

# Our responsibility

ARLA FOODS' CORPORATE SOCIAL RESPONSIBILITY REPORT 2011



Arla<sup>®</sup>  
Closer to Nature<sup>™</sup>

# A larger company greater responsibility



*is a company that is changing rapidly. We are constantly seeking to optimise and rationalise our development means that our impact on the environment is constantly changing. Therefore it is good to know that we are doing well when it comes to sustainability and corporate responsibility.*

Some of the highlights of this year's sustainability report is the new environmental strategy we launched in early summer. The 2020 environmental strategy covers the overall production chain from raw materials to the consumer, and involves both dairy farmers and us. It is an important part of our efforts to reduce Arla's total environmental and climate impact. It is also worth mentioning that the number of workplace accidents at Arla has managed to decrease and that the results from our employee survey are very positive. One of the key findings is that employees' commitment to Arla is still at a very high level, and that our leadership and committed employees are contributing to good results and taking a high level of responsibility.

Next year, we will continue our efforts to improve our tools and routines for environmental purchasing. As part of our environmental strategy, we will be working closely with our dairy farmers to develop new standards for sustainable milk production. We will also continue to focus on health and safety, encouraging consumers to lead a healthy lifestyle and supporting their well-being.

## Support the Global Compact

Just a few days ago, Arla signed up for the Global Compact, the UN initiative to promote ethical business practices. As a member, we are committed to upholding the Global Compact's ten fundamental principles in our strategy and corporate culture, and ensuring this commitment with our employees, customers, farmers, suppliers, partners, customers and other stakeholders.

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*Unless otherwise indicated, the facts and figures in this report cover Arla Foods' fully owned dairy companies in 2011. Some examples from fully owned subsidiaries and joint venture dairy companies are also included. The structure of the report follows Arla Foods' Corporate Social Responsibility Code of Conduct, which was first published in the spring of 2008. More information is available at [www.arla.com](http://www.arla.com).*

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# A larger company imposes greater responsibility

*Arla is a company that is changing rapidly. We are growing, launching new products, and constantly seeking to optimise and rationalise our business. This continuous development means that our impact on the surrounding world is also changing constantly. Therefore it is good to know that Arla has a sound foundation to build on when it comes to sustainability and corporate responsibility.*

One of the highlights of this year's sustainability development is the new environmental strategy we launched in early summer. The 2020 environmental strategy considers the overall production chain from cow to consumer, and involves both dairy farmers and consumers in our efforts to reduce Arla's total environmental and climate impact. It is also worth noting that the number of workplace accidents at Arla has continued to decrease and that the results of this year's employee survey are very positive. One result of the survey is that employees' commitment and pride in working for Arla is still at a very high level. Sound leadership and committed employees are the basis for good results and taking a high level of responsibility.

During the next year, we will continue our work to further improve our tools and routines for responsible purchasing. As part of our environmental strategy, we will be working closely with our dairy farmers to set new standards for sustainable milk production. We will also continue to focus on health issues, inspiring consumers to lead a healthy lifestyle that improves their well-being.

## **We support the Global Compact**

Four years ago, Arla signed up for the Global Compact, the UN initiative to promote ethical business practices. As a member, we are committed to observing the Global Compact's ten fundamental principles in our strategy and corporate culture, and to sharing this commitment with our employees, owners, suppliers, partners, customers and other stakeholders.

This report is part of this work, as a presentation of a selection of the year's initiatives. The report is also part of Arla's annual report for 2011 that can be downloaded from [www.arla.com](http://www.arla.com).

## **Continued responsibility**

The major changes at Arla during the past year are as a consequence of our growth strategy. All of our major mergers and acquisitions have been approved by the competition authorities. In addition, consumers' perception of Arla has improved considerably in the measurements performed in Denmark, Sweden and Finland. We interpret this to mean that our corporate social responsibility strategy is recognised and ensures our credibility in the market. These positive signals give us new energy to continue to work hard to become an even more sustainable company. You are welcome to join our journey – in this report and on our website!

Aarhus, February 2012



Peder Tuborgh, CEO

# Why is responsibility important to us?

All consumers should be able to feel confident about our food. This is why safe products are a fundamental requirement for Arla.

Our owners, the dairy farmers, should have the ability to build and plan for the future. This requires Arla to have a profitable and competitive business.

We want to use the resources of the world in a sustainable way. By having a long term environmental strategy we can help to make this happen.

We want to influence the development of society and set an example. As a large player, we have the opportunity to do so.

We want to attract colleagues that are engaged, and we want to have good relations with everyone around us. We can achieve this by taking responsibility.

## Responsibility work in Arla

Arla's principles for ethics and sustainable development are formulated in our Code of Conduct – "Our responsibility – Arla Foods' Code of Conduct", that can be downloaded from [www.arla.com](http://www.arla.com).

The Code gives us a tool and a compass that shows how we are expected to act and take responsibility for our business. The areas that the Code describes are the same as the ones covered in this report. The report describes how our work with responsibility succeeds in the different areas, and it also gives us the opportunity to follow up on, and clarify, the areas we need to focus on in the future.

To ensure this internal follow up, we have established a committee group with CEO Peder Tuborgh as Chairman and with representatives from senior management. The task of the committee is also to prioritise the areas that need special attention to ensure the company's long term responsibility.



Our responsibility  
– Arla Foods' Code of Conduct.

## About Arla

### Arla in brief 2011

#### OWNERS

Arla Foods is an agricultural cooperative owned by 8,024 dairy farmers – 3,514 in Denmark, 3,865 in Sweden and 645 in Germany.

#### NUMBER OF COLLEAGUES

|                 |               |
|-----------------|---------------|
| Denmark         | 7,641         |
| Sweden          | 3,490         |
| UK              | 2,695         |
| Germany         | 544           |
| Finland         | 449           |
| Netherlands     | 367           |
| Other countries | 2,231         |
| <b>Total</b>    | <b>17,417</b> |

#### NET REVENUE

DKK 54.9 billion, of which 78 per cent comes from our core markets of UK, Sweden, Denmark, Germany, Finland and the Netherlands.

#### PROFIT FOR THE YEAR

DKK 1.3 billion.

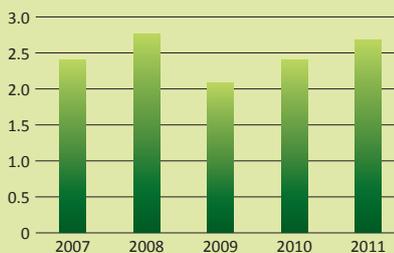
#### RAW MILK IN MILLION OF KILOS

|                 |              |
|-----------------|--------------|
| Denmark         | 4,320        |
| UK              | 2,011        |
| Sweden          | 1,820        |
| Germany         | 417          |
| Finland         | 257          |
| Netherlands     | 202          |
| Other countries | 214          |
| <b>Total</b>    | <b>9,241</b> |

#### MANAGEMENT

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

#### MILKPRICE, DKK per kilo



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

*Arla Foods is a global dairy company and a cooperative owned by Swedish, Danish and German dairy farmers. Our products are sold under well-known brands in more than 100 countries. We have production facilities in 12 countries and sales offices in 18 more. Arla is also the world's largest supplier of organic dairy products.*

#### The milk price is affected by market conditions

Arla's objective is to ensure that the owners receive the highest payment possible for their raw milk. During the year 2011, the milk price changed repeatedly, in both directions, due to changes in demand on the global market. At the end of the year, Arla's performance price (payment to owners plus consolidation) totalled DKK 2.80 per kilogram of milk, which amounted to an increase of DKK 0.28 during the year.

#### More Arla owners

Arla continues to work in accordance with the company's growth strategy and during the year several mergers and acquisitions were made. In the spring, the owners and the EU competition authorities approved the merger of Arla and the German dairy cooperative company, Hansa-Milch, which brought 645 new German farmers into Arla. In July, Arla acquired a dairy in Sundsvall from the Swedish dairy cooperative, Milko, and during the autumn, Arla completed a merger with Milko, resulting in 554 new Swedish dairy farmers becoming Arla owners. As a consequence of the mergers, the Arla Board has been expanded with one representative from Germany and one from northern Sweden. Towards the end of the year, another business deal was approved – the acquisition of the South German dairy, Allgäuland-Käseereien.

A joint venture between Arla and the German dairy company, DMK, was also realised. The new company will be producing whey proteins for the food industry and whey protein production is an important part of the Arla growth strategy.

#### Major reorganisations

During the year, significant reorganisations were completed as new dairies were included in the group and others were closed down. Due to the rapidly changing dairy market, we have also identified a need to focus more closely on our core markets. For this reason, during the autumn, a decision was made to create three new, independent business areas in the company: Sweden, Denmark and Germany/The Netherlands, which are now represented in executive management. The former Nordic organisation has been dissolved and the new organisation for Germany and the Netherlands, which came into existence on 1 January 2012, is based in Düsseldorf in Germany.

Organisational and structural changes meant that we were forced to make some employees redundant, but the total number of Arla employees has increased due to acquisitions and mergers. We do our utmost to offer employees who have been made redundant alternative employment elsewhere in the group.

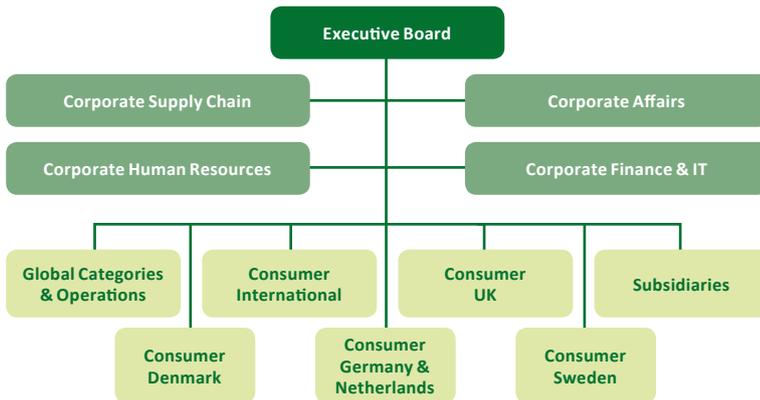
#### New environmental strategy – from cow to consumer

In May, Arla introduced a new environmental strategy, which, in addition to production, transportation and packaging, also includes the dairy farms. In partnership with the dairy farmers, we will set new standards for sustainable dairy production.

#### Financing growth

Arla's ambitious growth strategy requires capital. Just like the Swedish and Danish owners' decision in 2010 to increase their investment in the company, Arla's British dairy farmers decided to increase their investment in Arla in the UK. Their investment, amounting to DKK 600 million, will be made over a period of 8–10 years.

**ORGANISATION OF THE ARLA GROUP**



**CORPORATE CENTRE AND GLOBAL BUSINESS SERVICES (GBS)**

**Corporate Supply Chain** handles contact with owners, technical issues, quality, environment, global procurement and investment under the management of Povl Krogsgaard.

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

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

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

**BUSINESS GROUPS**

**Global Categories & Operations (GCO)** has general responsibility for Arla's three global brands – Arla®, Lurpak® and Castello® – and responsibility for innovation. This business area also handles milk planning, industrial sales, production of cheese, butter and spreads and milk powder in Scandinavia, under the management of Jais Valeur.

**Consumer Business Groups** are responsible for the production of fresh produce, logistics, marketing and sales of Arla products in the different geographic areas.

**Consumer Denmark**, under the management of Peter Giørtz-Carlson.

**Consumer Sweden**, also including Finland, under the management of Christer Åberg.

**Consumer UK**, under the management of Peter Lauritzen.

**Consumer Germany & Netherlands**, under the management of Tim Ørting Jørgensen (took office on 1 January 2012).

**Consumer International**, including other countries, under the management of Finn S Hansen (took office on 1 January 2012).

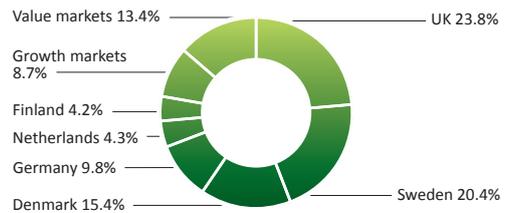
**Subsidiaries** wholly owned by Arla: Arla Foods Ingredients, Rynkeby Foods, Cocio and Dairy Fruit.

**OWNER DEMOCRACY**

- 8,024 owners**  
3,865 Swedish, 3,514 Danish and 645 German
- 54 district councils**  
29 in Sweden and 25 in Denmark
- 8 regions**  
4 in Denmark and 4 in Sweden
- The Board of Representatives**  
150 members and 10 employee representatives
- The Board of Directors**  
16 members and 4 employee representatives

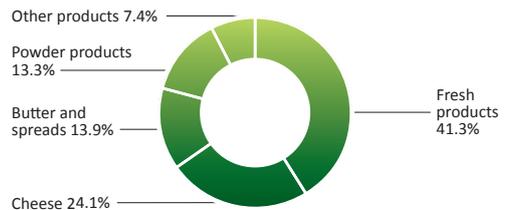
The Board of Representatives is Arla's top decision-making body. Arla's Board of Directors is elected by the regions and the Board of Representatives. All elections and polls are held according to the 'one member, one vote' principle.

