

# **OUR CONSOLIDATED ENVIRONMENTAL, SOCIAL AND GOVERNANCE DATA**



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# CONSOLIDATED ENVIRONMENTAL, SOCIAL AND GOVERNANCE DATA

## Sustainability at Arla

Sustainability is a cornerstone of Arla's strategy. Arla aims to deliver healthy and nutritious dairy products to consumers globally and is committed to doing so with a constantly reduced environmental impact. In 2019, Arla launched a comprehensive sustainability strategy to achieve these goals.

To signify our commitment to the sustainability agenda, and to increase accountability towards the goals Arla set, the group decided in 2019 to report on figures describing Arla's environmental, social and governance performance in the Annual Report, and received limited assurance on these figures from EY. In 2020, Arla aimed to improve ESG data quality and strengthen the reporting process. The effort was guided by EY's requirements for reasonable assurance, which Arla received on most of the ESG KPIs in 2020. Due to various reasons primarily related to lack of standardisation in reporting across farms and the external validation process of self-reported climate data slowed down by the Covid-19 pandemic, scope 3 emissions on farms were assured at the limited level in 2020. Read more about the external assurance on page 134.

ESG figures in the following section were chosen according to their materiality, and following the most recent reporting guidelines published by the CFA Society Denmark, FSR – Danish Auditors, and Nasdaq. Maturity and quality of data was also taken into consideration when selecting the figures presented in this section. Therefore, some of the KPIs recommended by the above-mentioned professional bodies are not part of the current report. Most notably, Arla is not reporting on water consumption, mainly due to the fact that the majority of the company's water consumption relates to farms, where it is currently not measured at a satisfactory level.

Arla's biggest environmental impact relates to indirect scope 3 CO<sub>2</sub>e emissions, more precisely to milk production on farm (86 per cent of total CO<sub>2</sub>e emissions). From 2020, Arla's farmer owners were

offered an incentive of 1 EUR-cent/kg of milk to have climate checks performed on their farms, which resulted in a significant increase in farm-level emissions data as 93 per cent of active owners completed the detailed climate questionnaire. For more information on the Climate Check programme go to page 34, and for more information on measuring scope 3 at Arla go to page 124.

In 2019, Arla's emissions targets were officially approved by the Science Based Targets initiative as aligned with climate science.

### Our Science Based Targets:

- Reduce scope 1 and scope 2 greenhouse gas emissions by 30 per cent in absolute terms from 2015 to 2030
- Reduce scope 3 greenhouse gas emissions by 30 per cent per kg of raw milk and whey from 2015 to 2030

Beyond the Science Based Targets, Arla also announced the ambition to become carbon net zero by 2050.

In 2020, following the group's restatement policy and the guidelines of the Science Based Targets initiative, Arla restated the baselines for our Science Based Targets due to significant methodological changes and the widening of the reporting scope. Read more about these changes on page 124. Details of Arla's restatement policy can be found on page 133.

Arla also publishes a Responsibility Report annually, where the group presents in-depth analyses on the progress towards environmental, social and governance targets. A sub-set of the figures presented in this report can be found there. Find the Responsibility Report and further information about our sustainability efforts on Arla's webpage.

## Five-year ESG overview

ESG note	2020	2019	2018	2017	2016
<b>Environmental data</b>					
CO <sub>2</sub> e scope 1 (mkg)	474	463	490	492	474
CO <sub>2</sub> e scope 2 – location-based (mkg)	237	274	263	313	334
Scope 2 – market-based (mkg)	277	399	456	438	466
CO <sub>2</sub> e scope 3 (mkg)*	18,479	18,243	18,411	18,528	18,644
<b>Total CO<sub>2</sub>e (mkg)</b>	<b>1.1</b>	<b>19,230</b>	<b>19,105</b>	<b>19,357</b>	<b>19,458</b>
<i>Total CO<sub>2</sub>e – location-based (mkg)</i>	<i>19,176</i>	<i>18,977</i>	<i>19,156</i>	<i>19,337</i>	<i>19,456</i>
Co <sub>2</sub> e scope 3 per kg of milk and whey (kg)*	1.21	1.21	1.20	1.22	1.22
CO <sub>2</sub> e reduction (scope 1 and 2) market-based	-24%	-12%	-4%	-5%	-4%
CO <sub>2</sub> e reduction (scope 1 and 2) location-based	-16%	-14%	-12%	-6%	-6%
Progress towards 2030 CO <sub>2</sub> e reduction target (scope 3 per kg milk and whey)*	-7%	-7%	-7%	-6%	-6%
Renewable energy share (%) market-based	1.2	31%			
Renewable energy share (%) location-based	1.2	35%	33%	27%	21%
Solid waste (tonnes)	1.3	32,975	33,713	34,600	32,608
Percentage of farmer owners reporting on animal welfare (%)	1.4	100%	89%	82%	
<b>Social data</b>					
Full-time equivalents (average)	2.1	20,020	19,174	19,190	18,973
Total share of females (%)	2.2	27%	27%	27%	26%
Share of females at director level or above (%)	2.2	26%	26%	23%	22%
Share of females in Executive Management Team (%)	2.2	14%	29%	29%	29%
Gender pay ratio, white-collar (male to female)	2.3	1.05	1.05	1.06	-
Employee turnover (%)	2.4	10%	12%	12%	11%
Food safety - number of recalls	2.5	1	4	2	10
Accident frequency (Per 1 million working hours)	2.6	5	6	8	10
<b>Governance data</b>					
Share of females, Board of Directors (%)**	3.1	13%	13%	13%	12%
Board meeting attendance (%)	3.2	99%	96%	99%	99%

\* Scope 3 emissions from farm subject to limited assurance in 2020

\*\* Including all board members, those elected by the general assembly, employee representatives and external advisors, the share of females was 20 per cent as of 31 December 2020

## Environmental figures

### 1.1 GREENHOUSE GAS EMISSIONS (CO<sub>2</sub>E)



#### Total CO<sub>2</sub>e emissions impacted by milk and whey

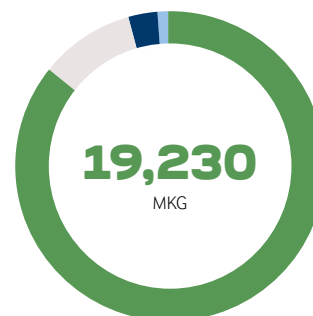
To follow up on Arla's contribution to climate change and the progress towards our emission targets, the total greenhouse gas emissions (expressed as CO<sub>2</sub> equivalents, CO<sub>2</sub>e) are calculated annually. CO<sub>2</sub>e is categorised into three scopes according to the methodology of the Greenhouse Gas Protocol. The three scopes cover nearly all Arla's activities.

