

Second-Party Opinion

Arla Foods Sustainable Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the Arla Foods Sustainable Financing Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines 2018 and Green Loan Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – (i) Energy Efficiency, (ii) Renewable Energy, (iii) Eco-efficient, Circular Economy Adapted Products, Production Technologies and Processes, (iv) Environmentally Sustainable Management of Living Natural Resources and Land Use, (v) Sustainable Water and Wastewater Management, (vi) Green Buildings, (vii) Socioeconomic Advancement and Empowerment, and (viii) Access to Low-Cost, High-Nutrition Products – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers the eligible projects will contribute to the decarbonization of dairy industry and promote more sustainable dairy farming practices, while advancing the UN Sustainable Development Goals, particularly Goal 2, 6, 7, 8, 9 and 12.



PROJECT EVALUATION / SELECTION Arla Foods has established a Sustainable Financing Committee (“Committee”), comprised of members from Treasury team and the VP from the Corporate Social Responsibility team to manage the project evaluation and selection process. Investment Office is responsible for the initial project screening. Then, the Committee will approve the eligible projects complying with the eligibility criteria. As a final step, the Investment Committee, composed of the CEO, the CFO and the COO in Arla Foods, will approve the selected projects. Sustainalytics considers this process as aligned with best market practice.



MANAGEMENT OF PROCEEDS Arla Foods will track the allocation of proceeds through a Sustainable Financing Register (“Register”). Pending full allocation, the unallocated proceeds will be credited to a bank account in conformity with the Company’s liquidity management and cash management policy. This is in line with market practice.



REPORTING Annual reporting will be available on the Arla Foods’ website until full allocation. Allocation reporting will include the overview of allocated, dispersed and unallocated proceeds, a list of eligible projects, descriptions and case studies of selected projects, and the share of financing and refinancing. Relevant impact metrics will also be reported which includes reduction in energy use, annual GHG emissions reduced/avoided and annual renewable energy generation. This is in line with market practice.

Evaluation date	February, 2020
Issuer Location	Viby, Denmark

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Introduction

Headquartered in Denmark, Arla Foods amba¹ (the “Company”, the “Issuer”, “Arla Foods”) is an international dairy company owned by approximately 9,900 dairy farmers in Denmark, Sweden, the UK, Germany, Belgium, Luxembourg and the Netherlands. The Company focuses on eight dairy categories (milk and powder, milk-based beverages, spreadable cheese, yogurt, butter and spreads, specialty cheese, mozzarella, and ingredients) through four brands (Arla, Lurpak, Puck and Castello).

Arla Foods has developed the Arla Foods Sustainable Financing Framework (the “Framework”) under which it may issue multiple green/social/sustainability bonds, loans, revolving credit facilities (RCFs) and commercial papers (CPs), and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that contribute to a reduction in the environmental footprint of the Company’s operations as well as promoting more sustainable dairy farming practices. The Framework defines eligibility criteria in eight areas which will be primarily invested within Arla Foods, and not the farms themselves:

Green eligible categories:

1. Energy Efficiency
2. Renewable Energy
3. Eco-efficient, circular economy adapted products, production technologies and processes
4. Environmentally Sustainable Management of Living Natural Resources and Land Use
5. Sustainable Water and Wastewater Management
6. Green Buildings

Social eligible category:

1. Socioeconomic Advancement and Empowerment
2. Access to Low-Cost, High-Nutrition Products

Arla Foods engaged Sustainalytics to review the Arla Foods Sustainable Financing Framework dated February, 2020 and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG)² and the Green Loan Principles 2018 (GLP)³. This Framework will be published in a separate document.⁴

As part of this engagement, Sustainalytics held conversations with various members of Arla Foods’ Treasury and CSR teams to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of Arla Foods’ Sustainability Bond Framework. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Arla Foods Sustainable Financing Framework and should be read in conjunction with that Framework.

¹ This Framework sets out the governance of Sustainability Financing Instruments for Arla Foods amba and the overall sustainability strategy for Arla Foods amba and its cooperative owners, referred to as Farmer Owners, together with Arla Foods amba referred to as Arla Foods. Arla Foods amba refers to Arla Foods amba including all subsidiaries.

² The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at: <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

³ Green Loan Principles 2018 are administered by the Loan Market Association (LMA) and are available at:

https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

⁴ The Arla Sustainable Financing Framework is available on Arla Foods’ website at: <https://www.arla.com/company/investor/bond-programme/>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Arla Foods Sustainable Financing Framework

Summary

Sustainalytics is of the opinion that the Arla Sustainable Funding Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018, Social Bond Principles 2018, Sustainability Bond Guidelines 2018 and the Green Loan Principles 2018. Sustainalytics highlights the following elements of Arla Foods' Sustainability Bond Framework:

- Use of Proceeds:
 - The eight use of proceeds categories – (i) Energy Efficiency, (ii) Renewable Energy, (iii) Eco-efficient, Circular Economy Adapted Products, Production Technologies and Processes, (iv) Environmentally Sustainable Management of Living Natural Resources and Land Use, (v) Sustainable Water and Wastewater Management, (vi) Green Buildings, (vii) Socioeconomic Advancement and Empowerment, and (viii) Access to Low-Cost, High-Nutrition Products – are recognized as impactful by the GBP and SBP 2018. Sustainalytics believes that investments in eligible projects will lead to a reduction in the environmental footprint of Arla Foods' operations while promoting more sustainable dairy farming practices.
 - Arla Foods applies a 3-year look-back period to refinancing, which Sustainalytics considers to be aligned with market practice. Additionally, Arla Foods has committed to report on the share of new financing versus refinancing in its annual reporting.
 - The Energy Efficiency category includes investments to Combined Heat and Power (CHP), LED lighting and innovative processes and technologies.
 - Regarding CHP, the Company limits its investments to facilities powered by mainly manure biomass supplied by the Arla Farmer Owners, aiming to reduce GHG emissions through capturing methane and meeting on-farm energy needs. Sustainalytics notes that Arla Foods excludes CHP units powered by natural gas sources.
 - Regarding innovative processes and technologies, Arla Foods intends to finance technologies, aiming to reduce water and energy use for the production of early life nutrition powders. Sustainalytics encourages Arla Foods to provide further disclosure on the financed technologies and report on the impact achieved in its annual reporting. Sustainalytics considers positively the objectives of this category, while noting the wide range of potential applications and encouraging (i) robust screening to ensure net-positive outcomes and (ii) project-level reporting to provide assurance to investors of the environmental benefits.
 - The Renewable Energy category includes investments to equipment for combustion of biogas and biomass boilers.
 - Regarding equipment for combustion of biogas, Arla Foods confirmed to Sustainalytics that the feedstock will be primarily sourced from agriculture sector in the form of manure, but a smaller quantity of organic waste may be sourced from food industries.
 - Arla Foods' biomass boilers will be focused on the utilization of forestry waste such as branches and scrap wood, in compliance with the Swedish Forestry Act and the Swedish Forest Agency.⁵ Sustainalytics views positively that the Company has indicated that international forest certification schemes, such as FSC, will be applied. (See Appendix 2 for Sustainalytics' assessment on the certification schemes.)
 - Although Eligible projects will be focused primarily on CAPEX, the Company may also finance OPEX related to (i) Environmentally Sustainable Management of Living Natural Resources and Land Use, and (ii) Eco-efficient, Circular Economy Adapted Products, Production Technologies and Processes. Specifically, these OPEX expenditures will be related to Product Life-Cycle