**REVENUE BY MARKET**



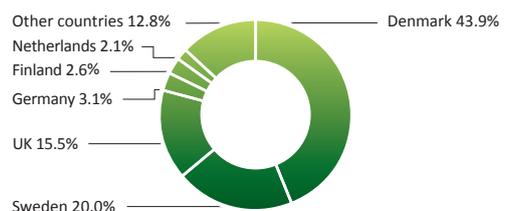
Arla's total revenue has increased by 12 per cent since 2010.

**REVENUE BY PRODUCT GROUP**



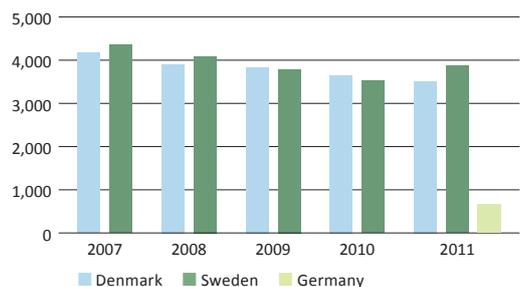
The share of Arla's total revenue by product group has not changed much since 2010.

**ARLA COLLEAGUES**



The total number of colleagues, approximately 17,400, has increased by approximately 1,200 compared to last year.

**OWNERS IN ARLA**



During the year, the number of owners has increased by 12 per cent, mainly because of the mergers with the dairy cooperatives Hansa-Milch, Germany, and Milko, Sweden. Arla's 645 German owners are still members in Hansa-Milch.

## Fair business and good citizenship

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

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



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

### **IMPROVED REPORTING POSSIBILITIES**

Arla has developed a global whistleblowing policy which will be implemented in 2012.

### **REVIEWED MERGERS**

The mergers between Arla and the dairy cooperatives, the German Hansa-Milch and Swedish Milko, have been approved by the competition authorities.

### **SUPPORT FOR GLOBAL COMPACT**

For the last four years, Arla has been a member of the UN Global Compact initiative and since 2009, has participated in the organisation's Nordic Network.

### Continued competition law compliance

The management of Arla is continually committed to the Group's compliance with the competition laws in force at any time. In 2011, as in previous years, Arla conducted training seminars throughout the organisation to ensure that managers and staff were fully informed of the requirements of competition law and to assist them in complying with those rules.

Arla is well aware of the challenges of integrating new companies into the Group following mergers and acquisitions, and in 2011, integration processes have also focused on compliance training.

### Merger between Arla and Milko

On October 5, 2011, Arla's owners approved the proposed merger of Arla and the Swedish dairy cooperative Milko ekonomisk förening, allowing Milko's dairy farmers to become members of Arla Foods amba. Following investigations by the Swedish competition authority, the merger was approved on October 26, 2011, subject to Arla selling Milko's plant situated at Grådö, Sweden, to a third party approved by the competition authority and also selling some of the Milko brands.

### Whistleblowing policy to be implemented

In 2009 Arla considered the potential benefits of implementing a whistleblowing policy throughout the Group, as a complement to the existing line organisation reporting. In 2010 the issue was debated within Arla Foods' CSR Committee and the Committee made the decision to have a global policy. Accordingly, in 2011, Arla developed a global whistleblowing policy.

The policy will be implemented in 2012 and will provide an additional opportunity to report information about possible irregularities over and above the traditional methods. It will be available to Arla colleagues, who will have the option to report on issues covered by our Code of Conduct "Our Responsibility", either through a web link or a hotline provided by an external system provider. Reports may be made anonymously and will be reviewed by a small number of case handlers within Arla.

### Competition in the Danish retail sector

In June 2011, the Danish Competition Authority published its report on the state of competition and other market conditions, specifically in the Danish retail sector. The report concludes that the retail chains have the upper hand when negotiating with suppliers due to the size of their business, which reduces the risk of large suppliers abusing their position in the market. The Danish Competition Authority also stated in the report that it has found no indications that large suppliers are in a position to abuse their dominant position in the market to cut off competitors.

### Standardised financial reporting

From 2012, Arla's annual report will be prepared in accordance with the International Financial Reporting Standards (IFRS). Read more about the changes towards further transparency on the following pages.

### GLOBAL COMPACT SUPPORT

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

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

### PROTECTION OF ARLA'S BRANDS

Arla has a well established global intellectual property policy outlining our general and global view on how we make use of intellectual property in the course of business. The policy ensures that intellectual property aspects are considered, if relevant, from merger and acquisition activities to look-a-like products.

### BRIBERY AND FACILITATION PAYMENTS

In 2011, no incidents of either bribery or facilitation payments were reported. Arla sees this as the result of the Group's dedication to

eliminating any such payments and addressing ethical matters in a responsible manner.

### UK BRIBERY ACT

On 1 July 2011, the Bribery Act came into force in the UK. Although Arla's global policies have, for a number of years, clearly prohibited the making of and receipt of bribes, the UK business has put in place an additional senior management statement and policy, and will be undertaking a training programme to ensure that all relevant staff are trained in the requirements of the Act.

To support the zero tolerance policy in relation to bribery and corruption, individuals must not only avoid active involvement in acts of bribery (giving or taking) but must also ensure that there is no passive acceptance, for example, turning a blind eye. The policy and its practical application will be reviewed on a regular basis.

### HANSA-MILCH MERGER

In April 2011, the European Commission approved the merger between Arla and Hansa-Milch. The dairy business of Hansa-Milch has been transferred to Arla, whereas Hansa Arla Milch eG remains a cooperative with its own members, and joins Arla Foods amba in that capacity. This means that the democratic structures of Hansa Arla Milch eG are preserved. In addition, the northern German dairy

cooperative has its own representatives on the boards and committees of Arla Foods amba.

### ALLGÄULAND-KÄSEREIEN ACQUISITION

In the beginning of November 2011, the European Commission approved Arla's acquisition of Allgäuland-Käseereien.

With the acquisition of Allgäuland-Käseereien, Arla now runs operations in both northern and southern Germany.

### DISPUTES

Arla is very rarely involved in legal disputes. It is the policy of Arla to seek to resolve all disputes in an amicable fashion, with due account being taken to the rights and obligations of the company.

### LEGAL STRUCTURE COMMITTEE

To strengthen our focus on compliance with national company laws in force and local corporate governance principles, and to reduce complexity, Arla has formed a Legal Structure Committee. The committee's role is to prepare for the execution of Arla's growth strategy, which will involve the incorporation of further legal entities in the group.

## In search of the optimal business management system

*Increasingly tough competition and fast-changing market conditions is the reality for many multinational companies today. The question is how do you best manage operations in a world that is so difficult to predict? Arla has decided to dispose of traditional budgets and is taking a fresh look at many business management principles. In place of the usual methods, Arla is looking to the future, working to meet ambitious targets and comparing themselves only with the very best.*

During the past couple of years, the Arla management team has adopted a number of measures regarding new internal business management systems and the same business planning tool will be applied throughout the group. A budget has become a thing of the past and, with effect from 2012, Arla's financial reporting will be made in accordance with the International Financial Reporting Standards (IFRS). These changes are regarded as indispensable for Arla to fulfil the company strategy – to pay the highest possible milk price to the owners, to be a responsible company and to continue to grow.

“In daring to introduce such significant changes, I believe that Arla management has demonstrated a great deal of courage,” says Frederik Lotz, who is executive vice president corporate finance and IT, and initiated these changes.

### Difficult to predict the future

Before starting to discuss the internal changes, Frederik Lotz thinks that you have to study the conditions facing major international companies today. He identifies three determining trends in our surroundings. Firstly, he believes that it has become much more difficult to predict the future and make prognoses, since the markets are increasingly integrated and dynamic.

“In the past, we were better able to estimate by what percentage we would grow and the milk price was more stable,” says Frederik Lotz. “Anyone who tries to predict anything today will always have a tough task as things do not always turn out as we thought.”

It has also become more important that companies behave responsibly. It is no longer enough merely to offer good products to the consumers and a good milk price to owners. Today companies also have to play an active part in the world, maintain a socially responsible profile, and demonstrate a clear commitment to social issues. Frederik Lotz sees this as being important to Arla at all levels, from how the

company raises funding for growth to how it attracts new staff.

The third, equally important factor is increasing competition at the global level.

“Any company that cannot compete, simply disappears. Demands are ever more challenging and Arla has recognised this fact and is determined to grow. We do not intend to stand and watch,” says Frederik Lotz.

### Abolished budgets

One of the first initiatives in the internal change process was to break with the traditional kind of budgets, against which business groups' performance was measured in the past. Instead Arla has decided to fundamentally redefine what success means. Having last year launched entirely new internal financial reporting systems, the company now compares current performance with the same period of the previous year and asks the simple question – are we doing better?

“We have realised what many large corporations around the world are already sensing: that traditional budget methods have become a dinosaur. The rapidly changing world around us is making the budget irrelevant as it is being produced,” explains Frederik Lotz.

In the new system, Arla aims to compare itself with the most successful companies (not only those in the dairy and food products sector) and strives consistently to perform better and close in on these benchmarks. Arla sets itself very ambitious goals, called stretched targets. According to Frederik Lotz, although the business groups may not always be able to deliver these targets, the mere fact of aiming high is releasing energies and structural changes that would otherwise not materialise.

“This represents a deep cultural change,” says Frederik Lotz. “Succeeding in business is a daily contest.”

### A new kind of dialogue

Frederik Lotz believes that the changes have already resulted in a dialogue with more substance, ambition and energy. Focus is now on action oriented plans rather than spending time on explaining why the bottom line does not agree with the budget. Four times a year, representatives from each business group meet with a group representing senior management in a forum called Business Boards. Many issues are debated: Are we performing better



*“Faster decision-making and an ability to adapt faster to new conditions. This will be indispensable for our survival and profitability.”*

than last year? How far have we come towards achieving our stretched targets and what is needed to achieve them?

According to Frederik

Lotz, what is important is focusing on continuous improvements and working with value drivers that may catapult Arla towards its stretched targets. In the management world this approach is often referred to as a performance culture and this is exactly what Arla is seeking to achieve.

“In a performance culture, you insist on getting results and you are never satisfied. You strive to be the best and you are always adjusting your plans to adapt to the changes around you,” says Frederik Lotz. “This may be tough, but, on the other hand, you receive immediate feedback on what you did well and what you did poorly. There is no room for ambiguity. Transparency is the mother of any performance culture.”

Frederik Lotz expects the performance culture to have major consequences for the group. Everyone at Arla will be looking to find new solutions for products, structures, working methods, etc. He is convinced that the new approach will have a positive effect on the financial results and that it will help attract and retain talented colleagues.

### More transparency

From accounting year 2012, Arla will depart from Danish financial reporting principles and introduce financial reporting in accordance with the IFRS. The switch is motivated, among others, by a desire to compare Arla’s performance with other successful companies, although the IFRS also means that the company will deliver more information on its financial situation and therefore become more transparent than before. This in turn means that in future it will be easier to make acquisitions and to finance these from international banking institutions.

“We have to behave as if we were a company on the Stock Exchange,” says Frederik Lotz. “The IFRS will help us to become an even more professional company, which will strengthen our corporate image. Without an excellent corporate reputation, we will not succeed, so this is a step in the right direction.”

### Common business planning tool

The third major part in Arla’s internal business systems is

that the company in its entirety is using a common business planning tool. The Lots® tool is a clear and structured process led by trained process facilitators, encouraging a team to reflect on the business from both an outside and an internal perspective. The method leads to a well anchored business plan and has been applied in the organisation for a number of years, but will be even more important with the abolished budget process. In August, the Arla management team carried out a business planning process built on the model, which resulted in a number of prioritisations as well as financial and structural goals. During the autumn, these essential announcements were disseminated to the business groups and right through to all units of the organisation.

Kristian Eriknauer is a director and assistant to executive management. He is also responsible for the administration and support of the Lots® process throughout Arla and is very positive about the results.

“This year we carried out the best planning process ever,” says Kristian. “The advantage of using Lots® is that we have a common mission, vision and prioritisation, and the same vocabulary for targets, activities and consequences, so it will be easy to see that we are working towards the same objectives, regardless of where we are in the company.

In the performance culture there will also be a more evident connection between the business plan and the follow-up in the individual colleague’s dialogue interview.”

Frederik Lotz concludes, “Overall these changes will lead to faster decision-making and an ability to better adapt to new conditions. This will be indispensable for our survival and profitability in the long term.”

### IFRS

IFRS stands for International Financial Reporting Standards. The standards are principles used by most major companies across the world.

### LOTS®

Lots® is a business planning process model which, supported by a trained facilitator, results in a business plan specifying mission, vision, values, goals, activities, resources and competencies. The result of a Lots® process is a concrete business plan of actions that is easy to follow up on.



Frederik Lotz, executive vice president corporate finance and IT.



Kristian Eriknauer, director and assistant to executive management.

## Dairy farmers as owners and suppliers

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

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



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

### **ARLA WIDENS CIRCLE OF OWNERSHIP**

A large number of new cooperative members have joined Arla during the year and the total volume of milk intake has increased by five per cent.

### **NEW METHOD DETERMINING MILK PRICE**

The Board of Directors decided to introduce a new model for a monthly-adjusted milk price. Responsibility for adjustments is now delegated to top management.

### **MILK PRICE RAISED**

During the year, Arla's performing price (payment to owners plus consolidation) has been raised by DKK 0.28 to DKK 2.80 per kilo of milk.