Total CO<sub>2</sub>e emissions increased to 19,230 million kilos compared to 19,105 million kilos last year. The increase can be explained by higher milk intake and increased purchases of external whey in Arla Foods Ingredients, while a change in methodology (market-based accounting) and therefore accounting for the purchase of renewable energy lowered the emissions. Read more on page 124. In line with Arla's Science Based Target, the group does not account for carbon credits.

Since 2015, scope 1 and scope 2 CO<sub>2</sub>e emissions decreased by 24 per cent, and we are well on course to reach our 2030 Science Based Target of reducing emissions by 30 per cent.

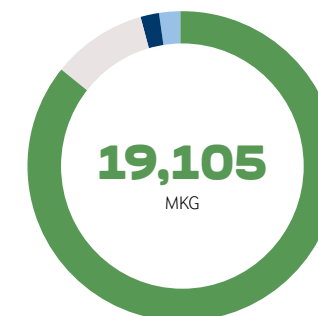
Scope 3 emissions per kilo milk and whey amounted to 1.21 in 2020, down by 7 per cent since 2015 due to activities on Arla farms. According to our Science Based Target, scope 3 emissions per kilo of milk and whey should be reduced by 30 per cent by 2030. In 2020, emissions from milk only amounted to 1.17 kilo CO<sub>2</sub>e per kilo of milk while the impact of owner milk specifically amounted to 1.15 kilo CO<sub>2</sub>e per kilo of owner milk.

CO<sub>2</sub>e emissions 2020 (Mkg)



- Scope 3 emissions from farms 86%
- Scope 3 emissions from purchased goods and services 10%
- CO<sub>2</sub>e scope 1: 3%
- CO<sub>2</sub>e scope 2: 1%

CO<sub>2</sub>e emissions 2019 (Mkg)



- Scope 3 emissions from farms 86%
- Scope 3 emissions from purchased goods and services 10%
- CO<sub>2</sub>e scope 1: 2%
- CO<sub>2</sub>e scope 2: 2%

ESG Table 1.1 Greenhouse gas emissions\* (mkg)

#### CO<sub>2</sub>e scope 1

	2020	2019	2018	2017	2016
Operations	381	366	400	408	388
Transport	93	97	90	84	86
<b>Total CO<sub>2</sub>e scope 1</b>	<b>474</b>	<b>463</b>	<b>490</b>	<b>492</b>	<b>474</b>

#### CO<sub>2</sub>e scope 2

<b>Total CO<sub>2</sub>e scope 2 – market-based**</b>	<b>277</b>	<b>399</b>	<b>456</b>	<b>438</b>	<b>466</b>
<i>Scope 2 – location-based</i>	<i>237</i>	<i>274</i>	<i>263</i>	<i>313</i>	<i>334</i>

#### CO<sub>2</sub>e scope 3

##### Emissions from farms:

Emissions related to milk production and operations on farm***	16,499	16,380	16,406	16,666	16,603
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##### Emissions from purchased goods and services:

Whey	1,133	1,032	1,162	1,002	1,117
Packaging	396	384	383	384	433
Transport	306	312	326	345	359
Operations	145	135	134	131	132
<b>Total CO<sub>2</sub>e scope 3</b>	<b>18,479</b>	<b>18,243</b>	<b>18,411</b>	<b>18,528</b>	<b>18,644</b>

<b>Total CO<sub>2</sub>e</b>	<b>19,230</b>	<b>19,105</b>	<b>19,357</b>	<b>19,458</b>	<b>19,584</b>
<i>Total CO<sub>2</sub>e – location-based</i>	<i>19,176</i>	<i>18,977</i>	<i>19,156</i>	<i>19,337</i>	<i>19,456</i>



#### Accounting policies

Greenhouse gas emissions are measured in CO<sub>2</sub>e and are categorised into three scopes.

##### Calculating CO<sub>2</sub> equivalents

Greenhouse gases are gases that contribute to the warming of the climate by absorbing infrared radiation. Besides the widely known carbon dioxide (CO<sub>2</sub>), there are two other major greenhouse gases associated with dairy production: nitrous oxide (N<sub>2</sub>O) and methane (CH<sub>4</sub>). In order to calculate the total greenhouse gas emissions (the carbon footprint) for Arla, different greenhouse gas emissions are converted into carbon dioxide equivalents (CO<sub>2</sub>e). The conversion of different gases reflects their global warming potential.

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

- 1 kg of carbon dioxide (CO<sub>2</sub>) = 1 kg of CO<sub>2</sub>e
- 1 kg of methane (CH<sub>4</sub>) = 28 kg of CO<sub>2</sub>e
- 1 kg of nitrous oxide (N<sub>2</sub>O) = 265 kg of CO<sub>2</sub>e

The majority of Arla's emissions are methane (e.g. produced by cows digesting the feed) and nitrous oxide (e.g. from fertilizer and manure on farms, or manure storage).

\* Following our restatement policy and Science Based Targets, historical numbers are restated every five years, read more in note 3.5.

\*\* In 2020, Arla switched to market-based reporting, read more on page 124.

\*\*\* Scope 3 emissions from farm subject to limited assurance in 2020.

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

Environmental figures

1.1 GREENHOUSE GAS EMISSIONS (CO<sub>2</sub>E)



Accounting policies (continued)

Greenhouse gas emissions are categorised into three scopes according to where they appear across the value chain, and what control the company has over them.

Scope 1 – All direct emissions

Scope 1 emissions relate to activities under the group’s control. This includes transport using Arla’s vehicles, and direct emissions from Arla’s production facilities. Scope 1 emissions are calculated in accordance with the methodology set out in the Greenhouse Gas Protocol Corporate Standard by applying emission factors to Arla-specific activity data.

