

our responsibility

ARLA FOODS' CORPORATE SOCIAL RESPONSIBILITY

REPORT 2010





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Unless otherwise indicated, the facts and figures in this report cover Arla Foods' fully owned dairy companies in 2010. Some examples from fully owned subsidiaries and joint venture dairy companies are also included. The structure of the report follows *Arla Foods' Corporate Social Responsibility Code of Conduct*, which was first published in the spring of 2008.
More information is available at www.arla.com

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Arla grows with more responsibility

IT IS WITH GREAT PRIDE that I look back on the progress we have made towards our sustainability and corporate responsibility ambitions during the past year. For example, we have further reduced the frequency of workplace accidents and introduced a work environment strategy that takes a more holistic approach to colleagues' well-being. We had no product recalls in 2010, and our all encompassing commitment to the environment resulted in us increasing our knowledge in this area allowing us to put in place the foundations to make improvements across our entire supply chain. Furthermore, during the year we reached important decisions concerning our use of certified cocoa, soya and palm oil, which enhance the sustainability of our supply chain.

Our owners' decision to increase their investment in the company demonstrates, not only their trust in Arla, but also that they believe that there is a prosperous future in continuing to run their farms in a sustainable way. This is, of course, very pleasing.

We work in line with Global Compact

Three years ago Arla joined the United Nations' Global Compact, a global initiative to promote ethical business practices. As a member, we are committed to integrating the 10 basic principles of Global Compact within our strategy and culture, and to communicate this commitment to our colleagues, owners, suppliers, partners and the world around us. Our report forms part of this work. Each year we engage an increasing number of Arla colleagues in our sustainability agenda through a wide range of initiatives and a selection of those that were implemented in 2010 are covered in this report.

Continued responsibility

Arla has now established a more mature process for working with sustainability but we acknowledge that we still have a long way to go. During the year we will continue to improve the processes by which we evaluate and follow up our suppliers, both globally and locally. We will also continue to work towards our climate targets and intend to include our entire supply chain – from cow to consumer.

Linked to the Arla mission to provide modern consumers with natural milk-based products that create inspiration, confidence and well-being, we will also increase our focus on health issues. Through our product range we can inspire consumers to lead a healthier lifestyle that in turn increases their well-being.

It is our ambition to deliver significant growth in the coming years and we recognise that with growth comes increased responsibility. In this report and the accompanying web pages Arla shares its journey to becoming a more sustainable company and I invite you to join us.



Viby, March 2011

Peder Tuborgh, CEO

ABOUT ARLA

Arla Foods is a global dairy group and cooperative owned by Danish and Swedish dairy farmers. Our products are sold under well-known brands in more than 100 countries. We have production facilities in 13 countries and sales offices in another 20. Arla is also the world's largest supplier of organic dairy products.

Owners contribute to Arla's expansion

Arla's objective is to ensure that its owners receive the highest possible payment for their raw milk. At the beginning of 2010, milk prices were very low, however, during the last 12 months Arla's performance price (payment to owners plus consolidation) has been raised by DKK 0.38 to DKK 2.52 per kilo of milk.

During the year our owners decided to increase their investment in Arla, demonstrating their trust in the company. In doing so, it will create a solid platform from which Arla can pursue its growth strategy. The injection of new capital means, for example, that it will be possible to make more loan-financed acquisitions.

Arla committed to Strategy 2015

Arla's activities have developed positively during the past year. We have continued to work in accordance with our growth strategy, which is built on three cornerstones: development, growth and efficiency. Among other initiatives, we have announced that we are to build the world's largest fresh milk dairy outside London, in the UK, which is our largest market. Our investment in the new dairy will amount to DKK 1.4 billion. The new facility is planned for completion in 2012. In Sweden too, there are good opportunities for development and we have launched a national strategy describing how we will achieve the ambitious growth rates outlined in Strategy 2015.

The decision to gather the company's brands under the Arla®, Lurpak® and Castello® brands came to fruition during the first quarter of 2010. Growth in Lurpak® and Castello® has been particularly good. Foreign currency fluctuations have been to our advantage.

We increased production during the year while successfully maintaining low production costs. Rationalisation within the company is continuing and we will be, for example, concentrating production of retail pack butter for the UK market at Westbury Dairies in the UK, of which Arla became a co-owner during the year. We have also consolidated sliced cheese processing activities into three facilities.

Despite tough competition, we have increased sales in our growth markets and our markets in the UK, Sweden, Germany and the Netherlands, where the market share of our brands has increased. Sales in Denmark and Finland have not reached the anticipated level, nor have we succeeded in initiating as many new innovative projects as we would have liked.

Owners to decide on merger

In December 2010, the board presented proposals for a merger with the German cooperative dairy association, Hansa-Milch. If the merger is approved, growth in the German market will be further strengthened. Owners of both companies will reach a decision on the proposed merger in March 2011. The merger will be conditional on approval from the EU competition authorities.

ARLA IN BRIEF 2010

OWNERS

Arla Foods is an agricultural cooperative owned by 7,178 dairy farmers – 3,649 in Denmark and 3,529 in Sweden.

NUMBER OF COLLEAGUES

Denmark	7,557
Sweden	3,286
UK	2,770
Finland	455
Poland	399
Netherlands	363
Germany	65
Other countries	1,320
Total	16,215

TURNOVER

DKK 49.0 billion, of which 77.5 per cent comes from our core markets of Denmark, Sweden, UK, Finland, Netherlands and Germany.

NET RESULTS

DKK 1.3 billion.

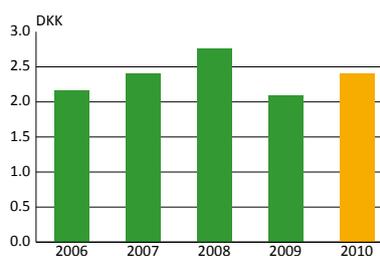
RAW MILK IN MILLIONS OF KILOS

Denmark	4,345
Sweden	1,829
UK	1,828
Finland	287
Netherlands	209
Other countries	215
Total	8,713

MANAGEMENT

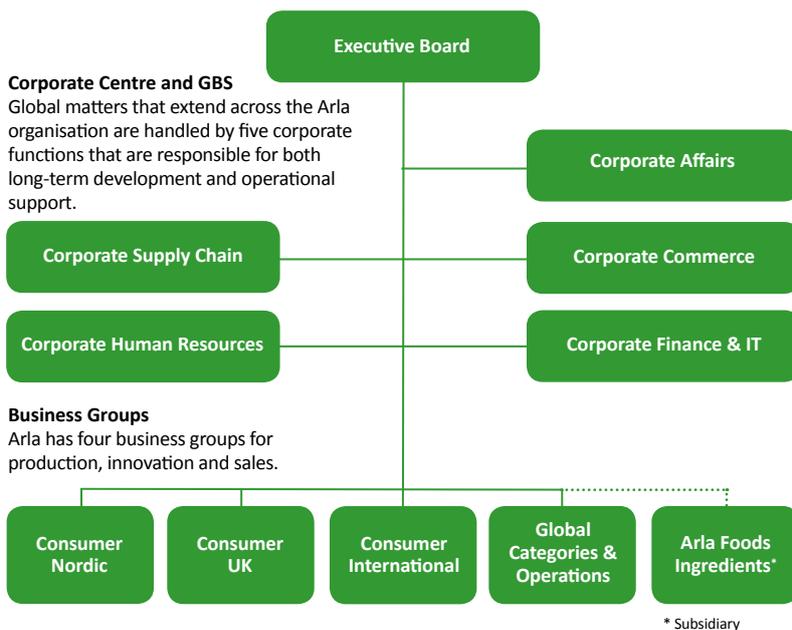
Chairman: Ove Møberg
 Vice-chairman: Åke Hantoft
 CEO: Peder Tuborgh
 Vice CEOs: Povl Krogsgaard and
 Andreas Lundby

MILK PRICE PER KILO



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

ORGANISATION OF THE ARLA GROUP



CORPORATE CENTRE AND GLOBAL BUSINESS SERVICES (GBS)

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

Corporate Supply Chain – handles member service, technical issues, quality, environment, global procurement and investment under the management of Povl Krogsgaard.

Corporate Commerce – responsible for group marketing and trade-related policies under the management of Andreas Lundby.

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

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

BUSINESS GROUPS

Consumer Nordic – fresh products, cheese and butter for the Nordic market, including the subsidiaries Cocio, Dairy Fruit and Rynkeby Foods, under the management of Hans-Åke Hammarström.

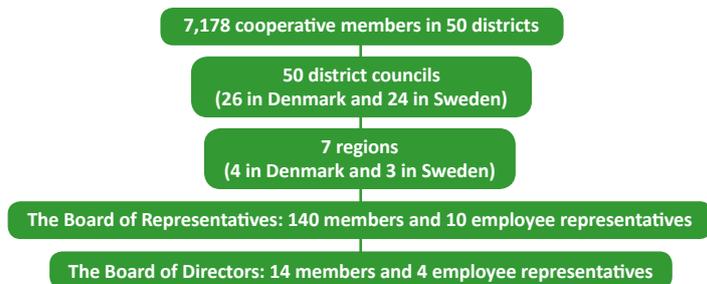
Consumer UK – fresh products, cheese and butter for the UK market under the management of Peter Lauritzen.

Consumer International – fresh products, cheese, milk powder, butter and spreads for all markets outside the Nordic and UK markets under the management of Tim Ørting Jørgensen.

Global Categories & Operations – development and production of butter and spreads, cheese and milk powder and multi-disciplinary research and development under the management of Jais Valeur.

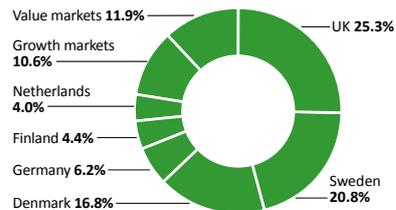
Arla Foods Ingredients (subsidiary) – milk and whey protein for all markets under the management of Henrik Andersen.

MEMBER AND OWNER DEMOCRACY



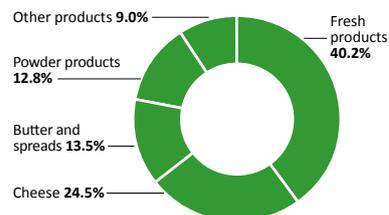
The Board of Representatives is Arla's top decision-making body. Arla's Board of Directors is elected by the regions and the Board of Representatives. All elections and polls are held according to the 'one member, one vote' principle.

NET TURNOVER BY MARKET



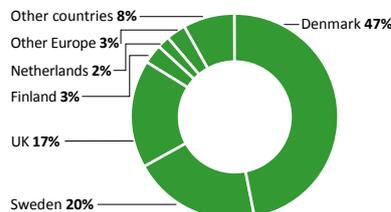
Arla's total net turnover has increased by six per cent since 2009, while sales in our growth markets (Russia, Poland, USA, China and Middle East/North Africa) have increased by 19 per cent.

NET TURNOVER BY PRODUCT GROUP



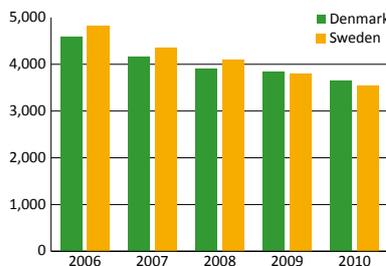
During 2010, we increased our focus and marketing activities on our Arla®, Lurpak® and Castello® brands.

ARLA COLLEAGUES



The total number of colleagues, approximately 16,200, is almost unchanged compared to last year.

MEMBERS IN DENMARK AND SWEDEN



During 2010, the number of cooperative members fell by six per cent. While the volume of milk from members in Denmark has increased, the volume from Swedish producers has fallen.



BUSINESS PRINCIPLES

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

*From: Our responsibility
– Arla Foods' Code of Conduct*

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

- **COMPETITION LAW COMPLIANCE.** The management of Arla is continually and strongly committed to the Group's compliance with the competition laws in force at any time.
- **COMPETITION IN SWEDEN.** Changed market structures and competition in Sweden resulted in the examination of market conditions by the Swedish Competition Authority.
- **GLOBAL COMPACT.** For the last three years Arla has been a member of the UN Global Compact initiative and since 2009 Arla has participated in the organisation's Nordic Network.