*Photo: Members voting at a Board of Representatives meeting.*

### Many new cooperative owners

Two mergers with dairy cooperatives, the first with the German Hansa-Milch, and the second with Swedish Milko, have brought a total of approximately 1,200 new dairy farmers into Arla. This is in line with Arla's growth strategy and need for extra supplies of raw milk.

The 554 dairy farmers in northern Sweden, who supplied milk to Milko, now constitute the fourth region of the Arla organisation in Sweden. Region North has its own representative on the Board of Directors and five members on the Board of Representatives, and all the Swedish Arla farmers are equal cooperative members.

The German dairy farmers are still members of the Hansa-Milch cooperative, which is counted as one cooperative member in Arla. Integrating the German dairy farmers into Arla's operations presents a number of challenges relating to communication, training and coordination of, for example, quality programmes (see page 16). The German farmers have a representative on the Board of Directors and five members on the Board of Representatives. These German representatives are taking part in Arla's training and mentor scheme, where Danish and Swedish members of the Board of Representatives act as mentors.

All material produced for members of the Board of Directors and Board of Representatives is now also distributed in German. We will also gradually improve the information we provide to the German farmers, and this is expected to be fully integrated by the beginning of 2012. The German farmers, as a group, are paid the same milk price as their Danish and Swedish counterparts, although we will continue to use the established payment model at the individual level. We are currently reviewing the issue of which model to use in calculating the German milk price in future. Where investments in the group are concerned, all cooperative members and German farmers are treated equally.

Arla's British milk producers in Arla Foods Milk Partnership (AFMP) have made the decision to

increase their share in Arla's British subsidiary, Arla Foods UK. This investment will accrue over a period of 8–10 years, from January 2012, and will amount to approximately DKK 600 million. Through a joint venture, British supplying farmers currently own a 3.2 per cent share of the UK business. The investment will bring the British milk producers more closely to Arla and their insight into the company will naturally increase.

### New working methods for the Board

With a view to maintaining business and strategic focus, during the year, the Arla Board has subjected itself to a review of its responsibilities, obligations, workload and structure. The most significant result of the review is that the Board has decided to introduce a new model with fixed routines for a monthly-adjusted milk price (Current Price) and that responsibility for determining the milk price is now delegated to top management. The Current Price is published on the first day of each month on Arla's websites.

Another result of the governing body's review is that issues linked to the owners' role as Arla suppliers will, in future, be handled by overall working groups within the Board of Directors. There will be a joint working group for Denmark and Sweden, and a separate working group for Germany. These working groups, that will include one Board member from each region, will address issues such as the new environmental strategy and quality programmes. Another important task for the working groups will be to ensure that Board decisions get support from the owners.

### Training representatives

Elections to the Arla Board of Representatives and district councils took place in 2011. Newly-elected representatives have taken part in an introductory programme, specially adapted to cover different tasks. The representative's role, a knowledge of the company and meetings between representatives from all three countries, are included in the training programme.

#### OWNER AND SUPPLIER FACTS

|  | 2009  | 2010  | 2011  |
|--|-------|-------|-------|
| Owners   | 7,625 | 7,178 | 8,024 |
| - based in Sweden                                  | 3,787 | 3,529 | 3,865 |
| - based in Denmark                                 | 3,838 | 3,649 | 3,514 |
| - based in Germany (members of Hansa-Milch)        | -     | -     | 645   |
| AFMP members in the UK                             | 1,400 | 1,362 | 1,330 |
| Suppliers in Finland                               | 1,113 | 1,060 | 1,000 |
| - of which are contracted                          | 283   | 260   | 243   |
| Suppliers in Allgäuland-Käseereien                 | -     | -     | 1,338 |
| Motions to the Board of Representatives meeting    | 14    | 5     | 1     |
| Participants in owner seminars                     | 927   | 380   | 200   |
| Appeals to the appeals group in Denmark and Sweden | 41    | 43    | 13    |

At the end of 2011 the number of owners totalled 8,024, which is a 12 per cent increase compared with the previous year. During the year, the milk volume supplied by owners has increased by five per cent compared with 2010.

About 60 per cent of Arla's 370 elected representatives take part in our training programmes each year. In the period 2010/2011, there was a total of 342 training days.

#### THE AFMP ROADMAP

To ease planning of the many challenges facing the British dairy farmers who supply Arla, we have introduced the AFMP Roadmap. The Roadmap identifies the key initiatives and pieces of work that will be carried out over the next 12–15 months.

#### THE MILK PRICE

During the summer of 2011, the milk price to owners was significantly increased, but in September it was lowered again. The increased prices for milk powder on the world market for the first six months increased the amount of raw material available, which caused a price drop. The financial uncertainty in the U.S. and Europe also affected consumers' purchasing behavior negatively. Also, demand for organic products declined in 2011, particularly in Sweden, which led to a lowering of the Swedish price supplement for organic milk.

#### NEW ARLA CHAIRMAN

In May, Åke Hantoft, the former Vice-Chairman, succeeded Ove Møberg as Arla Chairman. Jan Toft Nørgaard is the new Vice-Chairman.

#### THE ARLA QUIZ

Owners and employees in Arla in Sweden took part in the Arla Quiz, which tested their knowledge about Arla. Twelve teams reached the final. Each team comprised one owner and one employee.

## Safe products are our highest priority



*We meet consumer demand for safe dairy products.*

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

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

### **IMPROVED ANALYSIS METHODS**

This year we have developed several new analysis methods to help further ensure the quality of our products.

### **REDUCED VOLUME OF RAW MILK DISCARDED**

Work on reducing the quantity of raw milk discarded, due to residual antibiotics, continues to produce satisfactory results.

### **HIGHER CUSTOMER REQUIREMENTS**

Our customers show an increasing interest in issues related to food safety. Together with our customers we develop and improve our analysis methods and risk assessments.

### Customers' stricter food safety requirements

Our customers continue to show a strong interest in food safety issues. They are keen to learn more, for example, about packaging traceability, foreign bodies in products and hygiene procedures. In tandem with customer requirements, the ongoing upgrades of, and adjustments to, quality and food safety standards stimulate us to further refine our methods. In addition, we face a continual challenge in monitoring that our suppliers, both in-house and external, meet our stringent requirements for food safety and quality. Support in the form of our global procurement department's assessments is a valuable contribution, see page 19.

### Continually improving risk assessments

Arla has well-developed procedures and strong methods to guarantee the quality of our products. However, we continue to work on developing our risk assessments. For example, our predictive microbiology method, which is used to calculate microbiological shelf-life, makes it easier and faster to develop new products while maintaining food safety. Coordination between our in-house departments working with food safety and product

development has been improved, which also means that we can introduce new and unique products faster. One example of this is the lactose-free products produced at Linköping Dairy in Sweden.

In the UK we are using some new ingredients (fruit and mixed herbs) and new packaging for cottage cheese. Both issues require a detailed risk assessment including monitoring suppliers and procedures for handling allergens.

### Food safety certificates

Arla has 70 sites of which 51 are now food safety certified in accordance with ISO 22000. The facilities yet to be certified for ISO 22000 after 2011, already meet national food safety standards. Furthermore, Arla has a total of 40 BRC (British Retail Consortium) and IFS (International Food Standard) certificates, which our customers often require us to have.

We see advantages in converting the current certificates into the new common FSSC 22000 food safety system, and other major European food producers are doing just this. Arla has invited customers to take part in a dialogue as we would like their support for a more uniform certification system.

### MILK QUALITY ON FARM

The drivers who collect milk from the farms perform an important task as they are the first to assess the quality of the milk before it is pumped into the tanker. In Denmark, Sweden and the UK, drivers receive training in hygiene, milk quality and the correct way to take samples for laboratory testing. The drivers' role is important as they have frequent direct contact with the dairy farmers and can therefore give a sign if there is something amiss on the farm.

### UNPASTEURISED CHEESE IN DENMARK

Tistrup Dairy in Denmark has been given the go-ahead from the Danish authorities to produce cheese from unpasteurised milk. The production of unpasteurised cheese demands extremely high food quality standards as there is a greater bacteriological risk when the milk is not heat treated as normal. Some of the factors that are crucial for food safety when making cheese from unpasteurised milk are: the use of the predictive microbiology method, adaptation of the risk factor analysis, and the use of milk from specially selected farms, which produce milk of a particularly high standard. The cheese will be sold to restaurants and to some parts of the retail trade from early 2012.

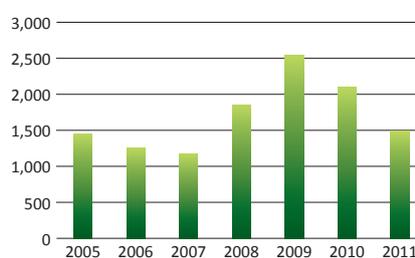
### PRODUCT RECALLS

If we have to recall a product from consumers or stop a product that has been delivered to our customers, we have procedures in place to ensure that we can act without delay.

During the year, there has been four recalls in Denmark. The reasons have been risk of fermentation in product, microbiologic contamination of product and incorrect best before date.

|         | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------|------|------|------|------|------|
| Recalls | 7    | 2    | 4    | 0    | 4    |

### DISCARDED MILK WITH ANTIBIOTICS, tonnes/year in Denmark and Sweden



Sick animals are sometimes treated with antibiotics. Milk from the cow is discarded during the period of treatment and for a period of time afterwards. To ensure that no antibiotics remain in the milk, we take samples and any milk containing antibiotics is discarded. The volume of discarded milk fell in 2011. During the year, milk was discarded in 27 cases, which is the same figure as last year.

In 2011 we have made an active effort to reduce the quantity of milk discarded and the volume in 2011 was around 30 per cent lower than 2010.

### FOLLOW-UP ON INCIDENTS

When an accident or incident occurs, it is carefully followed up on and, in the event of a serious accident, a special investigation is instigated. We improve procedures and the lessons learned are disseminated to the other facilities in the group. In the UK, we ran an incident management course in which participants attended from head office, dairies and distribution depots. The training has further improved our procedures and has also assisted us in preventing incidents from becoming major issues.

### NEW ANALYSIS METHODS

We strive continually to improve and renew our analysis methods. For example, we have recently developed a new qualitative method for immediate identification of mould in soups and another similar method of identifying yeast and mould in productions involving fruit.

In partnership with the Swedish Dairy Association, Svensk Mjölk, we have developed a method to identify gram-negative bacteria (indicators of inadequate hygiene in the production process). In 2011 this method was approved by the Nordic Committee on Food Analysis (Nordisk Metodikommitté för Livsmedel, NMKL).

In addition, we are working with Fonterra, another major dairy company, and a leading supplier of analysis equipment, to develop a new method, by which to investigate whether raw milk has been deliberately contaminated. Our work shows that the method provides rapid results even for unidentified substances. The method is currently the subject of a realistic test, with the aim of further verifying it before it can be used commercially. Our goal is to create a method that can be used by the dairy industry across the globe.

## Dairy products for every consumer



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

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

*Arla is committed to meeting consumer demand for healthy products and reliable nutritional information. We inform our consumers about the ingredients in all our products so they can choose those that best suit their tastes and fulfil their needs. Through research, we aim to increase our understanding of the role of dairy products in a balanced diet.*

### **RELIABLE NUTRITIONAL DECLARATION**

We have high ambitions for the information we give to consumers about the nutritional content of our products. We have set up several research projects in order to study opportunities for making improvements in this field.

### **LACTOSE-FREE PRODUCTS INCREASE**

During the year, the number of lactose-free articles has increased and we now provide more information about lactose intolerance and our products.

### **FAT IS A TOPICAL ISSUE**

A special tax on fats has been introduced in Denmark. Arla does not agree with the idea, and we believe that a healthy diet contains a balance of many different foods.

### Keyhole symbol on more articles

The keyhole symbol is used in Scandinavia to show which products are a good health choice in a certain category. The symbol was introduced in Denmark relatively recently and the number of products labelled with the keyhole symbol has tripled since the scheme was introduced. See table below. However, from 1 January 2012, the keyhole symbol will disappear from 25 of Arla's Danish hard cheeses, as we have not succeeded in reducing the quantity of salt without changing taste and consistency. During 2011, these 25 cheeses were granted dispensation from the requirement of a maximum salt content of 1.25 per cent.

Fruit yoghurt often contains relatively high amounts of sugar. However, during the year we launched a raspberry yoghurt in Denmark that contains so little sugar that it qualifies to carry the keyhole symbol. This is the first Danish fruit yoghurt able to carry the keyhole symbol.

In Sweden, the number of articles with the keyhole symbol has been reduced due to lower demand.

### Lactose-free products are popular

Arla is committed to making dairy products available to everyone, including those with lactose intolerance. At present we supply lactose-free products in Denmark, Sweden, Finland, the UK and Germany, and

demand is high. Finland is the country in which we supply most lactose-free products. See table below.

As awareness of lactose intolerance is generally low, we provide consumer information about what lactose intolerance means on several of our websites. During the year, we have had a dialogue with the Danish and Swedish authorities to get our lactose-free milk labelled with the keyhole symbol. This was a major challenge due to the fact that lactose-free milk is not legally categorised as milk but as a 'milk drink'. The talks were successful and the keyhole symbol now indicates that the lactose-free milk is a healthy choice within its product category, as is ordinary milk.