⁵ The Swedish Forest Agency is the authority responsible for the enforcement of parts of the Environmental Act. According to the Act, parties have an obligation to take consideration to nature, cultural heritage, reindeer husbandry and other interest. The law states that the forest is a renewable resource that is to be managed sustainably.

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- Management (PLM), Climate Checks on Farms, and Research and Collaboration, aiming to reduce CO₂ emissions through the Company's supply chain.
- Arla Foods uses credible third-party certifications for its green building eligibility criteria, namely BREEAM (Very Good and above), LEED (Gold and above) and DGNB (Gold and above). Sustainalytics considers the selected minimum certification levels to be aligned with market expectations and views the properties meeting such certification standards as having a positive impact. (See Appendix 1 for additional details on the certification schemes).
 - Arla Foods' Socioeconomic Advancement and Empowerment category includes investments in the development of local infrastructure for dairy production, including processing, production and marketing of milk in Nigeria through the public-private partnership between Arla Foods and the Kaduna State government, *Milky Way Partnership*. The financing is expected to create new jobs while empowering female and/or small dairy farmers.⁶ Sustainalytics recognizes the potential benefits of catalyzing domestic dairy production in Nigeria, as well as the role that the development of more sustainable dairy farming plays in the provision of access to infrastructure and services there. (See section 3 for more information on the positive impact.) The facilities being financed are subject to the recommendations for environmental practice contained in the *Environmental Audit*, conducted by Greenalluvia International Limited. Sustainalytics notes that the development of dairy production will create environmental risks, such as those related to land-use change and pollution, and increased livestock populations will inevitably result in increased GHG emissions. Sustainalytics encourages Arla Foods to, where feasible, ensure the implementation of clear environmental standards and measurements to reduce emissions, such as gas capture from manure. Such adherence is not required by the Framework, which Sustainalytics considers to be a limitation. (See Section 2 for more information on these risks.)
 - The Access to Low-Cost, High-Nutrition Products category includes investments to the production of milk powder in North Europe, which will be sold at lower prices targeted towards low-income consumers, *segment D and below*,⁷ in Nigeria. Sustainalytics recognizes the potential benefits of imported high-quality milk powder at lower prices for Nigeria, as well as the role that imported milk powder plays in meeting rising consumer demand, where local dairy sector is not sufficiently placed. (See section 3 for more information on the positive impact.) However, Sustainalytics notes that the import of milk powder can create social risks, such as hindering the local development of milk powder, decelerating the establishment of governmental policies, and creating downward pressure on local dairy farmer's income. As part of this engagement, Sustainalytics held extensive conversations with various members of Arla Foods' CSR teams and external NGOs to understand the potential adverse impact of imported milk powder in Nigeria and Arla Foods' risk mitigation practices to mitigate such risks. (See Section 2 for more information on Arla Foods' risk mitigation practices) Sustainalytics notes that although Arla Foods does not have control on targeting specific end consumer segment for its milk powder, which Sustainalytics considers to be a limitation, the Company implemented a market penetration mechanism to reach low-income consumers in Nigeria. According to the company's estimates, 55 million low-income consumers are reached with a penetration rate of 44.5%. Sustainalytics encourages Arla Foods to report on the number of low-income beneficiaries to be reached and provide disclosure on its penetration mechanism to ensure the impact for low-income population.
- Project Evaluation and Selection:
 - Sustainable Financing Committee ("Committee"), comprised of members from Treasury team and the VP from the Corporate Social Responsibility team, will manage the project evaluation and selection process. Initial project screening will be conducted by a Sustainable Investment Office. After this screening process, the Committee will approve the eligible projects meeting the eligibility criteria. As a final step, the Investment Committee, composed of the CEO, the CFO and the COO in Arla Foods, will approve the selected projects, and the Investment Committee

⁶ Goodness Comes From Within, Arla Foods in Nigeria, at: https://www.agribusiness-africa.de/fileadmin/user_upload/GAAF_17/Presentation_Arla_GAAF2017.pdf

⁷ Segment D and below is a low income group segment defined by Kantar Nigeria based on three interdependent variables; (i) Type/area of dwelling, (ii) Occupation/job status, (iii) Ownership of household durables.

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will give its final approval. This project evaluation and selection process is in line with best market practice.

- Management of Proceeds:
 - Arla Foods will track the net use of proceeds through a Sustainable Financing Register (“Register”). Pending full allocation of the net bond proceeds, the unallocated proceeds will be held following the Company’s liquidity management policy. The Company’s process for the management of proceeds is in line with market practice.
- Reporting:
 - Arla Foods will report annually on the allocation of proceeds and the impact of Sustainable Financing Instruments on the Company’s website until full allocation of net proceeds.
 - Allocation reporting will include the overview of allocated, dispersed and unallocated proceeds, a list of eligible projects, descriptions and case studies of selected projects, and the share of financing and refinancing.
 - Impact reporting will disclose impact indicators including reduction in energy use (%), annual GHG emissions reduced/avoided (Tonnes CO₂e), annual renewable energy generation (MWh), annual water savings (m³), share of recycled packaging material and boxes and number of jobs created. Sustainalytics views this reporting process as aligned with market practice.

Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the Arla Foods’ Sustainability Bond Framework aligns to the four core components of the Green Bond Principles 2018 and Social Bond Principles 2018. For detailed information please refer to Appendix 3: Sustainability Bond / Sustainability Bond Programme External Review Form.

Section 2: Sustainability Performance of the Issuer

Contribution of Framework to Issuer’s sustainability targets and strategy

Arla Foods has integrated sustainability considerations into its corporate strategy and business operations, particularly through three guiding principles: (i) Fossil to Renewable, (ii) Circular Economy, and (iii) Cooperation in Value Chain. Arla Foods has demonstrated its commitment to mitigate climate change and GHG emissions while promoting more sustainable dairy farming practices through the following efforts:

- Arla Foods’ company-wide Environmental Strategy 2020 focuses on sustainable farming, climate, water and energy, and zero waste through the following commitments: (i) Reducing GHG emissions from farms by 30% per kilo milk by 2020 compared to the 1990 baseline, (ii) Reducing GHG emissions by 25% by 2020 within operations, packaging and transport compared to the 2005 baseline, (iii) Using at least 50% of renewable energy at the corporate level and improving energy efficiency by 3% per year at the site level by 2020, (iv) 100% recyclable packaging by 2020, (v) Improving water efficiency in production by 3% annually, (vi) Zero waste to landfill by 2020 from the Company’s sites, and (vii) Half reduction in foods waste in production by 2030 compared to the 2015 baseline.⁸
- Arla Foods has set its target of a 30% reduction in total CO₂ emissions by 2030 and net zero by 2050. Considering the Arla Foods’ climate impact on milk production, transport, production and packaging, Company’s 2050 strategy will focus on three areas where the Company has highest impacts; (i) better climate through achieving carbon net zero, (ii) clean air and water, and (iii) more nature through increasing biodiversity and access to nature.⁸
- Arla Foods provides disclosure on its sustainability progress. In 2017, farm-level emissions were reduced by 24% compared to the 1990 base year. In 2018, renewable energy accounted for 27% of total energy share and total water consumption reduced by 9.5% compared to the 2005 baseline. Overall, by 2018, the Company’s climate impact from Arla Foods’ operations such as packaging and transport has dropped by 22% compared to the 2005 level. Furthermore, the Company already achieved its goal for packaging to reduce climate change impact by 25% compared to the 2005 baseline by utilizing less fossil-based plastic and more renewable sources for packaging.⁸
- Arla Foods has committed to providing sustainable diets for everyone. By 2030, the Company aims to reach 30 million people in the lower income segment with a daily serving size of seven grams of skimmed

⁸ Arla Foods, Corporate Responsibility Report 2018, at: https://www.arla.com/492906/contentassets/133b70e4e42d4f9eb4e57eb53a7c2719/arlacsr2018_uk.pdf

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milk. As of 2018, the Company reached 15 million people in the lower income segment with a daily serving size of seven-grams of skimmed milk.⁸

Considering the above, Arla Foods has demonstrated its commitment to climate change mitigation and promoting more sustainable dairy farming. Sustainalytics is of the opinion that Arla Foods Sustainable Financing Framework is well positioned to advance the Company's sustainability strategy and performance.

Well positioned to address common environmental and social risks associated with the projects

While the eligible categories are recognized as impactful by the Sustainability Bond Principles 2018, Sustainalytics recognizes that the eligible projects may lead to potential negative environmental and social risks such as occupational health and safety, biodiversity loss, land-use change, pollution, improper treatment of waste, soil erosion, conversion of natural habitat and the increased carbon footprint of dairy industry. Moreover, import of milk powder in Nigeria may hinder the local development of milk powder production, decelerate the establishment of governmental policies on dairy industry, and affect local dairy farmer's income, which can lead to an adverse impact on human rights, such as adequate living and work.

Due to the difference in standards and practices in Arla Foods' operations in Europe versus Africa, the remainder of this section has divided by these respective regions.

Sustainalytics highlights the following measures that Arla Foods has taken to mitigate related risks in Europe:

- Arla Foods's quality assurance programme, *Arlagården*, consists of four cornerstones; (i) milk composition, (ii) food safety, (iii) animal welfare, and (vi) environmental considerations.⁹ With regard to environmental considerations, Arla Foods' farm owners are obliged to safeguard the surrounding environment and the cultural landscapes through the implementation of environmental standards, mainly related to biodiversity, use of chemicals, and management of waste. Furthermore, Arla Foods complies with all applicable legislation in the countries where the Company operates such as the Danish Environmental Law (*Miljøloven*)¹⁰ and Danish Environment Protection Act (*Miljøbeskyttelsesloven*)¹¹ on the use of nitrogen, management of slurry and composted waste, and safe use of chemicals. Following these Danish law and Act, to ensure the standardized conformances and ongoing risk mitigation, Arla Foods carries out audits, conducted by qualified auditors, at least once every three years.
- As of 2019, Arla Foods introduced a voluntary incentivized programme, *Climate Check*, in seven European countries which is a global standardized tool identifying GHG emissions on farm. Each Arla farmer owners are encouraged to record data from herd size to housing, milk volumes, feed usage and feed production, energy and fuel usage and renewable energy production.¹² By collecting data, the Climate Check can track emissions on farms and this record can provide actions required by farmers to reduce GHG emissions. The data collected by the Climate Check programme is verified by an external advisor who provides advice on action plans.¹²
- Arla Foods' farmer owners incorporate manure into soil immediately to avoid the loss of nitrogen which can reduce emissions and produce renewable energy, as well as it can be used for biogas production. Moreover, many of Arla Foods' farmer owners produce renewable energy through solar panels, biogas or wind turbines, which produce 61% of the total electricity usage at their farms.¹³
- Suppliers of Arla Foods must comply with the requirements set in Arla Foods Supplier Code of Conduct which address environmental, social and human rights aspects.¹⁴ Accordingly, the Supplier shall respect the rights of children to develop and to receive an education, and cannot engage in or tolerate the use of child labour as well as the Supplier shall full responsibility for their impact on environment.¹⁵