Scope 2 – Indirect emissions

Scope 2 emissions relate to the indirect emissions caused by Arla’s energy purchases, i.e. electricity or heat. Scope 2 emissions are calculated in accordance with the methodology set out in the Greenhouse Gas Protocol Corporate Standard by applying emission factors to the group’s specific activity data. In 2020, Arla switched from location-based scope 2 reporting to market-based reporting and updated the 2015 baseline. The market-based allocation approach reflects emissions from the specific electricity and other contractual instruments that Arla purchases, which may differ from the average electricity and other energy sources generated in a specific country. This gives Arla the chance to purchase electricity and other contractual instruments that emit less greenhouse gases than the country average. In accordance with the GHG Protocol, Arla discloses scope 2 emissions according to both the market- and location-based method (also known as dual reporting).

Scope 3 – All other indirect emissions

Scope 3 emissions relate to emissions from sources that Arla does not directly own or control. They cover emissions from purchased goods and services (e.g. raw milk purchased, packaging and transport purchased from suppliers), but also waste processing at sites (e.g. recycling or incineration).

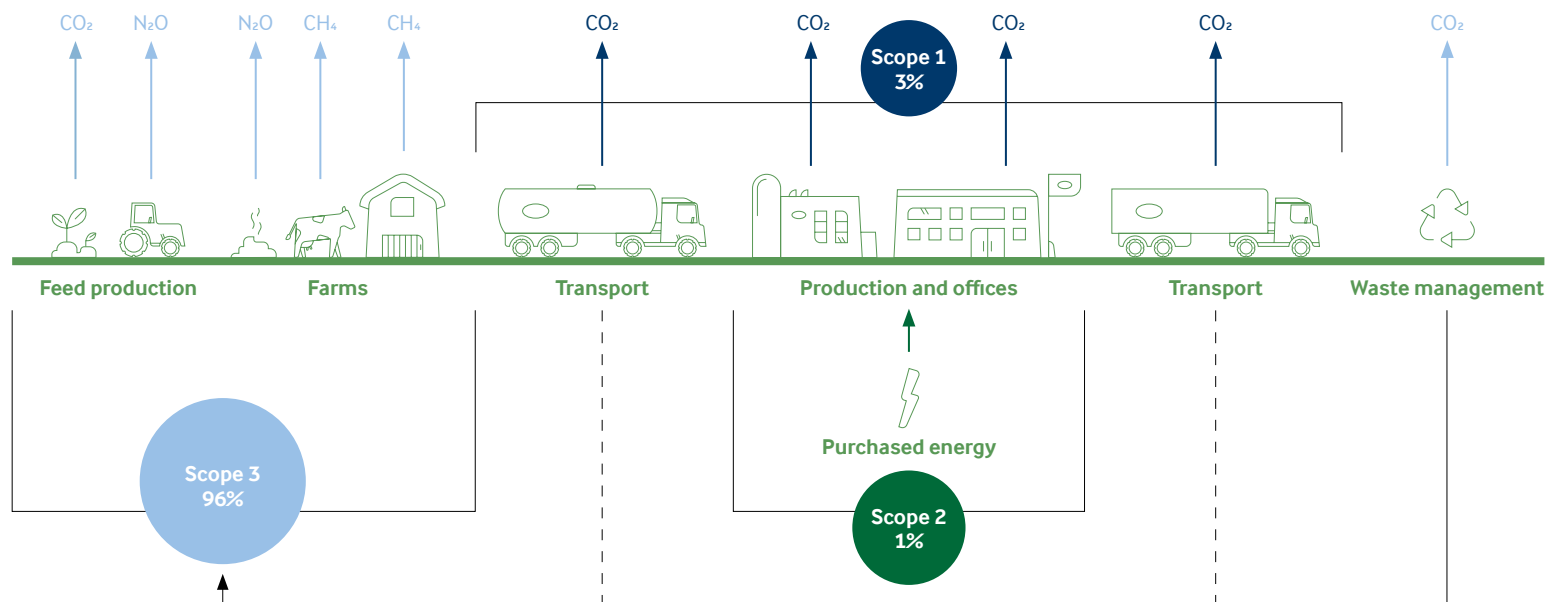
Scope 3 emissions from raw milk are calculated in accordance with the International Dairy Federation’s guideline for the carbon footprint of dairy products (IDF 2015). Emissions related to raw milk include all emissions on farm (e.g. from cows digesting the feed, manure handling, nitrogen, diesel use for feed cultivation and peat soil) and off farm (e.g. imported feed, fertilizer production and transport). The majority of Arla farmers report on climate data yearly. The emission figure related to raw milk shown in this report is an average emission per kg of milk, calculated based on the self-reported climate data from farms where the data has been validated by external climate experts, multiplied by Arla’s total milk intake. Farms visited by external climate experts are statistically representative of all Arla farms.

Scope 3 emissions from whey, waste at sites, packaging, third-party transport and extraction of fuels are calculated by applying emission factors to Arla-specific activity data. In 2020, Arla expanded the reporting scope for packaging and transport suppliers, and now covers 100 per cent of the spend on such suppliers (in previous years reporting covered about 95 per cent). Arla collects data from transport and packaging suppliers covering a minimum of 95 per cent of the spend, and based on the collected data, emissions are scaled up to cover 100 per cent.

Scope 3 emissions accounted for 96 per cent of Arla’s total climate impact. Milk production on farm (including, among many factors, methane emitted by cows, and emissions related to feed and transport of feed) accounted for 86 per cent of the total emissions. For transport, operations and packaging emission factors are obtained from Sphera, an industry-leading consultancy firm. The emission factors are updated annually to the most recent complete data set for the same year, in this case 2017. Farm-level emission factors are obtained from 2.0 LCA Consultants, a Danish consultancy firm formed by academics.

According to the 2020 quantification of Arla’s total climate impact, scope 1 and 2 emissions accounted for 3 and 1 per cent of total emissions, respectively. Scope 3

Where do our emissions come from?