### Different views on fats

Based on an ambition to encourage the population to eat a more healthy diet, the Danish government introduced a new tax on saturated fats in October. The result was a consumer price increase on cheese, butter and meat, and an extra administrative burden on food manufacturers.

In Sweden, Arla has noted an increase in demand for butter and other fat products partly because of various food trends. Combined with lower milk production in Sweden, the result was a late-summer shortage of butter on the Swedish market. By reorganising production, we ultimately succeeded in resolving the shortage.

### DAIRY PRODUCTS FOR INDIAN CUISINE

In August, we launched a new range of dairy products for use in making Indian food in the UK, where there is a large Indian population. The range comprises paneer (soft, white Indian-style cheese), dahi (a kind of yoghurt used in curries), lassi (yoghurt drink) and raita (yoghurt sauce). It has taken three years to develop these products, which have been co-created in conjunction with consumers and a professional Indian chef.

### LABELLING ON SWEETENED DRINKS

Following an objection from the Danish food authorities, Rynkeby Foods has added the text 'sweet' and 'made from concentrate' to a fruit drink that has been sweetened with sugar. Rynkeby Foods has also added new details to the labelling on a blackcurrant fruit drink so that it states that the drink also contains apples. This change was made after a Danish newspaper drew public attention to the labelling error.

### NEW NUTRITION RESEARCH CENTRE

Producing infant food requires special knowledge and expertise. During the year we set up a European-Chinese nutrition research centre, which will focus on clinical research on infant nutrition. The R&D manager is located at our office in Shanghai in China.

### CURRENT RESEARCH PROJECTS

Arla both supports and actively participates in a number of different research projects. The over-arching aim of our research is to improve opportunities for developing good, high-quality and healthy foods.

Some studies aim to substantiate how nutritional declarations and health claims affect how consumers evaluate the products. In one study the general conclusion is that most consumers neither concern themselves with the nutritional declaration at the time of purchase nor allow the nutritional information label to affect their impression of how healthy they believe a product to be. Certain health claims can in fact be counter-productive. The consumer group that reacted most positively to health claims was the one which was already most interested in healthy products.

Another study has shown that saturated fat in cheese does not affect the level of cholesterol in the blood as much as the same quantity of saturated fat in butter. It would appear that the protein and/or calcium in cheese counteracts the effects of the saturated fat and lowers the cholesterol level.

We are also researching into dairy technology and food safety issues.

### NEW, NATURAL SWEETENER

As part of our efforts to make our products as natural as possible, we strive to replace artificial sweeteners, which are often chemically synthesised, with more natural products, which have a low calorie content. In early 2012, we will launch a new yoghurt drink in the Netherlands, which is sweetened using a new natural sweetener. The sweet taste comes from a plant, *Stevia Rebaudiana*, commonly known as sweet leaf, which is three hundred times sweeter than sugar.

### KEYHOLE LABELLING

No. of keyhole labelled articles

|         | 2009 | 2010 | 2011 |
|---------|------|------|------|
| Sweden  | 72*  | 68   | 62   |
| Denmark | 21   | 45   | 61   |

(\* In the CSR report 2009, the figure stated was for the number of products (45), rather than the number of articles (products in different pack sizes).

### LACTOSE-FREE PRODUCTS

No. of lactose-free articles

|         | 2009 | 2010 | 2011 |
|---------|------|------|------|
| Finland | 87   | 92   | 103  |
| Sweden  | 15   | 19   | 32   |
| UK      | 8    | 9    | 11   |
| Denmark | -    | 1    | 3    |
| Germany | -    | -    | 2    |

## New ambitious environmental strategy

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

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



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

### **NEW ENVIRONMENTAL STRATEGY**

We have presented a new environmental strategy, which includes a holistic approach to the production chain from cow to consumer.

### **BIOGAS INCREASE**

As one step on the road to minimising our carbon footprint, one of our facilities is now using biogas and we are working to increase the use of biogas.

### **PAPER FROM CERTIFIED FORESTS**

We are beginning to implement a general switch to FSC-certified paper, produced from timber from responsibly stewarded forests, for our liquid packaging.

*Photo: Yoghurt cup with cardboard outer case decreases the use of plastic.*

### Environmental strategy 2020 includes farms

This summer we launched the Arla Environmental Strategy 2020. The new environmental strategy is a continuation of previous environmental and climate strategies with one major difference: the new strategy includes our products' complete life cycle, from milk production on farm to how the consumers dispose of packaging and food waste. With this holistic approach, we aim to reduce our carbon footprint throughout the entire production chain, not restricted, as previously, to dairy production, transport and packaging.

One of the biggest changes is the new partnership with farmers with a view to setting new standards for milk production in the period to 2013. Read more about this on page 17.

Arla's former climate strategy is now included in the environmental strategy, and Arla's climate goal is still to reduce direct and indirect emissions of greenhouse gases by 25 per cent in production, transportation and packaging by 2020 (compared to the 2005 level). At Hobro dairy in Denmark, for example, we have begun to use heat from the cooling water system, using heating pumps, resulting in reduced energy consumption for heating and simultaneously an approximate 10 per cent reduction in greenhouse gas emissions at the dairy. A similar system has been installed at Sipoo dairy in Finland.

Arla's new environmental strategy also comprises goals related to reducing the group's consumption of water and energy by three per cent each year until 2020, at which time half the energy we use must come from sustainable sources. An

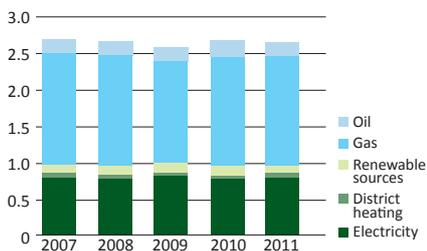
example is Danmark Protein in Denmark, where, during the last three years, we have achieved 20 per cent savings on water consumption, mainly due to increased water recycling. One example is using a UV water purifier system so that water can be reused in production.

Another goal in the environmental strategy is to succeed in completely reducing packaging and food waste. By 2020 we will use 100 per cent recyclable packaging material and we will do our utmost to help consumers reduce food waste from dairy products by 50 per cent, for example by offering a range of packaging sizes and encouraging them to cook using leftover food. We are also working to minimise the waste produced during our own dairy production. By the end of 2011, all of our UK sites had achieved zero waste to landfill. At Stourton dairy, we are using pipe cleaning devices, which are sent through the pipelines to minimise waste and the volume of water used in cottage cheese production.

### Biogas replaces fossil fuels

One way in which to increase the share of sustainable energy is to increase the use of biogas. At the end of the year, the milk powder plant in Visby in Sweden had replaced half its energy consumption needs with biogas produced from a unit fed mainly with manure from farms. We are also currently planning for a biogas plant to supply our facilities in Videbæk in Denmark, which are heavy users of energy. In the future the energy consumed at the plant will be produced from farm manure and waste products from Arla production.

### ENERGY CONSUMPTION, TWh

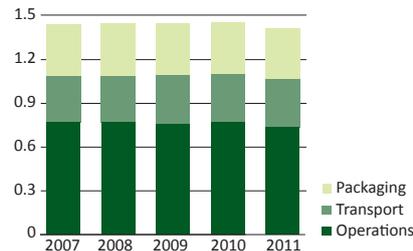


The energy data covers all Arla sites at the end of 2011. Data for previous years has been updated. During 2011, improved production and energy efficiency has resulted in a decreased energy use, despite higher production volumes. In total, including electricity and district heating, 17 per cent of the energy was renewable.

### INSIGHT INTO CLIMATE ISSUES

In connection with the launch of our new environmental strategy, we provided detailed information about emissions, and water and energy consumption from all our facilities, making the data available on an online environmental database. The database provides emissions and consumption data at group level, per country and per site.

### CARBON FOOT PRINT, Million tonnes CO<sub>2</sub>-e



The carbon footprint data covers all Arla sites at the end of 2011. Despite higher production volumes, Arla's total carbon footprint was 1.4 million tonnes CO<sub>2</sub>-equivalents in 2011, compared to 1.5 million tonnes in 2005.

### FSC-CERTIFIED PACKAGING

In Denmark, the Netherlands and Sweden, we have begun to use Forest Stewardship Council (FSC) certified liquid packaging board and in the Netherlands we also use FSC-certified corrugated cardboard. Paper products that are labelled FSC are produced from timber from responsibly stewarded forests. Our aim is, gradually, to replace all liquid packaging board with FSC-labelled materials.

### ENVIRONMENTAL STRATEGY WORK

Work on the new environmental strategy has been underway for quite some time. Early in the year, we invited a number of interest organisations, NGOs and universities to a roundtable discussion with a view to obtaining their thoughts on our strategic initiatives. This meeting was very beneficial and shed light on a number of important issues, resulting in our holistic approach.

During the summer and autumn, the environmental strategy has been presented to a number of interested groups and politicians. We believe that this has laid firm foundations for a constructive dialogue of benefit to all parties. We aim to continue working together, sharing know-how and experience.

## Towards more sustainable dairy farming



We support sustainable agriculture.

From: Our responsibility – Arla Foods' Code of Conduct

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

### **NEW ENVIRONMENTAL STRATEGY INCLUDES THE FARMS**

We work to achieve a more environmental and climate-friendly dairy production, and from 2020 we aim to buy milk exclusively from sustainable farms.

### **THE IMPORTANCE OF QUALITY PROGRAMMES**

When we integrate new dairy farmers into Arla, we also review the various quality programmes.

### **ORGANIC PRODUCTION FACING CHALLENGE**

In Sweden and Denmark, the demand for organic milk has fallen, which means that we now produce a surplus of organic milk.

### Sustainable farming in 2020

In June, Arla introduced its new environmental strategy, which now also includes Arla dairy farmers in Denmark, Sweden, Finland, the UK and Germany. Until 2013, we will work with the farmers to develop a new standard for sustainable dairy production, and thereafter work to fulfil the standard. The standard will focus mainly on soil fertility and nutritional balance, feed production, measures to protect and encourage biological diversity, efficient use of resources and reducing greenhouse gas emissions.

Arla has already held a series of workshops with British farmers to discuss how to reduce farming's carbon footprint. Similar meetings will be conducted in the other four countries where Arla has dairy farmers. We will also be working with demonstration farms to develop, test and implement new methods.

### Quality programmes remain important

Reliable quality programmes for dairy production on farm and for raw milk remain important for Arla and for our customers, who continue to show a great interest in these initiatives. The quality programmes are updated on an ongoing basis. For example, a number of minor adjustments have been made during the year to the Arlagården quality programme, which is applied in Denmark and Sweden.

When we get new milk suppliers, one important task is to ensure that their quality programmes meet the standards of the Arlagården programme. During 2012 we will conduct a detailed comparison between the quality programmes used by our German farmers and the Arlagården programme. The aim is to formulate the future quality programme for Germany.

The most frequent deviations from the Arlagården quality program in Sweden and Denmark are shortcomings related to hygiene and tidiness

in the milk chamber as well as records of use of medicine and storage of medicine. At the March meeting of the Board of Representatives, the Board took the decision to expel a Danish member on grounds of serious and repeated deviations from the quality programme. Expulsion is the final step, taken only when all other measures are exhausted.

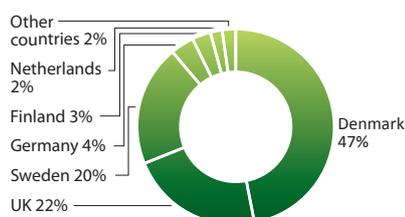
### Support helps improve milk quality

Arla supports targeted visits to the Danish and Swedish farmers. In recent months, we have intensified our efforts at farms that have reported high levels of bacteria in their milk. Analysis, in combination with support, has had a very positive effect. In Denmark and Sweden we aim to minimise heat-resistant (thermoduric) bacteria in milk. The average per millilitre last year was reduced by approximately 30 per cent. In Denmark, 86 per cent of the farms which received support, have improved their results. High milk quality results in a higher milk price per litre and therefore affects farm profitability.

### Organic milk surplus

Arla is the world's biggest supplier of organic milk and our broad range of products has long been instrumental to growing consumer interest in organic foods. During the year, organic milk has been launched in Finland. In the past year however, interest in organic dairy products in Denmark and Sweden has fallen significantly, which means that we now produce a surplus of organic milk. We view organic production as a long-term strategy and seek to resolve the current situation, for example by means of stronger marketing efforts. It is also possible to increase organic sales in Germany, Finland and the Netherlands where consumer interest in organic products continues to grow.

#### ARLA'S MILK INTAKE



Approximately 10,000 farms supply milk to Arla in Denmark, Sweden, Germany, the UK and Finland. This amounts to about 96 per cent of the group's total volume. In these and other markets, where we buy milk from local suppliers, we also ensure that the milk meets our quality standards. The total inflow of milk increased by five per cent during the year.

#### AVERAGE NUMBER OF COWS PER FARM

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

|         | 2009 | 2010 | 2011 |
|---------|------|------|------|
| Denmark | 129  | 134  | 141  |
| UK      | 113  | 118  | 120  |
| Sweden  | 59   | 62   | 66   |
| Germany | 43   | 45   | 47   |
| Finland | 23   | 24   | 25   |

Source: National industry organisations.