Training in competition law compliance

During 2010 Arla conducted training seminars throughout the organisation to ensure that managers and colleagues are fully informed of the requirements of competition law and to assist them in complying with those rules.

Competition investigations in Sweden

In April 2009 the Swedish Competition Authority conducted an unannounced inspection of Arla's offices in Sweden and in Denmark, following a complaint from a third party. The complaint included allegations of abuse of dominance in the Swedish dairy market.

Investigations have focused on whether Arla's agreement with a retailer excluded other competing dairies from delivering fresh dairy products. Following in-depth investigations, the Swedish Competition Authority announced in July 2010 that it did not find that the agreement would foreclose an equally efficient competitor from the market. Commenting on its decision, the Swedish Competition Authority stated: "The investigation has not shown that the agreement between Arla and Coop or its implementation was designed in a way to exclude an equally efficient competitor. Our assessment, therefore, is that there are no grounds for further investigations." As a result, the Swedish Competition Authority decided to close the case. During the investigations Arla has cooperated fully with the authority.

Examination of the state of competition in Sweden

The Swedish government has assigned the Swedish Competition Authority to examine the state of competition and other market conditions in the Swedish food sector. In ordering the study, the government has noted that a report from the European Commission has found that during 2007–2008 food prices increased more than prices for primary produce. Thereafter, primary produce prices declined, but consumer prices did not to the same extent. The Swedish Competition Authority is to present its report by May 1, 2011 at the latest, which is expected to include an account of the regulatory rules which the Swedish Competition Authority considers to be in need of a revision with a view to improving competition in the food sector.

In June 2010, the Swedish Competition Authority gave Arla the opportunity to describe which regulatory changes may be required if competition in the food sector is to improve. Arla made a submission to the Competition Authority in August 2010, giving its view on the state of competition in Sweden.

Competition analysis by the Danish Competition Authority

The Danish Competition Authority has announced that its report on the state of competition and other market conditions in the Danish retail sector, which was expected to be published in December 2010, will instead be published in spring 2011.

BRIBERY AND FACILITATION PAYMENTS

In 2009 Arla decided to adopt a policy on facilitation payments, to be implemented worldwide throughout the group. The policy will give Arla the necessary insights, through reporting requirements and managerial review, to take active steps to eliminate all such payments.

During 2010 Arla implemented the policy throughout its organisation and instructed colleagues on issues in respect of bribery, facilitation payments and gifts. Implementing the policy is yet another step to ensure that Arla addresses ethical matters in a responsible manner.

ARLA'S SUPPORT FOR GLOBAL COMPACT

Arla's Code of Conduct complements the 10 basic principles of Global Compact. As a participant of Global Compact, Arla undertakes to incorporate this initiative and its principles in the Arla strategy and company culture – and to communicate this commitment to colleagues, owners, suppliers, partners, customers and the world around us.

The commitment to Global Compact also means that every year Arla has to report, in an open and honest way, on how the company is adhering to its Code of Conduct. This report describes the progress Arla has made over the year and where it sees opportunities for improvement.

In August, Arla's CEO Peder Tuborgh signed the CEO Statement of Support for the Women's Empowerment Principles, produced and disseminated by the United Nations Development Fund for Women (UNIFEM) and the United Nations Global Compact. For more information see page 35. Furthermore, since the beginning of 2009, Arla has been involved in Global Compact's Nordic Network that organises two conferences every year to discuss topical subjects and enables participants to exchange experiences.

PRUDENCE WITH GIFTS

As with bribery and facilitation payments, gifts, services and other courtesies can, when being exchanged as a part of a business relationship, from an outsider's point of view, indicate that business is not being conducted in a transparent and responsible manner. In Arla, colleagues do not receive or give large gifts, services or donations.

WHISTLEBLOWING POLICY

In 1999, Arla implemented a whistleblowing policy in the UK. To this date, no incident has been reported under the policy. In 2009 Arla decided to look into the potential benefits of implementing a whistleblowing policy throughout the group. In 2010 the issue has been debated within the CSR Committee and

it decided to develop and implement a global policy in 2011.

The purpose is to support the internal processes in place to ensure compliance with legislation, Arla's Code of Conduct and internal policies. The whistleblowing policy will provide an additional opportunity to receive information about possible irregularities in addition to the existing ways of reporting.

LEGAL STRUCTURE COMMITTEE

In order to strengthen focus on compliance with local country legislation and local corporate governance principles, a Legal Structure Committee has been formed to monitor legal entities in the Arla group of companies. The committee's work also aims to strengthen the management and control of the legal entities and to prepare for Arla's growth strategy, which will involve the incorporation of further legal entities in the group.

REGULATORY TRAINING

In 2010 Arla undertook to train relevant colleagues at UK sites on how to work with a number of UK authorities. The objective is to ensure that Arla is complying at all times with regulatory obligations which relate to the environment, food safety, health and safety and vehicles.



OPERATIONAL PRINCIPLES

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

*From: Our responsibility
– Arla Foods' Code of Conduct*

Arla is a democratically governed farmer cooperative that aims to create value for its cooperative members – Danish and Swedish dairy farmers. All cooperative members have an opportunity to influence significant decisions. Cooperative members elect representatives to the company's governing body. The Board of Directors is responsible for making decisions about the company's general strategies and for ensuring that the company is managed with the cooperative members' best interests in mind.

→ **COOPERATIVE MEMBERS CONTRIBUTE TO ARLA'S EXPANSION.**

Arla's cooperative members have decided to increase their investment in the company. The additional money will be used to finance Arla's growth strategy, which in turn will deliver a higher milk price to the cooperative members.

→ **IMPROVED COMMUNICATION.** The new intranet, Owners' Net, makes it easier for Danish and Swedish cooperative members to receive information and to have a dialogue about Arla.

→ **HIGHER MILK PRICE.** During the year Arla's performance price (payment to owners plus consolidation) has been raised by DKK 0.38 to DKK 2.52 per kilo of milk.

Cooperative members invest more in Arla

At the October meeting of the Board of Representatives, Arla's cooperative members decided to increase their investment in Arla. This will be made via an agreement where the farmers leave a part of their payment for the milk in the company (4.5 per cent of what is called Arla performance price). This is double the previous amount. The investment means that Arla's equity is increased by DKK 4–4.5 billion. The extra funding will be used to finance Arla's ambitious growth strategy. The fact that the Board of Representatives has made this decision should be considered an expression of the cooperative owners great trust in Arla and therefore in the company's ability to deliver a better milk price for members. Read more on page 10.

By means of a joint venture company with Arla, British milk suppliers who are members of Arla Foods Milk Partnership (AFMP) now own 3.2 per cent of Arla Foods UK, and therefore of Arla's UK operations. During autumn 2010, further investment has been discussed but a final decision has yet to be reached. The aim is for the British suppliers' share of Arla's UK operations to increase as Arla increases its investment in the British market.

Training elected representatives

It is important to the cooperative philosophy and the concept of membership democracy that the organisation has well-informed cooperative members and knowledgeable elected representatives. For many years Arla has worked hard to ensure that the elected representatives are well educated on Arla and membership matters. Arla prioritises training to increase members' awareness of the conditions under which the organisation operates, introducing the business to newly elected representatives and making them feel comfortable in their role as an elected

representative. During 2010 a Danish-Swedish mentor scheme was developed to support new members elected to the Board of Representatives.

During 2009/2010, 87 per cent of the 370 elected representatives attended at least one training session. More than 419 training days were held, which is the same level as the average for the last six years, but above the level of the previous year, when the number of training days was reduced as part of cost reductions.

Easier dialogue and dissemination of information

The Owners' Net, which is a dedicated website for Arla's Danish and Swedish cooperative members, has been in place for a year, and approximately one third of members have logged on. The website is a fast and easy-to-use channel of information which all cooperative members can access. It provides details of milk sample analyses taken after each milk collection and milk statements for each farm. There is also a diary of events and latest news from Arla. Members can comment on the news and on one another's comments, although this facility is not yet being utilised to its full potential. Members can also receive news and information via SMS or email. Every second week all members receive a newsletter which is distributed via the milk tankers.

Members of AFMP in the UK also have a dedicated website which provides them with news and high-quality data for example. A forecasting tool was launched in 2010 in the UK to help farmers calculate their annual milk production. The tool helps Arla plan production and procure supplementary milk volumes more effectively. The British farmers also receive a monthly newsletter and a quarterly magazine with articles and reports on current topics of interest and which add value to their business.

OWNER AND SUPPLIER FACTS

	2008	2009	2010
Owners in Denmark and Sweden	7,996	7,625	7,178
- based in Denmark	3,906	3,838	3,649
- based in Sweden	4,090	3,787	3,529
Members of AFMP in the UK	1,404	1,400	1,362
Suppliers in Finland	1,100	1,113	1,060
- of which are contracted	301	283	260
Motions to the Board of Representatives meeting	8	14	5
Participants in owner seminars	900	927	380
Appeals for the appeals group in Denmark and Sweden	66	41	43

At the end of 2010 the number of members totalled 7,178, which is a fall of six per cent compared with last year. However, during the year, the volume of milk from members increased by 0.4 per cent. The decreasing number of members is primarily due to members choosing to leave the cooperative or to cease production. This has however been offset by the fact that more, predominantly Danish, farmers have expanded their farm operations.

During 2010 there was a notable amount of changes to the number of members in

Sweden due to many requesting to join and many to leave, a situation we expect to continue. A total of 61 members in Sweden left Arla to join another dairy organisation, while we have gained 36 new members, the majority from the Hälsingland area. Total milk volumes in Sweden have been reduced by three per cent, compared to the previous year.

The number of participants in owner seminars has decreased substantially during 2010 due to many meetings being held regarding the new capital model proposal. Read more on the following pages.

MILK PRICE FACTORS

Several factors contributed to the milk price increasing during 2010, including the positive development in currency exchange rates. An increase in sales of industrial food products was another factor and increased stability on several important markets also made it possible to raise the milk price.

WORKING GROUPS

Within the Arla Board there are special working groups whose task is to develop the company and prepare issues ahead of Board-level decisions. For example, there are working groups focusing on membership issues, training and organic milk production. During 2010, we have set up a new reference group for consumer-related issues. Working groups within AFMP have also been developed to address communication, milk balancing, technical standards and environmental issues.

Financing the farmers' way

In October, the Arla Board of Representatives passed an important resolution which will see 7,200 cooperative members increase their investment in the company. The motivation behind the move is because Arla needs to financially support the delivery of its growth strategy. The overall objective is to pay a higher milk price to the company's owners.

It was a difficult decision for cooperative members and one which was reached after many long discussions, because many farmers are under considerable financial pressure.

Cooperative members contribute to Arla's expansion

Discussions about the financing of Arla have been taking place for several years. The financial model that was finally agreed involves each cooperative member making an additional contribution of DKK 0.05–0.07 extra per kilo of milk they deliver. Over the next six years, the farmers will contribute a total of DKK 0.10–0.11 per kilo of milk, twice the amount of their previous contributions.

“For the cooperative owners, who are already financially stretched, to have passed a resolution of this kind must be seen as a strong declaration of their trust in Arla,” explains Arla's Chairman Ove Møberg. “I am sure that every single cooperative member needs to spend



Ove Møberg is a dairy farmer and has been Chairman of the Board at Arla since 2006.

money at home on their farm, but they believe in Arla and have shown their support for our strategy.”

Instead of receiving remuneration for all of their milk, a proportion will be invested in Arla's development as a consolidated total. This means that Arla will receive additional investment of DKK 4–4.5 billion over the next six years. The company needs this in order to fund its ambitious growth strategy, which targets a 50 per cent increase in turnover, to approximately DKK 75 billion by 2015.

The expansion that Arla requires to achieve this target requires debt financing. To receive this the company needs more capital, which the farmers will provide, and it must also deliver a result corresponding to 2.5 per cent of turnover.