⁹ Arla Foods, Arlagården Quality Assurance Programme version 6.0, (2019), at: <https://www.arlafoods.es/48ea05/globalassets/arla-global/company--overview/responsibility/pdf/quality-assurance-programme/20190101-arlagarden-gap-v.-6.0-january-2019-uk-translation.pdf>

¹⁰ Danish Environmental Law (*Miljøloven*), at: <https://mst.dk/service/lovstof/danske-miljoelove/>

¹¹ Danish Environment Protection Act (*Miljøbeskyttelsesloven*), at: <https://www.retsinformation.dk/Forms/R0710.aspx?id=210726>

¹² Arla Foods, Arla farmers will use big data to accelerate journey towards carbon net zero, at: <https://www.arla.com/company/news-and-press/2019/pressrelease/climate-check/>

¹³ Arla Foods, Aiming for a Fossil Free Future, at: <https://www.arla.com/sustainability/our-climate-ambition/renewable-energy/>

¹⁴ Arla Foods, CODE OF CONDUCT FOR SUPPLIERS TO THE ARLA FOODS GROUP OF COMPANIES, at: <https://www.arla.com/498959/globalassets/arla-global/company--overview/responsibility/code-of-conduct/code-of-conduct-for-suppliers/arla-foods-code-of-conduct-for-suppliers.pdf>

¹⁵ In Arla Foods' Code of Conduct for Suppliers, child labour is defined as employing young people under the age of completion of compulsory schooling or younger than 15 years (14 years where this is allowed according to ILO convention 138). If local legislation or local regulations stipulate a higher age limit, this has to be observed.

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- Arla Foods complies with international guiding principles such as UN Global Compact,¹⁶ UN Guiding Principles on Business and Human Rights,¹⁷ and OECD Guidelines for Multinational Enterprises,¹⁸ which urge businesses to support internationally proclaimed human rights and promote high environmental responsibility.¹⁹
- As part of its investments to biomass boilers, Arla Foods has committed to financing sustainably sourced wood feedstock that is certified under FSC, which is a credible certification scheme that mitigate controversial land use change activities, such as deforestation and conversion of high value conservation forests, and the implementation of riparian buffer zones and a variety of other environmental management controls. Sustainalytics provides an overview of the scheme in Appendix 2.

Sustainalytics highlights the following measures that Arla Foods has taken to mitigate related risks in Nigeria:

- As part of Arla Food's investments in Nigeria, *Milky Way Partnership*, the Kaduna State government engaged Greenalluvia International Limited to execute an Environmental Audit (EA), which was conducted based on a set of regulations and criteria.²⁰ The EA demonstrates a comprehensive approach on the management of environmental and social risks, including the management of environment, energy, water, materials, waste, air quality, occupational health and safety, transportation, staff awareness and training, among others. Sustainalytics highlights the following mitigation, enhancement and improvement commitments that *Milky Way Partnership* has made to comply with the findings of EA:
 - Regarding biodiversity; (i) vegetation clearing will be remained limited to the project area, and (ii) intact indigenous vegetations outside the footprint will be conserved as habitat.
 - Regarding soil erosion; (i) natural drainage patterns will be preserved during clearing, and (ii) the use of erosion control structure in areas prone to erosion will be considered.
 - Regarding habitats; (i) vegetation clearing will be limited to approved widths, and (ii) disturbed areas that are no longer required for project operations will be monitored for regrowth.
 - Regarding waste; (i) no waste from project activities will be disposed or stored of on site, (ii) waste generated at the site is minimized by reusing and recycling, (iii) hazardous waste generated at the site are disposed of at a suitably licensed hazardous waste disposal facility.
 - Regarding soil and water pollution; (i) prevention of pollutants and wastes from entering into surface and ground water will be ensured, and (ii) water containing pollutants will be discarded into a conservancy tanks for removal from site.
 - Regarding energy management, energy loss will be prevented, and thus CO₂ emissions will be minimized through the provision and maintenance of generators and equipment.
- With regards to potential risks related to import of milk powder in Nigeria's, Arla Foods engaged with NGOs, research institutions, government, UN organisations, trade consultants, business partners, and competitors to conduct a comprehensive Human Rights Assessment. As part of the assessment, a number of potential negative human rights impacts have been identified such as; (i) Right to work for local dairy farmers, resulting from the structural underdevelopment of local dairy sector, (ii) Right to adequate living for local dairy farmers, as outcompeting locally produced fresh milk can lead to a decline, and (iii) Hindering the development of local production due to limited access to market, lower prices of imports and high production costs. In order to mitigate such risks and ensure a sustainable development for Nigeria's dairy sector, Arla Foods committed to address following actions to strengthen the local dairy value chain in Nigeria:
 - Partnership with Global Alliance for Improved Nutrition (GAIN) with a focus on smallholder farmer nutrition in Nigeria will be expanded. Arla Foods has already established cooperation with GAIN Nordic in Ethiopia and intends to further collaboration with the Ministry of Agriculture and Rural Development, Ministry of Health, GAIN Nigeria, FAO and GAIN Nordic.
 - Framework conditions for a sustainable growth of the Nigerian dairy market will be identified with local and international stakeholders to ensure a comprehensive approach, including food security, access to affordable nutrition, political measures and business incentives.
 - Farmers training programme which focuses on training in technical, organizational and entrepreneurial skills related to farming, processing, marketing and establishing cooperatives

¹⁶ United Nations Global Compact, The Ten Principles of the UN Global Compact, at: <https://www.unglobalcompact.org/what-is-gc/mission/principles>

¹⁷ United Nations Human Rights, Guiding Principles on Business and Human Rights, at: https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

¹⁸ Complying with the UN Guiding Principles on Business and Human Rights, the Company conducts human rights due diligence including the process of high-level risk assessment, human rights country assessment, and business partner assessment.