#### CONTROVERSIAL FEEDSTUFF

In January 2012, Arla decided to accelerate its transition to responsibly produced soy. No later than 2015 all soy in feed for cows belonging to Arla's milk producers must be grown in accordance with the principles and criteria of RTRS (Round Table on Responsible Soy). During

2012, Arla will buy RTRS certificates for 30 per cent of the total volume of soy used by Arla's cooperative members in Denmark and Sweden. Read more on page 31.

#### FAST FOOD CHAIN PARTNERSHIP

A number of Arla farmers have worked with a multinational fast food chain in Sweden, with the objective of introducing consumers to life on dairy and beef farms. The fast food chain buys organic milk from Arla and we see great potential in increasing the sale of milk here, especially to younger consumers.

#### POPULAR FARM VISITS

Arla is keen to help enhance dairy farmers' relationship with consumers by emphasising the many positive values that are linked to milk, cows and the dairy farm. Read more about different ways to visit a farm on page 29.

## Improved programme for sustainable sourcing

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

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



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

### **IMPROVED COMMUNICATION**

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With the purpose of improving the cooperation with external suppliers and minimising risks to Arla, a lot of work has been put into making purchasing related information accessible to Arla colleagues.

### **SUSTAINABLE SOURCING**

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Our guidelines for the purchase of palm oil have been reflected in the significantly improved score on WWF's list of responsible palm oil buyers.

### **SUPPLIER ASSESSMENTS IMPROVED**

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This year's assessments of suppliers of ingredients and packaging materials have been made according to the new programme for sustainable sourcing.

### Reduction of suppliers

The global procurement department is responsible for overall procurement in Arla. The purchases made by the department represent around 69 per cent of our total spend in 2011, compared to 58 per cent the previous year. The efforts by the department to pool orders with fewer suppliers and to reduce the creation of new suppliers are beginning to pay off. During 2011, we made a cross-company review of all active suppliers, which resulted in a reduction of one out of four suppliers.

Arla now has approximately 950 preferred suppliers that are approved by the global procurement department, meaning that signed contracts govern the relationship between Arla and the suppliers and that these suppliers are first choice suppliers. We are continuously working towards our target of 100 per cent of all preferred suppliers to have signed our code of conduct for suppliers. Of all the suppliers handled globally, a total of 83 per cent have signed the code, which corresponds to an improvement of 18 per cent compared to last year.

### Improved programme for sustainable sourcing

Development of tools and processes for sustainable sourcing has been ongoing since 2009, and during 2011, implementation and tests have been carried out. The global procurement department is working towards a global supplier assessment programme that applies to all regions where we operate. This is done by requesting that suppliers complete a comprehensive supplier assessment questionnaire regarding ethical and social accountability, environment, food safety and product quality. Adjustments to the supplier assessment questionnaire have been carried out during 2011

and a new version, with a significantly elaborated ethical section, is to be implemented during 2012. The new version has been developed to fulfil the demands of international and national CSR guidelines and standards. This was initiated by the Arla Nijkerk organisation in the Netherlands and supports the organisation in issuing their self declaration of the guideline ISO 26000. Further more it supports the organisation in getting certified for the Dutch method "CSR Performance Ladder" during early 2012.

Based on the reply in the questionnaire and internally collected information about the suppliers, we make a judgement of the suppliers' performance and the suppliers are given written feedback. The assessment is also used to define our supplier evaluation frequency.

During the year, the global procurement department has conducted assessments of suppliers of ingredients and packaging materials that are rated as high risk suppliers from a product quality and ethical point of view. The assessments were made as part of the new programme for sustainable sourcing, and in case of non-conformance, a follow-up assessment or an audit was performed. The programme also initiated training of colleagues in auditing and follow-up on social concerns.

### Supplier audits in 2011

We carry out a number of detailed audits every year, during which we visit suppliers and carry out a thorough inspection. In 2011 we conducted 60 audits globally, which is more than in 2010 when we conducted 40. The increase is primarily due to the implementation of the new supplier assessment programme at our subsidiary, Dairy Fruit.

### GLOBAL CONTRACTS



The diagram shows the external spend handled by Arla's global procurement department, distributed across product and service categories. Compared to 2010 the share for ingredients has increased while the share for business services is reduced.

Our 10 largest suppliers account for 19 per cent (compared to 20 per cent in 2010) of our total external spend. In 2011, the following companies were our five largest suppliers in order of size: Tetra Pak (packaging materials and processing and packaging machinery), IBM (IT services), Elopak (packaging materials and machinery), Carat (media) and Logoplaste (packaging materials).

### UTZ CERTIFIED COCOA

Following the audit in 2009, we planned a follow up visit to our cocoa supplier on the Ivory Coast. Due to political unrest, the visit was postponed in both 2010 and 2011. The purpose of the visit is primarily to establish contacts with NGOs and to study UTZ certification in practice. UTZ is an organisation which provides certification for cocoa production consistent with a set of criteria including production, environment and social standards.

During 2011, all Cocio branded products were made from UTZ certified cocoa. These products represent approximately 19 per cent of the group's total purchase of cocoa. From the beginning of 2012, all Arla branded cocoa products will be produced with UTZ certified cocoa as well.

### SUSTAINABLE PURCHASING OF FRUIT

Our subsidiary, Dairy Fruit, has implemented Arla's programme for supplier assessment and increased the amount of supplier audits to 25 this year, compared to four in 2010. By 2014, all suppliers of fruit will be assessed using the new system.

In cooperation with Danida (the Danish international development assistance), Dairy Fruit is also supporting a project for development of an agricultural area for fruit growing in Bolivia. The objective is to train the farmers in sustainable optimal utilisation of the land.

### FOLLOW UP ON PALM OIL

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

Arla is working towards the target that all products in our European core markets will only contain certified palm oil by the end of 2012 at the latest, and that the target date for all other markets is the end of 2015. During 2011, Arla bought palm oil with GreenPalm certificate which corresponds to the entire use of palm oil within the company.

Every second year the World Wildlife Fund (WWF) makes a list of responsible palm oil buyers. Because our guidelines are in place, Arla this year scored seven out of nine on WWF's list of responsible palm oil buyers, which is a significant improvement. In order to score higher, we would require membership of the RSPO. So far, Arla has decided not to become a member because it assumes active participation in the organisation and Arla's palm oil consumption has been too low to justify it.

## With concern of colleagues' safety and well being

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

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



*Arla has 17,400 colleagues in 30 countries throughout the world. We strive to continually improve our work environment and organisation. We also work to strengthen our corporate culture, Our Character, which describes what Arla is and what we stand for in our efforts to achieve common targets, uniting us across differences in historical and cultural backgrounds. If all colleagues enjoy good working conditions, and are committed to their work, together we can do the best job possible.*

### **FOCUS ON THE WORK ENVIRONMENT**

We continually strive to improve both the physical work environment and the well being of colleagues.

### **CONSISTENT SKILLS DEVELOPMENT**

Qualified workforce is essential to the success of the Arla business. During the last year we have prioritised leadership development and training of dairy colleagues.

### **PLEASED AND PROUD COLLEAGUES**

This year's colleague survey shows continuous improvements of colleagues' satisfaction and commitment at work.

### Systematic work environment

We seek to maintain a safe and healthy work environment and we consistently make improvements to prevent injury and illness. For example, at Nijkerk dairy in the Netherlands, in recognition of the need to take extra care of manual workers whose duties include heavy lifting, the dairy is offering physical training several times a week. The initiative is producing good results, including a reduction in absence due to illness. In the UK, efforts to reduce accidents have been in place since 2009 and have, so far, resulted in a 20 per cent reduction. In Canada, a similar health and safety at work programme has reduced absence due to injury by 89 per cent since 2009. If a colleague in Denmark is absent for more than 30 days, as the result of an accident, a senior management representative will visit the operating facility to follow up on the introduction of preventive measures. At Götene in Sweden, a project to reduce absence due to illness resulted in a 20 per cent reduction in short-term absences. In cooperation with the occupational health services, problems can be identified at an early stage, the sick colleague can get advice, and, if necessary, rehabilitation can be arranged without delay. Furthermore, a new system for reporting accidents, near misses, and observed risks has been introduced in Sweden.

### Leadership training

About three quarters of the target group in Denmark, Sweden and the UK has now taken part in the Arla Leadership Program (ALP) for middle managers and team leaders. The programme was introduced in 2010 and has also been run in Canada. The aim of the training is to make evident the connection between

the company's ambitious strategy for growth and managers' individual areas of responsibility.

A tailor-made ALP course took place in Dubai for 55 managers from the Middle East and North Africa. The course entailed a meeting of many different cultures, and primary focus was on the Arla values and the company's approach to leadership. During the year, we have also strived to develop the generic skills of our employees in the Middle East and North Africa, which should make it easier for them to move between the different markets.

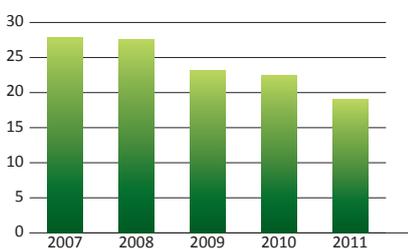
### Barometer – the annual colleague survey

The Arla colleague survey, known as Barometer, was completed in November and December by 12,246 colleagues in 26 countries and in a total of 16 different languages. This annual survey measures colleagues' commitment and how they see the company's goals, focus and leadership. The results of the 2011 survey show an overall improvement in nearly every area and in all business groups.

The index for general engagement among colleagues is 78 out of a possible 100 (2010: 77), as opposed to the global trend for employee commitment, that has fallen since 2008. The high level of engagement from Arla colleagues is also reflected in the high response rate of 87 per cent (2010: 86 per cent).

The survey also shows that Arla can do even more to clarify the connection between colleagues' work and Arla's goals and results. Other areas of improvement are to clarify roles and have less bureaucracy, which is expected to help reduce the number of colleagues' experiencing stress, which has not improved since last year.

**ACCIDENTS AT WORK**, Number of work accidents involving more than one day's absence per one million working hours.



The number of accidents at work has decreased by nearly one third since 2008.

### WORK ENVIRONMENT STRATEGY

In 2010, Arla introduced a new work environment strategy, which includes a holistic approach to our colleagues' wellbeing, health and safety. The vision of the strategy is 100 per cent engagement and wellbeing, zero accidents and no harassment of any kind in the workplace. During the year, the following focus areas were decided for global actions: stress management, diminishing harassment, continuing dissemination of the safety culture (behaviour-based safety, BBS) and reduction of the physical strains of manual work.

### CHANGES TO THE ORGANISATION

Following reorganisations, company acquisitions and rationalisation measures, the total number of people employed at Arla has increased by approximately 1,200 full time positions.

### BREATHALYSER DEVICE ON VEHICLES

In 2010, an alcohol-sensitive lock system was fitted to the delivery vehicles at the Årsta Terminal in Sweden. During 2011, a similar system was introduced at the Kalhäll Terminal, also in Sweden. Before the driver receives the key to a vehicle, he or she must take a breathalyser test. The system has many positive effects, for both traffic safety and Arla's corporate image.

### IN-HOUSE EXPERTS

In Sweden we have improved learning within the organisation by utilising in-house specialists as tutors at some of our dairies. Colleagues who have special skills, e.g. in hygiene, quality and work environment, are offered basic and advanced teaching courses. The in-house tutors' know-how about applicable legislation, standards, internal routines, and our products and regulations ensures that their teaching is closely connected to colleagues' daily tasks, resulting in effective training results. In addition, planning the training is more flexible and of course improving the in-house specialists' skills also benefits the company. More than 100 in-house specialists now work as instructors, tutors or internal auditors at Arla workplaces.

### DIET AND EXERCISE INITIATIVE

In Denmark, weight control activities have been conducted at five different sites. Consultants and physiotherapists were brought in to advise groups and individuals how to change diet and exercise habits, e.g. introducing changes to the menu in the colleague canteen, or leaving the car at home and walking instead. The outlook is long term, as habits do not simply change from one day to the next. Even so, several colleagues have already said that they have more energy and enjoy everyday life more, which is encouraging others to join these activities.

A similar initiative, although on a smaller scale, was conducted in Canada.

### SKILLS DEVELOPMENT

Examples of training courses in 2011:

- **In Denmark** we reviewed literacy among 4,000 colleagues who work under collective agreements. The objective of the review was to offer reading and writing classes for colleagues with a low-level of literacy.
- **In Canada** we ran courses aimed at developing our colleagues' capacity to tackle their roles effectively.
- **In the UK**, 75 students have embarked on a new two-year course of training, tailor-made by the dairy industry.
- **Arla Foods Ingredients** has set up a training programme, which is intended to increase awareness of Arla products and work flows.

## Faster integration means better performance

*Since Arla launched its growth strategy three years ago, the company has grown, mainly due to a number of mergers and acquisitions in its core markets. Arla is working with a firm goal to incorporate the new companies as fast as possible into the group so they are aligned with Arla's corporate culture. However, from experience, Arla knows that the best place to start is by getting to know the company incorporated.*

During the last decade, Arla has formulated guidelines and models to describe the company's values, its corporate culture and what is expected of its colleagues. The group is united under the heading ONE, which explains the common strategy, mission, vision and corporate culture. When new companies are integrated into Arla, interest is not restricted to their products and their contribution to the bottom line. Arla is also keen to ensure that the colleagues feel that they belong to Arla as soon as possible and that they understand how Arla operates.