Grow or cut back

Arla presented its ambitious strategy for growth in 2008. In addition to the turnover target, it also included increasing production of highly processed whey protein for use in the food industry, a reduction in the number of brands and development of the company in markets where Arla is already a major player. When the global recession struck in 2009, several of these targets, including the turnover ambition, were postponed.

“We have known for a long time that we have to grow,” Ove Møberg continues. “With the competitive situation in the global dairy industry today, we have no choice. Growth is a precondition for continued profitability. However, the question of how we should finance growth was difficult as we are a farmer cooperative and it was important to us that we maintained the farmers' influence. A public

limited company in the same position would have either issued new stock and offered this to existing shareholders, or approached a new company owner. Our company structure and decision-making processes are entirely different. We have chosen to remain a cooperative, which means that the farmers will retain their influence and their share of the profits will not be reduced.”

Model for a higher milk price

Arla aims to deliver the highest milk price possible. To do so, however, the company has to be profitable. The new consolidation, amounting to DKK 0.10–0.11 per kilo, corresponds to 4.5 per cent of what is called performance price. Performance price is the sum of Arla’s payments to the farmers for the milk they produce, plus the company’s net result. The connection between consolidation and performance price means that a higher milk price to the farmers will in turn lead to higher consolidation, which is beneficial to the company. The aim of the growth strategy is to increase the milk price by about DKK 0.10 per kilo above current levels.

Two-thirds of total consolidation will be retained in the company as ‘collective consolidation’. The remaining third is ‘individual consolidation’ which is available to the farmers as repayment if he or she leaves Arla. To accommodate this Arla is introducing a new mechanism: investment capital. This allows cooperative members

to receive annual interest on the capital they loan the company. If a cooperative member chooses to leave the cooperative, the investment capital will be repaid within three years. Different forms of investment capital have yet to be defined and, in all circumstances, will be subject to approval by the public authorities.

The long road to a resolution

To pass the resolution for the new capital model, a 75 per cent majority vote of the Board of Representatives was required. It was passed with a 85 per cent majority.

At the meeting of the Board of Representatives, several alternatives were proposed. The other proposals included a lower consolidation (3–3.5 per cent) and an alternative distribution of individual and collective consolidation.

“To have passed a resolution of this kind must be seen as a strong declaration of their trust in Arla.”

At the beginning of the process several different proposals and compromises were presented and discussed by the Board. These were then presented to the district councils and members. During the six months before the meeting of the Board of Representatives the proposals were presented and discussed at member meetings and in all seven regional boards.

“Within Arla there are almost as many opinions as there are farmers so it is not surprising that such a major change took time to discuss and pass, and not least because the farmers’ finances are under considerable pressure,” Ove Møberg concludes.

THE CAPITAL MODEL IN BRIEF

The resolution involves Arla’s cooperative members investing 4.5 per cent of the money they earn from the milk they supply to Arla back in the company. One third will be deposited in an individual cooperative members’ account which will earn annual interest and will be paid out over a three-year period if the farmer leaves Arla. The remaining two thirds, called ‘collective consolidation’ will be retained by Arla. A resolution to introduce the new cooperative members’ investment tools will require approval from the public authorities.

PARALLEL PROCESS IN THE UK

Just as Danish and Swedish dairy farmers have decided to increase their investment in Arla, negotiations have taken place between the Arla Board and Arla Foods Milk Partnership (AFMP) farmers in the UK. In August 2010 AFMP announced that it is in talks with the board of Arla Foods amba to increase its shareholding in Arla Foods UK plc and a decision is expected in the first half of 2011. Arla is performing strongly in the UK and the company is keen to secure not only a sustainable supply of raw milk but also the future of the British milk producers.





FOOD SAFETY

We meet consumer demand for safe dairy products.

*From: Our responsibility
– Arla Foods' Code of Conduct*

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

- **TRAINING AND KNOWLEDGE SHARING.** We are committed to training our colleagues in food safety issues and also to sharing knowledge with others in the industry.
- **REDUCED VOLUME OF DISCARDED RAW MILK.** The measures we have taken to reduce the amount of milk discarded due to residual antibiotics is beginning to show results.
- **FOCUS ON PACKAGING.** During the year, we have looked into the risks associated with the packaging we use, as have our customers and the authorities.

Education improves food safety

Arla has well-developed procedures and safety methods to guarantee the quality of our products. We are very aware of the importance of our colleagues being well-trained in food safety and having access to the latest working methods and research results. This is why we prioritise continual training and knowledge sharing between the different units within the company.

In the UK more than 50 colleagues at different levels have been trained in handling a serious incident at a dairy. The lessons learned included the importance of clear communication and that managing an incident correctly can mean the difference between it being a minor incident or a product recall.

At our subsidiary Rynkeby Foods, all juice production and technical colleagues have received training in both hygiene and food safety. All production colleagues at our Dairy Fruit subsidiary have received hygiene training. Other training that has been delivered at Arla dairies includes subjects such as foreign substances, allergens, pasteurisation safety and sensory testing.

Knowledge sharing with stakeholders

Generally, our customers are expressing a growing interest in issues related to food safety. Their increased awareness encourages us to further improve our methods and risk assessments. Areas to which customers have paid particular attention during the year have been how we manage allergens, traceability, documentation of the HACCP system (the hazards involved in production

processes), the monitoring of listeria, salmonella and other pathogen bacteria, and the presence of metal detectors and other equipment which is used to prevent contamination of our products.

Arla has important overall knowledge and experience of food safety, from which others in the industry can benefit. In the UK we have participated in supplier meetings and, in Denmark and Sweden, in seminars and industry meetings, at which we have shared our knowledge, for example, our experience in managing listeria. We are also asking our ingredient suppliers for more information about allergens and the risks inherent in their production, for example. During the year all our UK ingredient suppliers have been subject to a risk assessment. When developing new products in Denmark and Sweden, we have placed special emphasis on risk assessment.

Monitoring packaging materials

We make certain that the packaging we use meets our own requirements and does not pose any kind of risk to our products by adhering to analysis requirements and certification. During the year, the Danish, Swedish and Finnish authorities have significantly increased the monitoring of packaging materials with a view to ensuring that this does not have an adverse effect and that no substances are transferred to products. Our customers are also aware of the risks involved and have not found any cause to comment on our systems and documentation.



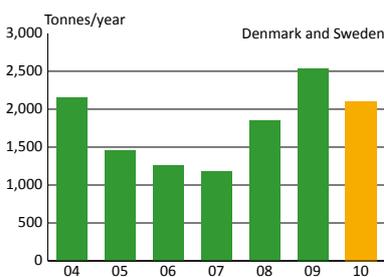
NEW FOOD SAFETY CERTIFICATIONS

Including its joint venture companies, Arla has 65 sites, 51 are currently certified in accordance with the ISO 22000 food safety standard. Sites that are still to be certified after 2010, already meet national food safety standards. In addition, Arla has a total of 42 BRC (British Retail Consortium) and IFS (International Food Standard) certifications, which are requested by our customers. We are looking into the possibility to achieve a more uniform certification by converting both these certifications to the new FSSC 22000 certification. We hope that our customers will support us in our intention to achieve a more uniform approach.

NEW ANALYSIS METHOD

Arla has entered into cooperation with Fonterra, a major dairy company, and a leading supplier of analysis equipment with a view to developing a method to test whether raw milk has been deliberately contaminated. The aim of this work is to detect substances, such as melamine, in milk to a defined level. Our collective vision is for the method we develop to be applied by the global dairy industry.

DISCARDED MILK WITH ANTIBIOTICS



Sick animals are sometimes treated with antibiotics. Milk from the cow is discarded during the period of treatment and for a period of time afterwards. To ensure that no antibiotics remain in the milk, we carry out checks and any milk containing antibiotics is discarded. The volume of discarded milk has declined in 2010. During the year, we have discarded milk in 27 cases, compared to 32 cases in 2009.

During 2010, as part of our efforts to minimise the quantity of milk discarded, we have increased monitoring at farm level. If milk from a farm tests positive for antibiotics, for the following 12 weeks each delivery from that farm will be tested. In addition to

being penalised for supplying milk containing antibiotics, the farmer must also pay the cost of the tests. In addition, we have made further improvements to our advisory service, especially in Denmark and also in Sweden. These measures have halved the number of tests from farms found to contain traces of antibiotic substances in Sweden, while the effect has been smaller in Denmark. We expect to continue to work actively to reduce the volume of discarded milk in 2011.

PRODUCT RECALLS

If we have to recall a product from consumers or withdraw a product that has been delivered to our customers, we have procedures in place to ensure that we can act immediately. During the year, there have been no incidences in which we have had to recall a product.

	2006	2007	2008	2009	2010
Recalls	4	7	2	4	0



FOOD AND HEALTH

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

*From: Our responsibility
– Arla Foods' Code of Conduct*

Arla is committed to meeting consumer demand for healthy products and reliable nutritional information.

We inform our consumers about the ingredients in all our products so they can choose those that best suit their tastes and fulfil their needs. Through research, we aim to increase our understanding of the role of dairy products in a balanced diet.

→ **IMPROVED NUTRITIONAL DECLARATION.** We are striving to extend the product choices available to consumers by improving the quality of the information we provide about the nutritional content of our products.

→ **RESEARCH INTO PROBIOTICS.** New research has shown that probiotics have a broad positive effect on health and we will invest further in this area.

→ **DEMAND FOR LACTOSE-FREE PRODUCTS.** We are now offering lactose free milk in Denmark and a large range of lactose-free products in Finland and Sweden. Sales of lactose-free products are also increasing in the UK.

Reliable nutritional declaration on our products

We have big ambitions for improving how we inform consumers about the nutritional content of our products. During the year, we have set up an internal project which is looking specifically at this area in order to make it easier for consumers to understand the nutritional content of our products. Our aim is to develop labelling that is simple and easy-to-understand, and can be used on all products in all our markets. We face many challenges with this project, for example, identifying space on packaging, accommodating different languages in different markets and meeting future EC labelling requirements.

Arla has decided not to use GDA (Guideline Daily Amount) labelling as we believe it is misleading. GDA labelling is based on several factors, including portion size and recommended nutritional daily intake for an average female. We believe this leads to too many uncertain and unspecific variables.

While we await a new EC standard in this area, we have, in Denmark and Sweden, chosen to use the keyhole label, which signals to consumers that a product is particularly healthy. The keyhole label was introduced in Denmark in 2009 but has existed in Sweden for more than two decades. We hope that this symbol will function as a model for a future EC standard.

Positive effects of probiotics

A number of Arla's products which are available on the Scandinavian markets contain probiotics, bacteria which has a positive effect on the intestine. Probiotics are a priority area and we are investing significantly in research and in clinical documentation regarding the effects of our products which contain these. New research indicates that probiotics may positively effect the immune system and facilitate weight control.

New EC health claims regulations

In the EC, new regulations for how to make health claims on food products has been introduced. In line with many other food producers, Arla has applied for claims on a number of links between nutrients and health. The process has been hampered by a lack of clarity in the regulations and evaluations of the applied claims have taken a long time to come through. Due to difficulties in interpreting the rules, several applications have been considered inadequate and only very few claims in the probiotic area have been approved. This led to the media questioning our scientific documentation. The regulations have now been clarified and we are more confident that future applications will meet the demands from the European Food Safety Authority.

LACTOSE-FREE PRODUCTS INCREASE

Arla is committed to making dairy products available to everyone, including those with lactose intolerance. Lactose-free milk was launched in Denmark in September. In Finland, Sweden and the UK, the demand for lactose-free products continues to grow. As an alternative to conventional products, there are now 92 different lactose-free products sold in Finland and 19 in Sweden. In addition, all Swedish and Finnish yellow cheeses are considered naturally lactose-free.

PRODUCTS AND CLIMATE IMPACT

A study published in 2010 compared the climate impact of a variety of drink products during their lifecycle according to their content of 21 important nutrients. A high rating calculated on the NDCI (Nutrient Density to Climate Impact) index indicates that a product has a high nutrient content relative to its impact on the climate. The study is the first of its kind and was carried out as a cooperative project between the Swedish Dairy Association and the University of Washington (USA) together with the universities in Lund and Uppsala (Sweden).