¹⁹ OECD, The OECD Guidelines, (2011), at: <https://www.oecdwatch.org/oecd-ncps/the-oecd-guidelines-for-mnes/>

²⁰ The environmental audit was conducted based on set of criteria that affect the operation of Milk Way Partnership. These include the following; National Environmental (Food, Beverages and Tobacco Sector) Regulations, 2009, National Environmental (Sanitation and Waste Control) Regulations, 2009, National Environmental (Control of Vehicular Emissions from Petrol and Diesel Engines) Regulations, 2011, National Environmental (Surface and Groundwater Quality Control) Regulations, 2011, National Environmental (Noise Standards and Control) Regulations, 2009

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will be established. As part of the framework, Arla Foods intends to finance training initiatives such as farm visits, seminars, conferences to ensure that the local farmers can advance and further promote more sustainable dairy farming practices.

- The ways of stimulating creation and competence development in the dairy sector through a diversity approach will be explored, with a special focus on recruitment and competence development of young people and women. Arla Foods' financing of development of local infrastructure, *Milk Way Partnership*, is expected to create new jobs while empowering female and/or small dairy farmers.²¹
- Methods and models which enables Arla Foods to understand which potential negative impact of imported milk powder can be mitigated and monitored. Arla Foods has engaged with Copenhagen Business School to evaluate and benchmark inclusive business models in West African dairy value chains and to identify the potential role of NGOs, government and businesses.

Given the above, while Sustainalytics recognizes the potential environmental and social risks of dairy farming without ensuring adherence to clear standards, Sustainalytics is of the opinion that Arla Foods can mitigate potential environmental and social risks associated with the eligible projects and encourages the company to ensure the implementation of clear standards and mitigation measures identified by the Environmental Audit, as well as additional measurements to reduce emissions, such as gas capture from manure.

Section 3: Impact of Use of Proceeds

All eight use of proceeds categories are recognized as impactful by GBP and SBP. Sustainalytics has focused on few below where the impact is specifically relevant in local context.

Impact of facilitating energy efficiency and renewable energy for dairy industry

Dairy production contributes to climate change through GHG emissions, mainly associated with manure storage, enteric fermentation, processing of raw milk into commodities, production of packaging, refrigeration and transportation.²² The production of milk accounted for 2.9% of the total global GHG emissions in 2013.²³ Dairy farms have faced challenges and opportunities from rising energy costs and environmental impacts since they use more energy than other agricultural operations.²⁴ In regard to energy requirements in milk processing, energy is used for pasteurization, cooling and storing milk, heating water, lighting and ventilation.²⁵ High volumes of heat and electricity are used for keeping dairy production processes functional.²⁶ For example, a significant portion of energy consumption is required for cooling the milk to maintain quality and low bacteria counts.²⁴ Combined Heat and Power (CHP) facilities powered by biomass can help meet the demand by generating heat and power concurrently instead of separately.²⁶ Together with CHP, biomass boilers can also improve energy efficiency as a low-carbon and renewable energy source which burn biological plant material (mostly wood) to generate heat or both heat and electricity together.²⁷ Biomass boilers can be approximately 80-90% more energy efficient than conventional fossil fuel boilers.²⁸

By financing energy-efficient processes and solutions such as LED lighting, CHP, Biogas facilities and biomass boilers, Arla Foods can have a positive impact on improving energy efficiency in the dairy industry and contribute to reduction in its GHG emissions.

²¹ Goodness Comes From Within, Arla Foods in Nigeria, at: https://www.agribusiness-africa.de/fileadmin/user_upload/GAAF_17/Presentation_Arla_GAAF2017.pdf

²² Food and Agriculture Organization of the United Nations (FAO), GHG Emissions from the Dairy Sector, (2010), at: <http://www.fao.org/3/k7930e/k7930e00.pdf>

²³ Food and Agriculture Organization of the United Nations (FAO), Tackling climate change through livestock – A global assessment of emissions and mitigation opportunities, (2013), at: <http://www.fao.org/3/a-i3437e.pdf>

²⁴ DeLaval, Dairy farm energy efficiency, (2011), at: <http://www.milkproduction.com/Library/Scientific-articles/Management/Dairy-farm-energy-efficiency/>

²⁵ Food and Agriculture Organization of the United Nations (FAO), Energy Requirements in Milk Processing, at: <http://www.fao.org/3/T0515E/T0515E03.htm>

²⁶ DairyReporter (Jim Cornall), Generating dairy savings through combined cooling, (2018), at: <https://www.dairyreporter.com/Article/2018/10/19/Generating-dairy-savings-through-combined-cooling>

²⁷ Renewable Energy Hub UK, Biomass Boiler, at: <https://www.renewableenergyhub.co.uk/main/biomass-boiler-information/>

²⁸ Renewable Energy Hub UK, Should I install a Biomass Boiler?, at: <https://www.renewableenergyhub.co.uk/main/biomass-boiler-information/should-i-install-a-biomass-boiler/>

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Importance of catalysing domestic dairy production in Nigeria

As part of the public-private partnership between Arla Foods and the Kaduna State government, *Milky Way Partnership*, Arla Foods intends to finance the creation and development of local infrastructure for sustainable farming including processing, production and marketing of milk in emerging markets in Nigeria.²⁹ The project aims to develop the domestic dairy industry and empower nomadic dairy farmers by providing permanent farmlands with access to infrastructure and services.³⁰

Due to rapidly increasing population of Nigeria, which is predicted to grow to approximately 400 million by 2050, milk consumption is expected to increase by 577% by 2050 compared to 2015 levels.³¹ Although estimated annual dairy consumption is 1.7 million tonnes in Nigeria, domestic production is calculated as 0.6 million tonnes, which makes dairy a significant import for Nigeria, accounting for 6% of the country's total food import.³² Since domestic dairy production plays a significant role in closing the gap between demand and supply, the dairy sector is prioritized in the *Agricultural Promotion Policy 2016-2020*, as part of the *Economic Recovery and Growth Plan*³³ of the country.³⁴

Based on the above, considering the importance of facilitating domestic dairy production in Nigeria, Arla Foods' investments in creation and development of local infrastructure for sustainable farming can contribute to increasing the local capacity for dairy production while supporting socio-economic development of small-scale farmers.