Environmental figures

1.1 GREENHOUSE GAS EMISSIONS (CO<sub>2</sub>E)



Uncertainties and estimates

In 2020, 93 per cent of Arla’s active farmer owners, covering over 96 per cent of Arla’s owner milk volume, completed a detailed climate questionnaire (farmers receive an incentive of 1.0 EUR-cent/kg of milk to complete the survey). The external validation of the survey data was slightly delayed due to the Covid-19 pandemic, and covered 59 per cent of the farmer owners who submitted their Climate Check data. From 2020 onwards, farmers will complete the Climate Check once a year based on data from their most recently financial year. This could vary from farm to farm, as some have financial years running from January to December, while others run from July to June. Therefore the figures presented in the Annual Report are not necessarily based on farm data covering the same period.

The methodology used to measure emissions on farm is developing over time. Currently, factors that potentially lower total net emissions, such as carbon sequestration on farm and change in land use, are not included. Significant changes in methodology will also be reflected in the restatement of the baseline. The emission factor related to externally purchased whey was unchanged at 1.0, a conservative estimate (Flysjö, 2012).

Other uncertainty relates to data collection regarding packaging and transport from our suppliers. Each year, Arla sends its suppliers detailed requests to provide the necessary data, accompanied by a manual on how to complete the related documentation. Manual data entries from different sources are clear risks to data quality. To minimise the risk of reporting errors, a rigorous two-step internal validation process is in place.

ESG Table 1.2 Energy purchased for production (Thousand MWh)

Non renewable sources:

	2020	2019	2018	2017	2016
Natural gas, fuel oil and gas oil	1,816	-	-	-	-
Electricity	626	-	-	-	-
District heating	5	-	-	-	-

Renewable sources:

Biogas and biomass	559	-	-	-	-
District heating	119	-	-	-	-
Electricity	432	-	-	-	-

<b>Total actual consumption</b>	<b>3,557</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
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<b>Renewable energy share, market-based*</b>	<b>31%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Renewable energy share, location-based</i>	<i>35%</i>	<i>33%</i>	<i>27%</i>	<i>24%</i>	<i>21%</i>

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

Environmental figures

1.2 RENEWABLE ENERGY SHARE



Share of renewable energy increased

The use of energy, including heat and electricity, at Arla’s sites contributes to climate change, depletion of non-renewable resources and pollution. As a result, switching from fossil to renewable energy is an important lever to fulfil Arla’s climate ambition and reduce the carbon footprint from scope 1 and 2 emissions.

In 2020, the accounting method for treating renewable energy was changed from location-based to market-based accounting. In 2016-2019, Arla purchased a number of

green certificates without accounting for these in the figures, therefore only 2020 figures are disclosed in ESG table 1.2. The renewable energy share was 31 per cent in 2020, positively impacted by increased purchases of green electricity, which were offset by a lack of supply of biogas at our Arla Foods Ingredients facilities in Denmark.

In line with our long-term environmental strategy, new targets and initiatives are being developed to change the future energy mix.



Accounting policies

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

Some Arla sites produce and sell excess energy, i.e. electricity and heat. The energy sold was not deducted in the calculation of the renewable energy share.



Uncertainties and estimates

The data presented in ESG table 1.2 is collected monthly from our sites. Data for energy consumption is primarily based on invoice information and automated meter readings at each site, and therefore there is very little uncertainty associated with these figures. Arla does not account for energy losses, therefore all energy purchased is included in the figures.

Environmental figures

1.3 WASTE



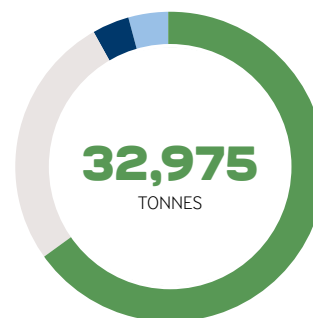
Solid waste decreased

Waste that cannot be recovered through recycling, reuse or composting impacts the environment. Arla continuously seeks to increase production efficiency at sites, reduce waste throughout the manufacturing and transport process, as well as working with waste management suppliers to reduce waste and improve waste handling.

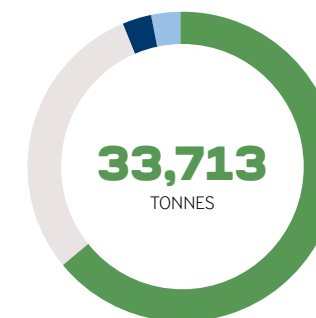
In 2020, waste decreased to 32,975 tonnes compared to 33,713 tonnes last year.

In 2005, Arla set a target to generate zero waste for landfill by 2020. Waste for landfill increased to 1,204 tonnes compared to 988 tonnes last year. Due to expansions in international markets where waste handling is less developed, Arla did not achieve the 2020 target.

Solid waste, 2020



Solid waste, 2019



ESG Table 1.3 Solid waste (Tonnes)

	2020	2019	2018	2017	2016
Recycled waste	21,402	21,651	20,233	19,699	18,997
Waste for incineration with energy recovery	8,991	10,011	12,546	11,088	11,264
Waste for landfill	1,204	988	933	897	1,015
Hazardous waste	1,378	1,063	888	924	916
<b>Total</b>	<b>32,975</b>	<b>33,713</b>	<b>34,600</b>	<b>32,608</b>	<b>32,192</b>



Accounting policies

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



Uncertainties and estimates

Currently, Arla discloses only solid waste in ESG table 1.3. In general, solid waste figures and waste handling methods were provided by the waste management supplier structured according to EU and local regulations. However, solid waste only makes up a small part of Arla's total waste. Other waste types are product waste and sludge. Arla planned to report total operational waste figures from 2020. However, a thorough analysis revealed a lack of standardisation across Arla sites concerning how to gather, organise and control product waste and sludge data. Therefore, disclosure of the full operational waste figures will be postponed until 2021.

Environmental figures

1.4 ANIMAL WELFARE



Animal welfare journey well on track

Animal welfare is a key priority for our farmer owners, and for Arla as a company. In 2020, it became mandatory for Arla's owners to report on the welfare of their cows quarterly through Arlagården®, including information about the housing, grazing, health care and general well-being of their cows (until 2019 farmers reported these figures on a voluntary basis as part of Arlagården® Plus. The reported figures are regularly audited by a world-leading quality assurance and audit firm specialising in animal welfare. Read more on page 35.