	NDCI index
Milk enriched with vitamin D	0.54
Milk	0.46
Orange juice	0.28
Soya-based drinks	0.25
Beer and soft drinks	0

RESEARCH INTO HEALTH LABELLING

The University of Aarhus, Denmark and the Max Planck Institute in Berlin, Germany, have set up a cooperative research project with support from Arla. The project aims to study how nutritional and health-related information can be communicated most effectively on product packaging. Arla's primary aim is to learn how we can best communicate with consumers about the topic of health so we can inspire consumers to choose healthy food products.

VITAMIN D RESEARCH

In many countries there is a public debate on vitamin D. The main issue is that many people get too little vitamin D compared to the level recommended by health authorities. The reasons are too little exposure to the sun, due to spending a lot of time indoors, clothing covering the whole body and extended use of sun protection, but consumption of oily fish, which is the main dietary source of vitamin D, is also too low. In Denmark a research project is underway to investigate the health implications of enriching milk and bread with vitamin D. Arla contributes both enriched and regular milk to the project. The project will be concluded in April 2011 and the results are expected to be available by autumn 2011. In Sweden and many other countries, low fat milk is already fortified with vitamin D.

KEYHOLE LABELLING

Number of keyhole labelled products

	2009	2010
Denmark	21	45
Sweden	72*	68

* In the 2009 CSR report, the figure stated was for the number of product types (45), and didn't include products in different pack sizes.

The number has increased in Denmark. During the year, we have changed the ingredients of some Swedish products, which means they no longer carry the keyhole label. It has proved difficult to reduce the salt content of some Danish cheeses, without losing their characteristic tastes and consistencies, which is why some do not need to conform to the keyhole's low salt level criteria in 2011.

SUPPORT FOR RESEARCH

Arla supports several research projects which are associated with our present and future business activities. Here is a summary of some of our current research:

- **Basic research into nutrition.** For example, we are concentrating on milk components that can help prevent obesity.
- **Product-related research.** For example, health products for children, products enriched with vitamin D and the healthy effects of probiotics.
- **Communication.** How health messages can be conveyed through brands and packaging.



ENVIRONMENT AND CLIMATE

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

*From: Our responsibility
– Arla Foods' Code of Conduct*

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

- **CONTINUED ENERGY SAVINGS.** Investing in new, more efficient technologies is not only positive for the environment, it also makes good business sense.
- **SETTING A NEW ENVIRONMENTAL STANDARD.** Arla's new one-billion litre dairy just outside London will be the most modern, largest and most eco-friendly fresh milk processing facility in the world.
- **TARGETS MET FOR WATER AND ENERGY SAVINGS.** During 2010 we have met and exceeded our target for a five per cent reduction in energy and water consumption, compared to our 2005 baseline. We are continuing to work to achieve our 2020 climate targets.

Investments bring new energy savings

Arla’s climate target is to reduce our direct and indirect emissions of greenhouse gases by 25 per cent in production, transport and packaging by 2020, compared to our 2005 levels. During 2010 emissions decreased by 0.9 per cent. The challenge now is to increase the rate of improvement to be able to reach the climate target, especially with increasing production.

We are continuing our efforts to reduce energy consumption at all our sites. The processes involved in producing milk powder require large amounts of energy which is why further investments have been made in energy-saving initiatives at our milk powder plants in Denmark and Sweden. For example, we have installed new fans and drying air heat recovery units which recover heat from the hot air leaving the spray dryer, this is generating efficiencies and reducing energy consumption. Total energy savings at the milk powder plants Hoco, Akafa, Visby, Arinco, Danmark Protein and Vimmerby amounted to 53,900 MWh per year, which corresponds to a reduction in greenhouse gas emissions of 10,600 tonnes CO₂-equivalents from these plants and an energy reduction of six per cent.

Improved transport efficiency

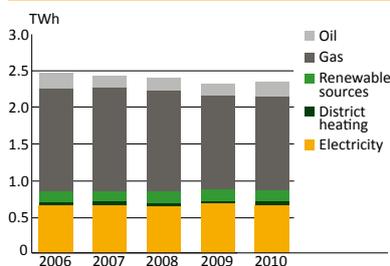
We are working in many different ways to optimise our transport operations and ensure that fuel consumption and emissions of greenhouse gases are kept to the lowest

level possible. In the UK Arla is one of 12 companies taking part in a cooperative project being run by the Freight Transport Association (FTA). Its aim is to reduce emissions during the transportation of goods. Arla in the UK has a total of 300 vehicles and the many initiatives that Arla has already introduced in order to improve efficiencies and reduce emissions from these vehicles was an important factor in the FTA’s decision to involve Arla, currently the only dairy company, in the project.

New packaging reduces carbon footprint

We endeavour to reduce the amount of packaging we use and increase the amount that can be recycled. In the UK the use of recycled plastic in packaging has increased to 15 per cent and a project to light-weight plastic bottles continues. In Denmark and Sweden, the quantity of plastic material used in plastic containers for catering products has been reduced by 10 per cent. The Swedish Yoggi® cup now has a cardboard outer case which has resulted in less plastic being used and its carbon footprint being reduced by 40 per cent. This successful combination of plastic and cardboard may be used more in the future. On the contrary, the new plastic screw cap, which has been introduced to our milk cartons in Sweden, has increased our carbon footprint. This is due to the screw cap itself and the extra transport costs that are being incurred because the new packaging takes up more space than its predecessor.

ENERGY CONSUMPTION



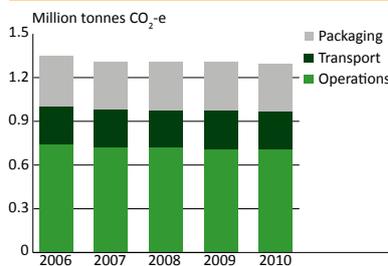
Total energy consumption has fallen by 7.8 per cent since 2005 but has slightly increased compared to the previous year. This is mainly due to increased production of whey proteins and other highly-processed products.

Energy-effective initiatives are not always visible in total energy consumption figures, because we are constantly developing new and more highly-processed products, the production of which often requires more energy. Examples include long-life milk products including UHT and extended shelf life milk and lactose-free products.

NEW DAIRY OUTSIDE LONDON

Work on the new Arla dairy at Aylesbury, northwest of London, has now begun. On announcing its new one-billion litre dairy, Arla stated its intention that it will be the world’s largest, most advanced and eco-friendly fresh milk processing facility.

CARBON FOOTPRINT



Arla’s total carbon footprint in 2010 was 1.28 million tonnes of CO₂-equivalents, compared with 1.40 million tonnes in 2005. The decrease in 2010 is due to improvements in transport and packaging. The calculation is based on the Greenhouse Gas Protocol International standard.

SUCCESS WITH LED LIGHTING

At our warehouse at Esbjerg dairy in Denmark, new LED lighting has been installed. This type of lighting uses less energy than the light bulbs previously used, plus it can be switched on and off as required. The initial results are very good and the dairy forecasts an annual energy saving of at least 95 per cent for warehouse lighting.

WATER PURIFICATION IMPROVEMENTS

For the past three years, Arla’s sites at Videbæk, Danmark Protein, Nr. Vium and Arinco, in Denmark have shared a new water purification plant which purifies water before it is released into a nearby river. Biological tests are already showing significantly improved water quality and enhanced ecology in the river. The purification plant is also benefitting Arla financially as it is more cost-effective to purify water in our own plant than to use the municipal system.

IMPROVED TRANSPORT EFFICIENCY

We are continuing to investigate and implement initiatives to decrease emissions from our transport operations. Examples include:

- Due to the reduction of water content in whey, we are now able to increase the amount transported per vehicle and therefore reduce the number of miles travelled.
- All distribution colleagues in Sweden and the UK and half of those in Denmark have been trained in eco-friendly driving.
- All distribution vehicles in Denmark are fitted with a speed limiter which allows a maximum speed limit of 80 km/hour and which saves fuel.
- Delivery routes in Denmark, Sweden and the UK are continuously revised so that the distances travelled can be reduced.

Focus on farms will help to reduce footprint

Arla is committed to driving down its carbon impact throughout its supply chain. In 2008, Arla set itself an ambitious target of reducing greenhouse gas emissions from production, transport and packaging by 25 per cent before 2020. However, as 80 to 90 per cent of emissions are generated at farm level, Arla recognises that it is on farm where the greatest potential for reducing the carbon footprint of milk exists, through increased efficiency.

As one of Europe's biggest purchasers of raw milk, Arla accepts the responsibility it must take for sustainable agriculture and, during the last few years, the business has significantly increased its focus on this area. But when it comes to supporting farmers to reduce the amount of carbon produced at farm level and addressing the issue of accurate calculation where did Arla begin?



Jan D. Johannesen, director for environment and climate.



Chris Hawkins, member of Arla Foods Milk Partnership's environment working group.

"It was not new news to us that the largest contribution to the carbon footprint of our milk supply chain comes from primary production," acknowledges Jan D. Johannesen, director for environment and climate.

"But what we didn't have was detailed knowledge about what, on farm, was the biggest source of emissions or what activities could be undertaken to enable farmers to reduce them. Most importantly, we also did not know by how much we can realistically decrease emissions."

The need for knowledge

Arla's starting point was a knowledge gaining mission in order that, armed with information and having developed its expertise, the company could best set about making positive gains in this complex area.

One of the first steps was the employment of a PhD student whose first project was the analysis of greenhouse gas emissions from contrasting milk production systems.

As well as focusing resource internally, Arla began working in partnership with the University of Aarhus' Faculty of Agricultural Sciences, the Danish Cattle Federation and Agrotech, a technology provider, to map emissions of greenhouse gases from the farm to the dairy. As a result of this work Arla has been able to actively contribute to an international project which has developed guidelines on how to calculate the carbon footprint of milk and dairy products.

"Based on the knowledge we have gained through our research activities, we have now embarked on an initiative to investigate the carbon footprint of farms and how we can calculate these," says Jan D. Johannesen.

“We recognise that to be able to reduce emissions, we need to be able to calculate them in order to evaluate whether improvements have been made. It always comes back to the old saying: We can’t manage what we can’t follow up.”

The initiative consists of two parts, first is the establishment of a baseline for 2005 for Arla’s total carbon footprint because, until now, Arla has only been able to provide an approximation.

The next step is to develop a model which farmers can use to calculate the carbon footprint of their own operations as well as identify ways to reduce it.

“Many different models exist today,” explains Jan D. Johannesen, “and different countries have different requirements. However, it is important that within the Arla group, we adopt a consistent method of calculation. Without this, we cannot aggregate totals for the company in a credible way.”

Jan D. Johannesen adds that an important consideration in the model’s development is the recognition of guidelines that exist in different countries, such as in the UK where organisations like The Carbon Trust require that such models adhere to certain standards.

“For this reason we have adopted a flexible approach in order that the model can be adapted to the different conditions within each of our markets.”

Sharing best practice

In parallel to this work in Denmark, Arla is the first dairy processor in the UK to include not only its own operations but also those of its supplying members of Arla Foods Milk Partnership (AFMP) in its new environmental strategy,

which it launched in December 2010.

To support members of AFMP to take action on their farms to reduce greenhouse gas emissions, Arla is investing in a long-term environmental programme. Working with leaders in this field, Arla will offer all 1,400 members the opportunity to have a voluntary carbon and energy assessment leading to a personalised farm report which identifies its strengths and weaknesses.

Members are also invited to attend practical on farm workshops and over 250 are planned to be held over three

years. The main focus of the workshops are animal health and welfare with topics including improving fertility and reducing lameness and mastitis. This is in recognition of the fact that addressing these areas

can lead to increased efficiency and improvements in herd management, with consequent benefits to environmental performance and to profitability.

The programme has been developed in collaboration with AFMP’s environment working group and an external farming consultancy and Arla UK believes that it has the potential to reduce carbon emissions at farm level by up to 20 per cent over time.

“The focus will be on what we, as farmers, are doing everyday and trying to fine tune it,” explains Chris Hawkins, who is a member of the Partnership’s environment working group.