"We are in business to make money. The faster we win hearts and minds for the Arla Vision, Mission and Strategy, and the faster the organisation becomes efficient, the sooner we achieve the benefits of integration that motivated the merger or acquisition. At the end of the day it's all about speed and quality" explains Per Kracht, Vice President HR for Consumer Germany & Netherlands.

The newly formed business group is currently working with the integration of Hansa-Milch and Allgäuland-Käseereien dairy business into Arla.

"The alternative would be merely to say 'You now belong to Arla' and carry on as usual. I cannot imagine that this would result in any integration-related benefits. Our new colleagues need to feel connected to Arla very quickly" says Per Kracht.

### Start by understanding

Per Kracht has worked at Arla for a long time and was also involved in the acquisition of the Friesland Foods company at Nijkerk in the Netherlands in 2009. Where integration is concerned, he believes that you have to start by considering the company that is to be integrated. It has existed as

an entity in another context and with a different perspective – and all of that changes in a post merger process. Accepting this, you then need to start by understanding how their business operates at all levels.

"To be understood, you have to understand," says Per Kracht. "We have to understand, in some detail, the history and the characteristics of the company as a whole and how it has progressed to its current status before we can begin to introduce our concepts and ways of working. We have to ask ourselves what we can learn from them. Otherwise, there is a risk that people in the newly incorporated company feel that everything they did in the past was useless. In fact, the opposite is true – we believe that together we can achieve great things."

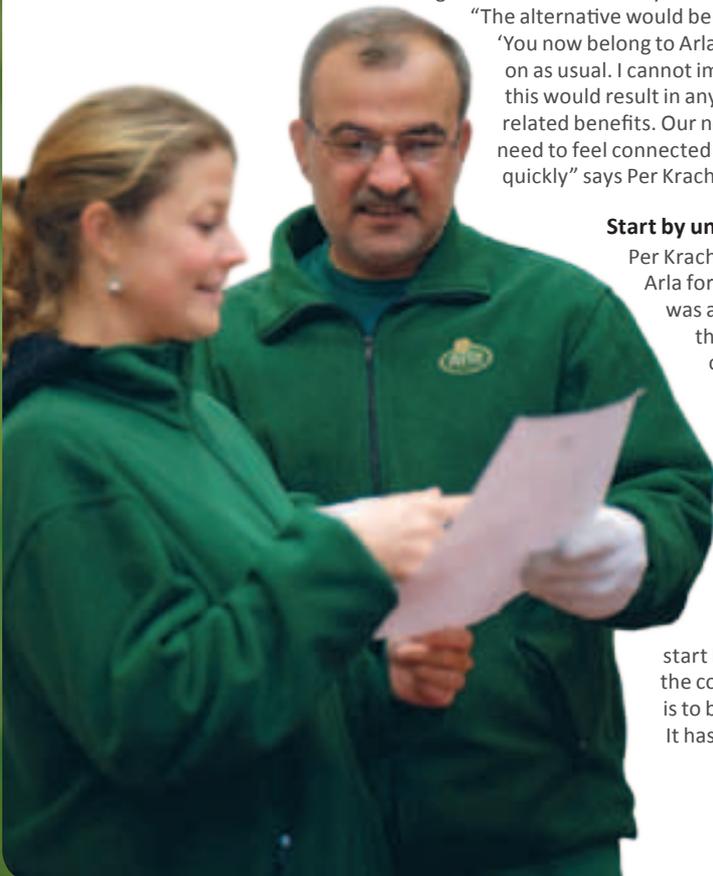
In the past Arla has been good at understanding the practical, technological and financial aspects of the businesses, but integration of Nijkerk in the Netherlands has not been without pain.

"We took a strong line from the start. We switched the logo and applied the new logo to work wear, but we have still not succeeded in giving the colleagues access to our My Workplace intranet and mail system, which hasn't helped the Dutch colleagues feel included. It's just not enough to change logos if the colleagues don't have access to practical information or to a common mail system. In this case we underestimated the importance of solving a number of practical issues and we have to do better in the future," says Per Kracht.

### Change starts at management level

Over the years, Arla has become better at identifying the cultural differences, which Per Kracht believes can be considerable even between countries as close as Denmark and the Netherlands, or Denmark and Germany. The way in which colleagues address one another at work or the extent to which people dare express an opinion at their workplace are examples of this.

The new integration model currently being adopted is thorough in its approach. The initial objective is to enter into a dialogue with management at the new company, in which Arla starts by asking about the new company's corporate values. This often makes it relatively easy to identify similarities with Arla's corporate culture – Our Character – and thus to pinpoint things the companies have in common, on which to start building.



“You cannot merge with another company by email or via PowerPoint presentations. You have to be on the spot, you have to be accessible.”

“We cannot execute everything at once – Our Character, Our Leadership, Our Dialogue, Our Responsibility, Closer to Nature™, etc. We have to take a step-by-step approach allowing people to reflect and navigate in the Arla context.”

### Resistance to change is a natural reaction

Per Kracht emphasises the importance of Arla showing respect for new colleagues and appreciating that they have to be given time to understand how Arla operates. When they do, their everyday working lives become easier. He believes that resistance to change is a normal human reaction. This is why, for example, the management team at Hansa-Milch has been trained to understand why it will encounter employees' resistance and that this is to be expected.

Resistance is described in three phases. The initial reaction is not understanding the change, which creates resistance to it. In the second phase, the colleagues understand the change but don't like it because it will affect their work as they know it. The final phase of resistance is when the employees have accepted the change and maybe even like the idea, but do not believe that it is possible or that management can carry it out successfully.

At each phase, colleagues must receive pertinent explanations, and for these to be accepted, there must be efficient communication between colleagues and their leaders. Per Kracht believes therefore that the best solution is for line managers to communicate with their colleagues, informing them of the changes in their own words.

“There is nothing gained from having someone travel from Head Office to explain Arla's values and then fly out again some hours later. The leaders of the new company must be helped to make them their own. We must avoid people feeling that their boss is just standing there reading aloud from a PowerPoint presentation prepared and delivered from Head Office.”

### Say what you do – and do what you say

Per Kracht believes that the reactions received from

colleagues depend on the quality of the dialogue in question. In his work, he applies a simple communication model, Intention – Behaviour – Experience, to explain how well any given message is received.

“The listener has to understand the connection between what I intend to say, how I behave and how this is experienced. If I fail to pay attention to the reaction I get, then I have no idea of the recipient's experience. And if the recipient's reaction does not correlate with what it was I intended to communicate, then maybe I as a leader should consider how I can do things differently. Was I too vague? Why did they see me as incoherent?”

Another factor that helps generate integration is ensuring that the new organisation receives help to make contacts with individuals within Arla. It is not enough to know which department to contact in connection with any kind of issue. From the beginning the new company has to have help to find the right person to talk to in an organisation the size of Arla.

### Being there – with body and mind, is very important

How well and how fast the integration is achieved is measured annually in the Arla colleague survey, Barometer, and through interviews with management on progress made in connection with various activities, although Per Kracht admits that this does not always provide an accurate picture.

“You cannot merge with another company by email or via PowerPoint presentations. You have to be on the spot, you have to be accessible and you have to make sure that there is a functional dialogue. Only then can you gain a real sense of how integration is progressing.”

### DEFINITIONS

**ONE** – The headline connects the Arla group across the world and manifests the group's common strategy, mission, vision, corporate culture and resources.

**Our Character** – Arla's corporate culture is characterised by the words: Lead, Sense, Create. Colleagues are expected to have a desire to lead, an open-minded approach and a creative culture.

**Our Leadership** – The Arla leadership is based on the keywords: Envision, Engage and Deliver.

**Our Dialogue** – The Arla programme for reviewing individual performance and development.

**Our Responsibility** – Ethical values and the collective term for the Arla Code of Conduct and the report on how well the group lives up to this code.

**Closer to Nature™** – A commitment, which permeates the group in its entirety.

### MERGERS AND ACQUISITIONS

**2008:** Arla acquires the remaining 70 per cent share in Arla Ingman in Finland.

**2009:** Arla acquires the fresh products dairy Friesland Foods Fresh Nijkerk in the Netherlands.

**2010:** Arla buys a share in the British Westbury Dairies.

**2011:** Arla merges with the north German dairy, Hansa-Milch and with Swedish Milko. The south German dairy company, Allgäuland, and two minor dairies in Denmark are acquired.



Per Kracht, Vice President HR for Consumer Germany & Netherlands.

## Continued growth in competitive markets



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

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

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

### **RESPONSIBLE MARKET LEADER**

In 2011, Arla has grown via mergers and acquisitions, primarily in Sweden and Germany.

### **BETTER CORPORATE IMAGE**

In the annual survey, consumer perception of Arla has significantly improved in Denmark, Sweden and Finland.

### **CONSCIOUS MARKET POSITIONING**

We are beginning to reap the rewards of our Closer to Nature™ commitment and our three global brands strategy.

### Arla continues to grow

Arla is on track to deliver its ambitious 2015 growth strategy and during the year the group has been involved in several mergers and acquisitions. Early in the year, Arla merged with the north German dairy company, Hansa-Milch, and, during the autumn, with Swedish Milko. In November, the acquisition of the south German Allgäuland-Käsereien was completed.

The incorporation of the German companies required approval from the EU Competition Authority and the merger with Milko required the approval of the Swedish Competition Authority, Konkurrensverket. The Swedish Competition Authority stipulated that Arla must sell a number of the Milko brands and the Milko dairy at Grådö in Sweden. The Swedish Competition Authority feared that, without these stipulations, the merger would have significantly limited competition in the markets for milk, sour milk products, yoghurt and several other products. Before the merger, Arla was market leader in Sweden, and after the merger, Arla has approximately 50 per cent of sales of dairy products in Sweden.

Early in the year, Arla also acquired two small Danish dairies, one of which produces a Danish speciality smoked cheese, and the second produces crème fraîche and cottage cheese.

As market leader in some markets, we make sure that we never contravene applicable competition rules in any way. This also applies to our subsidiary, Rynkeby Foods, which is a major producer of juice and fruit drinks in both Denmark and Sweden. Rynkeby cooperates with the national industry organisations to ensure that competition between minor and major players in their market is fair.

### Tough competition on the dairy market

Competition continues to be tough in our core markets. Our competitors are both local, regional and international players. The market has grown slightly, there has been product volume growth on low-price products and customers' own labels. This trend represents a challenge for us as our strategy is to be well-known in the market for our own Arla brands, and we have not really succeeded in matching the level of growth. In Denmark and Sweden, customers' own brands are growing particularly rapidly and we endeavour to find ways to encourage consumers to appreciate and choose Arla branded products.

In Finland, competition has been particularly tough in the market for milk, and, in both Sweden and Finland, domestic cheeses are under pressure from cheaper, imported cheeses.

### House of Castello® building Arla's third brand

Arla Strategy 2015 includes gathering all our products under three global brands, Arla®, Lurpak® and Castello®. Arla® and Lurpak® are performing well and both now have strong brand positions. While, previously, Castello® was known for its blue cheese, the brand will become more encompassing, with more cheeses being promoted under the new House of Castello® name, which was launched during the year. The goal is to become the world's leading premium cheese brand, signalling high quality, luxury and indulgence.

### Closer to Nature™ filters through Arla

Three years ago, Arla decided that the over-arching Closer to Nature™ commitment would be applied to both the company and its products. The article on page 26 describes the changes and how far the company has fared on its journey towards getting Closer to Nature™.

### IN DIALOGUE WITH THE CONSUMER

Arla Forum answers questions from consumers via phone, email and letter. This year we offered bilingual customer services in Canada. In the UK, Arla's quest towards becoming a household name is making progress and the number of enquiries from British consumers has increased.

For example, Arla Forum receives enquiries about everything from nutritional content to requests for more lactose-free products. In general, different kinds of questions are asked in different countries. However, the enquiries we receive often reflect current debates in the media. And therefore it is important that we are able to meet different national needs.

| No of enquiries   | 2009   | 2010   | 2011   |
|-------------------|--------|--------|--------|
| Denmark           | 22,000 | 20,500 | 20,300 |
| Sweden            | 26,000 | 28,000 | 26,500 |
| Sweden (Internet) | 46,000 | 40,000 | 45,000 |
| UK                | 26,000 | 24,000 | 25,000 |
| Finland           | 13,000 | 16,000 | 15,000 |
| Germany           | -      | -      | 8,000  |
| The Netherlands   | -      | 5,800  | 6,100  |
| China             | 5,000  | 31,000 | 19,000 |
| USA               | 250    | 1,400  | 160    |
| Canada            | -      | -      | 800    |

### CONSUMER PERCEPTION

In Denmark, Sweden and Finland we measure consumer perception of Arla annually. In general, our products get top scores. In Denmark our reputation continues to improve, particularly on the ethical parameter. In Sweden, consumer perception has improved on all parameters and we now have the best image since the survey commenced. Our image has improved in Finland too with around 79 per cent of consumers saying that they are willing to buy Arla products. In Finland this year we achieved the highest score since 2007.

|                 | 2009 | 2010 | 2011 |
|-----------------|------|------|------|
| Arla in Denmark | 58.6 | 61.0 | 64.9 |
| Arla in Sweden  | 74.3 | 71.3 | 77.7 |
| Arla in Finland | 71.7 | 69.5 | 73.1 |

The table shows the total score (on a scale of 0–100, where 100 is best) consumers gave Arla in comparison with many other companies, in a survey carried out by the Reputation Institute.