Importance of advancing environmentally sustainable practices in dairy farming

As mentioned in Section 2, Arla Foods aims to reduce the environmental impact of its operations and promote more sustainable dairy farming in the sector. To guide their efforts towards this goal and measure the progress, Arla Foods has developed the (i) Product Life-Cycle Management (PLM) which calculates the environmental impact of each product/ingredient and measure the expected CO₂ emissions of potential products, and (ii) Climate Checks on Farms, aiming to establish a baseline and provide guidelines for farmers in order to reach company's carbon net zero goal.

The livestock sector is estimated to emit 7.1 gigatonnes CO₂e per annum, which accounts for 14.5% of global human-induced GHG emissions.³⁵ Milk production accounts for 20% of the livestock sector's emissions.³⁵ In particular, feed production and processing, and enteric fermentation from ruminants are determinants of emissions.³⁵ The consumption of fossil fuel used for transportation of milk products also contributes to emissions by 20% of the sector.³⁵ In regard to mitigating the negative environmental impact of dairy farming, it is crucial to maintain high level environmental standards through the proper management of landscape, biodiversity, soil, water, air, waste, energy consumption and GHG emissions.³⁶ Unsustainable dairy farming activities can lead to the conversion of natural habitat, degrade local water resources, result in the loss of biodiversity and soil erosion while contributing to climate change by producing GHG emissions.³⁷ Given the comprehensive impact of the dairy farming activities on the environment, the transition towards more sustainable dairy farming systems plays an important role in mitigating climate change and limiting the global average temperature increase to 1.5 degrees Celsius as specified by the IPCC 2018 report.³⁸

²⁹ Arla Foods (Press Release), Arla scales up its commitment to develop a sustainable dairy sector in Nigeria, (2019), at: <https://www.arla.com/company/news-and-press/2019/pressrelease/arla-scales-up-its-commitment-to-develop-a-sustainable-dairy-sector-in-nigeria-2918204/>

³⁰ Dairy Reporter (Press Release), Arla commits to sustainable dairy sector in Nigeria, (2019), at:

<https://www.dairyreporter.com/Article/2019/09/16/Arla-commits-to-sustainable-dairy-sector-in-Nigeria>

³¹ FAO, The future of livestock in Nigeria: Opportunities and challenges in the face of uncertainty, (2019), at:

<http://www.fao.org/3/ca5464en/CA5464EN.pdf>

³² PwC, Transforming Nigeria's Agricultural Value Chain, (2017), at: <https://www.pwc.com/ng/en/assets/pdf/transforming-nigeria-s-agric-value-chain.pdf>

³³ The Federal Republic of Nigeria, Economic Recovery and Growth Plan, at: <https://statehouse.gov.ng/policy/economy/economic-recovery-and-growth-plan/>

³⁴ FAO, Africa Sustainable Livestock 2050 – Nigeria, at: <http://www.fao.org/in-action/asl2050/countries/nga/en/>

³⁵ Food and Agriculture Organization of the United Nations (FAO), Tackling climate change through livestock – A global assessment of emissions and mitigation opportunities, (2013), at: <http://www.fao.org/3/a-i3437e.pdf>

³⁶ SAI Platform Dairy Working Group, Principles & Practices for Sustainable Dairy Farming, (2009), at:

<https://saiplatform.org/uploads/Library/PPsDairy2009-2.pdf>

³⁷ WWF, Industries, Dairy, at: <https://www.worldwildlife.org/industries/dairy>

³⁸ IPCC Global Warming of 1.5 °C, (2018), at: <https://www.ipcc.ch/sr15/>

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Based on the above, Sustainalytics considers Arla Foods can support the transition towards environmentally sustainable dairy farming while reducing environmental footprint of dairy products in territories where the company implements its high-level environmental standards and mitigation strategies.

Impact of imported milk powder in Nigeria

Arla Foods intends to finance the production of milk powder in North Europe, which will be sold at lower prices targeted towards low-income consumers in Nigeria. Although milk segment accounts for about 61% of the total dairy industry turnover in Nigeria, there is a growing gap between the demand and supply, resulting from structural and socioeconomic constraints, such as lack of infrastructure to operate cold supply chains and the short shelf-life of locally produced milk.³⁹ Moreover, due to lack of consistent governmental investments and policies to support the dairy sector, there has been a significant increase in imported milk powder and other dairy products⁴⁰ Combining the rapidly growing population and urbanization with infrastructural barriers, it is not expected to close this gap in the near future.⁴¹

Based on the above, although Sustainalytics recognizes that the provision of imported milk powder cannot be considered as a long-term solution for addressing challenges in local dairy industry, it believes that Arla Foods can help meeting the gap between demand and supply in Nigeria, where there is no sufficient local dairy production in place.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Energy Efficiency	9. Industry, innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Sustainable water and wastewater management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally 6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
Eco-efficient, circular economy adapted products, production	8. Decent work and economic growth	8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental

³⁹ Arla Foods, Human Rights Assessment in Nigeria, (2015), at: https://www.arla.com/globalassets/arla-global/company--overview/responsibility/human-rights/arla-human-rights-assessment-in-nigeria-november-2015_1.pdf

⁴⁰ Abiodun, E., Dairy leads Nigerian food sector with N347bn revenue, (2014), at: <http://www.thisdaylive.com/articles/dairy-leads-nigerian-food-sector-with-n347bn-revenue/187424/>

⁴¹ Arla Foods, Human Rights Assessment in Nigeria, (2015), at: https://www.arla.com/globalassets/arla-global/company--overview/responsibility/human-rights/arla-human-rights-assessment-in-nigeria-november-2015_1.pdf

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technologies and processes		degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead
Environmentally sustainable management of living natural resources and land use	12. Responsible consumption and production	12.2 By 2030, achieve the sustainable management and efficient use of natural resources
Green buildings	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Socioeconomic advancement and empowerment	2. Zero hunger	2.c Adopt measures to ensure the proper functioning of food commodity markets and their derivatives and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility
Access to low-cost, high-nutrition products	2. Zero hunger	2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round

Conclusion

Arla Foods has developed the Arla Foods Sustainable Financing Framework (the “Framework”) under which it intends to issue green, social and sustainability bonds and use the proceeds to finance projects that support the reduction in the environmental footprint of Arla Foods’ operations while promoting more sustainable dairy farming practices in the categories (i) Energy Efficiency, (ii) Renewable Energy, (iii) Sustainable Water and Wastewater Management, (iv) Eco-efficient, Circular Economy Adapted Products, Production Technologies and Processes, (v) Environmentally Sustainable Management of Living Natural Resources and Land Use, (vi) Green Buildings, (vii) Socioeconomic Advancement and Empowerment, and (viii) Access to Low-Cost, High-Nutrition Products.

