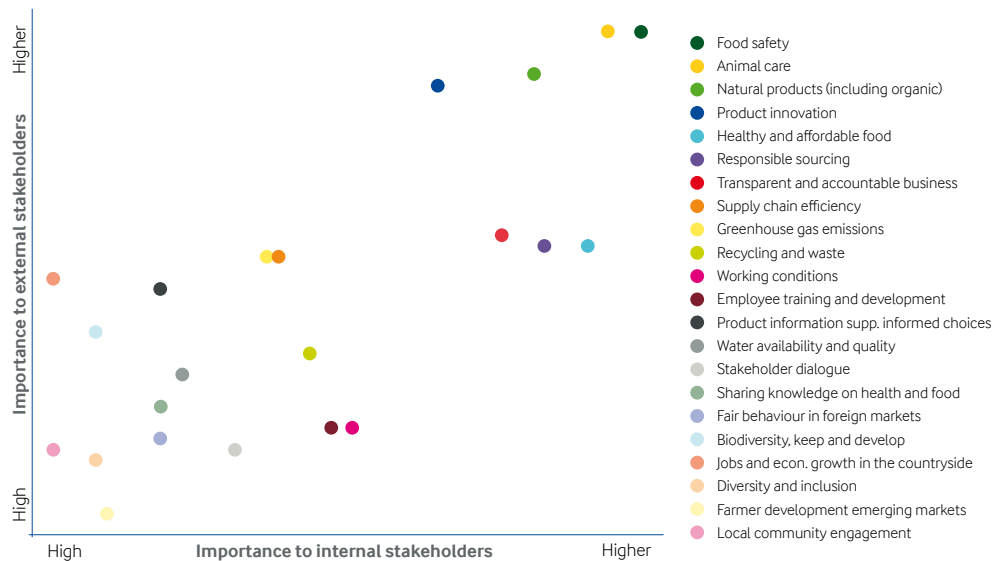
Materiality analysis

Through our materiality analysis, first performed in 2014 and updated in 2017, we aim to identify material aspects in the views of our main stakeholders, and use this knowledge to better prioritise our activities.

External stakeholders including consumers, customers, owners, non-profit organisations and financial institutions in Denmark, Sweden, the UK and Germany/Central Europe have taken part in the analysis. All stakeholder groups have received a survey and been asked to prioritise 22 defined areas of interest. Moreover, a group of non-profit organisations were interviewed to get a deeper understanding of their views and opinions.

In addition to prioritising our activities, we also use the results to help us improve the scope and focus of our reporting and communication processes. Furthermore, the study serves as a basis when relating to the Global Reporting Initiative (GRI) guidelines.

Based on the results from the study in 2017, we have identified food safety, animal care and natural products as key areas of focus. These are followed by product innovation, healthy and affordable food and responsible sourcing.



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