“The meetings will look at a wide range of issues, all with a view to helping members improve on what they have already been doing. They will be of relevance to all members and provide the knowledge that will lead to a reduction in carbon output from AFMP farms and for efficiency gains to be made.”

“To be able to reduce emissions, we need to be able to calculate them.”

REDUCING ON FARM EMISSIONS

As well as increasing animal health and welfare, the research also has identified the following ways which can help reduce on-farm emissions:

Feed

- increase feed efficiency by optimising the energy and protein content in feed
- ensure a diverse crop rotation with grass/ clover
- use more locally produced feed
- store more carbon in the soil – by means of perennial crops and permanent pasture.

Energy use

- reduce energy use, eg. electricity and diesel
- increase the use of sustainable energy, eg. wind energy and biofuel to replace fossil energy sources

- utilise residue products such as straw and energy crops, such as willow, as an energy source.

Fertiliser

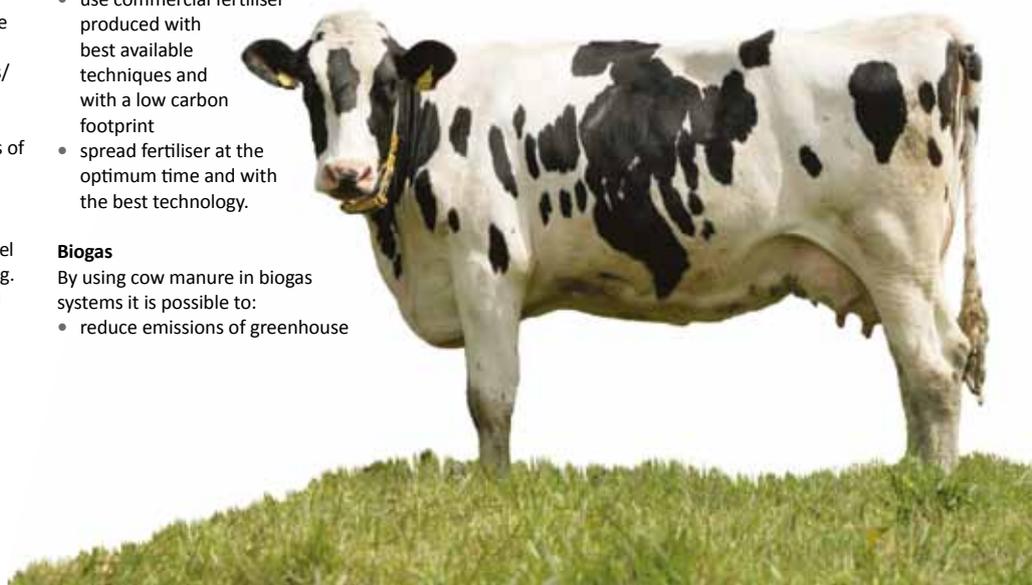
- optimise consumption relative to need
- use commercial fertiliser produced with best available techniques and with a low carbon footprint
- spread fertiliser at the optimum time and with the best technology.

Biogas

- By using cow manure in biogas systems it is possible to:
- reduce emissions of greenhouse

gases associated with the storage of cow manure

- improve the quality of fertiliser (easily convertible nitrogen in degassed manure)
- replace fossil energy sources.





AGRICULTURE

We support sustainable agriculture.

*From: Our responsibility
– Arla Foods' Code of Conduct*

We want to ensure that farms supplying milk to Arla operate in a way that shows respect for milk quality, animal welfare and the environment. Our milk suppliers must therefore adhere to our high standards when it comes to milk production, animal health and feed quality. In Denmark, Sweden, the UK and Finland, milk producers are inspected to ensure that they follow the applicable quality programmes. We also ensure compliance with national regulations for milk quality in the other countries where we purchase milk.

→ **MILK QUALITY IS ESSENTIAL.** Our quality programmes which govern milk supply are of the highest standard and are underpinned by a number of long-term activities.

→ **FOCUS ON FARMING'S CARBON FOOTPRINT.** Arla is taking part in a number of collaborative projects that aim to reduce the carbon footprint of farms.

→ **POPULAR FARM VISITS.** Arla provides many different kinds of activities to increase public awareness of life on the farm, for example, school visits and online farmer blogs.

Arlagården guarantees high quality milk

The Arlagården quality programme includes requirements for both raw milk and milk production in Denmark and Sweden. There is a corresponding programme in the UK, called Red Tractor Farm Assurance which applies to all farmers who supply milk to Arla. There are similar quality programmes in Finland and the Netherlands. Today, being able to show that we meet high quality requirements is a prerequisite for supplying dairy products to major retail customers. Our customers also visit farms to see for themselves how our quality programmes work in practice.

Arla has long-term targets for milk quality and the better the quality of milk farmers supply, the better price they receive. Beyond this incentive, we also improve milk quality by providing a training package for farm consultants, investing in research via third party organisations and by means of dialogue with suppliers of milking and milk storage equipment. During 2010 we specifically prioritised work on preventing residual antibiotics and heat-resistant (thermoduric) bacteria in milk. Read more about antibiotics on page 13.

In many of our core markets, we operate a system that rewards farms that have supplied high quality milk for a long time. For example, in Finland farmers who have supplied high quality milk for 25 years receive a medal from the Agricultural Minister. In Sweden, during 2010,

33 Arla members received a gold medal from the King of Sweden for 23 years' consistent supply of high quality milk.

Arla supports responsible soya cultivation

Arla became a member of RTRS (Round Table of Responsible Soy) in 2010. The RTRS focuses on responsible soya production, including compliance with legal requirements, conserving the environment and social responsibility. It is our aim that all soya used in feed for cows that produce milk for Arla, is farmed in accordance with the RTRS criteria by 2020.

Increased supply of organic milk

An important element of the Arla strategy concerns the production of organic products, and during recent years, we have worked hard to recruit more Danish and Swedish organic milk suppliers. There is now sufficient organic milk to satisfy the demand for organic products in both the Danish and Swedish markets. Arla also exports organic milk to other countries.

Farm visits encourage awareness

Many Arla farmers help raise awareness of farming and the work of the farmer. Read more in the section on Community Relations on page 31.

THE FARM AS AN ENERGY PRODUCER

Milk production on farms impacts on the environment, not least in the form of greenhouse gas emissions. Some of these impacts can be reduced and Arla is working with universities, colleges and external organisations to increase its knowledge of how to reduce the carbon footprints of farms. In the UK, significant progress has already been made towards delivering a climate strategy at farm level to reduce the emission of greenhouse gases per litre of milk. Read more about this on the previous page.

In Denmark and Sweden, several biogas producers use farm manure and other by-products, including some from Arla's dairies, to produce climate neutral biogas. In Denmark, we are currently investigating the feasibility of supplying the Danmark Protein plant at Nr. Vium with biogas. In order to maintain a 24-hour supply of biogas to the dairy, manure and sweetcorn will be required from about 400 farms as well as dairy by-products.

There are currently very few biogas plants installed on farms. In Denmark and Sweden it is, in some cases, possible to get investment grants but it continues to be difficult to make such plants profitable. In the UK, farmers regard the complexity of obtaining official permission as the greatest hindrance to the building of biogas plants.

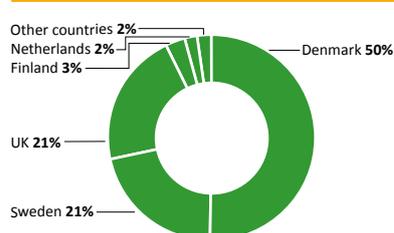
QUALITY PROGRAMMES

The UK Red Tractor Farm Assurance scheme is a third-party certified quality programme. However, where Arlagården is concerned, we have chosen to perform inspections and follow-up work ourselves. We continue to work to ensure the quality of our inspection work and that the programme meets international standards. We have received a conformity statement from the independent Bureau Veritas Certification organisation, which also serves as a certificate in our dialogue with customers. During 2010 increased effort has been made to further improve inspections and ensure we are prepared for handling unforeseen events.

Arlagården is now subject to continual revision. During 2010, we have added, for example, a new recommendation that farmers use detergents that are free from chlorine, phosphorus and nitrates.

The most common divergences from Arlagården and the British quality programme are requirements for documentation, hygiene and building maintenance, and for the use and storage of medicines.

ARLA'S MILK INTAKE



Approximately 9,600 farms supply milk to Arla in Denmark, Sweden, the UK and Finland, which accounts for about 95 per cent of the group's total volume. In these and other markets we also buy milk from local suppliers who meet our quality standards. The total amount of milk received increased by less than one per cent during the year.

AVERAGE NUMBER OF COWS PER FARM

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

	2008	2009	2010
Denmark	126	141	151
Sweden	55	58	62
UK	112	114	115
Finland	22	24	26

Source: National industry organisations.



PROCUREMENT

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

*From: Our responsibility
– Arla Foods' Code of Conduct*

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

→ **GLOBAL PROCUREMENT PRACTICES.** A lot of work has been put into improving our global systems for purchasing concerning supplier responsibility, but we have not come as far as planned. This is mainly due to our desire to take a broader social perspective.

→ **FEWER AUDITS.** Due to the prioritisation of the development of a new supplier evaluation system, we have conducted fewer audits in 2010 than the previous year.

→ **CERTIFIED INGREDIENTS.** Cocoa, tuna and palm oil are examples of ingredients that we are focusing on in terms of sustainable production. We have a system which we use to assess the risk of these product categories, and where possible we select certified ingredients.

Better data quality about suppliers

During the year, we have changed our definitions and procedures for the maintenance of our supplier data, improving the quality of information we have available. Our definition of a supplier includes, since 2009, those suppliers from whom we make annual purchases of DKK 100,000 or more. Based on this definition we work with around 2,500 approved suppliers throughout the world, compared to 4,200 in 2009. Our Global Procurement department has entered agreements which cover 58 per cent of our total spend in 2010, compared to 59 per cent in 2009.

New procurement process under way

Since 2009, we have strived to improve and create a common procurement procedure for the organisation. This work has taken longer than expected and we are still working on improving tools and processes. An example of what we want to include going forward is a broader scope for the assessment of risk with particular focus on product quality and social and ethical accountability.

The new evaluation system that we began to develop last year has progressed within the areas of specifications for ingredients and supplier evaluation. However, the

project has been delayed due to limitations in resources and a need for a cross-organisational and global approach. A lot of tasks have been accomplished, and the next step is to test and implement the different tools and procedures for supplier evaluation.

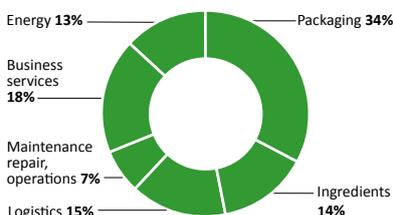
Supplier audits in 2010

We carry out a number of detailed audits every year, during which we visit suppliers and carry out a thorough inspection. In 2010 we conducted 40 audits globally, which is less than in 2009 when we conducted 69. The formal supplier evaluations in Global Procurement have been put on hold in order to prioritise the development of the new supplier evaluation system. However, supplier audits have been performed based on a risk assessment.

Target for signing the code of conduct for suppliers

Our target is for 100 per cent of our approved suppliers to have signed our code of conduct for suppliers. Progress towards this target is reviewed both at category and Global Procurement level. Of all the suppliers handled globally, a total of 65 per cent have signed the code. Our logistics function has the best compliance with 80 per cent and energy the lowest with 27 per cent.

GLOBAL CONTRACTS



The diagram shows the external spend handled by Arla's Global Procurement department distributed across different product and service categories. Compared to 2009, there were major changes in the share for Packaging, Business services and Energy. The reason for this is mainly due to more categories being handled by Global Procurement and volatile supply market prices.

Our 10 largest suppliers account for 20 per cent (compared to 21 per cent in 2009) of our total external spend. In 2010, the following companies were our five largest suppliers in order of size: Tetra Pak (packaging materials and processing and packaging machinery), IBM (IT services), Elopak (packaging materials and machinery), Carat (media) and Logoplaste (packaging materials).