Animal welfare has multiple dimensions and Arla aims to measure and externally report on the most important aspects of it. In 2020, audits on farms were delayed due to the Covid-19 pandemic and the complex process of harmonising the audit process across all owner countries. Consequently, the results of the quarterly self-assessment by farmer owners will be reported externally in the Annual Report 2021 after the necessary external verification is completed. Arla is committed to reporting on the most important measures to describe and improve animal welfare: the ratios of cows in good body condition, clean cows, mobile cows and cows without injuries. Arla will also disclose the ratio of audited farmers complying with our animal welfare standards.

In 2020, the following indicators were reported (see definitions and accounting policies below):

- Percentage of farmer owners reporting on animal welfare
- Audits on farms
- Somatic cell count

In 2020, the percentage of owners reporting on animal welfare increased to 100 per cent compared to 89 per cent in 2019 following the decision to make animal welfare reporting mandatory as part of Arlagården®. The average somatic cell count across Arla geographies fell by 1 per cent to 194 thousand cells/ml compared to 196 thousand cells/ml last year. The percentage of audit visits was lower in 2020 (23 per cent compared to 39 per cent in 2019) due to the Covid-19 pandemic and the audit harmonisation process. However, all farms deemed as high risk from an animal welfare point of view were audited in 2020.

Definitions

Percentage of farmer owners reporting on animal welfare

The percentage of owners reporting on animal welfare is defined as the number of owners who submitted their mandatory Arlagården® questionnaire (in 2018-2019 Arlagården® Plus), including questions on animal welfare for the fourth quarter of a given year, compared to the total number of active owners in the same year.

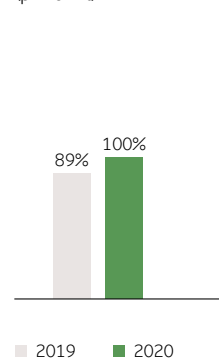
Audits on farms

Audits on farms are the number of ordinary audits and other audits, including spot check visits on farms in a given year, compared to the total number of Arla owners.

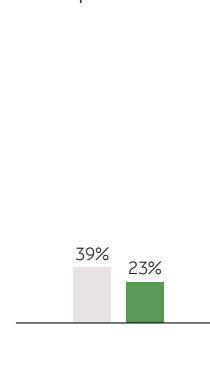
Somatic cell count (average)

Somatic cells in milk are primarily white blood cells. An elevated level of somatic cells can indicate inflammation (mastitis) of the cow's udder, which causes the animal pain and stress, and also lowers milk quality.

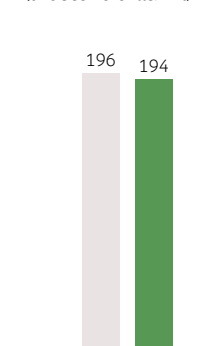
Percentage of farmer owners reporting on animal welfare (per cent)



Percentage of audits (per cent)



Somatic cell count (thousand cells/ml)



Accounting policies

Percentage of farmer owners reporting on animal welfare

From 2020, it is mandatory for all farmer owners to report on the welfare of their herds quarterly by submitting a questionnaire in the Arlagården® system. If they do not submit the questionnaire by the deadline and after having received a reminder, owners will need to cover the cost of the audit visit themselves.

Audits on farms

Animal welfare conditions on Arla farms are regularly audited. The audit is conducted by an external party and is free of charge for the farmers if they submit their data on time. Farms in Denmark, Sweden, Germany and Central Europe are audited every three years, while farms in the UK are audited every 18 months (due to compliance with local regulations). In a few cases farmers could receive more than one audit in the same calendar year.

Somatic cell count:

Arla monitors the somatic cell count (SCC) by analysing milk at bulk tank level each time milk is collected from the farms. Levels are continuously reported to safeguard milk quality. The figure reported here is a weighted average of Arla's entire milk intake in a given year. The SCC count is received from several laboratories across owner countries. SCC levels are consistently low across all markets.



Uncertainties and estimates

The UK somatic cell count includes the somatic cell count for contract farmers as well as owners, however this has no significant impact on the total somatic cell count for 2020.

ESG Table 1.4 Animal welfare indicators

	2020	2019	2018	2017	2016
Farmer owners reporting on animal welfare (%)	100%	89%	82%	-	-
Audits on farms (%)	23%	39%	50%	36%	36%
Somatic cell count (thousand cells/ml)	194	196	198	194	-



Social figures

2.1 FULL-TIME EQUIVALENTS



FTEs increased due to insourcing, international expansion and Covid-19

People are Arla’s most important asset, so it is imperative to know how the group deploys these resources across geographies and time. The number of employees is measured in full-time equivalents (FTE). The total number of FTEs increased by 4.4 per cent compared to last year. A key driver was insourcing and expansion in international markets, including insourcing of administrative tasks in UAE and Oman, but also the full-year effect of the acquisition of the cheese business in the Middle East from Mondeléz International in 2019. The increase in FTEs in Denmark can be ascribed to the expansion in Arla Foods Ingredients, while temporary

insourcing of distribution activities increased the number of FTEs in the UK. During 2020, production sites, especially in the UK and Sweden, temporarily ramped up FTEs to ensure stable production despite the Covid-19 situation.

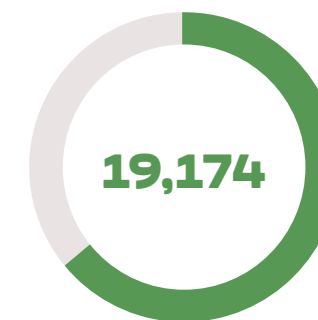
Over the last five years, the FTE level has been relatively stable, but shows a shift of FTEs from core European countries to international markets, especially to MENA. This supports Arla’s strategic plan to expand the share of business outside Europe, where the outlook for growth is more promising.

Full-time equivalents split by employee type, 2020



Blue-collar employees 64%  
White-collar employees 36%

Full-time equivalents split by employee type, 2019



Blue-collar employees 64%  
White-collar employees 36%

ESG Table 2.1 Full-time equivalents

	2020	2019	2018	2017	2016
Denmark	7,350	7,258	7,264	7,069	6,956
UK	3,761	3,407	3,387	3,477	3,532
Sweden	3,114	2,977	3,001	3,029	3,175
Germany	1,632	1,681	1,759	1,809	1,780
Saudi Arabia	970	952	965	1,009	895
Poland	529	511	463	433	425
North America	479	477	502	496	477
Netherlands	351	339	327	320	313
Finland	336	319	325	325	321
Other countries	1,498	1,253	1,197	1,006	891
<b>Full-time equivalents</b>	<b>20,020</b>	<b>19,174</b>	<b>19,190</b>	<b>18,973</b>	<b>18,765</b>



Accounting policies

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

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

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

The majority of employees in production and logistics are classified as blue-collar employees, while employees in sales and administrative functions are classified as white-collar employees. The ratio of white-collar to blue-collar employees is calculated based on FTEs as at 31 December.