### CUSTOMER PERCEPTION OF ARLA

In our core markets, Arla and its subsidiary company, Rynkeby Foods, conduct an annual survey to understand how our customers see us in our role as supplier. In Denmark we rank as the best of the 20 largest suppliers to the retail trade.

This year in the UK, we are No. 2. Our customer survey in Finland gave us fine results for service, innovation, reliability and reliability of supply. We have improved from last year's No. 20 to this year's No. 16. In Sweden, we ranked No. 1 in 2010 but fell to No. 24 this year, mainly due to supply problems. In a survey in Denmark, Rynkeby Foods ranked No. 1 this and last year, in the cold and frozen foods category, and No. 4 in the grocery category. Arla Foods Ingredients generally scores well in customer surveys and customer loyalty is at the same high level as in the last survey two years ago.

### ARLA WINS

Every year Arla receives accolades in a variety of areas, including quality, ethics, work environment, etc. Awards range from very local prizes to those awarded to the group in its entirety. To mention one among the many, this year, for example, Swedish consumers nominated Arla the best food company where environmental issues and social responsibility were concerned. The Sustainable Brand 2011 award is built on a survey based on the 10 principles of the UN Global Compact. To celebrate all these awards and to encourage more entries, we have launched a new intranet page, called the Trophy Room, publishing all our awards.

## Closer to Nature™ – from idea to reality

*Three years ago Arla decided that the Closer to Nature™ commitment was to filter into every corner of the company. This was the start of a massive venture. As Arla's raw material is milk, nature has always been close to the company's heart. So what does Closer to Nature™ really mean to Arla?*

The new Corporate Strategy, which was introduced in 2008, also described changes to the Arla brands: Arla®, Lurpak® and Castello®. In connection with these changes, Closer to Nature™ was presented as the new platform for the global Arla® brand and for the company itself. Marianne Bach, Senior Brand Manager, is working on putting the Closer to Nature™ concept into practice. She describes the overarching goal:

“When people see the Swedish car brand Volvo, the vast majority automatically associate the brand with the word ‘safety’. In the same way, we believe that our consumers should automatically associate Arla with Closer to Nature™.”

### **Closer to Nature™ – step-by-step**

In the Arla Annual Report 2008, the company explained how Closer to Nature™ was intended to govern the company's priorities in the years to come, and that it is Arla's promise to consumers that the company will produce inspiring and healthy products that carry Mother Nature's characteristic signature. From the very beginning, it was clear that Closer to Nature™ is primarily concerned with three key areas: Arla's products should be as natural as possible; milk production on Arla farms should be achieved in harmony with nature; and Arla's own production should have as little impact on the environment and climate as possible. None of this was new to Arla but the new activity was more about finding a way in which to distinguish the company from its competitors by more clearly defining the company's position.

In some of Arla's markets, a great deal had already been achieved in line with Closer to Nature™. For example, some parts of the company had already made important progress into working with

environmentally friendly initiatives and here there was a good foundation on which to build. At the same time, there were other areas of the

company which had more to do before they could accurately be described as closer to nature.

Even though the content of Closer to Nature™ was not new, what was new was that Arla had begun to communicate a clear message about getting Closer to Nature™, and that, step-by-step, the company would be making changes for the better. To reach the overarching goal, a large number of activities were initiated. Danny Micklethwaite, responsible for the global Arla® brand strategy, is in no doubt as to what is most important in Arla's work with Closer to Nature™:

“Consistently delivering the promise. If we don't make Closer to Nature™ more than just an advertising slogan, then we will fail. Great brands are built on fundamental, unshakeable beliefs and we want to make Arla a great brand.”

### **Working with ingredients**

One of the first projects launched was a review of the entire product assortment, which was to ensure that Arla's products contain only the minimum of additives and are therefore as natural as possible. Additives are used to give products a specific taste, prolong shelf-life or functionality, and some additives are chemically produced and artificial. Where possible, artificial additives have now been removed or replaced by natural variants. This is a long-term and ongoing initiative. Arla has also launched a series of new products that are additive-free, for example, Arla Yoggi® Fri yoghurt.

### **Closer to Nature™ in practice**

One very obvious way in which Arla demonstrates the company's commitment to the environment, and to the cows on the farm, is by providing the general public with an opportunity, particularly in Denmark and Sweden, to visit Arla milk producers' farms. The first farm visits took place long before the launch of Closer to Nature™.

“Arla is a company that is owned by farmers so showing off the farms and livestock is a natural thing to do. Closer to Nature™ becomes meaningful when people can come and see the concept in action,” says Danny Micklethwaite.



“If we don't make Closer to Nature™ more than just an advertising slogan, then we will fail. Great brands are built on fundamental, unshakeable beliefs.”

In Denmark and Sweden, a large number of Arla farms invite schoolchildren to visit the farms to learn about the interplay between people, animals and nature. The children meet the farmer, they have a good look at the cows and they learn where food actually comes from. Through farm and dairy visits, Arla aims to demonstrate the connection between nature and Arla products, and to give schoolchildren an impression of the food chain, all the way from cow to consumer. In Sweden, the company has offered farm visits since the early 1990s and to date about one third of Swedish 6–9 year-olds have visited an Arla dairy farm.

Other opportunities for consumers to visit Arla farms include nature festivals and seeing the cows released onto pasture in the spring, an event which has become a tradition in Denmark and Sweden. Public interest in such events has grown over the years and in 2011 the company also introduced them in Finland. In all Arla's core markets, the company runs different activities which aim to encourage children and adults to get Closer to Nature™.

#### Support in the new environmental strategy

The third cornerstone of the Closer to Nature™ initiative is Arla's commitment to the environment. For several years, the corporate environmental strategy has covered dairy production, transportation to and from the dairies, and product packaging. To ensure that Arla can set new standards for sustainable dairy production, the new environmental strategy, presented by Arla in 2011, also includes dairy farms.

During 2011, the multitude of initiatives and activities carried out since the launch of Closer to Nature™ were collected in an internal database. There are more than 600 activities, ranging from specific energy-saving measures, such as installing heat pumps to recover heat from wastewater and cooling, to the requirements cocoa producers have to meet before Arla will consider buying their cocoa. With this vast collection of information, it is not difficult to see that Closer to Nature™ has made a considerable impact on the company over the last three years.

#### The Get Closer to Nature™ game

In 2011 Arla began to involve all the company's colleagues

in work with Closer to Nature™. This was achieved by using a board game, the aim of which is for the participants to share good initiatives already existing and to come up with specific activities for their own Arla department to get even closer to nature.

“There is a huge pool of creativity among our colleagues and involving everyone in the work is a great way to get Closer to Nature™ integrated in every corner of the company,” says Marianne Bach. “The game has helped produce a large number of good ideas, and many small improvements together can make a big difference in an organisation the size of Arla.”

Surveys to measure Arla's image among consumers in Denmark, Sweden and Finland clearly demonstrate that Closer to Nature™ is now beginning to penetrate. Consumers increasingly associate the term “natural products” with Arla.

“For the first time, during 2011 I heard new colleagues say that they had been motivated to apply for a position in Arla because of Closer to Nature™ and our commitment to sustainable agriculture. They want to work for a company that acts responsibly. This tells me that our work with Closer to Nature™ inside Arla is now bearing fruit and we are moving in the right direction,” says Marianne Bach.

During the coming year, Arla will take further steps to discover what Closer to Nature™ means to consumers in several different countries. Marianne Bach explains that there may be considerable national differences. For example, in Scandinavia, people are very aware of the environment and sustainability issues, while in Asia people are very interested in information about where the ingredients in the products come from. By learning more about how Closer to Nature™ is perceived in different cultures, Arla expects to improve the information provided to consumers.



Closer to Nature™

#### ACTIVITIES

Examples of Closer to Nature™ activities for children

**UK:** In the UK more than 3,000 children have subscribed to the Arla Nature Adventure Club, which offers a range of ways to explore nature. The children are encouraged to engage in outdoor activities which can be adapted to suit the child's surroundings (garden, play area, woods or school playground). The children are also encouraged to share their pictures of things they see in nature or things they have made using natural materials.

**Germany:** In Germany, Arla works in partnership with NABU (Nature and Biodiversity Conservation Union). The partnership's many activities aim to encourage children to get out and experience nature.



Marianne Bach,  
senior brand manager.



Danny Micklethwaite,  
vice president.



## Building long-term relationships with local communities



*We maintain good, respectful and constructive community relations.*

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

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

### **REDUCING FOOD WASTE**

We strive to reduce the volume of food discarded during production and by the consumer.

### **OPEN FARM EVENTS**

Consumers' interest in visiting our farms has increased in both Denmark and Sweden.

### **AID PROJECT EXTENDED**

As part of our project to provide aid for children in the third world, we started working in Honduras this year.

### Children for Life Project

Arla has run the Children for Life Project since 2008. This is a long-term aid project, which aims to give underprivileged children a better future by providing food and sponsoring their education. From day one, we worked with SOS Children's Villages in the Dominican Republic and, from this year, we are also working in Honduras, where we now help provide one glass of milk each day to 150 children at a children's home. We have, however, ended our partnership with SOS Children's Villages in Vietnam because we no longer have a local office there. In Bangladesh, our commitment continues in partnership with a local charity organisation.

The Children for Life Project is intended to involve colleagues in the local areas in which we operate and to contribute to development there. We aim to find ways of providing aid that are connected with our products and that really do make a difference. We are currently investigating into which countries we could extend the programme.

### Social commitment at the local level

Arla's primary contribution to social development is to create jobs and economic growth in the areas in which we operate. Local anchorage is important to us and therefore we allow companies in the group to contribute to their local community in the way they feel is most appropriate and fosters most employee involvement.

In Russia, for example, we have chosen to support a children's home in Pavlovsk, while in Finland we support local sports clubs, and in the UK our employees take part in Community Challenge and work in partnership with the communities in which we operate. In 2011 Arla contributed to 46 (2010: 32) different Community Challenge projects to a total value of DKK 140,000 (2010: DKK 105,000).

### Consumer visits to farms

As part of Arla's Closer to Nature™ initiative, we invite the general public to visit our farms, especially those in Denmark and Sweden. In this way we hope to increase public awareness of natural products and of the ties between people, animals and the natural environment. One very popular event is when we invite the public to join us when the cows are turned out to pasture in the spring. In Sweden, we welcomed more than 100,000 visitors this year (2010: 80,000), while in Denmark the number of visitors increased by more than 50 per cent. The event was organised at farms in Finland for the first time this year and was a great success. In the UK, some farmers take part in Open Farm Sunday, an annual industry initiative which encourages farmers to open their farms to the public.

We also invite school children to visit our farms in Sweden and Denmark. Since 1993, almost 800,000 Swedish school children have visited a farm. This extremely popular activity has expanded this year with a new website, and the teaching materials have been updated and adapted to the new Swedish curriculum. School visits have also been introduced in Finland. In Denmark, school children are invited to visit farms and dairies. In addition, open farm events and nature festivals attracted around 145,000 visitors.

### Reducing food waste

For quite some time, Arla has focused on reducing the volume of food wasted at production sites and by consumers. This issue is now included in our new environmental policy. In Canada, for example, we work with Second Harvest, an organisation that distributes our high quality cheese products to hostels and schools that serve breakfast, when the product's residual shelf-life is too short for sale to retail stores. We have similar partnerships distributing food to the needy with Tafeln in Germany, St George's crypt in the UK and with Manna Pankki in Finland.

#### ARLA FARM VISITS

| No. of visitors                         | 2009   | 2010   | 2011    |
|---|--------|--------|---------|
| Cows out to pasture, Denmark            | 35,000 | 40,000 | 63,000  |
| Cows out to pasture, Sweden             | 68,000 | 80,000 | 100,000 |
| Farm visits for schoolchildren, Denmark | 7,500  | 10,000 | 15,000  |
| Farm visits for schoolchildren, Sweden  | 45,000 | 42,000 | 43,000  |

#### SUPPORT FOR SCOUT JAMBOREE

Arla took part in the big international World Scout Jamboree held at Kristianstad in Sweden this summer. There were 80,000 visitors from 150 countries. We saw the jamboree as a great opportunity to inform people about organic production and to offer organic dairy products for the scouts to use in their own cooking. We also ran a series of activities, which aimed to demonstrate the importance of recycling packaging.

#### CHARITY FOR CANCER PATIENTS

Arla contributes to charity work in many countries to help people with cancer and others in need of care. We see an increasing number of charity projects directly linked to product sales. One example in Arla is a Swedish campaign where DKK 0.8 was donated to breast cancer research for each pack of Keso® cottage cheese with raspberry sold in the campaign period.

The big Team Rynkeby cycling event broke all previous records this year. There were more participants than ever before and the event raised DKK 9.6 million for the Children's Cancer Foundation in Denmark and Sweden. Other examples of activities for charity include:

- **Saudi Arabia** In partnership with the charity organisation SANAD, we have made donations to help children suffering from cancer.
- **USA** Through a charity project, we have contributed to a children's hospital in Seattle.
- **Canada** We took part in a number of events, including a volleyball tournament, the proceeds of which go to cancer research.
- **Sweden** We made a donation to the Sachsska Barnsjukhuset (a children's hospital) in Stockholm.