UTZ CERTIFIED COCOA

Following last year's audit, we planned a follow up visit to our cocoa supplier in the Ivory Coast in December 2010. The purpose of the visit was primarily to establish contacts with NGOs and to learn more about the UTZ certification. UTZ is an organisation which provides certification for cocoa production according to criteria including production, environment and social standards. Due to political unrest in the Ivory Coast the visit has been postponed to 2011.

From July 2010, about 97 per cent of Cocio branded products were made from UTZ certified cocoa and during 2011 we will increase the share to 100 per cent. The cocoa used in these products represents approximately 25 per cent of the group's total purchase of cocoa. In 2011, more of Arla's cocoa products will be produced with certified cocoa.

ARLA'S DECISION ON CERTIFIED TUNA

Arla has decided to only purchase tuna from suppliers that are approved by the Earth Island Institute. Tuna is used in a cream cheese product for the German market. The use of only dolphin-friendly tuna is now clearly stated in the ingredients specification.

PALM OIL – PROGRESS AND FOLLOW UP

The use of palm oil has been strongly criticised because it can contribute to the destruction of the rainforests and endangered habitats. Arla only purchases palm oil from companies that are members of the Roundtable on Sustainable Palm Oil (RSPO) which has produced guidelines for the certification of sustainable palm oil.

Arla is working towards the target that all products in our European core markets will only contain certified palm oil by the end of 2012 at the latest, and that the target date for all other markets is the end of 2015. During 2011 Arla intends to buy palm oil with GreenPalm certificate corresponding to more than 90 per cent of the entire use within the company.

During the year a Danish newspaper article questioned the work environment for palm oil plantation workers at one of our supplier's sub-suppliers. Arla contacted the supplier immediately and demanded an independent audit. The audit report concluded that, at the time of the audit, the workers had sufficient protective clothing and safety education, and that there were clear safety procedures at the plantation. Arla found this satisfactory and will not take the matter further.



WORKPLACE

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

*From: Our responsibility
– Arla Foods' Code of Conduct*

Arla has 16,200 colleagues in 30 countries throughout the world. We strive to continually improve our work environment and organisation. We also work to strengthen our corporate culture, Our Character, which describes what Arla is and what we stand for in our efforts to achieve common targets, uniting us across differences in historical and cultural backgrounds. If all colleagues enjoy good working conditions and are committed to their work, together we can do the best job possible.

- **LEAN SHOWS RESULTS.** Continuous improvement work using Lean methodology has resulted not only in more job satisfaction but also in major efficiency gains without the need for investment.
- **NEW WORK ENVIRONMENT STRATEGY.** As part of the new strategy, Arla is taking a holistic approach to colleagues' well-being, health and safety.
- **POSITIVE DEVELOPMENT.** This year's colleague survey shows a continued positive development in overall colleague satisfaction.

Lean improves efficiency and job satisfaction

Since 2009 Arla has used Lean as a method by which to develop the business and make long-term decisions. Lean is mainly about change management and the purpose is to facilitate continual improvements through the active involvement of colleagues. The Lean method includes studying production processes in stages so that it is easier to see where and how improvements to efficiency, production capacity and utilisation of raw materials can be achieved.

During the past year Lean has been introduced to colleagues at several large Danish dairies and in the UK. Results in the form of increased productivity, better job satisfaction and fewer work accidents were soon evident. Our positive experiences mean that we are increasing our investment in Lean. During 2011, we will employ more Lean coordinators and will begin to introduce this way of working at more of our dairies.

Leadership training for middle managers

Some years ago, Arla introduced management training for top-level managers in the group. Training is now being offered to middle and first line managers in Denmark, Sweden and the UK. The purpose of the new leadership development programme is to help managers make the connection between the group’s ambitious strategy for growth and their responsibilities. In Denmark and Sweden 80 managers have completed and an additional 170 have begun ALP (Arla Leadership Programme) training, which is one third of the target group. Participants’ evaluation scores for the course are excellent, 4.7 on a five-point

scale. We anticipate that about 200 managers a year will undergo ALP in the next few years. Almost 50 managers, one fifth of the target group, in the UK have taken part in a similar programme and the results have been equally positive. A further 40 managers are taking part in the UK programme during 2010 and 2011.

New colleague survey

A new version of Arla’s global colleague survey, Barometer, was carried out in November and completed by 12,650 colleagues in 26 countries in 16 languages. The annual survey measures colleague engagement and their views on the company’s objectives, vision and leadership. In 2009, no survey was conducted due to cost reductions. The results for 2010 show a continued positive development in overall colleague satisfaction and that they have a good understanding of what the company aims to achieve.

The score for colleagues’ overall commitment to Arla was 77 out of 100, which is a high score and, according to the provider of the survey, 10 per cent above the average scored by similar global companies. Colleagues’ commitment is also reflected in the high response rate which was 86 per cent. Compared to the results of the 2008 survey there is a clear improvement in the sharing of knowledge between the different functions within the company and Arla’s ability to prevent errors. Furthermore, colleagues rate Arla as a good place to work with 75 per cent saying that they would recommend Arla to friends and acquaintances. Prevention of stress and bullying are two areas that Arla will continue to work to improve.

NEW WORK ENVIRONMENT STRATEGY

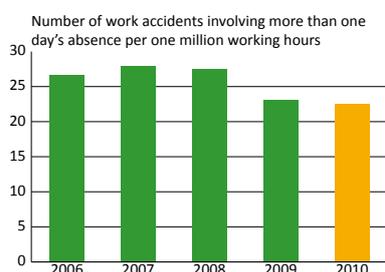
During 2010, a new and ambitious work environment strategy for Arla was launched. Briefly, the purpose of the ‘Our Future Workplace’ strategy is for colleagues to always feel committed and thrive when they are at work. The workplace must be a healthy and safe place, where bullying and work related accidents never happen. Our focus is holistic – we are looking at well-being and health and safety issues together, rather than just looking at the risks of accidents, on which we concentrated on in the past. In October we carried out a survey among six per cent of Arla colleagues in Denmark, Sweden and the UK, in order to get a ‘snapshot’ of the current situation.

WORKPLACE AWARD

Projects are underway at several individual dairies with a view to improving the work environment in many ways, all associated with safety, well-being and health. This year our Birkum dairy received an award as Denmark’s best workplace in the internal cooperation category. Arla’s Yellow Cheese business unit won the Danish workplace environment prize and Rødkærsbro dairy, in Denmark, was nominated for a social responsibility prize, for

its efforts to offer work experience placements to young people and to the long-term unemployed. The main safety representative at Linköping dairy, Sweden, won the Swedish Grand Safety Delegates Award 2010.

WORKPLACE ACCIDENTS



Awareness and preventative work at Arla has resulted in a further reduction in the frequency of workplace accidents, especially at Holstebro Smør, Arinco and Esbjerg dairies in Denmark. Due to high safety principles in China no work accidents were reported during the year. We will continue to make targeted efforts to improve workplace safety. Senior managers actively support this work and the work environment is now a dedicated agenda item at many workplace meetings.

DAIRY KNOWLEDGE FOR FUTURE

Arla needs well-qualified colleagues which is why we offer many different kinds of training courses. Specialist dairy training continues to be our focus and in the UK a new dairy training centre has been built to support the industry’s new dairy training programme called EDEN. We also offer training in basic skills, such as reading, writing and arithmetic and web-based training in English.

FUTURE MANAGERS IN ARLA

In 2008, Arla launched the Future Fifteen Graduate Programme® (F15). The purpose of the two-year F15 programme is to strengthen Arla’s long-term leadership potential by developing competent and diverse future leaders with a holistic mindset, cross-functional business understanding and high performance. The first participants have now completed the programme and during autumn 2010 the third intake of 11 participants from seven different countries began their training. A total of 29 graduates have now either completed or are participating in the F15 programme.

Improved safety benefits everyone

For several years, managers and colleagues in Arla's Yellow Cheese business unit have focused on reducing the number of accidents in their workplace. Thanks to the initiatives they have implemented, they have succeeded in reducing the accident rate by more than 40 per cent, delivered improved financial results and increased product quality.

Six Danish dairies and four in Sweden make up the Yellow Cheese business unit. At these dairies the average accident rate, calculated as the number of accidents per million working hours, has decreased from 34 in 2008 to 19 in 2010, representing a reduction of 44 per cent. Colleagues welcome the greater emphasis that is being put on safety in the workplace.

"In the packaging department we are very pleased that colleague safety is taken so seriously. It is good to know that Arla is concerned about our health. It also means a lot to us that we have a say in the improvements we would like to see being put in place," says Jette Sørensen, work environment representative in the packaging department at Taulov dairy.

At review meetings, during which the team gathers together to discuss problems and improvements, safety at the workplace is now one of the top agenda items. Near misses – situations where an accident could have taken place, but didn't – are recorded and discussed. In addition,

all managers and colleagues have attended a course on Behaviour Based Safety (BBS). The focus on BBS has resulted in significant changes, including at Taulov dairy's packaging department.

"If you think a manager, or colleague, hasn't thoroughly considered the safety aspects of an activity or procedure and you identify an opportunity to reduce any safety risks, managers welcome and respect your feedback, because we have created an environment where speaking out about potential safety risks is actively encouraged," Jette Sørensen says.

Accidents are often related to behaviour

Behaviour Based Safety focuses on how taking greater care and changing inappropriate behaviour can prevent many workplace accidents. This is one of the reasons why it is delivering results.

"Many accidents happen as a result of behaviour," says Lotte Bay Rasmussen, quality and environmental manager



Jette Sørensen, work environment representative at Taulov dairy.

Lotte Bay Rasmussen, quality and environmental manager at Taulov dairy.

Göran Bengtsson, director of Kalmar dairy.

at Taulov dairy. “Using the BBS model, we can highlight to colleagues how important it is that they think about what they are doing before they act. For example, if something is about to fall on the floor, many will react by running over to grab it. However, the safer reaction is to let it fall and in doing so avoid the risk of twisting an ankle or being injured in some other way.

“Cost has always been a key focus at the dairies but managers now prioritise colleague welfare too.

This is a major change in attitude for both managers and colleagues. As this new mindset is increasingly embedded, we are seeing that it isn’t impacting on costs,” says Lotte Bay Rasmussen.

Many benefits

The philosophy behind Arla’s strong focus on workplace accidents is that colleagues must enjoy a good quality of life, both in work and in their personal lives.

“We do not want colleagues to be healthy when they come to work, only to go home injured,” says Göran Bengtsson, director of the Kalmar dairy. “They must be in just as good health when they clock off as when they enter the workplace, no matter whether they are going home after their first week at work, or retiring after a long working life. Our colleagues must be able to enjoy their personal lives and not be worn down by working at Arla,” he says.

As a result of BBS being embedded and becoming part of everyday life within the Yellow Cheese business unit, the function was awarded the 2010 Working Environment Prize in Denmark in December. This recognition was extremely positive for all the Yellow Cheese dairies concerned, and especially for Kalmar dairy, which together with Taulov dairy, pioneered BBS. Both dairies have reaped many

benefits from the new focus on BBS. Some of them were expected, while others came as a surprise.

“Firstly, the number of accidents fell dramatically, and absence due to illness also decreased. This was as we expected, but we are rather surprised that our financial results improved and the quality of our products also increased. We believe this is partly because our skilled and competent permanent colleagues now spend less time off work sick and more time at the dairy,” says Göran Bengtsson.

“Many accidents happen as a result of behaviour.”

Convincing sceptics

The successful introduction of BBS requires a change in workplace culture. Colleagues must be willing to make an active contribution to improving safety and the working environment. Even though BBS focuses on colleague health and safety, not everyone is enthusiastic about this new way of working when it is introduced.

“There are probably still a few sceptics in the departments where BBS is still a relatively new concept. They may wonder whether it is worth the effort, but we work hard to convince them that this initiative makes good sense,” says Lotte Bay Rasmussen.

Over time, however, even the strongest critics usually become BBS enthusiasts, as was the experience of the packaging department at Taulov dairy. Here not all packaging colleagues were enthusiastic about the new idea when it was first presented.

“At the beginning, there was a lot of scepticism. A lot of people thought ‘why do we have to accept this new idea?’ Many also considered it a waste of money, as they did not think it was here for the long term. But it was, and now they are really embracing it,” Jette Sørensen concludes.