Employee data is handled centrally in accordance with GDPR. The FTE figure is reported internally on a monthly basis. To improve data quality, data is validated by each legal entity on a quarterly basis through the financial consolidation system.

Social figures

## 2.2 GENDER DIVERSITY AND INCLUSION



### Share of females in management stable

In Arla, we believe that gender diversity is key to the success of our business. Arla's policies do not distinguish between men and women when it comes to promotion opportunities or remuneration, however women are underrepresented in Arla's blue-collar workforce, and to a lesser extent in the white-collar workforce as well.

Arla strives to create a workplace with a diverse workforce, characterised by mutual respect and trust, promoting equal opportunities and allowing colleagues to live up to their full potential. Diversity, inclusion and anti-harassment policies are in place to handle issues in a structured manner and a whistleblower platform enables employees to report any kind of harassment. Work councils at both local and global levels also help to ensure that workplace decisions are made in the best interests of all colleagues and Arla. Gender diversity for the Board of Directors is disclosed in ESG note 3.1.

#### Gender diversity (all employees)

In 2020, the female share of FTEs remained unchanged from last year at 27 per cent. Read more about how Arla works with diversity on page 40.

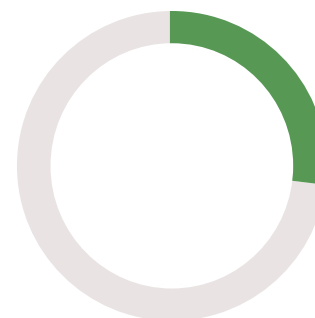
#### Gender diversity (in management)

26 per cent of positions at director level or above were held by women, which is unchanged compared to last year.

#### Gender diversity (in Executive Management Team)

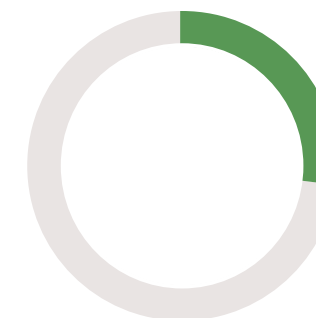
14 per cent of the Executive Management Team members were women, compared to 29 per cent last year. The decrease is explained by the departure of the previous CFO.

### Gender diversity for all employees, 2020



Female 27%  
Male 73%

### Gender diversity for all employees, 2019



Female 27%  
Male 73%

**ESG Table 2.2.a Gender diversity for all employees**  
(all employees)

	2020	2019	2018	2017	2016
Total share of females	27%	27%	27%	26%	26%

**ESG Table 2.2.b Gender diversity in management**  
(diversity in management)

	2020	2019	2018	2017	2016
Share of females at director level or above	26%	26%	23%	22%	22%

**ESG Table 2.2.c Gender diversity in Executive Management Team**

	2020	2019	2018	2017	2016
Share of females in Executive Management Team (EMT)	14%	29%	29%	29%	29%



### Accounting policies

#### Gender diversity (all employees)

Gender diversity is defined as the share of female FTEs compared to total FTEs. Gender diversity is based on FTEs as at 31 December 2020. It covers all white-collar and blue-collar employees.

#### Gender diversity (in management)

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

#### Gender diversity (in Executive Management Team)

Gender diversity in management is defined as the share of females in the Executive Management Team (EMT) as at 31 December 2020.

Social figures

## 2.3 GENDER PAY RATIO



### Gap between male and female salary unchanged

Paying equal salaries for the same job regardless of gender is a basic requirement for an ethical and responsible company. In Arla, men and women in the same or equivalent jobs receive the same level of pay. This is ensured through well-defined and fixed salary bands across all job categories.

The primary aim of the gender pay ratio is to ensure equitable treatment between genders and show where women are represented in the company hierarchy. In 2020, the median male salary at Arla was 5 per cent higher than the median female salary, which is unchanged compared to last year.

ESG Table 2.3 Gender pay ratio

	2020	2019	2018
Gender pay ratio	1.05	1.05	1.06



### Accounting policies

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



### Uncertainties and estimates

The ESG reporting guidelines issued by the Danish Financial Association and Nasdaq, recommends including the total workforce in the equation. However, due to data limitations we only disclose the gender pay ratio for the white-collar workforce. It is estimated that including blue-collar employees would reduce the gap, as males are overrepresented in the blue-collar workforce.

Social figures

## 2.4 EMPLOYEE TURNOVER



### Employee turnover decreased

Attracting and retaining the right people are imperative to the success of Arla's business. Employee turnover shows the fluctuation in the workforce. Turnover is broken down by voluntary turnover (i.e. the employee decides to leave the company) and involuntary turnover (i.e. the employee is dismissed). With such differentiation, turnover is an indicator of talent retention at Arla and also indicates the efficiency of operations.

Employee turnover decreased to 10 per cent compared to 12 per cent last year. The development was driven by a decrease in voluntary turnover to 6 per cent, the lowest level in the last five years, and possibly impacted by the Covid-19 situation. The involuntary turnover remained unchanged compared to last year at 4 per cent.

ESG Table 2.4 Employee turnover

	2020	2019	2018	2017	2016
Voluntary turnover	6%	8%	8%	8%	9%
Involuntary turnover	4%	4%	4%	3%	5%
<b>Total turnover</b>	<b>10%</b>	<b>12%</b>	<b>12%</b>	<b>11%</b>	<b>14%</b>



### Accounting policies

Employee turnover is calculated as the ratio of total employees leaving to the total number of employees in the same period. The figure refers to the number of employees and not to FTE.

Turnover is calculated for all employees on a permanent contract and includes several reasons for their departure, such as retirement, dismissal and resignation. Departures are only included in the calculation from the month when remuneration is no longer paid (e.g. some tenured employees may be entitled to remuneration for a few months after their dismissal).