Despite some of the limitations outlined above, related to Socioeconomic Advancement and Empowerment, and Access to Low-Cost, High-Nutrition Products Sustainalytics is of the opinion that the projects financed by Arla Foods can provide a positive social and environmental impact and encourages Arla Foods to provide detailed reporting on the impact achieved.

Sustainalytics considers Arla Foods’ processes for projects selection and evaluation, management of proceeds and reporting to be in line with market practice. Based on the above Sustainalytics considers Arla Foods to be well-positioned to issue green, social and sustainability bonds and believes that the Arla Foods Sustainable Financing Framework is impactful, transparent and in alignment with the four components of the Sustainability Bond Guidelines 2018.

Appendices

Appendix 1: Comparison of Referenced Green Building Certification Schemes

	LEED	BREEAM	DGNB
Background	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK. Used for new, refurbished and extension of existing buildings.	The German Green Building Certification or DGNB was developed in 2007 by the non-profit German Sustainable Building Council in partnership with the German Federal Ministry of Transport, Building, and Urban Affairs in order to actively encourage sustainable building.
Certification levels	Certified Silver Gold Platinum	Pass Good Very Good Excellent Outstanding	Bronze Silver Gold Platinum
Areas of Assessment: Project Management	Integrative process, which requires, from the beginning of the design process, the identification and creation of synergies between the various project stakeholders regarding the construction choices and the technical systems.	Management (Man) addresses various aspects: project management, deployment, minimal environmental disturbance worksite and stakeholder engagement.	Technically, any project can be applied anywhere in the world through a tailored process of making appropriate local adaptations on a case-by-case basis.
Areas of Assessment: Environmental Performance of the Building	<ul style="list-style-type: none"> Energy and atmosphere Sustainable Sites Location and Transportation Materials and resources Water efficiency Indoor environmental quality Innovation in Design Regional Priority 	<ul style="list-style-type: none"> Energy Land Use and Ecology Pollution Transport Materials Water Waste Health and Wellbeing Innovation 	<ul style="list-style-type: none"> Environment Economic Sociocultural and functional aspects Technology Processes Site
Requirements	Prerequisites (independent of level of certification) + Credits with associated points These points are then added together to obtain	Prerequisites depending on the levels of certification + Credits with associated points This number of points is then weighted by item ⁴² and gives a BREEAM level	Percentage-based performance index The total performance index (expressed as a percentage) is calculated by adding the six key areas of assessment. The

⁴² BREEAM weighting: Management 12%, Health and wellbeing 15%, Energy 19%, Transport 8%, Water 6%, Materials 12.5%, Waste 7.5%, Land Use and ecology 10%, Pollution 10% and Innovation 10%. One point scored in the Energy item is therefore worth twice as much in the overall score as one point scored in the Pollution item

	<p>the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>	<p>of certification, which is based on the overall score obtained (expressed as a percentage). Majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their BREEAM performance score.</p> <p>BREEAM has two stages/ audit reports: a 'BREEAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.</p>	<p>environmental, economic, socio-cultural and functional aspects and technical quality each account for 22.5% of the total, process accounts for 10% and the site quality is given a separate grade.</p> <p>Depending on the total performance index, a DGNB award will be given to the project, starting from Silver (at least 50%), then Gold (at least 65%) and finally Platinum (at least 80%). Bronze is awarded for already existing buildings and is conferred as the lowest rank with a total performance index of at least 35%.</p>
Performance display			
Accreditation	<p>LEED AP BD+C LEED AP O+M</p>	<p>BREEAM International Assessor BREEAM AP BREEAM In Use Assessor</p>	<p>DGNB Auditor DGNB Compliance Testing Team DGNB Certification Committee</p>
Qualitative considerations	<p>Widely recognised internationally, and strong assurance of overall quality.</p>	<p>Used in more than 70 countries: Good adaptation to the local normative context. Predominant environmental focus. BREEAM certification is less strict (less minimum thresholds) than HQE and LEED certifications.</p>	<p>DGNB certification is based on current European Union standards and norms and is being recommended by the German Federal Ministry of Transport, Building and Urban Development. DGNB System has partnerships in a number of countries, among which Bulgaria, Denmark, Austria, Thailand and Switzerland.</p>

Appendix 2: Sustainalytics' Analysis of FSC

Certification	Forest Stewardship Council (FSC)⁴³
Background	<p>The Forest Stewardship Council (FSC) is a not-for-profit, non-governmental organization established in 1993 that promotes environmentally appropriate, socially beneficial, and economically viable forest management by having organization's forest management planning and practices independently evaluated against FSC's standards. The organizational members (such as forestry companies, environmental groups, and retailers) and individual members (such as academics, students, and activists) join one</p>

⁴³ Forest Stewardship Council, FSC Principles and Criteria for Forest Stewardship: https://ca.fsc.org/preview_principles-criteria-v5_a-1112.pdf

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	of three chambers (Environmental, Social, and Economic chambers), ⁴⁴ each holding equal voting and veto power on all FSC matters.
Type of standards and geographic coverage	<ul style="list-style-type: none"> • Forest Management certification (for single/multiple applicant(s) – industrial or private forest owners, forest licence holders, community forests, and government-managed forests) • Small and Low Intensity Management Forests (SLIMFs) program (for small forests and forests that are managed at low intensity would be eligible) • Chain of Custody certification (for supply chain companies' planning, practices and products – all operations that want to produce or make claims related to FSC-certified products must possess this certificate) • Controlled Wood verification (for assurance that 100% virgin fibre mixed with FSC-certified and recycled fibre originates from a verified and approved source)
Principles and criteria (Scope)	Based on FSC Principles and Criteria for Forest Stewardship has Principles, including: <ul style="list-style-type: none"> • Compliance with Laws • Workers' Rights and Employment Conditions • Indigenous Peoples' Rights • Community Relations • Benefits from the Forest • Environmental Values and Impacts • Management Planning • Monitoring and Assessment • High Conservation Values • Implementation of Management Activities
Requirements	The certification bodies that conduct audits to FSC's Forest Management Standard must be accredited by Accreditation Services International (ASI), which was founded by FSC in 2006.
Stakeholder engagement ⁴⁵	It includes public consultation (Free, Prior and Informed Consent) open for 60 days. FSC has a formal dispute resolution system. In most cases, the decisions made on FSC complaints can be appealed.