BEHAVIOUR BASED SAFETY (BBS)

- The basic principle of Behaviour Based Safety is that most accidents are a result of unsafe behaviour, not due to technical faults and non-conformities.
- BBS focuses on what people do, why they do it, and how behaviour can be changed.
- By observing and communicating both safe and unsafe behaviour the workplace safety culture is improved, and the number of workplace accidents is reduced.

BBS AT ARLA

The Yellow Cheese business unit has set up clear, documented ways of working for both managers and their teams to adhere to, as far as possible:

Managers

- have clear goals
- communicate clearly
- take a consistent approach to safety infringements
- set a good example
- engage in dialogue
- observe
- communicate actions and results.

Colleagues

- take responsibility
- work in a safe and responsible way
- draw attention to safety risks
- take and record corrective action
- engage in BBS dialogue on safe and unsafe behaviour.

Managers and their teams

- join forces to find solutions
- eliminate unsafe behaviour and other safety risks.





MARKET CONDUCT

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

*From: Our responsibility
– Arla Foods' Code of Conduct*

It is essential that consumers trust us if we are to sell our products. By acting responsibly, communicating openly and maintaining an ongoing dialogue with customers and consumers, we create the right conditions for trust. At the same time we must constantly adapt to the increasingly competitive, fast-moving and international market. In the markets in which we are a major player, we have the added responsibility of not abusing our position.

→ **SATISFIED CONSUMERS.** This year's consumer survey shows that consumers in Denmark are now more positive about Arla than in recent years. In Sweden and Finland we achieve generally higher scores than in Denmark but in those two countries consumers' perception of Arla has fallen compared to 2009.

→ **PROGRESSIVE PRODUCT DEVELOPMENT.** Our new application centre for whey proteins in Denmark is already delivering results, creating the opportunity for closer cooperation with customers and enabling a clearer framework for developing innovative products.

→ **CONSUMER CONTACT SHOWS RESULTS.** The information shared with us by consumers via Arla Forum and the dialogue on blogs is leading to new initiatives, including improved packaging and new products.

Closer to Nature™ step by step

During the year we have continued to work on communicating our Closer to Nature™ commitment to both customers and consumers. We are continuing to ensure that our products are as natural as possible and that work on the farm and throughout our operations is undertaken with respect for nature, see pages 16 and 20.

Consumer surveys and dialogue with consumers indicate that there is generally a lot of interest in products which have as few additives as possible. During the year, the recipes for several products in Denmark and Sweden have been revised and additives eliminated or replaced with more natural alternatives. In Sweden, for example, we have launched a new range of fruit yogurts – Arla Yoggi® Fri – which is completely free of additives and flavourings and, during 2011, we will be producing preservative-free cheeses in Denmark at selected sites.

At the end of 2010, two Danish organisations complained to the local region of the Danish Food Authorities about the Closer to Nature™ television advertisements, stating that they mislead consumers. We are addressing the allegation with the utmost seriousness and are cooperating with the Food Authorities on the case.

Changes in the dairy industry

Arla is a major player on several markets and we are committed to acting in accordance with prevailing competition laws. Read more about this on page 6.

Competition on the dairy market continues to be tough and changes internationally are affecting all players in the industry. During the year, we have attempted to focus discussions on conditions for the future of the global dairy industry with politicians, opinion leaders, industry organisations and the general public. In Sweden we have taken steps to contribute to the public debate through a public White Paper and open seminars.

Cooperation with customers on product development

At the end of 2009, we opened a whey protein application centre in Denmark. Here customers are welcome to join us in developing and testing new products, for example, functional milk proteins and baking ingredients. The premise of working with a clear programme for solving problems and developing products jointly with our customers works very well. Arla has also received an award as best customer service supplier, which is presented by an international research institute and recognises businesses that create added value.

In the UK, we work collaboratively with retailers to help deliver profitable and sustained growth of products. As a recent new entrant into the UK cottage cheese market, our customers challenged us to develop a range which would re-invent the category in order to meet ever changing consumer needs. We have worked closely with customers utilising our category management expertise, and launched several new flavours in August 2010.

DIALOGUE WITH CONSUMERS

Arla Forum, our consumer contact service, answers questions from consumers by phone, email and letter. Consumer opinions and suggestions are gathered each month and passed on to the relevant departments within the group. This information provides useful knowledge that quickly can lead to improvements to packaging, clearer product declarations and new products, for example.

In the UK the number of enquiries received about product content, animal welfare and the carbon footprint of products particularly increased in 2010. In Denmark, more consumers requested information about the origins of exotic ingredients, such as fruit, palm oil and cocoa. In Sweden we received many enquiries about recycling the new screw cap milk packaging. In one of Arla Forum's Danish blog discussions, many consumers contributed valuable opinions in connection with the launch of lactose-free milk.

No of enquiries	2008	2009	2010
Denmark	23,000	22,000	20,000
Sweden	30,000	26,000	28,000
Sweden (web)	50,000	46,000	40,000
UK	16,000	26,000	24,000
Finland	14,000	13,000	16,000
China	–	5,000	31,000
Vietnam	1,000	1,000	1,000
USA	250	250	1,400

ARLA AND NEW MEDIA CHANNELS

Arla keeps abreast of the latest developments in the media and we are experimenting with new channels of communication, such as Facebook, Twitter and YouTube. As with the more traditional channels, Arla aims to be attentive and committed to communicating with consumers on their terms, and to taking part in dialogue about the company and our products. In Denmark, during the autumn, we opened a chat service, where consumers can enter into dialogue with an Arla colleague via Arla Forum, and in December 2010 we opened a similar service in Sweden via Facebook. Our aim is to provide a fast and personal response to consumers' questions.

CUSTOMERS' PERCEPTION OF ARLA

Within our core markets, Arla and our subsidiary Rynkeby Foods utilise annual surveys to investigate how our customers rate us as a supplier. In Finland, we have received higher scores than in the previous year and this is also the case in the UK where we have regained our position as the best dairy supplier, after coming in second place in 2009. In Sweden, the survey was carried out at retail chain level and Arla came out as the best supplier in the survey. Among Danish retailers in chilled and frozen products, Arla dropped to fourth place this year from third place in 2009, while Rynkeby Foods, as in 2009, was rated first.

CONSUMERS' PERCEPTION OF ARLA

In Denmark, Sweden and Finland we measure consumer perceptions of Arla annually. In general, our products are our strongest point, while consumers' perception of our conduct on the market lowers our overall score. In Denmark our reputation continues to improve. Meanwhile, in Sweden and Finland, consumer perceptions aren't as favourable as last year, although they are still relatively high.

	2008	2009	2010
Denmark	57.6	58.6	61.0
Sweden	75.5	74.3	71.3
Finland	73.0	71.7	69.5

The table shows the total score from 0 to 100, which consumers gave Arla compared with many other companies, in a survey carried out by the Reputation Institute.

ARLA BRAND IS LAUNCHED IN THE UK

In accordance with Arla's brand strategy, the Arla logo now appears on products such as Arla Apetina® and Lactofree® in the UK and in Cravendale® milk advertisements. This and future activities are intended to increase consumer awareness of Arla in the UK.



COMMUNITY RELATIONS

We maintain good, respectful and constructive community relations.

*From: Our responsibility
– Arla Foods' Code of Conduct*

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

→ **LOCAL COMMITMENT.** At the majority of places in which we operate, we, along with our colleagues, contribute to local social initiatives.

→ **ARLA OFFERS KNOWLEDGE.** Arla is committed to organising a large number of activities, including farm visits, to increase knowledge about life on a farm.

→ **ARLA SUPPORTS CHARITIES.** We support charitable organisations by, for example, supplying high-quality dairy products which have too short a shelf-life to be sold in stores.

Social commitment at a local level

Arla makes its primary contribution to social development through the creation of jobs and economic growth in places where we have business operations. In addition, we encourage our local business groups to contribute to their local communities in a way that best suits their operation and that also allows them to gain the commitment and support of colleagues. One example is in Poland where our dairy is located in a poor region of the country. Here, we contribute money and materials to support activities for young and old people. Another example is in the UK, where Arla colleagues are actively involved in a number of charitable projects, including providing schools with equipment and taking part in litter collection events.

Arla's long-term charity project, Children for Life, is now running in the Dominican Republic, Vietnam and Bangladesh. Read more on the following pages.

Knowledge about nature

We are working in different ways to increase knowledge of natural ingredients and the links between people, animals and nature. During 2010, we increased our focus on nature. In Denmark, for example, we invited children

and adults to join in nature festivals and visit our farmers. Activities of this kind attracted more than 170,000 visitors. Another public event in Denmark and Sweden involves watching the cows being turned out to pasture in the spring. We had a record number of visitors in 2010.

Also in Sweden and Denmark, we offer an extensive programme for school children to visit farms to learn about cows and the everyday lives of farmers. In Denmark we have developed and improved educational materials and made it easier for visitors to book farm visits. More than 8,000 Danish school children took up the opportunity to visit a working dairy and several UK dairies also hosted school visits.

In Sweden, and occasionally in Denmark, we use the back of milk cartons as a channel for sharing knowledge and information. The Swedish milk cartons often describe how farmers work, the farm operation and information about the environment, and consumers can find both amusing and useful pieces of information. In Denmark, during the last year, we have used the pack to inform consumers of the new keyhole labelling of food products (see page 15) and, in cooperation with an outdoor activities association, information about safe swimming.

POPULAR FARM VISITS

No. of visitors	2008	2009	2010
Cows out to pasture, Denmark	24,000	35,000	40,000
Cows out to pasture, Sweden	45,000	68,000	80,000
School visits, Denmark	11,000	7,500	20,000
School visits, Sweden	44,000	45,000	42,000

FOOD PRODUCTS FOR CHARITY

Sometimes we have high quality dairy products where the shelf-life is too short for them to be sold in stores. For the past 20 years, in Finland, we have had a well-organised system by which we donate products to charitable organisations. In agreement with these organisations, we demand that these products are kept refrigerated during transportation. In Germany, we have a similar cooperation with the Tafel organisation which distributes food to the needy. Several times a year, we deliver food, mostly cheese, through Tafel to people in Düsseldorf and the surrounding area.

COOKERY CHAMPIONSHIPS

Knowledge of cookery, nutrition and ingredients is a prerequisite for healthy living. To spread knowledge of cookery, in Sweden we run the Swedish Chef of the Year Cookery Championships. In 2010 the competition was held for the 27th consecutive year. As well as supporting Arla's new product developments, marketing activities and public events, the competition winners are role models in the industry and also take part in international cookery competitions.

CHARITABLE WORK AROUND THE GLOBE

We contribute to charitable work in many countries. Below are some examples:

- **Denmark.** The Team Rynkeby cycling event contributes to the Danish Children's Cancer Foundation.
- **Sweden.** We contribute financially to Sachska Children's Hospital in Stockholm.
- **UK.** We participate in a breast cancer campaign in conjunction with one of our retailers. We also support Caravan, a charity providing aid to people who work or have worked in the grocery industry.
- **Saudi Arabia.** In cooperation with the SANAD charity, we help provide support to parents with children suffering from cancer and have helped provide emergency aid after flooding.
- **USA.** Through a charity project, we contribute to a children's hospital in Seattle.

INSPIRATIONAL FOOD COMPETITION

In order to encourage and stimulate the availability of more inspiring food at schools, old people's homes and in the retail trade, Arla in Sweden organised the Arla Golden Cow competition for the eleventh time.

The competition is nicknamed 'The Food Industry's Oscars' with winners in five categories: Best Environmental Work, The School Showing Most Interest in Food, Best Senior Catering Company, Best Convenience Store and Most Inspirational Food Store. Interest in the competition increases every year, among competitors and in the media.

COLLEAGUES' CHARITY INITIATIVES

In the UK we have been running a project called Community Challenge since 1998, which has made a significant contribution to the local communities in which we have operations. Colleagues who raise funds for charitable causes can request match funding from the company and colleagues can also apply for financial support for causes at which they volunteer for at least 10 hours a month. During 2010 we donated approximately GBP 12,300 (2009: 17,800) to 32 different projects (2009: 44).