Social figures

2.5 FOOD SAFETY - NUMBER OF PRODUCT RECALLS



Number of product recalls decreased

As a global food company, food safety is key to Arla. A core responsibility for Arla is to ensure that products are safe for consumers to eat and drink, and that the content of the product is clearly and appropriately labelled on the packaging. Food safety is also one of our most important indicators towards consumers, signalling that Arla's products are produced and labelled according to the highest quality standards.

In 2020, the number of product recalls fell to 1 compared to 4 last year. Arla is dedicated to ensuring that its products are safe to consume and works continuously across the value chain, including with suppliers, to reduce the number of recalls to as close to zero as possible. All product incidents must be dealt with in a timely manner to ensure the safety of our consumers as well as the legality and quality of product and brand protection (Arla or private label). The handling of all public recall incidents follows a detailed and standardised process. Product incident management is also tested annually.

ESG Table 2.5 Recalls

	2020	2019	2018	2017	2016
Number of recalls	1	4	2	10	6



Accounting policies

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

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

Social figures

2.6 ACCIDENTS



Accidents remains key priority

Arla has a complex and long value chain and offers a large variety of jobs across geographies. Our employees are key to the success of Arla, and it is our ambition to provide all employees with safe and healthy working conditions. Arla is committed to preventing accidents, injuries and work-related illnesses.

A systematic approach to target-setting and tracking is applied to mitigate risks and reduce problems in an ongoing close collaboration with employees across the organisation. Accidents resulting in injuries can be lost-time accidents (LTAs) as well as non-lost-time accidents (minor). The number of LTAs per 1 million working hours decreased to 5 compared to 6 last year.

ESG Table 2.6 Accidents (per 1 million working hours)

	2020	2019	2018	2017	2016
Accident frequency	5	6	8	10	11



Accounting policies

Accidents are defined as any sudden and unplanned event that results in personal injury, ill health, or damage to or loss of property, plant, materials or the environment, or a loss of business opportunity.

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

All employees sustaining injury or illness related to the work place are required to report it to their team leader/manager as soon as reasonably practical, regardless of severity. Employees at all sites have access to a mobile application where they can quickly and easily report any accidents. Notification must be done prior to the injured party leaving work. Accidents reported after the end of the injured party's working day may not be accepted as a workplace accident. However, there could be accidents which are not reported. The number of accidents is reported monthly to the Board of Directors and Executive Management Team.

Governance data

### 3.1 GENDER DIVERSITY - BOARD OF DIRECTORS



Share of females unchanged from last year

Gender diversity on the Board of Directors is important, partly to ensure that both genders are represented at a high level, and partly to bring a variety of perspectives to the business. Ensuring gender diversity on the Board of Directors is also a legal requirement in Denmark. The current Board of Directors consists of 15 farmer owners, three employee representatives and two external advisors, where only owner representatives are elected by the Board of Representatives by the general meeting. Four of these 20 board members are female, reflecting a ratio of 20 per cent female and 80 per cent

male which is unchanged compared to last year. In accordance with section 99b of the Danish Financial Statements Act, only members elected by the Board of Representatives can count in the Board of Directors figure. In 2020, two of the 15 farmer owners on the Board of Directors were female which equates to a composition of 13 per cent female and 87 per cent male, which is unchanged compared to last year. In 2019, Arla set a 4-year target to achieve a female representation on the Board of Directors of at least 13 per cent.

ESG Table 3.1 Gender diversity on Board of Directors

	2020	2019	2018	2017	2016
Share of females on Board of Directors	13%	13%	13%	12%	7%



Accounting policies

The gender diversity ratio is calculated based on the members of the Board of Directors elected by the

general meeting and excludes employee representatives and advisors to the Board of Directors.

Governance data

### 3.2 BOARD MEETING ATTENDANCE



Meeting attendance remains high

Attendance at the board meetings by the members of the Board of Directors ensures that all Arla's owners and employees are represented when important strategic decisions are made. Arla's board members are very dedicated, and as a general rule all board members attend all meetings unless they are prevented from doing so due to health reasons.

In 2020, board attendance increased to 99 per cent from 96 per cent last year. Information on board members can be found on page 42 to 44.

ESG Table 3.2 Board meeting attendance

	2020	2019	2018	2017	2016
Number of meetings	10	10	13	9	9
Attendance	99%	96%	99%	99%	98%



Accounting policies

The board meeting attendance ratio is calculated as the sum of board meetings attended per board member and the total possible attendance.

The current Board of Directors consists of three employee representatives, two external advisors and 15 owners. When calculating board meeting attendance, all 20 board members are included.

## Governance data

### 3.3 GENERAL ACCOUNTING POLICIES

#### Basis for preparation

The consolidated environmental, social and governance (ESG) data is based on ongoing monthly and annual reporting procedures. The consolidated data complies with the same consolidation principles as the consolidated financial statements unless described separately in the definition section of each ESG note. All reported data follows the same reporting period as the consolidated financial statements.

#### Materiality and reporting scope

When presenting the consolidated ESG data, management focuses on presenting information that is considered of material importance to stakeholders, or which is recommended to be reported by relevant professional groups or authorities.

To establish what is material for this report, a materiality analysis was conducted in 2017. The analysis involved consumers, customers, owners, non-profit organisations and financial institutions in Denmark, Sweden, the UK and Germany. All stakeholder groups received a survey and were asked to prioritise 22 defined areas of interest. Moreover, a group of non-profit organisations was interviewed to get a deeper understanding of their views and opinions. In addition to prioritising the group's activities, these results were used to improve communication processes and widen the reporting scope. Based on results from the materiality analysis and constant tracking of consumer preferences, climate, food safety and animal care were identified as focus areas. Recycling and waste, transparent and accountable business were also ranked as highly important to Arla's stakeholders. The materiality analysis undertook a light update in 2020 with unchanged conclusions compared to the 2017 analysis.

The figures disclosed in the consolidated ESG data section were chosen based on the materiality analysis, but also consider the maturity of data to ensure high data quality on each KPI. In some cases, it was concluded that current data tracking or collection capabilities do not provide sufficient data quality to satisfy disclosure to the highest standards, despite the fact that the figures could be of material importance to stakeholders. In these cases, the necessary steps to improve data tracking and collection have been initiated and the plan is to extend the ESG reporting in 2021 and beyond.