Appendix 3: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name: Arla Foods Finance A/S

⁴⁴ There are regional differences in the governance structure. For example, FSC Canada established an additional fourth chamber, the Aboriginal Chamber, in 1993, thereby giving voting and veto power equally among all four chambers. However, internationally, Indigenous Peoples are generally the members of the Social chamber.

⁴⁵ There are some limitations with regards to maintaining the consistency across regions for sustainable forestry certifications, such as FSC, especially with how indigenous rights are treated.

Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: Arla Foods Sustainable Financing Framework
[specify as appropriate]

Review provider's name: Sustainalytics

Completion date of this form: February 17, 2020

Publication date of review publication: *[where appropriate, specify if it is an update and add reference to earlier relevant review]*

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs and SBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

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The eight use of proceeds categories – (i) Energy Efficiency, (ii) Renewable Energy, (iii) Eco-efficient, Circular Economy Adapted Products, Production Technologies and Processes, (iv) Environmentally Sustainable Management of Living Natural Resources and Land Use, (v) Sustainable Water and Wastewater Management, (vi) Green Buildings, (vii) Socioeconomic Advancement and Empowerment, and (viii) Access to Low-Cost, High-Nutrition Products – are recognized as impactful by the GBP and SBP 2018. Sustainalytics believes that investments in eligible projects will lead to a reduction in the environmental footprint of Arla Foods' operations while promoting more sustainable dairy farming practices.

Although Eligible projects will be focused primarily on CAPEX, the Company may also finance OPEX related to (i) Environmentally Sustainable Management of Living Natural Resources and Land Use, and (ii) Eco-efficient, Circular Economy Adapted Products, Production Technologies and Processes. While Sustainalytics notes that the SBG prefer project-based investments, we acknowledge that such expenditures will be important to provide positive environmental impact and reduce the Company's environmental footprint.

Arla Foods' Socioeconomic Advancement and Empowerment category includes investments in the development of local infrastructure for dairy production, including processing, production and marketing of milk in Nigeria through the public-private partnership between Arla Foods and the Kaduna State government, *Milky Way Partnership*.

The Access to Low-Cost, High-Nutrition Products category includes investments to the production of milk powder in North Europe for low income consumers, *segment D and below*, in emerging markets, particularly Nigeria. Sustainalytics recognizes the potential benefits of imported high-quality milk powder at lower prices for Nigeria, as well as role that imported milk powder plays in meeting rising consumer demand, where local dairy sector is not sufficiently placed.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input checked="" type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (<i>please specify</i>): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|--|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |

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- Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs
 Other (please specify): Access to Low-Cost, High-Nutrition Products

If applicable please specify the social taxonomy, if other than SBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Sustainable Financing Committee ("Committee"), comprised of members from Treasury team and the VP from the Corporate Social Responsibility team will manage the project evaluation and selection process. Initial project screening will be conducted by a Sustainable Investment Office. After this screening process, the Committee will approve the eligible projects meeting the eligibility criteria. As a final step, the Investment Committee, composed of the CEO, the CFO and the COO in Arla Foods, will approve the selected projects, and the Investment Committee will approve investments under EUR 5 million. This project evaluation and selection process is in line with best market practice.

Evaluation and selection

- Credentials on the issuer's social and green objectives
 Documented process to determine that projects fit within defined categories
- Defined and transparent criteria for projects eligible for Sustainability Bond proceeds
 Documented process to identify and manage potential ESG risks associated with the project
- Summary criteria for project evaluation and selection publicly available
 Other (please specify):

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
 In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Arla Foods will track the net use of proceeds through a Sustainable Financing Register ("Register"). Pending full allocation of the net bond proceeds, the unallocated proceeds will be held following the Company's liquidity management policy. The Company's process for the management of proceeds is in line with market practice.

Tracking of proceeds:

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds

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Other (*please specify*):

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (<i>please specify</i>): |

4. REPORTING

Overall comment on section (if applicable):

Arla Foods will report annually on the allocation of proceeds and the impact of Sustainable Financing Instruments on the Company's website until full allocation of net proceeds. Allocation reporting will include the overview of allocated, dispersed and unallocated proceeds, a list of eligible projects, descriptions and case studies of selected projects, and the share of financing and refinancing. Impact reporting will disclose impact indicators including reduction in energy use (%), annual GHG emissions reduced/avoided (Tonnes CO₂e), annual renewable energy generation (MWh), annual water savings (m³), share of recycled packaging material and boxes and number of jobs created. Sustainalytics views this reporting process as aligned with market practice.

Use of proceeds reporting:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (<i>please specify</i>): |

Information reported:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (<i>please specify</i>): Balance of unallocated proceeds, descriptions and case studies of selected projects, and the share of financing and refinancing. | |

Frequency:

- | | |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Impact reporting:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
|--|---|

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- Linkage to individual bond(s) Other (please specify):

Frequency:

- Annual Semi-annual
 Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings
 Decrease in water use Number of beneficiaries
 Target populations Other ESG indicators (please specify):

Means of Disclosure

- Information published in financial report Information published in sustainability report
 Information published in ad hoc documents Other (please specify): As a separate report on the company's website
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

<https://www.arla.com/company/investor/bond-programme/>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion) Certification
 Verification / Audit Rating
 Other (please specify):

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Second Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.

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- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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Sustainalytics

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For more information, visit www.sustainalytics.com

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