WE ENCOURAGE SPORT AND HEALTH

Examples of sports activities to which Arla has contributed during the last year:

- **Polish Run.** Arla is the primary sponsor of a running and training event at Kolobrzeg.
- **Football schools in Denmark.** Around 30,000 children and teenagers took part in a week-long football day camp during the school summer holiday.
- **Active children in Denmark.** More than 100,000 children took part in a project aimed at encouraging children to be physically active.

Does one glass of milk a day make a difference?

In 2008, Arla set up the Children for Life project to help children in the Dominican Republic. Its primary purpose is to give children a better start in life by providing food and supporting education. Children for Life projects are now supporting children in Vietnam and Bangladesh too.

Arla's Code of Conduct clearly states that the company will cooperate with the local communities in which it operates and contribute to their development. This applies not only in Arla's core markets where, for example, the company actively funds health and exercise related activities for children and teenagers, but anywhere the company has operations.

Long-term aid project

For many years, Arla has contributed to a variety of serious emergency aid projects in the Third World, for example, in the wake of flooding and earthquakes. However, the company did not have a long-term, structured approach to activities of this kind. The Children for Life project was conceived, in response to this, by the department responsible for sales of milk powder across the world.

"There are many children who suffer and many who seriously need help. Nutrition and education are two of the



Frede Juulsen, head of Arla's milk powder activities.

most important factors that need to be addressed in poor countries," states Frede Juulsen, who is head of Arla's milk powder activities. "We wanted to provide long term aid for the countries in which we sell our products, by supporting activities associated with our particular products and which would make a real difference.

"We cannot save the world but we can do our bit to make it a better place in which to live. It was natural for us to focus on children, primarily through the contribution of nutritional products."

Arla chose to run the Children for Life project in collaboration with established, professional charities with an efficient structure supporting everything from logistics to financing. The company has also established collaborative relationships with local suppliers and distributors because it wants to support and empower local players to act as good corporate citizens.

Today, Arla runs Children for Life in the Dominican Republic and in Vietnam, in collaboration with the international aid organisation SOS Children's Villages International and Arla's local partner. In Bangladesh, a school run by a domestic aid organisation receives support from the project. Here, too, the aid work is undertaken in partnership with a local distributor.

Local network and strength through cooperations

A great deal of comprehensive planning and meticulous care went into devising the Children for Life project. Arla has been especially careful to ensure that the project underpins the company's core values and strategy because it is an opportunity to bring the Arla values to life, both for

colleagues and the local community. Initially the company was uncertain as to how best ensure that the funding provided for the project was utilised in the right way and did not end up in the wrong hands. Other concerns included how to ensure support for the project internally and achieving sign off of the budget.

“We developed a project programme including the mission, strategy, guidelines and follow up,” explains Frede Juulsen. “We made the decision to spend the first years of the project learning how to deal with the issues we faced and we decided that, initially, we would maintain a low profile both internally and externally so that the project did not come across as a marketing stunt.”

Gaining internal support and management’s blessing for the project turned out to be far easier than the team had imagined. The

local organisation in the Dominican Republic conducted all the preparatory work, finding partners,

taking care of contacts, reporting and feeding back progress. Children for Life soon became the entire company’s project and the initiative helps to strengthen Arla’s positive reputation, not only among colleagues and partners but also among public servants and politicians, in the countries concerned.

“Our local colleagues and partners often visit the children’s villages and are committed to the project. We also host visits for local dignitaries and decision-makers which helps build an important network within the local community.”

One glass of milk a day

The company’s aim is to enhance the conditions under which very underprivileged children live in order that they can have a better start in life. Arla has primarily chosen to donate milk powder.

“Children for Life has to be a relevant project for Arla, in terms of where we choose to launch it but also of the products we donate and the nature of the project itself.

“As a dairy company, providing nutritional products is a natural first step.”

As a dairy company, providing nutritional products is a natural first step. Milk is the best source of nutrition for any child. However, as the latest initiative in Bangladesh has shown, we are also keen to support children’s needs generally. Here, we contribute to both the nutritional and educational needs of the children through our support of a local school.”

Within the last year, Arla has invested DKK 1 million in its Children for Life project. But how can the company be certain that the money and the milk is being put to good use?

“We visit the projects at least once every three months, ‘we’ being both locally based colleagues and Arla management representatives when they are in the country. During these visits we ask questions and conduct interviews. In addition, regular inspections are also

important to us. As with any other business venture, what matters is signing the contract and then subsequently making sure that it is adhered to.”

Each month Arla receives a list of the number of children enrolled in each project. During 2010, almost 800 children benefitted in Vietnam, the Dominican Republic and Bangladesh.

Arla seeking to provide more aid

The contract between Arla and the aid organisations is renewed every year. Apart from the three countries in which the Children for Life project is currently running, Nigeria and China are also important markets for Arla’s milk powder. For this reason, there are plans to set up similar projects here, but Arla must first investigate where the aid will add most value.

“It is important to stress that this project would never have come to fruition were it not for passionate individuals within Arla who were dedicated to putting in the extra effort to make a difference in the Third World. Our collective efforts can amount to something significant that we hope will make the world look a little better tomorrow,” concludes Frede Juulsen.

THE DOMINICAN REPUBLIC

Project started in: 2008

Cooperative partner: SOS Children’s Villages International.

Project details: Under the Milex trademark, Arla provides support for three SOS children’s villages that are home to about 475 children. Arla supplies Milex milk powder so that every child has one glass of milk per day.

Project details: Arla supports two children’s homes in Ho Chi Minh City, one of which is run by SOS Children’s Villages International. The other home, Dieu Giac Orphanage, is run by a local charity. A total of about 70 children live at these homes. Arla supplies milk powder so that every child gets one glass of milk per day.

BANGLADESH

Project started in: 2010

Cooperative partner: Glory Bandhuprotim Samaj Kalyan Sangstha (Glory Friendly Social Welfare Organisation) and German Doctors for Developing Countries.

Project details: Arla’s cooperative partners run schools in extremely deprived areas on the outskirts of Dhaka. Parents are encouraged to allow their children to attend school in exchange for each child receiving one meal a day at the school. If they didn’t attend, these children would probably be forced to work to contribute to the family’s income, despite the fact that basic education is a legal requirement in Bangladesh. Arla’s aid provides teaching, food and milk for 235 pupils at a school in the Korail slum area.



VIETNAM

Project started in: 2009

Cooperative partner: SOS Children’s Villages International and a local charity.



HUMAN RIGHTS

We respect and support internationally recognised human rights.

*From: Our responsibility
– Arla Foods' Code of Conduct*

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

→ **FOCUS ON DIVERSITY.** Several different initiatives have been undertaken to increase diversity within Arla.

→ **A TOLERANT WORK ENVIRONMENT.** Harassment is never acceptable. During 2010 Arla communicated its vision for a work environment where there is no bullying.

→ **DIALOGUE IN THE THIRD WORLD.** Our aim is to ensure that respect for human rights is embedded throughout our entire organisation. In our dialogue with suppliers in the Third World, we will increase our focus on human rights issues in order to encourage positive change.

Initiative to improve equality and diversity

In August, Arla’s CEO Peder Tuborgh signed a CEO Statement of Support for the Women’s Empowerment Principles, an initiative from the UN Global Compact and UNIFEM (the UN Development Fund for Women). Thanks to this initiative, large numbers of companies are expected to publicly announce their support for making improvements to equality between genders.

In Arla, in December 2009, it was decided that when recruiting for senior positions within the Top 300, there should always be at least one male and one female candidate, and that candidates shortlisted for key positions should represent both different nationalities and genders. A thorough investigation into the obstacles to reach the goal has been carried out.

Almost 70 per cent of Arla colleagues are located in Denmark and Sweden. As part of our attempts to increase the number of colleagues with different nationalities at Arla, from 2011 all jobs for which fluency in the local language is not a requirement, will be advertised in English.

During the year, we have allocated more resources to exploit the benefits of diversity within the company. Among other initiatives, we have set up a new Diversity Consultant position at group level. The purpose of this

role is to create new opportunities for colleagues and to prevent discrimination. The latest version of the Arla Code of Conduct, which was printed in December, includes a clearer definition of diversity.

Harassment is never acceptable

Arla has launched a new targeted initiative which aims to make Arla an even better place to work in the future. As part of this initiative, we are aiming for zero harassment in the workplace, which is a clear signal of the company’s objection to such behaviour. As part of this initiative 1,000 colleagues in several different roles in Denmark, Sweden and the UK were asked to respond to a number of questions about their work environment. These questions formed part of a larger workplace environment survey at Arla. For more details, see page 25.

The statement “At my workplace no one is, to my knowledge, exposed to bullying, harassment or being ignored” received a score in the high satisfaction category index 75, although individual responses varied greatly. Managers believe that the statement is most accurate (index 83), while office workers scored index 77 and operatives only 66. Harassment is not acceptable and the result serves only to emphasise the importance of Arla’s zero tolerance ambition.

CONTINUED CSR DIALOGUE

When we visit and audit suppliers in the Third World, we especially focus on human rights, child labour and work environment issues. We believe it is important that our suppliers understand our position and respect our Code of Conduct, which also covers many other topics.

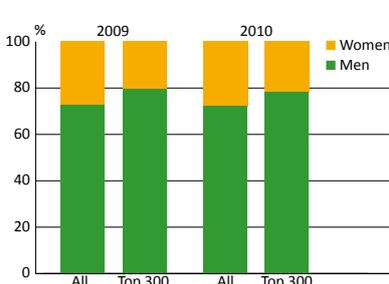
In Bangladesh, for example, our packaging supplier receives a visit from our Danish internal auditor every six months. In the interim period, Arla colleagues based in the area conduct visits. We consider that the working conditions and respect shown for human rights by this supplier are satisfactory, as is the dialogue with Arla.

Among our Nigerian suppliers, adherence to the Arla Code of Conduct varies. Therefore, in 2011, we will make a special effort to prioritise improvements to the dialogue we have with some of these suppliers.

MINOR INCREASE IN BULLYING

The overall conclusions of the colleague survey, Barometer, where finalised in January 2011. The result for the question “In my unit no one is exposed to bullying, harassment or being ignored” unfortunately decreased slightly in the total index from 75 (2008) to 73 (2010). Responses to this question varied across the organisation. The same question was used in the workplace environment survey mentioned above, which also gave a similar result regarding bullying.

COLLEAGUES BY GENDER

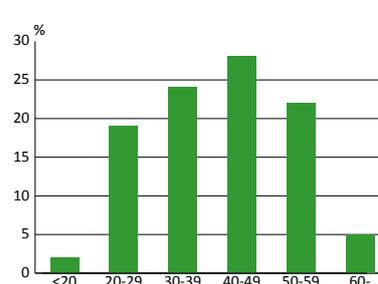


The ratio of men and women employed by Arla varies across the organisation. Among our senior leaders there are considerably fewer women than men, although the ratio of women managers is higher at lower levels. An area for development therefore is to support more women to progress into senior positions. As the recruitment base is large, in the long term, we believe we can achieve a more balanced ratio of males and females in our senior manager group.

ARLA SEEKING NEW DIALOGUE

Amnesty International has decided to discontinue the Amnesty Business Forum, of which Arla has been a member. In the past we have valued the exchange of ideas and the dialogue facilitated by this forum. We are now seeking a similar international forum, in which companies can meet human rights organisations to discuss solutions and methods for coping with different dilemmas.

COLLEAGUES BY AGE



Currently the age range of colleagues is satisfactory. Age should not be, and is not, decisive when we recruit people. Arla values the fact that its workforce comprises a balanced mix of age groups.

COOPERATION WITH TRADE UNIONS

In all our core markets we have Work Councils on which colleagues are represented. We also aim to set up Work Councils in our growth markets and in countries where we have workplaces where there are more than 25 colleagues. To date, this has taken longer than we envisaged and we now consider this to be a long-term challenge. We seek to strengthen our cooperation with existing work councils and are also committed to ensuring that structured dialogue takes place between managers and colleagues outside of work council meetings.

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