#### MILK PANELS IN SWEDEN AND DENMARK

In Sweden and Denmark, we use the back panel of milk cartons to communicate with and educate

the consumer. The Swedish back panels often feature the work of the farmer, the farm and the environment but we also print funny stories or useful tips on our milk cartons.

#### HEALTHY LIFESTYLE

Diet and exercise are part and parcel of a healthy lifestyle, so Arla sponsors a large number of activities, e.g:

- **Breakfasts in Saudi Arabia** Arla has contributed products to a project aimed at educating schoolchildren on the importance of eating breakfast, with more than 360,000 participating children.
- **Sponsored run in Poland** Arla is the main sponsor of a running and training event in the city of Kolobrzeg.
- **Football schools in Denmark** Almost 35,000 children and teenagers took part in a variety of football schools.
- **Active children in Denmark** About 140,000 children took part in a project, which aimed to encourage children to engage in physical activity.
- **Healthy messages in the UK** Arla has sponsored Leeds Rhinos rugby club to visit 30 schools delivering healthy living messages.

## Standing up for a firm conviction

*We respect and support internationally recognised human rights.*

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



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

### **FOCUS ON HUMAN RIGHTS**

In our audits in the third world, we are particularly meticulous in ensuring that human rights are respected.

### **EXTENDED FOCUS ON DIVERSITY**

We continue to undertake a number of initiatives towards increasing diversity within Arla. We have introduced a strategy to build an inclusive and diversified company culture.

### **FEWER FEMALE SENIOR MANAGERS**

Despite Arla's endeavour to have a balance between men and women, the amount of female senior managers has decreased.

### Initiatives to encourage diversity

In 2010 we launched initiatives to increase diversity within Arla. We aim to ensure that everyone is treated equally, regardless of gender, ethnic, social or national origins, race, colour, religion or beliefs, sexual orientation, political views, age, disability or marital status. In 2011 we produced a strategy for how we will build a culture that is both inclusive and diversified. Read more in the article on the following pages.

In this year's colleague survey, Barometer, the statement "In my department we benefit from diversity within the team (e.g. ethnic origin, gender, age and education)" achieved a score of 64 compared to last year's 63.

Despite good intentions to appoint a balanced ratio of men and women, 15 per cent of the members of the management teams in the business groups are women. Among the company's 300 senior managers 17 per cent are women, compared to 22 per cent in 2010. Of all colleagues, the share of women is 27 per cent.

### Differences affect the workplace experience

In the 2010 colleague survey, five questions covered issues relating to how well colleagues felt they were treated in the workplace. For example, did they think that allowances were made for personal crises? Was there a reasonable balance between work and private life? Were they aware of anyone being bullied? In 2011 we analysed the results from 2010 in more detail to find out if the age and gender of the respondent has any effect. It has transpired that women are slightly more positive to their situation than men, and older people are more positive than younger people.

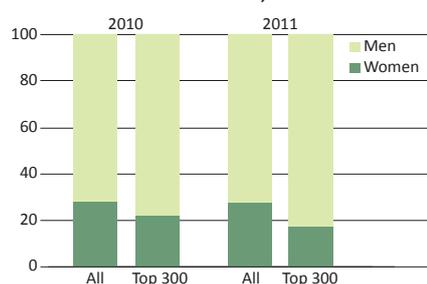
### Dialogue with suppliers in the third world

When we visit and audit third world suppliers, we focus in particular on human rights, e.g. child labour and work environment issues. It is important that our suppliers understand our point of view and respect our Code of Conduct as it applies not only to the aforementioned issues but also to other areas.

We work with a packing plant and a number of packaging suppliers in Nigeria. In the past we observed that the packaging suppliers' commitment to our Code of Conduct was variable. Together with our local partner, we visited four suppliers this year and reviewed the Code of Conduct with them. Although all four claimed they met our requirements, we have confidence only to trade with three of them. The fourth supplier's conditions were substandard and we were unable to approve continued collaboration until conditions significantly improved. In future, suppliers will receive two visits a year, one from our partner alone and one in which an Arla representative will be accompanied by our partner.

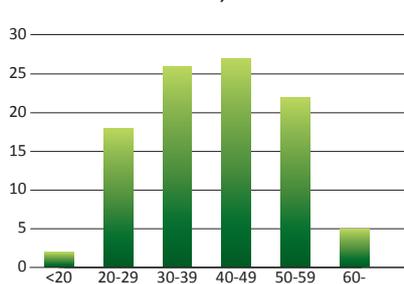
In Bangladesh our in-house auditor visits our packaging supplier every six months and, in the interim, local Arla colleagues are responsible for monitoring conditions. At each audit, we check that the supplier meets our quality requirements and we review focus areas in some detail. In October we audited a potential sub-supplier in Bangladesh. Due to the poor work environment, we were unable to enter into collaboration. The ventilation in a hall, in which organic solvents are used, was totally inadequate.

EMPLOYEES BY GENDER, %



The ratio of males and females varies in different parts of the organisation. There are significantly fewer women than men in senior management. However, at the lower management levels, the share of women is higher. A focus area is therefore to recruit more women to senior management positions. As the recruitment base is excellent, it ought in time to be possible to achieve a more equal distribution of men and women in senior management positions in Arla.

EMPLOYEES BY AGE, %



Currently the overall age distribution at Arla is satisfactory. Age is not, and should never be, a determining factor in recruitment. Arla sees an advantage in having employees of different ages.

### COOPERATION ON EQUALITY

Within Arla, work on equality between the genders is an important part of our diversity and inclusion strategy. In August 2010, Arla's CEO Peder Tuborgh signed the CEO Statement of Support for the Women's Empowerment Principles, a UNIFEM (UN Development Fund for Women) and Global Compact initiative. In March 2011 Arla took part in the UN conference, "Equality Means Business: Putting Principles into Practice. Women's Empowerment Principles One Year Later".

More than 100 companies and stakeholders from both private and public sectors took part in the conference, which aimed to illustrate how various organisations have adopted the principles of gender equality and achieved extra profits in the process. Inspiration and good examples from the conference will be used in formulating measures for improvement within Arla.

### ILLNESS AND SOY PRODUCTION

New scientific studies have reported that, in areas close to soy fields in Argentina, children had been born with deformities and developed cancer as a result of crop-spraying. We take the reports very seriously as soy is an ingredient in the compound feed given to the cows which produce milk for Arla. The soy used on Arla farms must never cause damage or injury of any kind. We will act responsibly concerning soy in our supply chain, as indeed we do in connection with any purchase we make. See page 17.

Arla's aim is to ensure that all soy used to feed cows must be cultivated more responsibly by 2015 at the latest. As Arla is a small player in this context, we want to work with other organisations within the industry in Europe to resolve this problem. Together we hope to work to replace the controversial soy with soy that is produced more responsibly or with an alternative compound feed. For several years now, Arla has supported Nordic research in this field.

## Using diversity creates growth

*An international company can create growth in many different ways. One good way is to ensure that there is diversity among colleagues – to ensure there is a good mix of different views amongst teams. The purpose for this is to benefit from the different perspectives brought to the company by colleagues with different backgrounds, age, education and gender. By leveraging diversity the company can be developed and has the potential for growth. This is why Arla now has strategic focus on diversity.*

Several international surveys have shown that diversity in teams is an asset when the differences are applied in task solving and decision making. In many organisations differences are still an unexploited resource, even though more and more are now beginning to recognise the benefits. At the same time, there are companies that deliver excellent results that are determined to reap the full benefit of diversity by systematically ensuring inclusive structures and processes that engage all colleagues.

According to the international surveys, companies whose corporate culture and business model ensure that the organisation is inclusive, can improve their performance by up to 35 per cent. When teams and project groups are set up, representatives of different genders, ages, nationalities, personality types and educational and disciplinary backgrounds are included. At the same time, these companies promote an inclusive culture and make sure that all employees and leaders acquire the skills needed to manage and work in diverse groups.

Diversity and Inclusion is now a strategic focus area within Arla. The company formulated a ten-year strategy for how the organisation can become more inclusive.

### New ways of working

Tinna Nielsen is leading the work with Diversity and Inclusion in Arla. She believes that a change of mindset and way of working is required before the company will see any results from the new strategy:

“Unconscious assumptions and preferences are decisive for about 80 per cent of the decisions we make in connection with recruitment, promotion, networking and task solving, for example. Unless we acknowledge and try to change this we cannot access our colleagues’ full potential. Changing mindset and behaviour is not an easy thing to do, because it involves challenging habits and existing practices,” says Tinna Nielsen.

Arla has an internal team of consultants, who are training leaders how to use the diversity among colleagues as a means to create better performance and new solutions. The main message is that synergies in diversity are generated when different perspectives, expertise and skills come together. This training is offered to leaders as part of ALP (Arla leadership programme) and to leadership groups at all levels of the company.

“It is crucial that we benefit from every single colleague’s potential to the fullest. Most of us are probably more comfortable working in a team where team members have many similarities. For example, where people approach the tasks in the same way and use the same language. But it is when different perspectives meet that good ideas are born and wise decisions made. In the long term, the winners are the companies that dare to challenge themselves – even though it can also be a hassle” says Tinna Nielsen.

### Composing high performing teams

Tinna Nielsen is in no doubt that a long journey lies ahead, before Arla integrates the new approach into everyday working life and into existing processes, for example, recruitment and talent management.

However, in the recruitment process, some steps have already been taken in the right direction. In Denmark and Sweden Arla has seen a slight increase in the number of female applicants for management positions. During the last year, more people with an ethnic background other than Danish have been recruited to jobs at the Head Office in Denmark than in previous years. During 2012, the implementation of Arla’s corporate language policy will continue, which determines that the company language is English. This supports cooperation internationally, includes colleagues regardless of their native language and makes it easier to share knowledge.

Tinna Nielsen believes that the recruitment process is critical:



“It is when different perspectives meet that good ideas are born and wise decisions made.”

“During 2011 and 2012, we have prioritised the activities which have greatest strategic importance and which can be integrated into the global Arla recruitment processes. At present, we are working to strengthen the employee and leader recruitment process. We also have strong focus on strengthening leaders’ skills and helping them with methods to understand how the new approach can benefit their individual business areas.”

Also, Arla’s consumers are mirroring a broad diversity. Adapting products for consumers with different ethnic backgrounds or demographic differences demands insight and understanding. In his monthly communication to top management in Arla in November 2011, Arla’s CEO Peder Tuborgh made it clear that Diversity and Inclusion is an important focus for Arla’s future. He highlighted that Arla has a vision to put teams together, in which a maximum of 70 per cent of team members are of the same gender, nationality/ethnicity, professional/educational background or generation. By reducing the dominance, the team will have better access to the perspectives, knowledge and skills that colleagues and leaders with different backgrounds bring into the team.

#### **An obligation to speak**

The Rødkærsgård dairy in Denmark is a good example of an inclusive workplace culture with inclusive leadership. The dairy has developed a method to include all colleagues. The dairy manager has introduced an ‘obligation to speak’, which means that every employee can and must contribute to the development of the workplace. Leaders and colleagues expect everyone to explain what works and what does not work in their daily working life. Leaders are thus obliged to make active use of all their colleagues’ input and to make

improvements based on the colleagues’ contributions.

Tinna Nielsen

emphasises that there are many ways to be inclusive:

“Everyone at Arla will be affected by our work with Diversity and Inclusion because it will be integrated into all existing processes, but there is also a lot that you can do yourself. The Rødkærsgård dairy is a shining example of this. Additionally, Diversity and Inclusion is a natural part of Our Character: Lead, Sense, Create. When we understand and appreciate (Sense) our colleagues and their individual points of view, we can exploit each others’ full potential to make improvements (Create), and lead in our specific business areas (Lead),” explains Tinna Nielsen.

#### **More than social responsibility**

For many years, diversity and equal treatment of all people, regardless of gender, ethnic origin and age etc., have most often been linked to social responsibility. Tinna Nielsen, however, is keen to point out that there is more business potential in diversity if we broaden the approach:

“It is always important that we treat people equally. Equality is all about breaking down barriers and providing equal opportunities for every individual and group in their work life, but it is also the prerequisite for gaining access to colleagues’ full potential and the different skills they possess. Business opportunities do not arise directly from equality, but they arise in an inclusive culture, where it is natural to include all colleagues and deliberately make use of the diversity between them. Then you will generate new ideas, more efficiency and higher engagement. And that’s what makes diversity an asset for both the individual and the company.”

#### **EXAMPLES OF DIVERSITY & INCLUSION**

##### **At the organisational level:**

Current internal involvement in Closer to Nature™ is one example of how the entire Arla organisation is included in change and in the creation of a new corporate identity. All colleagues have been encouraged to contribute with ideas as to how Arla can get even closer to nature.

##### **At group and process level:**

Lean is built on including everyone’s input. When the dairies use Lean as a tool, colleagues are included in finding opportunities for improving efficiency. However, Diversity and Inclusion can also take place outside a controlled process. When colleagues have a task to resolve, it should be natural for them to seek out knowledge within their own team, in other departments or in Arla-sites in other countries.

##### **At the individual level:**

Individuals can be inclusive of diversity simply by asking a colleague for input and using it to learn something new. This also includes asking for input from a colleague, whom you would not normally ask for advice.



Tinna Nielsen is leading the work with Diversity and Inclusion in Arla.



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