This section was inspired by the principles and recommendations of the The Danish Finance Society/ CFA Society Denmark, FSR – Danish Auditors and Nasdaq published in the ESG reporting guidelines booklet in 2019. Where maturity and availability of data allowed, recommended ESG figures were added to this section. In the coming years, plans are to widen the scope of reporting to fully comply with best practice in ESG reporting.

The above priorities are reflected throughout the Annual Report: Animal welfare (page 35), governance principles (page 38-39) and diversity policies (page 40) are reported at length in the management review, while in this section definitions, data and accounting policies related to Arla's greenhouse gas emissions (Note 1.1), animal welfare (Note 1.4), food safety (Note 2.5), waste and recycling (Note 1.3), and diversity (Note 2.2 and 2.3) are presented, making Arla's business more transparent and accountable.

Environmental KPIs (Note 1.1-1.3) included data from all production and logistical sites. This, together with milk, external waste handling, external transport and packaging cover all material activities in Arla's value chain. The environmental impact related to offices, business travel and other less material activities was not included in the total emission figure. This scope also applies to the accident KPI, Note 2.6, however accidents at head offices in Denmark, UK, Sweden and Germany were also included.

#### Comparison figures

In line with ESG reporting guidelines, environmental data is presented in absolute figures to ensure comparability. Where relevant, a measure for progress towards Arla's previously communicated internal targets is included. Baselines and comparison figures are restated according to Arla's restatement policy. By default, Arla's baseline emissions are reviewed every five years from the target base year (2020, 2025, 2030), if no significant structural or methodological changes trigger a recalculation before. Every 5 years, Arla assesses if the structural changes (e.g. acquisitions or divestments) in the past years reach the significance threshold when added together in a cumulative manner. Each year, Arla assesses if the structural changes that year reach the significance threshold (see below) by themselves or when added together.

A threshold is defined for each Science Based Target:

- Scope 1 and 2: 5 per cent change compared to the base year
- Scope 3 per kg of raw milk: 3 per cent change compared to the base year
- Every time baseline emissions are recalculated due to significant structural changes in the company (as defined above), historic figures are also recalculated and reported alongside the non-recalculated (actual) historic emission figures. This provides the reader with more clarity to understand Arla's actual emissions each year. Other externally reported ESG KPIs are only restated if material mistakes in the previous years' reporting are discovered. The materiality of mistakes is determined on a case-by-case basis.

In accordance with the restatement policy and Science Based Target, Arla restated the baseline in 2020, primarily driven by the switch to market-based accounting.

# INDEPENDENT AUDITOR'S COMBINED ASSURANCE REPORT

## TO THE STAKEHOLDERS OF ARLA FOODS AMBA

At the request of the Management of Arla Foods Amba (hereafter Arla) we have performed a combined reasonable and limited assurance engagement on the environmental, social and governance (hereafter ESG) statements in the Annual Report on pages 121-133 for the period 1 January 2020 to 31 December 2020.

As a result of our assurance engagement we shall conclude whether the information in the ESG statements in the Annual Report is free of material misstatement and has been prepared in accordance with the reporting approach and criteria described on pages 121-133. The degree of assurance expressed in the conclusion is reasonable except for the Scope 3 calculations on farm level, found on pages 122-123. For this indicator the assurance expressed is limited.

### Management's responsibility

Arla's Management is responsible for selecting the reporting approach and criteria described on pages 121-133, and for the preparation and presentation of the ESG statements in the Annual Report in accordance with the reporting criteria. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the ESG statement in the Annual Report, such that it is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on Arla's ESG statements in the Annual Report based on our procedures and evidence obtained.

We conducted our engagement in accordance with the International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE 3000) and additional requirements under Danish audit legislation. Those standards require that we plan and perform our engagement to obtain limited or reasonable assurance about whether, in all material respects, the ESG statements in the Annual Report is presented in accordance with the reporting approach and criteria described on pages 121-133, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

### Our independence and quality control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and additional requirements applicable in Denmark and have the required competencies and experience to conduct this assurance engagement.

EY Godkendt Revisionspartnerselskab is subject to the International Standard on Quality Control (ISQC) 1 and thus uses a comprehensive quality control system, documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable requirements in Danish law and other regulations.

### Description of procedures performed

As part of our examination, we performed the below procedures:

- Interviews of relevant company professionals responsible for sustainability strategy, management and reporting, to understand the systems, processes and controls related to gathering and consolidating the information
- Conducting interviews with representatives from reporting dairy sites to obtain understanding and evidence of the data gathering, controls and consolidation process on site level. Conducting walkthroughs of processes to assess whether data have been collected and assessed as prescribed in Arla's manual for collection of ESG data
- Analytical reviews, including sensitivity analysis, trend analyses against previous period and cross-analysis against applicable parameters, of data supplied by Arla
- Evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management
- Obtain evidence on a sample basis that the information reconciles with underlying Arla documentation
- Evaluation of relevant internal and external documentation, on a sample basis, to determine the reliability of the non-financial information
- Evaluated the consistency of the information in the ESG statements in the Annual Report with the information in the Annual Report which is not included in the scope of our audit

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

The procedures performed on the information in scope of the reasonable assurance are more robust than those performed in connection with the limited assurance and therefore higher assurance is obtained than in a limited assurance engagement. Hence, the conclusion based on our limited assurance procedures does not comprise the same level of assurance as the conclusion of our reasonable assurance procedures. Since this engagement is combined, our conclusions regarding reasonable assurance and limited assurance are presented separately below.

### Conclusion

In our opinion the information in Arla's ESG statements in the annual report for the period 1 January 2020 to 31 December 2020 which has been subject to our reasonable assurance procedures have, in all material respects, been prepared in accordance with the reporting approach and criteria described on pages 121-133.

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the information in Arla's ESG statements in the annual report for the period 1 January 2020 to 31 December 2020 subject to our limited assurance procedures is not prepared, in all material respects, in accordance with the reporting approach and criteria described on pages 121-133.

Viby, 10<sup>th</sup> of February 2021

EY Godkendt Revisionspartnerselskab  
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